

# DIAGNOSTIC REPORT ON DIAMOND SMUGGLING IN THE CENTRAL AFRICAN REPUBLIC

PRODUCED IN PARTNERSHIP WITH **ARTISANAL  
MINING AND PROPERTY RIGHTS (USAID AMPR)**



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COR: Caleb Stevens

USAID Office of Land and Urban

Contractor Name: Tetra Tech

Author(s): Terah U. De Jong (Technical Deputy) with contributions from Luc Brosseni Yali, Prospert Yaka-Maide, Aliou Bah, and Christian Olowi

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Tetra Tech Contact(s): Mark Freudenberger, Project Manager  
159 Bank Street, Suite 300  
Burlington, VT 05402  
Tel: (802) 495-0282  
Fax: (802) 658-4247  
Email: [mark.freudenberger@tetratech.com](mailto:mark.freudenberger@tetratech.com)

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# ACRONYMS

ALS	<i>Antenne Locale de Suivi (Village KP Monitoring Unit)</i>
AMPR	Artisanal Mining and Property Rights
ASM	Artisanal and Small-Scale Mining
BECDOR	<i>Bureau d'expertise et de contrôle des diamants et de l'or</i>
CAR	Central African Republic
CLPR	<i>Comité Local de Paix et Réconciliation (Local Peace and Reconciliation Committee)</i>
CLS	<i>Comité Local de Suivi (Local Monitoring Committee)</i>
DDRSC	<i>Direction des données, de la réglementation et le suivi de la commercialisation</i>
DGMG	<i>Direction générale des mines et de la géologie</i>
DR	<i>Direction régionale</i>
DRC	Democratic Republic of Congo
DST	<i>Direction de la surveillance du territoire</i>
EU	European Union
GIS	Geographical Information System
GPS	Global Positioning System
ICGLR	Intergovernmental Conference on the Great Lakes Region
IPIS	International Peace Information Service
KAP	Knowledge, Attitudes, Practice
KP	Kimberley Process
KPCS	Kimberley Process Certification Scheme
KPPS	Kimberley Process Permanent Secretariat
PGRN	<i>Projet de gestion des ressources naturelles</i>
PRADD	Property Rights and Artisanal Diamond Development
MAHRN	<i>Ministère de l'Action humanitaire et de la Réconciliation nationale</i>
MINUSCA	United Nations Multidimensional Integrated Stabilization Mission in CAR
MMG	<i>Ministère des Mines et de la Géologie</i>
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
OPJ	<i>Officier de police judiciaire</i>
SODEMI	<i>Société pour le Développement Minier en Côte d'Ivoire</i>
UNCMCA	<i>Union nationale des coopératives minières de la Centrafrique</i>
UNDP	United National Development Program
USAF	<i>Unité spéciale anti-fraude</i>
USAID	United States Agency for International Development
USG	United States Government
USGS	United States Geological Survey
WCO	World Customs Organization
ZEA	<i>Zone d'Exploitation Artisanale</i>

# EXECUTIVE SUMMARY

Legal exports of rough diamonds from the Central African Republic have declined considerably since the start of the military-political crisis of 2013. While a certain proportion has always left the country without following the KP's legal chain of custody, this did not represent a major part of production. In 2018, legal exports were 11,526 carats, or 3% of the 365,917 carats exported in 2012, while production continues in all diamond areas. Indeed, according to a study by the U.S. Geological Survey, the five (5) zones authorized by the KP to export produced 164,000 carats in 2017, or half of the national production estimated at 330,000 carats. It is therefore reasonable to conclude that the difference between current exports and historical and estimated production represents the volume that is smuggled out of the country.

Smuggling has become dominant and involves a wide range of actors: legal buyers only declare part of their purchases, illegal buyers trade diamonds openly in the provinces and in the capital, internal flights transport diamonds from areas controlled by armed groups, and networks at the Bangui international airport facilitate fraud. The objective of this study is not to map all the smuggling routes, but a significant part of the smuggling passes through Cameroon via land borders and regular flights from Bangui.

The diagnostic study aimed to gather perspectives from stakeholders and experts on how smuggling has exceeded legal exports and how to reverse the trend. Although funded by the AMPR project, the study was carried out jointly by project specialists, officials from the Ministry of Mines and Geology and the Kimberley Process Permanent Secretariat. This approach aimed not only to uncover the key drivers of smuggling, but also to build consensus at the technical level on strategies and changes to be considered by the Government and international stakeholders. As such, the study's approach aimed to help improve policymaking and identify priorities for external engagement.

The report is organized around three groups of factors explaining the current situation. The first factor is difficulty implementing the KP Operational Framework for the resumption of exports of rough diamonds from the CAR, adopted by the Kimberley Process in 2015. The objective of the KP with this Operational Framework was to alleviate pressure on the CAR, which depended heavily on diamonds for tax income and rural livelihoods, by allowing a partial resumption of exports from areas meeting certain criteria. However, the Operational Framework is not working. Not only do diamonds from areas under the control of armed groups easily enter the global supply chain, the KPCS chain of custody has collapsed. This is in part due to a fundamental incompatibility between the requirements of the Operational Framework and the realities of the supply chain organized around purchasing offices operating with tight margins and high working capital requirements. However, this failure is also due to the institutional weaknesses which existed long before the suspension of the KP in 2013, but which have worsened since the crisis began.

The second group of factors concerns changes and dysfunctions in the rough diamond supply chain. The KP Operational Framework is one of the main causes of these dysfunctions, especially with regard to the lack of funding and the departure of major buying houses, but it is not the only problem. The effects of inter-communal violence in the western regions, leading to the displacement of Muslim buyers in Cameroon, is a factor still being felt as many buyers continue to buy from the other side.

There is also the effect of breaking the "social fabric" of the supply chain. Indeed, the supply chain relies on complex socio-economic relationships and unspoken rules about roles and benefit sharing. Today, the system is marked by risk aversion, mistrust and confusion of roles. Artisanal miners are less inclined to accept prices offered by those who finance them because they know the "real" price paid by smugglers. In addition, everyone is heavily in debt, so the little funding that goes into the system is misused. Likewise, former buyers from buying houses with access to international markets have become collectors. They

asphyxiate local collectors without access to markets abroad. More generally, international trends are contributing to the reduction of margins and the evolution of practices. The emergence of gold mining is also impacting the availability of labor for diamond mining and has created new challenges.

The third group of factors concerns impunity for smuggling and the prevalence of other illegal and fraudulent activities. Although fraud has always been a problem in CAR, it has reached a turning point where it has become almost the norm. The more contraband increases, the more difficult it becomes to circumvent it. Before the crisis, at least some of those found at Bangui airport attempting to smuggle diamonds were arrested, thanks in part to the financial benefits derived by the agents carrying out the seizures. Today, the question arises as to why no smuggler in recent years has suffered consequences for their actions, a fact which shows ineffective controls and the power of trafficking networks.

By analyzing these different factors, the diagnostic study aimed to identify practical solutions at all levels. For the KP, a serious debate should take place on the viability of the Operational Framework, in particular the obligation to remotely verify the packages each month before export. In addition, serious consideration of the use of diamonds seized by the Central African government or other countries is necessary otherwise the fight against smuggling will be in vain.

For the Government of the Central African Republic, officials should see this as a rare opportunity to rethink their supply chain system, especially with regard to how artisanal miners are organized, data is collected and used, and the institutional role of the Kimberley Process Permanent Secretariat. With regards to the supply chain, consultations with purchasing offices and external experts are needed to reassess fees and taxes and the organization of actors.

However, no change will occur without the strict minimum of law enforcement, in particular at Bangui airport, but also with regard to the protections granted to traffickers or semi-industrial actors illicitly operating as cooperatives. International trafficking networks require special attention. Nevertheless, the starting point for reversing the trend should be law enforcement by the Central African Government, because until tangible efforts are made, the legal supply chain will remain weak and the Government will not be credible in its efforts to get the KP to completely lift the suspension.

More generally, CAR could benefit from an in-depth dialogue on the mining sector, perhaps in the form of formal policy dialogue like those organized in 2003, especially taking into account the 2019 Khartoum Accord and semi-industrial mining activities and the gold mining that are growing rapidly. The dialogue will help build buy-in for reform, generate technical ideas, and most importantly, restore confidence in the supply chain, which in the end is not about the stones, but about people—their lives, their livelihoods and well-being. Smuggling of rough diamonds therefore touches on fundamental issues of governance in CAR and should be seen as a priority and an opportunity to contribute to the broader process of peacebuilding and economic recovery.



# I.0 CONTEXT, OBJECTIVES AND METHODOLOGY

## I.1 CONTEXT

In 2015 the Kimberley Process (KP) adopted an Operational Framework for the Resumption of Exports of Rough Diamonds from the Central African Republic. Exports had been suspended in 2013 by the KP because of the coup d'état against the regime of former president Bozize. The subsequent resumption of exports in 2016 had been long awaited given the importance of rough diamonds for tax revenues and livelihoods for thousands of Central Africans. The Operational Framework was an innovation for the KP, which usually does not allow a partial lifting of suspensions. The Framework allows for the export of production only from diamond sub-prefectures authorized by the KP Monitoring Team under specific conditions. As of May 2019, 5 sub-prefectures in the south-west are "compliant zones", and 9 others are declared "priority zones" by the Government for which compliance is being sought.

Unfortunately, the Operational Framework has experienced a number of difficulties in its implementation, and the overall result has been disappointing. Despite the fact that there are officially 16 Import-Export buying houses, the export figures for 2018 are extremely low. Delays in approving parcels prior to export by the KP Monitoring Team—one of the conditions of the Operational Framework—has proved problematic. Even though the processing time was reduced in early 2018 from months to weeks, the figures for CAR's rough diamond exports for the same year are less than 14,000 carats, not counting the 66,000 carats of "stock piles" for audited at the end of 2017, then exported in January 2018.

This volume exported legally represents a major drop compared with historical figures and current annual production estimates. Using satellite images, the US Geological Survey (USGS) estimated, based on observations from 2017, that 82% of estimated annual production of 330,000 carats were smuggled out of the country. A large volume of production that is smuggled presumably originates from non-compliant zones—i.e., zones under control of armed groups or without meeting minimum security conditions as defined by the KP. In addition, the USGS estimates that approximately 40% of the production of the 5 compliant zones sold through the legal chain.

A 2018 study, funded by UNDP and UNICEF, confirmed this trend with smuggling estimated at between 77% and 86% of current diamond production. The same study highlighted the unprecedented nature of this situation, since despite the existence of smuggling networks for decades, buying houses have historically been able to absorb more than 60% of the volume in the legal supply chain. Increasingly, buying houses and legal actors are struggling to compete with an illegal channel that has become dominant. Smuggled diamonds pass through land borders, especially with Cameroon, the DRC and the Republic of Congo Brazzaville, but also leave through the airport via networks based in the capital.

Indeed, the sub-regional and transnational dimension of the phenomenon is apparent. UN expert reports and field visits by the Central African Mining Administration underscore the need for coordination with neighboring countries. To this end, the Government organized from August 3 to 4, 2016 a conference of mining ministers in the sub-region, resulting in the adoption of recommendations on traceability, the fight against illegality, and cooperation issues. Unfortunately the follow-up of these recommendations was incomplete. At the international level, the KP Working Group on Artisanal and Alluvial Production (WGAAP) is organizing a sub-regional coordination platform. These activities are in line with U.N. Security Council Resolution 2248 of 2018, which in paragraph 55 calls for better regional coordination to combat smuggling of natural resources.

However, the sub-regional coordination and the expansion of compliant zones will not alone solve the problem of this unprecedented smuggling. Problems in the functioning of the supply chain and weak law enforcement are also key factors.

The project "Artisanal Mining and Property Rights" (AMPR), funded by USAID for an initial period of 3 years (2018 to 2021), provides assistance to the CAR Government on a number of issues including KP compliance. Indeed, the AMPR project continues the technical approaches of the previous projects "Property Rights and Development of the Artisanal Diamond" (PRADD I and II). The PRADD II project supported the Government in the implementation of the KP Operational Framework, including the geo-referencing of mining sites, the collection of data on artisanal miners and basic production data. PRADD II also provided technical and financial support for the printing of traceability documents, the setting up of local KP monitoring committees (CLS), and the strengthening of the material and technical capacities of key actors, especially a network of KP "focal points" attached to the Regional Directorates and responsible for site monitoring.

In its first component, the AMPR project will continue this support to fight this growing smuggling phenomenon while identifying measures to improve and strengthen the legal supply chain consistent with the Operational Framework. The purpose of this diagnostic study is to create a framework for analysis, reflection and, above all, action, enabling all stakeholders to contribute to the reconstruction of the legal chain of custody. This analysis will build on previous work, but will also identify priority actions for each stakeholder, including the Government, the private sector, civil society and technical partners. Indeed, with the arrival of several projects to support the Government, the results of the study will help promote harmonization and prioritization of activities.

## **I.2 OBJECTIVES**

The overall objective of this diagnostic study is to support the Government of CAR and the diamond industry to effectively combat the smuggling of rough diamonds in line with the Kimberley Process Operational Framework.

Specifically, the study was designed with the following objectives:

- 1) Collect and analyze different stakeholder perspectives on why smuggling of rough diamonds has become such a problem, with a focus on dynamics in border areas and major trading hubs in the southwest;
- 2) Identify difficulties in the implementation of the KP Operational Framework, including the effectiveness of KP monitoring committees, the collection and analysis of statistics, and the implementation of special monitoring and control measures;
- 3) Formulate concrete and specific operational, institutional and regulatory recommendations aimed at effectively combating smuggling and strengthening the legal chain of custody.

## **I.3 METHODOLOGY**

The methodology of the diagnostic study focused on collecting reliable and accurate information with a participatory and inclusive approach. The study did not purport to provide a comprehensive understanding of smuggling nor to provide an exhaustive list of all industry issues. Instead, the methodology enabled stakeholders to express themselves on the most important problems in order to arrive at a common vision on viable and priority solutions to these problems.

The work was organized in several phases, namely:

### **Research Phase and Preliminary Consultations**

As a first step, USAID AMPR project experts, including its Technical Advisor, conducted interviews and preliminary analyses to identify general trends and issues. Between February 20 and 28, the experts reviewed existing studies and reports and conducted some interviews with key informants in Bangui. The team also participated in the evaluation workshop of the Local Peace and Reconciliation Committees (CLPRs) and Local Monitoring Units (ALS) completed in early 2019 by the Component 2 Coordinator of the AMPR project, thereby taking into account the findings of this important study.

Next, as part of the AMPR project's start-up mission in the field between March 2 and 5, several participatory exercises and interviews were conducted in Carnot and Berberati. The KP Permanent Secretary (KPPS) and his deputy participated in these meetings in the mining villages of Somica and Sama II, and with collectors in Carnot and Berberati. These meetings made it possible to arrive at preliminary observations on the situation and to carry out reflections with the representatives of the Mining Administration.

These preliminary reflections were presented and debated during a workshop organized on March 6, 2019 in Bangui in the presence of several key government stakeholders such as the DGMG, USAF, the DDRSC, the BECDOR, the DGSP, the DG of the Police, the Tax Administration, and Airport Management. The workshop helped to identify some of the recommendations and observations that form an integral part of this report. The workshop also allowed the team to refine the questions and practical organization of the study.

### **Field Research Phase**

After this initial phase, a mission was organized in the field to deepen discussions and observations. Two teams were formed. A first team was coordinated by the KPPS, with the following members:

- Luc Florentin Simplicie BROSENI YALI, Kimberley Process Permanent Secretary
- Terah Ulrich DE JONG, Technical Advisor, USAID AMPR project
- Christian OLOWI, Director of Data, Sales and Trade, Ministry of Mines (DDRSC)
- Aliou BAH, President of Diamond Collectors of Côte d'Ivoire, USAID AMPR Consultant

The team visited Berberati, Carnot and Gamboula. On the ground, the mission was fully supported by the Regional Director of Mines in Berberati, the Service Chiefs in Carnot and Gamboula, the USAF Commanders, the Sub-Prefect of Gamboula and the Prefect of Berberati.

A second team was coordinated by the Defense attaché at the Ministry of Mines, and consisted of:

- Lieutenant-Colonel Georges KAZANGBA, Defense Ministry attaché, Ministry of Mines
- Christelle KOSSE-YAZIPO, Deputy Kimberley Process Permanent Secretary
- Prosper YAKA MAIDE, Component I&3 Coordinator, USAID AMPR Project
- Saint Cyr NGANADORA, Mines Service Chief for Boda

The second team visited the area of Bagandou and Nola. The team was supported on the ground by the Chief of the Nola Prefectural Mining Service, the Commander of the National Gendarmerie in Nola, and the Sub-Prefect of Nola.

It was envisaged to cross the border with Cameroon to have discussions with actors in Kentzou and Yokadouma. However, after being informed of the mission by the Minister of Mines and Geology, his Cameroonian counterpart asked to postpone the visit to Cameroon to a later date in order to allow full participation of Cameroonian actors. The team therefore relied on resource persons in the border towns

while waiting for the organization of a complementary mission to Cameroon to deepen the conclusions and the recommendations.

### **Consolidation of Observations and Adoption of Recommendations**

Following the field research phase, the AMPR project organized a feedback workshop for members of both teams to synthesize the observations and recommendations. These recommendations were presented and discussed during a consultative workshop held on 18 April 2019 in Bangui. This workshop helped refine recommendations included in this report.

Given the postponement of the mission to Cameroon, as well as ongoing initiatives organized by the KP WGAAP to establish regional harmonization, it was decided to finalize the present study so that it can be presented to Cameroonian authorities at a later date and integrated into the work on the emerging Regional Approach. Furthermore, it was agreed to organize more consultations and discussion meetings as part of the preparation of the roadmap. The roadmap will constitute a shared vision of CAR stakeholders, including its technical and financial partners, the private sector and civil society, in accordance with the tripartite spirit of the Kimberley Process.

For the collection and analysis of information, the following tools were used:

Literature review. The experts took into account existing reports and studies such as the reports of the PRADD II project, the UN Panel of Experts, and the Kimberley Process.

Semi-structured interviews with resource persons and key stakeholders. The interviews were structured around an indicative list of key questions, with the possibility of discussing other topics according to the dynamics of each discussion.

Focus groups with key players. Focus groups are semi-structured interviews with a small group of resource persons or key stakeholders. Focus groups can create a trusted environment for a specific type of actor (such as collectors) or animate discussions between different types of actors to identify points of divergence and convergence. Focus groups were organized with collectors and miners.

Formal workshops and meetings. Formal workshops and meetings allow more actors, in a more formal environment, to express themselves and share their points of view. Broader meetings allow for the expression of frustrations or grievances, the identification of opinion leaders and the observations of communication dynamics between different categories of actors. Formal meetings were held in Gamboula and Bagandou.

Informal side meetings. Individual meetings are usually solicited by stakeholders after broader meetings to share sensitive information in a private environment. The meetings allow the identification of key information but researchers must be careful to triangulate and verify the information received in case of agendas. Several meetings of this type were organized at night with buyers and local resource persons.

Direct observation. Direct observation of artisanal mining sites, sales sites, and offices of government mining departments allowed the mission team to understand different realities and to compare reports and speeches with what was directly observed.

Participatory exercises. Rapid Rural Appraisal (RRA) tools are good for collecting subtle and sensitive information in a very short time. The tools used in this study were role plays on the smuggling supply chain, a historical matrix, and Venn diagrams.

## Key Research Questions

The following research questions structured the discussions and the participatory research exercises:

### *The effectiveness of controls and repressive measures*

- Information-sharing and coordination mechanisms at the local level (in particular regarding the ALS, CLS, DR, Customs, Justice, Territorial Brigades, USAF)
- Mechanisms for reporting, monitoring and transparency of law enforcement actions
- The involvement of grassroots communities in law enforcement
- Systems for monitoring against abuse by law enforcement agents
- Cross-border coordination between authorities in the land border areas
- Seizure and confiscation at the local, national and regional levels, including incentives to report offenders
- Safeguards in attribution and suspension of authorizations for collectors and cooperatives
- Technical and material capabilities of law enforcement entities
- Cooperation with other projects and structures in the fight against criminal networks

### *The effectiveness of the KP's Operational Framework*

- The motivations of the actors to sell legally or illegally (eg. proximity to trading centers, location of buyers in neighboring countries, level of racketeering, etc.)
- Awareness and monitoring mechanisms in the field
- Local information-sharing and coordination mechanisms (ALS and CLS in particular)
- Reporting, monitoring and transparency mechanisms in the actions of KP structures
- Collection and entry of statistical information
- Transfer and management of statistical information
- The operation of special measures in the transfer of parcels
- The fluidity of the export system
- The position of KP Focal Points in the Mining Administration

### *Medium and long-term issues*

- The institutional role of USAF
- Formalization of intermediate actors (*coxeurs, débrouillards*, site owners)
- The level and strategy of collecting production data
- Incentives to denounce fraud
- The establishment of artisanal mining zones (ZEAs)
- The empowerment of mining villages in the management of resources

In order to harmonize the different points of view and information collected, internal feedback sessions were organized each evening during the two field missions. Upon returning to Bangui, the two teams harmonized their observations. The AMPR Project Technical Advisor consolidated all this information and drafted the first version of this report, in French, which was then reviewed by the KP Permanent Secretary. In addition, comments and improvements on the recommendations were integrated, including those proposed during the feedback workshop held on April 18, 2019, as well as additional observations made on May 16, 2019 by the Ministry of Mines and Geology.

In this way, the objective of this exercise was to collect and analyze all stakeholder issues and concerns with a participatory approach aligned with the tripartite spirit of the KP. Importantly, the conclusions do not necessarily represent the position of the Central African Government, the US Government or the Kimberley Process. The aim was to produce an analysis that is faithful to the realities observed on the ground in order to lay the groundwork for the development of a credible, practical and achievable roadmap to stem the tide of this growing phenomenon.

## 2.0 FACTORS CONTRIBUTING TO DIAMOND SMUGGLING

### 2.1 EXTENT AND TYPES OF SMUGGLING

The following table illustrates the crisis in the diamond sector in CAR today and the unparalleled level of smuggling in the country.

<b>STATISTICS ON CAR EXPORTS IN CONFORMITY WITH THE KIMBERLEY PROCESS</b> (SOURCE : BECDOR and CAR KPPS)	
<b>YEAR</b>	<b>VOLUME IN CARATS</b>
2003	329,643.00
2004	348,205.16
2005	382,756.00
2006	419,528.35
2007	467,710.53
2008	377,209.12
2009	311,779.42
2010	301,557.62
2011	323,575.50
2012	365,916.63
2013	125,872.08
2014	0
2015	0
2016	12,641.05
2017	59,408.22
2018	11,525.93 <sup>1</sup>

Due to the crisis in the supply chain, leading to a drying up of funding, it is likely that the level of production in several areas of the country has decreased, a reduction already taken into account in the estimates of the USGS. The discrepancy between the estimate of actual production and purchases clearly shows the volume of stones leaving the territory without going through the legal chain. This is all the more remarkable as the number of buyers and producers in the country, at least in theory, is comparable to before the crisis.

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<sup>1</sup> This figure does not include 66,737.71 carats exported in 2018 that came from a stockpile of diamonds produced in 2013, 2014 and 2015.

The question is where and how do all these stones leave the country? It was not the purpose of this study to make a comprehensive analysis of this issue. However, during the research a number of informants provided information on the smuggling configurations, identifying the following types of actors:

- “Adventure-seekers” (occasional buyers) who visit Bangui to buy stones in hotels and return home without the knowledge of the authorities or with their complicity.
- Traders who use diamonds (and gold) as a means of exchange or trade-based money laundering. The diamonds generally go to Dubai, and then the foreign currency is either sold to other traders or used to buy and import goods. These goods (like motorcycles) are often used to pay artisanal miners.
- Transnational criminal networks which involve actors known internationally for their illicit trading activities in precious stones and metals (often of Lebanese origin), but also other nationalities such as Indians, Chinese, Chadians, etc.
- Legally constituted collectors and buying houses who declare only part of the purchases.
- Elites and people with power who can benefit from diplomatic immunity or access to the VIP Lounge at the airport.
- Mining cooperatives that facilitate export for collectors, or on behalf of partners abroad. Sometimes there is a real semi-industrial production financed or led by a foreign partner or else it is laundered production. The number of mining cooperatives has almost doubled since 2016 to 369 at the time of the study.

With respect to smuggling routes, several observations were made by the team, but which, once again, require verification and further investigation.

- Cameroon is often cited as the hub for smuggling Central African minerals. A large portion crosses land borders adjoining western production zones. Even though some Muslim buyers have returned to the Central African Republic, many have remained in Cameroon, especially those who are relatively wealthier. Former buyers of closed buying houses are also in Cameroon, especially in Bertoua, a major center for the purchase and financing of gold and diamonds. However, the former Central African buyers are not necessarily the major players because many new actors operate from Cameroon as well.
- The initial destination of the stones depends on the ease of movement, the source of funding and the actual prices and costs. In one case, buyers and couriers are financed from Cameroon to come to CAR, which logically attracts the product to Cameroon. But more generally, the concentration of buyers on the other side and their ease of working with less hindrance (see lower costs) than in CAR translates into higher prices attracting even more stones. The porosity of borders is also an asset for smugglers.
- Most of the stones (and probably the majority taking into account stones produced in non-compliant areas) pass through Bangui Airport, often on UN humanitarian flights or private planes and then onwards on international flights. However, the initial destination for this smuggling is often Cameroon, facilitated in part by the availability of several airline companies serving Douala from Bangui. In addition, the concentration of buyers in Cameroon makes for good prices. For diamond traders, it is not worth going far if profit can be made next door.
- According to KP figures, it appears that the majority of CAR diamonds transiting through Cameroon do not enter the country's official exports, but are rather exported by other networks. One can imagine different scenarios, such as the movement of stones in West Africa, where they can be easily laundered into other countries' production and obtain KP Certificates.

It is clear that this information requires further study, but what has been presented above is worrying because it shows that smuggling has become entrenched and normalized. The challenge is that once an

easy illegal pathway becomes the norm, it becomes more difficult to return to the pre-existing path, especially if the legal path remains complicated and full of red tape. To turn the tide, one must understand and address the structural factors behind the current situation, which are:

1. Factors related to the implementation of the Kimberley Process Certification Scheme (KPCS) and the KP Operational Framework
2. Factors related to dysfunctions in the supply chain
3. Factors related to dysfunctions in law enforcement and internal controls

## **2.2 THE KIMBERLEY PROCESS OPERATIONAL FRAMEWORK (FACTOR 1)**

The weaknesses in the KP traceability chain can be found at two levels. First, the specific difficulties related to the Operational Framework, and then the supply chain issues that existed before the crisis but which have become apparent and more serious today.

The study's conclusion revealed that the objectives of the Operational Framework are far from being achieved, and on the contrary are making smuggling worse. In addition, the Operational Framework is not achieving its objective of allowing a flow of diamonds from areas under government control.

First, the Framework's allowing exports only once a month pushes buying houses to operate according to two parallel purchasing patterns: a legal pattern with slips and an illegal pattern without a slip, in order to ensure adequate cashflow.

Second, the uncertainty in the export process with the possibility of having blocked parcels is demotivating. In short, the procedure becomes more and more cumbersome. These realities strongly affect the chain, which needs working capital and also significant investments to increase activities.

In short, the KP must assess the Operational Framework and correct certain provisions.

However, the conclusion is not that if we removed the Operational Framework, everything would be fine. For example, one of the difficulties in implementing the Operational Framework is the requirement for production and purchasing data from only licensed artisanal miners. However, the production registry system did not function well even before the crisis. The problem of "fictitious" cooperatives should also be highlighted, as well as major failures in the system of centralization and analysis of statistical data, which are the heart of the chain of custody.

Considering that other major production areas are still non-compliant, it is important to carry out reforms to make the chain of custody more efficient and credible, which will accelerate the process of resumption of legal trade in all zones. In short, a total review of the traceability system and internal controls from the artisanal miner to the exporter is necessary.

## **2.3 SUPPLY CHAIN DYSFUNCTIONS (FACTOR 2)**

The second category of factors follows from the first, namely, the crisis in the supply chain. This crisis stems from the global political crisis that the country has experienced since 2013, but is proving persistent. The current buying houses, for example, are not "real" buying houses compared to those that operated before. Indeed, collectors in the field are surprised that there are officially 17 buying houses, because there is only one with an office outside of Bangui, and not a single buying house that is pre-financing collectors, at least at the same level as before. Without capital the flow of stones dries up and the chain falls into a vicious circle of decline.

There is also a weakening of the "social fabric" of the chain, that is to say, a lack of confidence that affects the behavior of the actors. Due to the fact that everyone became indebted during the crisis, and everyone is struggling to get by, the little funding that goes into it is often used to meet daily needs instead of



investing in mining. Collectors who have returned from Cameroon do not have capital as before, and insecurity is still a concern for some. For their part, artisanal miners are wary of collectors, especially since the crisis has dismantled and unmasked certain practices, such as collusion by collectors to keep prices low. Smugglers often give a better price because they do not pre-finance, so expectations and attitudes have changed with respect to what is “fair” and what is normal.

In general, a critical mass of activity is needed for the chain to work. As a collector at Carnot put it, "a few drops falling from the sky is not rain". Currently not only is there no rain, but unfair competition by smugglers has pierced holes in the buckets that are supposed to collect the water. These issues are not easy to solve, but solutions do exist, especially ones based on a deep understanding of everyone's incentives.

## **2.4 ABSENCE OF EFFECTIVE INTERNAL CONTROLS (FACTOR 3)**

The third category of factors behind the surge in smuggling is the lack of effective law enforcement. The proverbial “carrot and stick” is fundamental: without benefits for legal behavior and without consequences for illegal behavior, illegal behavior will always win. The lack of effective law enforcement is both a problem of political will and a technical issue as well. On the side of political will, there is currently total impunity and a complex system of protection at all levels. For example, even for the few attempts at law enforcement, well-timed phone calls open the pathway for smugglers, such as agents at the airport who cannot do anything if a "protected" person is found with contraband.

There are also specific problems of a technical nature, such as the fact that the whistleblower system no longer works, partly due to a lack of clarity at the KP on the question of how to dispose of confiscated stones. This system offers a 20% reward to agents or individuals who catch a smuggler or provide information leading to an arrest and seizure. In addition, the lack of co-ordination between law enforcement agencies, serious questions about the mandate and effectiveness of the anti-fraud brigade USAF and the lack of use of statistical data to combat fraud are all important factors. These aspects with concrete suggestions for improvement will be proposed later.

## 3.0 ANALYSIS OF THE DIAMOND SUPPLY CHAIN CRISIS IN CAR

### 3.1 LACK OF FINANCING AND PRODUCTION

Collectors and artisanal miners complain of a lack of funding and a decline in production. The explanations are diverse, starting with the most obvious, namely, the lack of funding by buying houses. Because of the risky business environment with insecurity, the KP Operational Framework and growing smuggling, the buying houses are not prepared to spend the huge sums needed to revive the sector. This affects the availability of funds for collectors and indirectly for artisanal miners. Without funding mining declines; that is the universal law in high-risk and geologically uncertain alluvial diamond mining.

The profile of the buying houses has also changed, as the "big" offices are no longer operational (Sodiam and Badica), and the new ones are not as powerful in terms of networks and capital. Among the newcomers there are also "non-serious" ones (those who export almost nothing, or nothing legally) and those who focus on a single quality of stone ("cherry pickers"). There are also those who are less willing to finance; in general, local buyers are the most willing to finance.

In the field the dynamics with the collectors is complex. There are certainly cases of return and reintegration of some refugee collectors who had fled to Cameroon, but according to some observers, those who have returned have less capital. The richest remained in Cameroon where they continue to work and earn with less risk and less red tape than in the CAR. In addition, those who have returned or had not left are there without buying houses to which they can sell, so there is a growing phenomenon of sales between collectors, which is not allowed by the law.<sup>2</sup> Moreover, everyone got into debt during the crisis, or they lost their capital, so it is difficult to invest.

This is also the case for artisanal miners who are sometimes forced to use collector financing to repay debts instead of financing their work. Several collectors have also observed that artisanal miners in the west have become more "aware" especially with respect to prices. Before the crisis, it was common for collectors to coordinate with each other in order to control prices and make a profit, but this system collapsed with inter-community violence. Smugglers and buyers sitting in Cameroon increasingly give the "real" (i.e., higher) price because they do not have the cost of pre-financing and cannot collude. In addition, new actors have brought new practices such as using colorimeters, so the increased valuation knowledge has translated into higher expectations about what is a fair price, which cuts into the margins of traditional collectors. Indeed, when the team asked for average prices for different qualities, there was no discernible difference between what miners want and what collectors apply when they sell to buying houses, which is a recipe for no profit and a non-viable supply chain.

In addition, the use of day laborers ("*katamans*") has increased. In this schema, diggers are paid by the task or by the day instead of being paid a percentage of revenue from winnings. Because of the economic difficulties in the country, many prefer this system because it's a guarantee of a daily wage, avoiding the uncertainty of waiting to see the quality and quantity of diamonds discovered. In addition, many artisanal miners are paid in-kind by buyers, such as with motorcycles, which reduces the cash portion that is divided between diggers, making the sharing system less attractive economically. However, the use of day laborers

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<sup>2</sup> Paragraph 2 of Article 148 of the Central African Mining Code strictly prohibits any transaction between collectors. This provision was reinforced in a circular note sent to them by the Ministry of Mines and Geology in April 2019. One of the reasons given for this provision is the difficulty of making statistical reconciliations in case of sales between collectors. However, this difficulty would not arise in the case of scanning purchase slips and assigning unique identifiers to each actor (see below). It should also be noted that this ban is difficult to apply because of the realities in the functioning of the supply chain in the Central African Republic as in any artisanal producer country. Specifically, the sale between collectors is due to lack of liquidity, the repayment of debts, to meet a specific demand for certain qualities of stones, among other reasons. An analysis of the consequences and justifications of this provision is necessary in the short term but also in the context of a possible legal reform.

increases investment costs, and therefore with the same level of funding, there are fewer holes dug and less chance of finding stones.

In this difficult context, some collectors are forced to accept support from smugglers or financiers in Cameroon, or else forced to sell to other collectors. Identifying and adopting strategies to stop this vicious circle of decreasing investment and production is necessary to incentivize legal behavior by supply chain actors and also remove opportunists from taking advantage of the supply chain crisis.

## SOLUTIONS AND RECOMMENDATIONS

1. Study the relevance and the consequences of the application of punishment against sales between collectors as defined by Article 148 of the Mining Code.
2. Apply the rules concerning the establishment of secondary offices in the provinces by the buying houses, and close those who refuse to comply with the regulations, in particular Article 154 of the Mining Code.
3. Further study the international context of the supply chain to determine whether the classic model of a large buying house is still relevant, given the tendency of small and medium wholesalers abroad to increasingly go to the source rather than rely on large intermediaries.
4. Reflect on and implement measures to reduce investment costs, such as by lowering the cost of establishing a buying house or providing technical and material support to miners to defray investments by collectors and artisanal miners.
5. Study further how to support and organize semi-mechanized operations given increasing depth of many deposits and the increased cost of non-mechanized operations.
6. Ahead of any regulatory reform, organize broad-based stakeholder dialogue to foster discussion on the problems and propose solutions.
7. Develop a national policy for the development of artisanal and small-scale mining, incorporated into the overall mining policy, in advance of any regulatory reform.

### 3.2 DIFFICULTIES WITH BUYING HOUSES

Several observations have already been made regarding buying houses but there are additional difficulties to be highlighted. First, a sensitive issue is the official absence of several "big players" like the buyers linked to Badica and Sodiam, the two big offices that were exporting CAR diamonds before the crisis. The retreat of these big players is not without historical precedent as buying houses come and go for economic or political reasons.

However, buyers and collectors who have worked with defunct players have not disappeared but rather allied themselves with new actors. Today the question is where are all the buyers formerly working with Badica and Sodiam? It can be assumed that a large number continue to practice because true diamond dealers are lifelong diamantaires who have caught the "fever without cure". In the context of a revival of the sector, the Government and the KP should engage these actors in order to determine if and how to reintegrate them into the legal chain.

It is important, however, to reflect on the fact that even if the KP suspension is fully lifted tomorrow, it is not clear that everything would return as before. First, the chain is sufficiently fractured that an immediate recovery is unlikely. Investing millions of FCFA requires a minimum chance of success; the unfair competition by smugglers will not disappear overnight, not to mention other challenges.

Some long-time buyers have also expressed doubts about the ability of the large buying houses to return because the margins are no longer as before, except in the non-compliant zones in the East where artisanal miners are less "aware" and the stones are of a better quality. The only solution for the West is therefore to see how to reduce costs in order to make the legal chain attractive enough to compete with illicit networks. This requires a thorough and concerted reflection on the whole chain. It should also take into account this "awareness" of artisanal miners, because in and of itself, it is not bad that those at the bottom of the chain less exploited.

However, as a buyer said, "If you cut a piece from your *boubou* (traditional robe), the piece that is removed is used to give you pockets." In other words, the artisanal miners should take into account the fact that not necessarily earning the "real price" allows the pre-financing and operation of the chain. That being said, in the current state of affairs and taking into account global trends, the question should also be asked if the traditional chain is fair and still viable, especially for those who suffer at the bottom of the chain. Only concerted dialogue and analysis can find answers to this question and thus restore the confidence needed to repair the "social fabric" of the chain.

As part of this analysis, further study on export taxes is needed, notably on how to maximize both revenue and legality. For example, the Ministry is currently experimenting with the requirement of minimum value per quarter (\$600,000) that each buying house must export at the risk of losing its accreditation. One should also think of an approach with positive incentives ("carrots") instead of purely negative incentives ("sticks") according to which the marginal export tax decreases according to the value of exports. For example, for a value of up to \$500,000 in a given year, the tax may be set fairly high, such as 8%, but once this threshold is exceeded, the tax may be reduced to 6%, and so on, with the lowest marginal tax reserved for larger exporters. Other strategies could be devised that take into account the fact that making money is often a bigger incentive than avoiding fines.

Minimum thresholds nevertheless help weed out "fake" buying houses that do not export enough, so the principle of withdrawing approval for non-performance is not bad. One could also consider how to use the principle of thresholds to classify different actors and even allow other types of actors to export. Giving the monopoly to buying houses has been the preferred model for decades, but the fragmentation of the international market, alternative supply chains and the effects of technology in the rough diamond trade is a trend that needs to be taken into account.

So why not allow collectors to be able to export with a minimum and maximum value per year and with a higher tax rate than buying houses? It would not be without risk, but it deserves to be studied because in the short term most of the exports are going out in this way anyway. In the long term after having restored the place of the big buying houses, this would help take into account changes in the international market and also to capture the maximum of income for the government by adapting fees and according to the scale of each actor. The flow of diamonds is like a river after a heavy rain: if you put in a large dam, the water will inevitably flow elsewhere; but if you accept that the water will flow and you put several nets with different size meshes you catch a lot of fish without much effort.

Finally, the global trend of the "due diligence" approach as practiced by the OECD and the new EU conflicts minerals law should also be taken into account. This is an approach that focuses on self-regulation and risk management by industry players. For example, instead of obliging the government to seize and control everything, the buying houses will be required to keep detailed records of their sources of supply, the collectors with whom they work, and to justify this in the event of audit by a wholesaler in Europe or India. This model is complementary to the sovereign power of the state.

This is relevant for the Operational Framework too: instead of requiring every export to undergo a thorough analysis by the government and the KP Monitoring Team before export, some buying houses that have demonstrated good management and strong internal practices could export with fewer barriers. The KP and the government will be able to carry out audits and verifications, but the emphasis will be on a due diligence co-responsibility by the government and with the private sector.

## SOLUTIONS AND RECOMMENDATIONS

8. As part of a broad-based multi-stakeholder dialogue on the sector, organize technical sessions with experienced buyers in CAR and abroad to take into account global trends and the strengths/weaknesses of the traditional buying house model.
9. Study taxes and fees applicable to buying houses to make the legal chain attractive and realistic. For example, consider an adaptive marginal tax scale: the more you export in a given year, the less you pay in marginal tax. If well-calibrated, such a scheme would increase legal volume exported and tax revenues at the same time.
10. Study the effects and results of the new provision setting a minimum export value threshold per quarter at the risk of losing one's buying house accreditation.
11. Consider the option of allowing medium-scale exporters to be able to export under a different regime than larger buying houses, as is currently the case for mining cooperatives.
12. Study options for taking into account trends like due diligence, self-regulation and co-responsibility with the private sector in the organization of the chain of custody.

### 3.3 NEW SEMI-INDUSTRIAL ACTORS

The mission observed the arrival of several semi-industrial actors who act in different forms: holders of research permits, holders of semi-mechanized artisanal mining licenses, mining cooperatives or mining companies. This trend is much more pronounced in the gold sector, and this generates social tensions in several localities, especially when these entities are mostly controlled by foreigners with the involvement of executives and elites of the country. The incident in Sosso-Nakombo in early 2018 resulting in the deaths of two Chinese miners is not an anomaly; tensions were found in Gamboula, Nola and Bagandou that could devolve into violence.

Even if this problem is more noticeable in gold, it is relevant for the diamond sector too. Those who are dredging are probably recovering diamonds in addition to gold. But even more important is the fact that the future of the sector will probably be marked by more mechanization. Several collectors and stakeholders have noted in different localities that the deposits are becoming deeper and deeper, requiring considerable resources to strip the overburden. There is also the fact that in the diamond sector, the availability of labor is not unlimited because there are no strong migrations as in West Africa or elsewhere in Central Africa. While artisanal mining will dominate in the coming decades, there will certainly be more actors using semi-industrial methods as well.

To prepare for this future, it will important to do the following:

- As part of the dialogue around the sector and the reform of texts, think about how to promote access to these technologies for Central Africans without creating barriers to a role of support and partnership with foreigners.
- Closely study environmental considerations, as semi-mechanization has more harmful consequences. In West Africa, for example, some localities where semi-mechanized artisanal mining is practiced are experiencing serious environmental crises.
- Provide conflict management mechanisms around these new actors. First, zoning and spatial planning are necessary to protect the interests of landowners who are often artisanal miners. A

review of PRADD's experience of issuing customary property documents to these claimholders would make it possible to see the relevance of securing land tenure in mining areas to avoid conflict. The establishment of artisanal mining zones provided for by law but never enforced may help.

- Clarify the rules related to mechanization according to each type of authorization or permit, leaving a margin of flexibility. For example, in an artisanal mining area, one could consider the occasional use of bulldozers to strip overburden and to rehabilitate the site.
- Set standards in negotiations between semi-industrial operators and communities. The current conflicts revolve around the employment of local youth, and the perception of an opaque involvement of some administrative and local authorities in the sharing of the gains. A system of "arrangement" between communities and operators generates conflicts. Rather, there should be transparent and clear negotiations on the means that these entities will pay to the communities and then set up local development committees controlled by the populations and not by the authorities or elites. For example, given that in CAR the mayors are not elected, it would be necessary to ensure for better legitimacy that the management of funds generated by semi-industrial mining is entrusted to an entity representative of all social strata.

## SOLUTIONS AND RECOMMENDATIONS

13. As part of broad-based stakeholder dialogue, discuss the subject of the relationship between the semi-industrial operators and the communities.

14. Prepare procedures and memoranda of understanding for the establishment of representative entities for conflict management and the management of funds paid by semi-industrial operators for local development.

15. Include in the national strategy on artisanal mining, strategies to support the professionalization of the sector through access to appropriate equipment.

16. Allow the use of semi-mechanized equipment in artisanal exploitation zones (ZEA) with additional authorizations specific to each type of semi-mechanization and taking into account the environmental impact.

### 3.4 ISSUES WITH COOPERATIVES

The mission noted a number of issues with the mining cooperative system in CAR. First, one should question the fact that the number of cooperatives approved for gold and diamonds has almost doubled since 2015. There is little transparency about those who have been approved, their sources of funding, their foreign partners and their places of activity. There is thus a strong perception by the local actors—particularly collectors and artisanal miners—that cooperatives are fake or “*banco*” cooperatives.

Cooperatives come in different forms. Some are functionally small mining companies with a manager or financier who controls all the capital but has a legal form of cooperative because it is easier and above all less expensive in terms of taxation. Sometimes these companies are essentially foreigners who pay the local partners 20% of earnings to operate in CAR. Another case is a buyer and exporter of stones who finances teams of artisanal miners or who buys stones from informal local buyers in order to be able to export them. This is to take advantage of the fact that cooperatives can export whereas collectors or “freelance” buyers cannot. There are also cooperatives that are used to attract foreign investors sometimes in good faith and sometimes to scam them.

There is therefore a shared perception by most actors that the mining cooperative system is far from its original spirit of promoting domestic producers. The structure that is supposed to represent the 350 mining cooperatives is the UNCMCA, but this union is perceived as highly politicized and unrepresentative of the actors on the ground. In Berberati, for example, artisanal miners when they hear the term "cooperative" get angry as it reminds them of instances before the crisis where equipment promised to their cooperatives were stolen by elites. This is a shame because there is a will to try something different, especially given the difficulties with financing.

The World Bank support program (PGRN) focuses partly on cooperatives and this is an excellent opportunity to address problems. The crux of the problem is the fact that definition of a cooperative encompasses several types of actors in reality. A miner who partners with a foreigner in a functional company is not a bad thing in and of itself for the development of the sector, but by "disguising" as a cooperative, this creates confusion. Further study is needed to dissect the different motivations and different types of actors so that those who wish to work legally can do so.

It should also be ensured that the Uniform Act on OHADA Cooperative Societies, of which CAR is a signatory, is taken into account. Mining cooperatives in CAR are far from meeting the definition in this law. According to Article 4, "*The cooperative society is an autonomous grouping of persons voluntarily united to meet their common economic, social and cultural needs and aspirations, through an enterprise whose ownership and management are collective and where power is exercised democratically and in accordance with cooperative principles*". There is some work that needs to be done to get closer to this ideal.

## SOLUTIONS AND RECOMMENDATIONS

17. Identify the different types of actors gathered under the category of mining cooperative.
18. Clarify the frameworks for collaboration between Central African mining cooperatives with their financial partners.
19. Reflect on how to promote the emergence of small national mining companies, including through appropriate tax incentives.
20. Study the possibility of allowing Central African nationals wishing to export diamonds without going through buying houses to do so to prevent these actors from abusing the legal form of a mining cooperative and taking into account the risks for the chain.
21. Conduct pilot experiments with "real" cooperatives as defined by the OHADA law.
22. Conduct an in-depth study of the management framework for mining cooperatives in CAR, including the operation and role of UNCMCA.

### 3.5 SUPPLY CHAIN ACTORS NOT CURRENTLY RECOGNIZED BY THE SYSTEM

The organization of the artisanal diamond supply chain is complex, and often the legislation does not take into account the logic of this organization or certain categories of actors that play important roles. Some roles that exist in reality but are not officially recognized in the chain currently are *coxeurs*, *débrouillards*, team leaders ("*kapita*"), SME "cooperatives", and small-scale exporters.

The mission questioned the definition and roles of these illegal actors:

- *Coxeurs* are generally intermediaries of purchasing offices or large collectors in the field. Sometimes one calls "coxeur" also of the direct sellers who put in relation a buyer and a seller for a small commission.
- *Débrouillards* are informal buyers who can be small traders (shopkeepers who buy alongside their main activities), artisanal miners who buy outside their sites, collectors who do not have the

means or the will to regularize themselves, and all other persons not authorized to trade in precious stones and metals.

- The team leaders ("kapita") represent the site manager and organize the work in the field. In other countries, they have a special status given their role in monitoring production.
- Cooperative-form SMEs are mining companies or mining entrepreneurs who opt for the cooperative form to reduce costs, taxes and to bypass red tape.
- Small informal exporters are individuals or organizations with partner buyers abroad but lacking the capital necessary to become a buying office. Sometimes they go through existing buying offices, mining cooperatives, or go underground. This case concerns much more gold and increases with the use of new modes of communication like WhatsApp, etc.

The question is whether or not these different functions should be taken into account in any possible legal reform. On the one hand, solutions such as the issuance of "courtier cards" as is done elsewhere for small collectors can be studied. On the other hand, adding too many new categories and administrative formalities can make the system cumbersome and hamper formalization.

Regarding illegal operators, after having understood their motivations and constraints, a similar reflection on their formalization would be desirable. One should firmly crack down on illegal actors who undermine the integrity of the channel while also ensuring that those who are willing to work legally have favorable fiscal and administrative conditions. For example, in the event of a reform of the legislation, one can consider well-defined thresholds and taxes to allow Central African SMEs and even small or medium-sized exporters to carry out their activities without harming other actors in the sector.



## 4.0 ANALYSIS OF THE CHAIN OF CUSTODY

### 4.1 COLLECTION OF STATISTICS

Reliable statistical data is essential for the chain of custody. As the KPCS requires document traceability instead of a physical traceability, which is not yet possible for rough diamonds, adequate documentation is the main tool of internal controls. Without the most reliable data possible, it is very difficult to fight fraud and smuggling.

Unfortunately the collection of data poses enormous difficulties in this vast country, with limited means which render ineffective many internal controls. In such contexts, pragmatic approaches are essential to make the data collection system more efficient and adaptable, because it serves no one to have a strong system on paper but a broken chain of custody in practice.

The team observed that the KP chain of custody is broken at two levels. First, there is a paucity of production data despite the fact that artisanal miners are expected to fill out production tracking books and bring them to get a government stamp once a month. Apart from the fact that not all artisanal miners are registered, there is little incentive for most of them to use this notebook. On the other hand, there is often an incentive *not* to fill the notebook because it can be used by various actors for harassment and extortion.

We should therefore think critically about the merits of the current model and look for alternatives. This reflection must take into account the objectives of data collection. It is not realistic to have perfect identification of all the stones coming out of the earth; even developed countries would not achieve this goal. It's about having enough data to be able to detect anomalies and conduct investigations.

Two good practices in this area are to be considered:

- First, create an incentive system to record production at the community level. In some countries, a retrocession to the community of a percentage of the export tax proportional to the recorded production may give impetus to register. In RCA this system would have difficulties, but the principle can be applied within the framework of the pilots of the artisanal exploitation zones (ZEAs) or the co-management with villages envisaged within the framework of the project AMPR. In the case of ZEAs or village cooperatives, the management system may include the recording of production and an incentive to do so through a percentage taken at source.
- Second, consider the geographical scale of the recording of information. One option to consider is the mapping of "mining areas", often referred to as "mining sites". This is a geographical area grouping a number of pits. Site delineation should be based on local naming practices. Most often it is a village, but it can also be a waterway or a former semi-industrial site. Once identified and delineated, mining sites can be used to track production. Another way would be to standardize what is on the sales slip for provenance; instead of leaving full latitude, the mining site should be noted using standard names. An estimation of production can then be derived from purchase slips on a scale finer than the sub-prefecture but less fine than a pit or license-holder.
- Sampling methodologies may also be used. For example, if the site is a village, a local can survey site managers and record aggregate monthly production. The village monitoring mechanisms called ALS can also be responsible for this task. If the actors know that it is anonymous and aggregated, it may reduce the reluctance to declare. "Certificates of monthly production" can be issued by the ALS, which miners can use to attract investors or avoid difficulties with the authorities. More sophisticated methods may also be considered, such as the use of satellite images to estimate the production with field verifications.

There are different options but the principle is to follow the production on a collective scale instead of an individual scale, because that would be enough for the documentary chain of traceability, even if the ideal is individual tracking. These are complementary approaches: artisanal miners can maintain records but monitoring and collection can be done at the collective level by the ALS and the government. This would also avoid dependence on official notebooks that are often expensive to produce.

During the mission the team found that some of the miners were diligent in the use of their official notebooks, which is to be commended, but most of them use ordinary notebooks to track expenses, while some village chiefs maintain registers to follow various information including the number of mining sites in their localities. It is about building on these existing practices to be able to have a minimum of information necessary to make the chain work.

On the other hand, for large stones, particular vigilance is necessary. In CAR “special stones” are defined as diamonds that exceed 4.80 carats. The follow-up is more important considering the high value of these diamonds. The mission team found that the practice is to declare these stones to USAF and the DR, and according to several people, percentages are often collected by the authorities on these stones and paid most often by the collectors, even if not provided by law.

A special look is needed on this practice because on the one hand, it is an illegal levy that may encourage actors to try to hide the stone, but on the other hand, it could generate funds to fund monitoring at the local level provided that such levies are formalized and more transparent. Also consider whether the 5-carat threshold is still the best by following trends in international prices. A high-quality, 5-carat makeable diamond can obtain 14 million CFA abroad, but a high-quality 4-carat makeable diamond can already generate 10 million, which is also high.

In Bangui, these special stones are tracked by different services, but it should be ensured that these data are systematically made available to BECDOR and the KPPS because they are necessary to analyze before exports. This is necessary because the individual traceability of these rare stones is necessary for the credibility of the system and to ensure that they follow the legal chain.

Regarding the collection of trade data, CAR was a world leader when it adopted the system of purchase slips even before the creation of the KPCS. However, malfunctions in the management and use of these data represent the second flaw in the chain of custody.

The first problem arises in terms of the identity of the seller on the purchase slip. Normally a collector must buy from a licensed miner. This is often verified by the KP Monitoring Team when buying house agents buy from miners. But in reality it is difficult for a collector or a buyer to refuse to pay a stone because the seller does not have his papers. In addition, collectors buy from *débrouillards*, *coxeurs*, other collectors and non-licensed miners. The result is that often collectors can falsify slips or maintain parallel purchase circuits without traceability.

It's not easy to deal with this problem, but if the goal is to have reliable data, consider how to make reporting all purchases easy. For example, we can recognize the position of the agents under the tutelage of the collectors, with cards and identifiers, to allow small buyers to formalize themselves. For non-licensed artisanal miners or other individuals, the collector can still note his name, contact and provenance to enable the DR or USAF to follow up and raise awareness, because in principle it is not the collector's job is to make sure the miners are up-to-date.

For large stones, on the other hand, the DRs can support by allowing unlicensed artisanal miners to get their license during sales, or to levy the amount of the license in a systematic way with a slight fine to take into account the delay in getting the license. In this way, we do not penalize an artisanal miner who does not yet have the means to pay his license, but we encourage him to do so as soon as possible to avoid fines. To encourage collectors to declare everything, collectors are also penalized for making small

purchases from unregistered actors, as long as they declare the mining site of origin and all details of the identity of the person.

There is no one solution, and any reform will have the potential for perverse effects, but we must still try to find the right balance between pragmatism and legality, otherwise parallel systems will take the lead, as is the case now.

## **SOLUTIONS AND RECOMMENDATIONS**

23. Consider complementary solutions to the production monitoring notebooks that take into account existing practices, such as the use of plain notebooks by miners.
24. Identify incentives to record production such as a percentage taken by village or artisanal mining zone management committees.
25. Consider the option of monitoring production on a collective scale by identifying mining sites according to local naming practice and empowering a site manager (like the ALS) to track aggregate production.
26. Add the name of the mine site on the purchase slip to allow site-level disaggregation of data to derive production per site.
27. Encourage artisanal miners and collectors to declare the stones on the slips by giving priority to sensitization instead of punishment and to make regularization easy.
28. Allow and support non-licensed miners to regularize their situation without penalty or with minimal penalty during the sale of winnings.
29. Provide bonuses and award ceremonies for artisanal miners and mine sites with the most recorded production.

### **4.2 DATA MANAGEMENT AND ANALYSIS**

The second most fragile link in the chain of custody is between first-level buyers and buying houses. Carbon copies of collector purchase slips are collected at the DR level, compiled for reporting, and then transferred to Bangui. In the case of exports, however, the KPPS verifies buying house sales slips without necessarily reconciling this information with the purchase slips of collectors who have sold to these buying houses. This reconciliation is supposed to be done in the field, but without the digitization of data, it is a tedious job that does not allow in-depth analyses.

The solution is not complicated but requires a reform in current practices. Each mining service chief or DR should scan the carbon copies of the purchase slips to make available the electronic data to the KPPS, CGIGSM, DDRSC and BECDOR even before the compilation of the data in the reports or the transfer of the physical sales slip copies. As part of the routine controls but especially during exports, comparisons of the figures will make it possible to know if the purchases are coherent. For example, if a buying house buys much more from a collector than the collector said they bought, the inconsistency could signal a problem. If collector slip data indicates too much buying from a mining site known to be non-active, this can also signal an anomaly.

In fact, the availability of digitized statistical data is a big challenge, but it is only the beginning, because regular analyses should be done to detect anomalies and inform those who are authorized to make checks. In itself, anomalies do not necessarily signal fraud, but it provides clues that can be analyzed. To be able to work, each registered actor would have to have an identifier that does not change from one year to another, because otherwise it is difficult to do cross-checks and long-term monitoring.

One should also standardize the data pathway and responsibilities at each level. The digitization of data in the provinces would require the provision of human and material resources to do so, and especially a hierarchical directive to do so. Then, an administrative decision should clarify who will have access to this information and how it should be used. For example, a quarterly analysis report template can be developed to allow decision-makers to have a status report and identify action points.

In summary, the team found the following challenges: the lack of data digitization, the lack of systematic availability to all stakeholders in the time needed for analysis, the need to clearly identify roles and responsibilities at all levels, and the need to use and analyze this information. Even if the bases are present especially at the level of the sales slips, improvements are urgently necessary to operate the chain of custody which depends on the collection, the synthesis, the verification of the quality and especially the analysis of these statistics.

## SOLUTIONS AND RECOMMENDATIONS

33. Develop a strategy for collecting, capturing, managing and analyzing statistical data related to supply chain actors and their production and trade activities.
34. Formalize this strategy with guidelines or regulatory texts that clarify the flow of physical and digital information.
35. Set up a system of digitization of the purchase slips in the field with an electronic data transfer system to the relevant services in Bangui every month.
36. Ensure that all relevant structures have designated agents to capture and participate in data management, especially at the level of the regional directorates.
37. Establish an integrated database for cross-referencing and short-term comparisons with Excel but integrated long-term with the mining cadaster.
38. Provide training on the use of PivotTables in Excel to quickly identify anomalies and synthesize.
39. Provide training and the provision of materials needed to execute the strategy, especially electronic transfer of data.
40. Assign unique identifiers to actors to enable effective monitoring.
41. Set up a statistical analysis report template to be prepared quarterly by the DDRSC and the KPPS to create a supply chain snapshot and report anomalies to relevant people.

### 4.3 TRANSFER OF PARCELS AND EXPORT PROCEDURES

The KP Operational Framework provides special measures to ensure non-contamination of stones from non-compliant zones in parcels approved for export. Among these measures, the parcels coming from the compliant zones must be transported under seal with a transfer form signed by the DR and USAF, then checked at the level of BECDOR before being handed over to the buying house. The KP Monitoring Team checks lists of licensed artisanal miners and collectors in the compliant zones and compares the purchase slips with these lists. Finally, the Monitoring Team analyze photos of the stones. Export authorization applications are submitted once a month, and since the end of 2018, the Team gives its response a week later.

The mission observed difficulties in applying this system in practice. Regarding the transfer of parcels, for some buying houses their mode of organization makes the system very expensive. Generally, buying houses provide working capital to their buyers in the provinces to buy, but depending on the size and degree of experience, the office managers in Bangui must verify that the purchased products correspond to the pre-financed amounts. It has happened that some offices have been forced to carry out field missions to check, or to transport the stones to Bangui for verification, then retransfer stones to the province to

seal them, then return to Bangui to prepare the export. The costs, the security risks and the red tape of this system encourage some to look for alternative arrangements, so at the KP level we must ask the question of the reliability of the transfer system.

The reliability of the data on the purchase slips is also to be questioned. Apart from problems of illegibility, the reality is that it is easy to falsify the information on the source, the name of the miner, and so on. This is why statistical data as a whole is essential to the credibility of the documentary chain, because it allows analysis and situating individual transactions in a global context. In doing so, problems may emerge, but looking at a single slip will not. The KP's practice of verifying that a particular vendor on the sales slip is on the list of authorized artisanal miners is not proof that the diamond was purchased in said place, on said day, and from the hand of said person.

In addition, the question arises as to the added value of the photo verification system used by the KP before validating exports. It is unlikely to be able to scientifically detect stones from non-compliant zones of the West because they come from the same geological formation. The team was able to hear about several concrete cases of western diamonds from non-compliant areas that were simply noted on the slip as being a compliant zone, which went unnoticed by the Monitoring Team.

For stones from the East, according to the buyers interviewed, those who are experienced in the field in CAR can distinguish between the two areas, but this is usually by experience and not by objective analysis. Indeed, smugglers can use this same experience to mix stones of different sizes and provenance. Some complaints from the Monitoring Team on image quality are legitimate in some cases, and focal points need to continue to improve the quality of photos even if the brightness is not good in the room. But even with microscopic images the techniques used by the Monitoring Team have not been proven to be able to distinguish origin in mixed packages, even though CAR is indirectly contributing to research in this direction. In any case, checking the photos and the slips do not change the fact that all the diamonds of CAR are going out one way or another, and therefore from this point of view special measures do not work.

Any review or attempt to change the Operational Framework will face political and institutional challenges at the KP level and elsewhere, but at the technical level a review is needed to take into account the results of this experiment never attempted in the history of KP and the evolution of the socio-political situation and in the sector since 2015.

A paradigm shift that adopts elements of the "good diligence" approach could be considered, without necessarily going beyond the KPCS framework. For example, the KP can still have access to information including photos. The KP can even offer to make more sophisticated scanners, paid for by the diamond industry, to test new traceability techniques such as inclusion mapping, artificial intelligence in image interpretation, and spectrometers. But this must be done by mutual agreement with the government and without creating an obstacle to legitimate exports.

On the basis of statistical information and images, the KP can still conduct checks and investigations, perhaps relying more on experts paid by the diamond industry to conduct audits from time to time, to conduct trainings and audits in recipient countries of exported stones such as the UAE, Israel and Belgium. However, a review of the Framework must abandon systematic pre-approval as this is an impediment to the re-establishment of the legal chain. In addition, the KP should be more transparent in the methodology used for the verification of the origin of the stones, by making available all the data and models used.

The Team may, however, perform audits and require prior authorizations for specific buying houses and operators where anomalies are noted or suspected. The Revised Framework may also include tough measures targeting companies and individuals engaged in smuggling, including travel bans, freezing accounts, special searches at airports, and so on. The latter would come out of the Framework itself but each participating country of the KP is free to take action in accordance with their laws.

Such a paradigm shift would require ownership of the approach and the good faith of the government, the KP, and the buyers. This also requires a clear improvement in the quality of the statistical data and its availability to the stakeholders concerned. This is not obvious, but if the objective is to have a better visibility on the flow of the stones and to better target the actions of repression and watch, a review of the special measures is necessary, because it is necessary for the credibility of the CAR and the image of the government, but also the image and credibility of the KP as well.

## SOLUTIONS AND RECOMMENDATIONS

42. Accelerate the process of bringing sub-prefectures into compliance, especially in the West, given the high risk of contamination.
43. Remove the requirement of systematic due diligence before exports by the KP Monitoring Team to allow the effective resumption of legal exports
44. Conduct a critical and participatory review of special measures in the Operational Framework and consider short- and long-term changes to make the chain of custody credible.
45. Alleviate export validation procedures with emphasis on targeted audits and verifications by actor and by identified anomaly or risk.
46. Study how to reinforce a "due diligence" approach and shared responsibility with the private sector.

### 4.4 ROUGH DIAMOND VALUATION

The evaluation of rough diamonds prior to export is a critical point in the chain of custody. Several weaknesses in the current system have been observed. As a first step, BECDOR does not use a price reference list in accordance with international practices and standards. The "*mercuriale*" was revised two years ago, after more than a decade without updating, while the global market is changing rapidly. In order to be able to collect adequate tax revenues, comply with KP's certification requirements, and to increase the transparency and confidence of exporters, a subscription to a list like AdTec that is updated monthly and often recommended by Belgian experts who train as government evaluators.

However, in order to be able to use this list, evaluators will need to review the sorting systems to comply with the reference price lists used around the world, i.e., those based on the GIA classifications instead of the old Belgian systems. Second, an independent assessment of current practices by government evaluation experts can help identify needs and gaps in current practices, and identify areas for training. For example, in the Diamond Office in Antwerp, evaluators do not sort parcels but rather check the conformity of the weights and values presented by the offices. Generally exporters are better placed to do prep work, and the role of the independent appraiser is to check the categories and then apply the appropriate valuation.

This same independent evaluation by subject matter experts should lead to changes in the layout of the physical space that is too small and poorly lit, as well as the equipment available to evaluators, such as detectors for fake diamonds.

At the institutional level, particular attention must be paid to the selection of evaluators with transparent and rigorous selection competitions, a thorough check of good character and a commitment to remain an evaluator for a certain number of years to avoid the departure of the candidates. experts after investing in their training. It should also be ensured that evaluators are well compensated to reduce the risk of corruption. In the internal organization, randomly selected evaluators from the list for a given evaluation should not be informed too much in advance. They must also sign codes of conduct with heavy penalties for abuse. A premium model for evaluators based on appraised value can also create a positive incentive

reducing the risk of bribes or tips. All these elements must be grouped together in a procedures guide and supported by the technical and financial partners.

The government may also make a choice to go to independent assessment firms ensuring proper evaluation. As reliable valuation is needed for serious buying houses during imports and to repatriate funds from their banks, an improvement is needed to increase state revenue, but also for the viability of the chain.

Finally, the valuation function should be independent of the licensing and data management functions. In order to reduce the risk of conflicts of interest, the government valuation office usually only does valuation, though this is not the case in CAR. The issuance and management of purchase slips, the management of statistical data, and other functions related to supply chain authorization and control should be separated between different structures with clearly defined responsibilities.

## SOLUTIONS AND RECOMMENDATIONS

46. Subscribe to a price list updated regularly and shared with exporters to increase tax revenue, predictability and transparency
47. Conduct an independent evaluation of BECDOR's practices and needs by a government evaluation expert to prepare training and develop a guide to procedures
48. Ensure a rigorous and transparent process to identify and train new evaluators
49. Apply strict code of conduct and watch rules, and consider cash premiums based on appraised value
50. Renovate the valuation office to ensure sufficient space and brightness
51. Take into account the principle of separation of roles in licensing, data management and diamond expertise in the functional review planned under the World Bank PGRN project.

### 4.5 INSTITUTIONAL CHALLENGES AT NATIONAL AND LOCAL LEVELS

The team indirectly addressed institutional challenges that emerged in examining smuggling. Most of these observations have been incorporated into other parts of the report, but a few more general observations merit attention. First, despite the fact that the PRADD II project funded a review of the role of the KPPS, this structure does not yet have a strong legal basis, weakening its institutional position, access to budget and its credibility.

In principle the KPPS is the structure in charge of implementing all provisions of the KPCS in the country. The Secretariat is both an interministerial coordinating body, an international representative, and an operational technical body with the capacity to activate the Mining Administration to achieve its mission. Each country has the latitude to structure its representation per its realities, but the current system in CAR makes for a KPPS that is weak relative to other countries.

The other general observation that came up many times during the mission is the lack of resources at all levels. This is not a challenge limited to the mining sector, but solutions are needed if the chain is to function properly. Currently the Mining Administration on the ground has few resources: no vehicles, no motorcycles, no fuel, no budget. A USAF unit commander reported that they received 25 envelopes and a ream of paper for the past year. Under these conditions, the Administration is managing, often relying on the contributions of the buyers and collectors they are supposed to control.

In terms of human resources, the situation is not much better, especially at the level of the DRs and heads of services, who are generally alone or with limited administrative support. However, there is a need for dynamic and competent engineers to monitor the sites. The idea with the "KP Focal Points" was to fill this void, but it was a temporary solution that now requires institutional action to perpetuate and clarify their contributions.

One possible solution is to think about how to formalize the many arrangements that currently exist in the field, such as punctures on the lumps. A formalization of certain percentages deducted at source can generate funds for the operation of decentralized services and local communities while increasing transparency.

A review of taxation at the national level could help as well, since the distribution of export fees and taxes should allow for the financing of the printing of notebooks, participation in conferences, field visits, and so on. In the current distribution of export taxes, for example, 0.5% of the fee is for a "computer" line (REIF) but it is unclear what it is. This issue goes beyond the mandate of the study, but lack of resources contribute to smuggling and low revenue collection so it is necessary to draw attention to the fact that making taxes clearer will likely result in greater revenue.

## **SOLUTIONS AND RECOMMENDATIONS**

52. Clarify and formalize the institutional role of the KPPS to enable it to fulfill its functions fully and to have access to adequate resources.
53. Assign young engineering technicians as "focal points" to strengthen human resources within each DR and service. Among their missions, the inputting of statistical data, the sensitization of miners/buyers and the monitoring of mining sites.
54. Provide performance-based bonuses at all levels, such as bonuses for department heads with the highest number of licenses.
55. Find solutions for working capital for deconcentrated services such as the provision of operating credit or the formalization of informal taxation practices.
56. In the context of a general review of the tax system, study the distribution key of the funds generated by the export to ensure the financing of the chain of custody.

### **4.6 LOCAL KP MONITORING COMMITTEES**

The government made a strong effort in 2016 and 2017 to set up monitoring committees at national and local levels. This establishment despite limited means is to be congratulated, but today committees struggle to function for lack of resources but also a poor understanding of their missions.

The idea behind this part of the Operational Framework was to promote coordination and information sharing. At the national level, it was necessary to compensate for the fact that the KPPS in CAR was not structured in such a way as to promote intra and interdepartmental technical coordination. In practice, the national committee has met to validate the proposal of new compliant zones but does not hold regular meetings. Moreover, there was a misunderstanding of the term "focal point" in the Operational Framework, the focal point being the term used for the KPPS and not a separate person.

At the local level, the CLS met one or two times to validate the zones. However, the spirit at the local level was to allow local stakeholders to share information and ensure vigilance of the sector, reporting information to the national committee, which reports information to KP. Unfortunately this ideal was not realized.



This does not mean that there is no coordination or information sharing. The mission found several positive examples at the local level where the prefects or sub-prefects played a unifying role by bringing together the actors and creating coordination. The team recommended building on these existing practices to completely refocus the missions of these committees. For example, the "local committee" may exist under the auspices of the Security Council at the level of a sub-prefecture. Once a quarter, a special sectoral meeting can be dedicated to the mining sector, with the participation of the authorities but also economic operators and law enforcement.

The use of a standard meeting agenda or meeting minutes template, and then the transmission of these minutes at the national level and then even internationally at the KP level would be a way to share key information but also a way to demonstrate to the international community the governmental capacity at the local level. Simply documenting coordination meetings with clear and concrete information would reduce the skepticism often expressed by the Monitoring Team.

The mission also noted the role of local monitoring units (ALS) that are not foreseen in the Operational Framework but are existing but without funding. This simple structure of a youth, a miner and a chief representative is a positive initiative for tracking and collecting information and intelligence. This would be more effective if the whistleblower scheme worked to sustain their operations.

## **SOLUTIONS AND RECOMMENDATIONS**

57. Review the composition of the National Committee to ensure their availability and technical contributions
58. Regulate the role of the National Monitoring Committee by integrating it into a reform of the KPPS or by creating a separate coordinating entity with adequate means.
59. Reframe the role of the Local Monitoring Committees by integrating it existing systems of coordination at the local level and structuring rather like a quarterly sectoral meeting.
60. Develop a meeting agenda and meeting minutes template for the CLS to structure the meetings and document information and decisions for Bangui and KP
61. Take into account the village level ALS in pilot experiments with village cooperatives.

## 5.0 ANALYSIS OF INTERNAL CONTROLS

### 5.1 LACK OF DEFINITION OR APPLICATION OF PENALTIES

When the team asked a buyer to know why he decided to smuggle, the answer was, "Why not?" When there is no consequence to crime, it is no longer economically rational to work legally. If we stick to the principle that it is easy to follow the legal chain and difficult to follow the illegal chain, the application of punishment is the primary tool for erecting barriers to illegal behavior.

However, the study team could not find any examples of individuals at any level who were prosecuted. Most often according to those who have been subjected to this behavior the threat of punishment or arrest is used by authorities to extract money or to seize assets, an aspect that will be discussed later. However, from a behavioral change point of view, seizure is relatively light as punishment especially for more prominent smugglers.

A case shared during the mission was of a young person from Cameroon who came to buy some stones. After being denounced by an informant, a seizure was made, and the parcel sent to Bangui with the declaration in accordance with the legislation. However, the person in question was immediately released and informed that the Seizure Commission will inform him of the continuation of the procedure. The person has probably returned to Cameroon with other stones and the loss justified by his financier as an incidental expense.

There is also an imbalance in the application of sanctions on the ground. While artisanal miners and actors on the ground are often targeted for fraud by the USAF, smuggling networks operate with impunity, presumably in complicity with certain personalities who can protect them. As long as this situation remains, the fight against fraud on the ground will not be able to stem the phenomenon of smuggling. As one collector says: "You don't sit in the red ant mound to remove red ants crawling up your leg." In other words, there is no point in removing the ants from your foot when you are sitting in their nest.

### SOLUTIONS AND RECOMMENDATIONS

62. Fight against the culture of impunity with some well-publicized high-level smuggler crackdowns.
63. Apply the maximum penalties provided for in the Mining Code and other applicable texts for smugglers.
64. Study the technical reasons relating to the penal and judicial system explaining why prison time is rarely applied for mineral crimes.

### 5.2 ROLE OF USAF AND OTHER ENFORCEMENT AGENCIES

The effectiveness and institutional role of the USAF was the subject of much debate and comment by stakeholders during the mission. Several Mining Administration officials noted the need to create a "mining police" fully under the control of the Ministry as provided by law. The fact that the USAF is composed of armed personnel detached from the national police and the gendarmerie makes it difficult to control the brigade's personnel and to build their capacity, given that they are not mining specialists even if they have the training and the status as sworn officers with the capacity to effectuate arrests.

The lack of integration into the Mining Ministry is a problem considering the need for specialized training in the specificities of mineral crimes and the mineral supply chain. However, the long-standing suggestion

to create a mining police should be considered among other options, since there are negative aspects of mining brigades to take into account.

For example, the daily work of monitoring, control and even repression is first and foremost a civil duty that mining engineers are better placed to do because they are specialists in the field. In addition, experience elsewhere shows that when government agents use a grassroots approach with miners and provide technical support, adherence to the rules becomes more effective. The presence of armed elements on the ground increases fear and mistrust. An in-depth comparative study could bring out the experiences and good practices elsewhere, and feed the reflections in the functional review planned by the PGRN with funding from the World Bank.

This is not to say that law enforcement does not have a vital role to play, but it should a role in support of the Mining Administration in case of insecurity or as part of an action where force or the threat of force is necessary, such as an eviction or targeted arrest. The fact that different localities have between 5 and 12 officers, while the DR or the head of the mining department is generally alone, illustrates this imbalance in approach.

This imbalance is felt on the ground where in testimony after testimony, artisanal miners do not present a good image of the "minaires" as they call USAF agents, evoking cases where they are used by financiers to enforce supporting arrangements, and as such they are not neutral. Given that the Central African legislation provides for an important role for USAF in the system, it is necessary to ensure that the officers have adequate training and adequate resources. In addition, grievance and accountability mechanisms are essential in case of abuse of power.

At the national level, the existence of the USAF creates the risk of overlap and confusion in roles, such as at the airport where Customs is marginalized in the control and monitoring system, while in most exporting countries Customs is the first entity to fight against fraud and smuggling. The same can be said for the national police; the seizure made recently at the airport was made by them without involvement of the USAF.

In any case, role clarification and coordination between law enforcement could also be improved. For example, the DST police unit holds information about travelers and manifests in hotels. Better coordination would make it possible to follow and target people of interest. In order to search the hotels, a warrant is necessary, so coordination with the Ministry of Justice is also essential. At the airport, the national police control domestic passengers. A coordination and rapid action cell with all stakeholders would help to improve collective action.

## SOLUTIONS AND RECOMMENDATIONS

65. As part of the review of legislation, provide for a comparative study of good practices in mining police and alternative law enforcement mechanisms.
66. As part of the functional review of the Ministry in charge of Mines, review the basic texts that govern the functioning of the mining police
67. Strengthen the Mining Administration's role in law enforcement, as well as technical support and awareness-raising, as a strategy to build confidence and effectiveness.
68. Strengthen the role of Customs in the monitoring and control system.
69. Establish a complaint and grievance mechanism against abuses by law enforcement officers in the mining zone.
70. Develop training modules for newly assigned USAF officers on the Kimberley Process, responsibilities, and code of conduct.
71. Define a framework of collaboration between USAF and the other enforcement agencies especially in Bangui.

### 5.3 CHALLENGES AT THE BANGUI AIRPORT

Although difficult to prove, the Bangui airport is probably the exit point for most smuggled diamonds, exceeding hundreds of thousands of carats a year worth billions of CFA francs. As mentioned below, although Cameroon is probably the hub of smuggling, this is partly due to the fact that Douala is the best-served destination from Bangui with an average of one flight each day.

Dysfunctions at the airport are numerous. First, there are networks of airport authorities that facilitate the smuggling of diamonds. Often this passage is prepared in advance and several have testified to be able to get on the plane and receive parcels by an agent having access to the tarmac. Indeed, the large number of people with access to the tarmac is unusual.

Next, USAF officers are at the entrance before check-in and they have the authority to ask passengers to open their luggage. Although random checks may not be the most effective, this may be good practice. However, doing this in the open can reduce its effectiveness as agents can be intimidated in front of other passengers. It is better to do searches in a separate room, with cameras to ensure against abuse and corruption. (Note that even for legal exporters, corruption is endemic and they have to pay various services in the airport to move parcels through to avoid the risk of missing their flights.)

Given that metal detectors and x-rays do not reveal diamonds, the best approach is having sound intelligence. Developing and maintaining lists of people of interest who will be subject to mandatory searches is an important strategy. Prompt and efficient coordination with airport officials is also crucial. Creating a WhatsApp group to quickly share information in time can help. Although information is sometimes used, there are no systematic blacklists and red lists.

All this does not help for protected persons. USAF is generally absent from the VIP lounge where many diplomats, directors and businessmen pass. Indeed, access to this circuit is not necessarily reserved for real VIPs, and even if USAF was present, the agents do not have the hierarchical authority to search or arrest a political personality or a diplomat.

Even for people who are not at this level, networks protect them. The mission witnessed, for example, a young Central African coming on a UN flight from Ndele in the red zone who was angry when the police officer insisted on searching his luggage. He refused and the hierarchical decision was finally made to let

him go. Under these conditions, searches become purely symbolic because smugglers are exempted even if others get searched.

For domestic flights, especially UN flights from Bria, Ndele and other diamond-bearing cities, the search and verification must be systematic and thorough given the high risk of diamond trafficking on these flights. The Minusca could help by allowing or even directly assisting the search of passengers when these flights arrive in the capital. Instead, most Minusca peacekeepers are not even aware or pretend not to be aware that smuggling diamonds is illegal.

In short, the organization of the airport at the moment is very conducive to smuggling. Access can be bought, the enforcement of rules is optional for certain categories of people with means and access to networks, and controls are symbolic and target those who do not have diamonds anyway.

## **SOLUTIONS AND RECOMMENDATIONS**

72. Apply the 20% premium for those who catch or denounce smugglers in order to create a real economic incentive to combat current systematic corruption.
73. Clearly define the collaborative framework between USAF and the other enforcement agencies at the airport, as well as with the various state protocol services.
74. Establish and use lists of people of interest to target searches, based on DGMG statistical analysis, WCO databases, and intelligence.
75. Collaborate with Minusca to insist that humanitarian flights from areas at high risk of smuggling be subjected to searches by the police and Minusca agents on a routine basis.
76. Pay close attention to flights to Cameroon.
77. Ensure that all types of passengers, including flight attendants and travelers passing through the VIP lounge, are subject to controls.
78. Clarify and apply the rules regarding access to the VIP Lounge and the access of the agents on the tarmac.
79. Install cameras to film all searches by state agents, and all stages of legal exports.
80. Clearly display warnings and penalties for smuggling, with regular announcements to this effect, as well as numbers to which passengers may report abuses.

### **5.4 INTELLIGENCE, SEIZURES AND FORFEITURES**

If it's easy to hide the diamonds physically, it's not necessarily the case for information about who came into possession of the stones. For this reason, and due to the fact that diamonds are easily invisible to random checks, information collection is essential for effective control. This fact is known by the Central African authorities who in the past and even today make seizures and confiscations on the basis of leaks of information and denunciations. During the mission, a person was caught at the Bangui airport on this basis, as well as a few people on the ground. In the province as in the capital, USAF develops a network of informants who provide vital intelligence.

However, this system is less effective than in the past, due in part to the widespread phenomenon of protected persons but also malfunctions and lack of funds. Indeed, denunciations are rarely free, so a modest budget would be needed to pay informants. Moreover, for the seizure and confiscation system to really work, it requires more significant incentives related to the value of the goods, otherwise a few bills are all smugglers need to pass unimpeded.

Officially this incentive exists: 20% of the proceeds of sale of confiscated goods intended for the Ministry of Mines is supposed to be shared between the agents or the citizens having facilitated the seizure. In

reality, it is rare for field agents to hear anything once the confiscated package is transferred to Bangui to the Seizure Commission.

The functioning of this Seizure Commission is also problematic. The KPPS is not part of the Commission, which is necessary in view of its responsibility for compliance with the Certification Scheme. It would be good to improve communication on confiscation orders, the organization of auctions and the use of sales processes. It would also be useful to see in the distribution how to take advantage of this source of funding to offset the operating costs of the chain of custody in the field.

A particular dilemma is that the export of stones from non-compliant zones is prohibited under the KP Operational Framework. For this reason the government has no incentive to officially seize stones from this area or by fraudulent actors because these purchases may be blocked by the KP during export.

At the KP level, reflection is needed with the Central African Government on this problem and find a lasting solution. The KP needs to debate whether it is better to turn a blind eye to millions of dollars worth of diamonds from the red zones that enter the international market clandestinely, or to allow this penetration under controlled conditions. For example, special sales of stones seized by the government whose origin is unverifiable may be organized under the aegis of an internationally recognized auction house and with guarantees that the distribution of the proceeds contribute to peace and stability.

There are also good ideas and initiatives mentioned during the survey. For example, a USAF agent in Bangui started following social networks - Facebook and Twitter - to get clues from people trying to sell stones. Given the increase in the use of the Internet as documented by international NGOs, it is an approach to encourage. Indeed, once institutional coordination issues have been clarified, training on investigative techniques in collaboration with experts or even customs officers or law enforcement officers abroad who are following contraband may be useful. Smuggling being a cross-border phenomenon, a cross-border approach to fighting smuggling is needed.

## SOLUTIONS AND RECOMMENDATIONS

81. Systematically share seizure information with the KPPS and integrate this data into the annual reports and the database.
82. Provide sources of funding to encourage informants who expose or reveal fraud.
83. Set up a bonus for journalists who manage to capture evidence of fraudulent transactions, especially with videos.
84. Establish a national and international coordination cell or platform on intelligence issues related to smuggling.
85. Organize training on investigative techniques related to smuggling of precious stones and metals in partnership with foreign coordination structures such as Interpol and the WCO.
86. Compile and use lists of persons or entities of interest (red and black lists) in investigations and border searches based on statistical information and anomalies.
87. Track arrivals, departures and hotel manifests using these red and black lists in partnership with the DST.
88. Clarify the procedures and enforcement of the 20% bonus to agents or whistleblowers to create a real incentive for legal seizure.
89. Make seizure and confiscation decisions public to raise awareness and make the process more transparent.
90. Clarify with the KP the procedure for the liquidation and export of stones whose origin is not known in order to control the flow of illicit diamonds on the international market and increase the costs of smuggling.

### 5.5 DYNAMICS WITH NEIGHBORING COUNTRIES

The study specifically addressed the border areas with Cameroon. Unfortunately it was not possible to visit the Cameroonian cities that are the likely transit points for smugglers. Nevertheless some resource persons came to Gamboula to discuss with the team, who confirmed the information shared by collectors in Bangui and elsewhere. According to these actors and the direct observations by the team, Cameroon is perhaps the first destination of the stones that are smuggled out, despite the return of several refugees to CAR.

The major factor behind this move is the collapse of the legal chain in CAR, and disruptions in the financing and trade system. Nevertheless, there are factors in Cameroon that should be further explored. For example, it is not clear how a large concentration of buyers and smugglers can operate from Bertoua and Douala without difficulty. It would be interesting to study the list of actors authorized to buy in Cameroon and to share this data with the Central African authorities for comparison. Normally the KP focal points of the respective countries should serve as a liaison for the sharing of this type of information, and likewise maintain common blacklists.

The same types of difficulties experienced by the CAR in airport management, protection networks and others could be at play in Cameroon as well. It would be worth studying the provisions on sanctions and seizure and confiscation. Joint missions by the Cameroonian and Central African authorities to study these problems on both sides of the border could help identify solutions and create collaborative links. As with CAR, real political will is needed to dismantle these networks. It should also be clarified with the KP whether Cameroon could arrange auctions and exports of seized and confiscated rough diamonds, assuming that a large portion of these stones come from CAR.

For the time being, tax harmonization does not appear to be a major factor behind diamond smuggling, but once CAR is able to better control its internal trade, this could become something to consider, ideally working towards harmonizing not only the export duties but the actual costs of an export, that is, taking into account the licenses, authorizations and other expenses necessary to operate and to export. For the moment, the actual costs for a buyer in Cameroon appear to be lower, according to Central African collectors.

At the local level, cross-border coordination is mainly through the prefects and sub-prefects on both sides of the border. It would be ideal to strengthen this collaboration by using for example the same list of people of interest to control certain movements. Mechanisms should also be provided to manage the cases of Cameroonians arrested in the Central African Republic because the mission has learned from certain instances where the Cameroonian authorities facilitate the release of those arrested in the Central African Republic for illegal possession of diamonds. On both sides there should be a genuine will to coordinate and fight against impunity.

The study did not directly address the other borders, but Brazzaville was mentioned by several actors as a similar city to Douala with a concentration of illegal buyers of stones. As in Cameroon, prices are generally higher for gold and for diamonds, which attracts smugglers. Regarding the DRC, Chad and Sudan, contraband is more difficult to understand as it is happening in the areas under the control of the armed groups, but the team has heard that even stones passing through Juba arrive in Douala in certain cases. As contraband circuits are not necessarily created based on geographic proximity but rather the concentration of buyers (and by extension attractive prices) this circuitous route is possible.

Finally, in the same vein, the fight against smuggling should not concern only the countries of Central Africa. Through the networks of the airlines, the stones can easily flow to West Africa by way of Lomé. Particular vigilance is needed in Togo, Liberia, Sierra Leone, Guinea, Ivory Coast and Ghana. An in-depth international study could also better understand the mechanisms by which stones arrive in polishing factories, with a focus on Dubai and India.

## **SOLUTIONS AND RECOMMENDATIONS**

91. Organize joint assessment missions between CAR and Cameroon to analyze strengths and weaknesses and identify opportunities for coordination and harmonization.
92. Organize a validation workshop of these high-level political proposals and begin their implementation.
93. Formalize regular information-sharing protocols between CAR focal points and Cameroon regarding the identities of approved buyers, purchases, exports and persons of interest.
94. Inform West African countries of the risks of contamination of CAR stones in their supply chains and to monitor their export statistics accordingly.
95. Share information on persons of interest with Interpol and other police and customs coordination mechanisms to enable authorities in Dubai, Europe or the United States to take special measures at their borders.

### **5.6 DUE DILIGENCE IN MANAGING AUTORIZATIONS**

Administrative penalties such as the withdrawal of authorizations or fines can also be important incentives in the internal control system. It all starts with the granting of authorizations to buying house and collectors, where a strengthening of background checks is needed. First, in accordance with EITI standards, uncovering and publishing the origin and composition of beneficial ownership of all buying houses and mining companies should be explored. This would help to create a culture of transparency and would assist importing country governments have a better understanding of CAR exporters.



For collectors there is usually a background check conducted by the police division DSPJ, but generally this investigation is not thorough, limiting itself to a criminal record review and a check in the Interpol database. However, the Mining Administration is the primary source of information, as most actors have a history in the country. Without a uniform database and with ID numbers that do not change from year to year, this information is not centralized or systematically analyzed. The publication of names, nationalities and aggregated purchasing figures each year will also help civil society to comment and build a culture of transparency. The use of other resources such as the WCO database is essential.

Recently the Ministry opened a special commission dedicated to the review of the license renewal applications of collectors. Even if the spirit is good, in practice collectors complain about having to travel to Bangui for long periods to present information like sales slips which in theory the government already has. In addition, the very restrictive but often circumvented requirements for foreign collectors, including residence for a minimum of 5 years and the construction of a house worth 50 million CFA, push some into hiding or into bribing to be exempted from these restrictions.

For buying houses, the withdrawal of accreditation for lack of exports could also be an incentive. Currently, the majority of the 16 approved buying houses have made no exports in 2018. Fines may also constitute administrative penalties for those who do not reach this quota. However, the fines and conditions should be realistic and reasonable. Currently, for example, the requirement to build a building of 350 million CFA and to have at least 5 secondary offices is difficult to apply.

## **SOLUTIONS AND RECOMMENDATIONS**

96. Establish unique identifiers for all supply chain actors to be able to follow them from one year to another in a database.
97. Set up a database to track violations, seizures and forfeitures to be used in renewal decisions, and use this information to update international databases like Interpol.
98. Provide for administrative sanctions in terms of minimum thresholds per category of actor to be reached under penalty of fine or withdrawal of accreditation for a specified period.
99. Review conditions for foreign collectors and buying houses to ensure their applicability in practice and to guard against unintended consequences.

### **5.7 COMMUNICATION, TRANSPARENCY AND INFORMATION-SHARING**

In general, the official mode of communication in the Administration is often not compatible with the need for fast actionable information. To overcome this gap, parallel electronic systems are often needed, such as the above proposal for a system for capturing and transmitting provisional statistical data from field purchase slips. These systems are complementary to the official systems, because it makes it possible to use this info while waiting for the official transmission.

However, one must still ensure that in the official information sharing circuits, that all people are informed as directly as possible. Currently, for example, field reports often have to go through several stages (Head of Department - DR - Dir Cab - DGMG - KPPS). A rationalization of these sharing schemes is necessary, especially by providing more direct links to the KPPS, USAF and BECDOR for seizure reports, periodic reports, reports on incidents, and so on.

Informal strategies should also be encouraged, such as WhatsApp groups for KP focal points in the subregion, or a group on all airport foreclosure cases. The involvement of the general public can also be an interesting strategy. A Facebook page to share information and encourage comments and contributions

can enhance trust and elicit useful information, as several cities in West Africa use successfully as part of community policing approaches.

Indeed, smuggling as other illegal activities are phenomena where social norms and values can have a significant impact. In itself putting posters and phone numbers in the airport to denounce a suspicious case will not solve the problem, but it can reinforce the message that this behavior is not acceptable. When cases of arrest or seizure occur, and these cases are well publicized, it may also reinforce the message that such behavior is not without consequences, and may help to reduce the pervasiveness of impunity and disorder currently in the sector.

Effective communication and above all transparency are necessary tools to change attitudes, especially with regard to the willingness and ability of the authorities to act. For example, a Facebook page and a website that publishes the names of all collectors and invites the public to file a complaint can lead to real changes in perceptions. An official disclosure on the value of confiscated diamonds and the distribution of funds, including the reward received by the seizing agent, can have positive multiplier effects. The same strategy can be adopted in foreign communication at the KP level: more transparency, even on negative aspects, will have a positive effect on the image of the country, provided that the exposure of the problems is accompanied by a description of the measures taken to deal with them.

## SOLUTIONS AND RECOMMENDATIONS

100. Encourage the use of WhatsApp for different coordination and information-sharing groups even across borders.
101. Plan activities (workshops or forums) as well as confidential numbers to enable communities and stakeholders to file complaints about specific abuses or other concerns.
102. Provide phone numbers or Facebook pages that the general public can use to report cases of fraud or smuggling.
103. Include in the KP annual reports the number of offenses found and the value of diamonds seized after liquidation.
104. Publicize cases of smuggler repression and their expulsion from the country for foreigners.
105. Provide bonuses and public recognition for citizens and law enforcement officers who have contributed to reducing smuggling.

### 5.8 COMMUNITY INVOLVEMENT AND AWARENESS

Without the involvement of the communities, it is not possible to control the artisanal diamond or gold sectors. It is a question of efficiency: even with all the resources in the world, governments cannot have the same reach or the same interest as the basic actors who sleep in the communities where cases of smuggling or fraud begin.

For this reason, the AMPR project put a lot of emphasis on the principle of co-management between the state and the villages as a good practice. To work it is necessary that this co-management is formalized by an agreement or a convention, which empowers the community to be interested in the follow-up of the rules. This interest is more effective if it is also pecuniary, as the practice in Côte d'Ivoire where villages organized as a cooperative levy taxes at source and organize themselves accordingly. The AMPR project aims to test such models in CAR as a ZEA or village cooperative.

For the Administration, this approach - like the diligence approach and self-regulation - requires a paradigm shift. This is not obvious because the image of the centralist and fiscal state is ingrained in people's minds. However, governance based on shared responsibility is the only way forward especially taking into account the weaknesses of the state in terms of lack of resources but also lack of trust.

The team observed that for most mining communities, the state is virtually absent, or present only when they come to harass or repress. Routine visits, technical support, awareness and outreach are lacking. On the other hand, complaints of abuse by USAF in particular are numerous.

This situation makes it necessary for the government to reflect upon the appropriate role of repression on the ground in the current context. Punishing or fining diggers and miners, while allowing big smugglers to pass, does not help create an environment of trust. Penalizing actors who are already suffering from the situation can lead to mistrust, resignation or even violence when "too much is too much". For this reason, the presence of law enforcement agencies except in a role of support and security of the Mining Administration should be carefully considered.

It is also a question of prioritization. The possible offenses in the mining code are numerous, but the Administration can make strategic choices on enforcement priorities. The question arises if in the present state of affairs a digger found with stones at a checkpoint is more important to repress than a buyer who maintains two registers: one for the legal route and the largest for the smuggling route. There is a place for prioritization, awareness and even leniency.

In the same vein, empowerment and co-management with communities is to be encouraged, and sometimes this requires flexibility in law enforcement. For example, instead of stopping the digger with both stones, one would have to call the ALS in his village to investigate and raise awareness, and then point out to the village chief the need for these miners to have their papers in order. This issue therefore touches on fundamental issues in terms of relations between citizens and the state, but also represents an opportunity to make progress towards improving people's confidence in their government.

## **SOLUTIONS AND RECOMMENDATIONS**

106. Encourage village chiefs to keep records of site managers and miners in their communities.
107. Pursue the establishment of village cooperatives or pilot ZEAs to test models of co-management of income and control of the sector in partnership with the State.
108. Promote spatial and economic planning through local development plans (PDL) to guide investments and priorities.
109. Encourage agents with adequate means to make routine visits to communities to create an environment of trust.
110. Take seriously the complaints of the communities especially concerning accusations of abuse by the police.
111. Adopt a lenient and flexible approach for small offenses, and prioritize the punishment of major offenses.

## **6.0 OBSERVATIONS ON ARTISANAL GOLD MINING**

### **6.1 GROWTH OF THE GOLD SECTOR**

The mission focused on the smuggling of rough diamonds, but several observations were made on the gold sector that deserve mention, although the AMPR project is planning a study of the gold sector in collaboration with IPIS later in the year.

The team visited a primary site called Moboma near Bagandou which is very active (more than 1,000 diggers and their families including women in the camp). Buyers operating through a mining cooperative are major funders of several teams, supplying metal detectors, a jackhammer and a generator, even if the crushing and washing is done without mechanization and without observed mercury.

The production of the week before the visit of a single team was 6.3 kilos, exported to Dubai, and treated and secured by USAF. This one-day production of a single team in one site represents about 10% of the official production exported in 2018 for the whole country. According to one resource person, there are at least 35 financiers working with the teams on the site.

Next to Bagandou a second "mining cooperative" operates a dredge. The operators are apparently Chinese who work in collaboration with ex-ministers. Young people are dissatisfied with what they perceive as the lack of employment or benefits of this operation, estimated to be able to extract 200 grams per day from the alluvium.

In the Gamboula area visited by the team, gold panning of alluvium and primary deposits is also in full swing. The team observed mixed operations where gold sluices are used in conjunction with jigs to extract diamonds.

In the area from Dilapoko, 30 kilometers north of Gamboula and beginning of an area continuing to Amada Gaza under the control of armed groups, mining is very active according to resource persons working in the area, with several sites with primary deposits. There are at least 3 teams of Chinese dredges on the river between Cameroon and CAR.

Gold panning is therefore an important activity in traditionally diamondiferous areas with enormous value. If we estimate an output of 10 kilos per week, which is probably an underestimate, for all the teams in Bagandou, the value per year is 12 billion CFA. If we consider that the Chinese dredge produces on average 500 grams per week, the value is 600 million CFA for a single operator per year.

The crisis in the diamond sector has caused many workers to take an interest in gold, a phenomenon observed elsewhere in the world. The growth of the activity should call for reforms in the artisanal mining sector as a whole, not only for diamonds, as this represents a shortfall for state revenue but also a growth opportunity for development.

### **6.2 GOLD SUPPLY CHAIN**

In terms of the supply chain, artisanal gold mining is both similar to and different from the diamond sector. On the one hand pre-financing and smugglers are commonplace, but prices are more predictable and less speculative than diamonds. According to preliminary information in Bagandou that requires confirmation, pre-financed teams can sell their gold at 15,000 FCFA per gram. For independent teams, the price can go up to 18,000 FCFA per gram, and occasional buyers from Cameroon or the Republic of Congo can pay up to 21,000 FCFA per gram. The investment cost is around 8,000 per team per week, in addition to the equipment.

In Gamboula, according to a resource person interviewed, prices are lower: CFAF 15,000 per gram for alluvium and CFAF 10,000 for primary deposits. Even taking into account the investment costs for the veins, the difference between this price and the price of 21,000 per gram offered by Muslim traders in Bertoua is very high. The tax collected by armed groups is 25,000 FCFA per week per collector and 15,000 FCFA per week per illegal dealer, according to a young person working in the area.

Apparently even the Chinese operations are financed by Cameroonian Muslim traders based in Bertoua. Those who finance gold from Cameroon are not generally those interested in diamonds, it is rather other collectors and large Lebanese buyers who dominate this sector. In addition, those who find diamonds - rare but often larger along the border - are often paid in kind with motorcycles, while gold is almost always paid for in cash.

Authorized Central African collectors interviewed say they do not want to buy gold, but admit that they do it "from time to time" without a slip because there are no buying houses to sell to. The miners for their parts are not used to noting down the production of the gold, because considered as secondary to which really interests to them, namely, diamonds. However, it is clear that in many localities the gold trade coexists with the diamond trade.

### **6.3 REFLECTIONS ET RECOMMENDATIONS**

The organization of the gold sector is largely absent in CAR given the fact that its growth is relatively recent. The 2018 UNDP-UNICEF study was the first attempt to document the extent of the phenomenon, and site mapping by IPIS will contribute in this direction.

In this study, the coexistence of gold with diamonds and overlaps in smuggling destinations and networks demonstrate the importance of revenue for the sector as a whole, taking into account good practices and specific realities of each mineral. Some reflections from observations and interviews by the team follow :

- The gold trade is very sensitive to prices and costs because margins are often very small. A trader who buys at 21,000 FCFA can resell at 21,500 FCFA. Indeed margins of 500 to 1,000 FCFA for collectors is typical in many countries including West Africa.
- Given this sensitivity, having appropriate taxation is even more important for gold than for diamonds, where different variables can offset taxes. The current tax of CAR is 5.25% on a tax basis of 15,000 FCFA for powder or flakes and 17,000 FCFA for refined gold. Even if this tax base is lower than today's world price, according to gold buyers in Bangui who have traditional foundries, this tax is too high to encourage them to enter the legal chain.
- Beyond taxes, other fees can motivate or demotivate the legal purchase, such as licensing costs, the indirect costs of traveling to Bangui instead of traveling to Cameroon, bribes, and so on.
- The specifics of gold require reflection on how to make a system as fluid and attractive as possible with relatively low costs. If we estimate the actual production of 2 tons per year, as the UNDP-UNICEF study of 2018 found, a tax of 2% would represent almost a billion CFA francs in tax revenue, about 20 times more than the state currently earns with a 5.25% tax.
- Consideration should also be given to allowing the transit of gold through land borders by paying exit duties on the spot, also opening up the possibility of formalizing trade and capturing some decentralized revenue. Even a 1% tax in Bangui would not be a solution to smuggling to Cameroon because the financiers and buyers are there, and Gamboula's travel costs to Bangui far outweigh the travel costs to Bertoua.
- Gold is an easier opportunity than diamonds to generate funds for villages. If a gold mining village asks these artisanal miners to contribute just 100 francs per gram, that could generate 100,000 per kilogram. With a little organization and a bit of luck, it can translate into millions for local development.

- Gold is more conducive to organization in cooperatives or SMEs than diamonds, because prices and risks are more manageable, lottery psychology is less pronounced and therefore the possibility of pooling and self-financing more feasible. We should therefore consider promoting pilot experiments in this direction.
- Until proven otherwise, the use of mercury has not penetrated much, which is an opportunity to avoid this environmental scourge by promoting the improvement of density concentration techniques. Semi-industrial units positioned near the gold sites where crushing and processing is paid by bag could be economically viable and would also help to centralize production to better organize traceability and taxes.
- Although CAR is a member of the ICGLR, the Government is generally unprepared for the application of the European Union Conflict Minerals Law, based on the OECD Due Diligence Guidelines. CAR will certainly be classified as a conflict and high-risk area, and even channels through Dubai and India will be affected by this legislation which takes effect in 2021. The AMPR project is planning an introductory workshop on these obligations in 2019, but the European Union should also think about supporting the Government to prepare for this change otherwise the organization of the sector will be difficult.
- Governments often think that getting involved in buying gold can help control the industry, but state-owned companies or central purchasing schemes cannot operate as a monopoly. On the other hand, a central purchasing scheme by the Central Bank may help to build up foreign currency reserves, if this is a priority for macroeconomic reasons.
- Trade and export permits for gold should be cheaper than diamonds and easier to obtain. Total decentralization for collectors is to be considered. A total separation is also recommended: different and simpler forms and different authorizations too. Centralization through some buying houses is not viable for gold either. A review of the legislation is therefore necessary to take into account these specificities.

## 7.0 RECOMMENDATIONS

### FOR THE GOVERNMENT

1. Evaluate in a multi-stakeholder and participatory manner the recommendations of the Etats-généraux consultations of July 2003 in order to update them.
2. Carry out a review of the draft mining policy of CAR and assess the 2015 mining sector development strategy document by fully integrating artisanal mining.
3. Review the texts governing the chain of custody and compliance with the Kimberley Process Certification System based on analysis and consultation on key issues such as mining police, mining cooperatives, etc.
4. Make the legal chain more efficient by carrying out a diagnostic study on mining taxation.
5. Study how to promote decentralization and co-management approaches with local communities in order to reduce conflicts and promote development.
6. Strengthen and clarify the institutional role of the Permanent Secretariat of the Kimberley Process as a coordinating and representative body.
7. Improve the system for collecting and managing statistical data on production, marketing, export, actors, cadaster and mining offenses for transparency and to incentivize investment.
8. Strengthen the monitoring and enforcement mechanisms for minerals by integrating all specialized services throughout the country and by organizing anti-smuggling operations.
9. Make the national KP Monitoring Committee more effective and operational including ensuring it produces periodic reports.
10. Create a coordination framework for technical and financial partners.
11. Establish an action plan for strengthening the legal chain based on the observations and recommendations of this study.

### FOR THE KIMBERLEY PROCESS

12. Conduct an evaluation of the KP Operational Framework experiment with a view to updating to take into account stakeholder views and changed realities since 2015.
13. Consider how to incorporate a due diligence approach into the revision of the KP Operational Framework in complementarity with the Certification System and in line with the commitments of the diamond industry.
14. Clarify and find a durable solution for the liquidation of seized or confiscated stones whose origin is unverifiable.
15. Call upon the organizations cooperating with the KP, namely the WCO and Interpol, to provide technical and logistical assistance in the fight against smuggling and cross-border crime related to mining activities in CAR.

### FOR DONORS AND TECHNICAL PARTNERS

16. Consider the results of this study as part of the World Bank's PGRN project activities, especially the functional review of the MMG, and the UNCMCA review study.
17. Support initiatives to improve working conditions, environmental protection and livelihoods in mining communities with special attention to women and children.
18. Participate in the process of developing an action plan to strengthen the legal chain of custody and support its implementation.
19. Coordinate closely with diplomatic missions and Minusca, through a "Group of Friends" made up of diplomats, in order to harmonize messages and support the Government for the functioning of the sector.

**U.S. Agency for International Development**

1300 Pennsylvania Avenue, NW

Washington, DC 20523

Tel: (202) 712-0000

Fax: (202) 216-3524

[www.usaid.gov](http://www.usaid.gov)