

ECONOMIC IMPACT IN DIAMOND-PRODUCING COUNTRIES



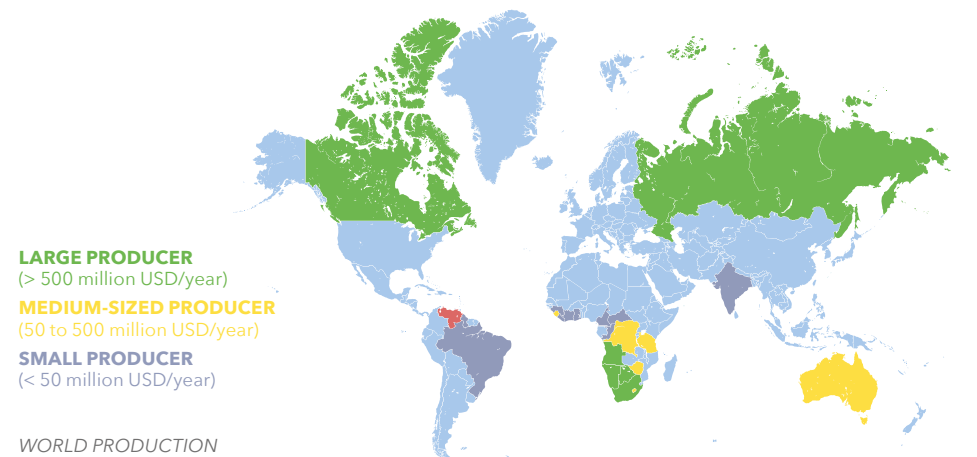
The Antwerp diamond industry trades goods from all over the world. The main areas of extraction are Canada, Russia, Australia and Africa. The vast majority of diamonds, about 82% of the overall production of 150 million carats, are produced in 5 countries: the Russian Federation, Botswana, Canada, Australia and DRC. About 17% of the rough diamonds traded in the world originate directly from developing countries, of which 34% arrive directly in Antwerp.

Additionally, many diamonds are traded by major multinational companies who often combine production from their various mines in different continents in closed boxes with mixed origins. This business model makes it difficult to trace diamonds and to allocate a precise percentage of diamonds to its country of origin.

Yet, this conclusion leaves the question open as to what share of the revenues generated by the extraction of diamonds actually benefits the local economy. In a general context of increasing inequalities, this concern is legitimate, as it is for any supply chain sourcing mineral resources from developing countries to insert them in luxury goods.

What the AWDC can do from its position, is to share knowledge and expertise and support programs that help generate a fairer revenue for developing countries whilst enhancing the overall integrity and transparency in the diamond value chain.

"There is no reason for mining if there is no return for producing countries"
– P. Karakchiev



BENEFICIATION, VERTICAL INTEGRATION & FORMALIZATION

It is important to distinguish the economic impact generated by large companies in industrial mines from the impact generated by artisanal or small-scale mining operations.

INDUSTRIAL MINING

Mining operations occur for 86% in large (open-pit) mines, exploited by (stock listed) multinationals that employ highly skilled staff. In many cases, (social) infrastructure is provided to accommodate and educate the local miners. In those exploitations, care is being taken to limit the environmental impact and extensive beneficiation programs exist for the mining communities, via local trading or processing of diamonds.

Diamond-producing countries want to strengthen the local economic impact of this industry and focus increasingly on a greater vertical integration of diamond processing and sales in the country of mining. This re-integration of a part of the diamond value chain into the local economy is called beneficiation. Some countries solely focus on the development of one single (diamond) industry instead of investing the diamond revenues in infrastructure, health care, safety and security and in diversifying the country.



Industrial mining

ARTISANAL AND SMALL-SCALE MINING (ASM)

ASM plays a fundamental role in the national and local economies of resource-rich countries in Africa. For many communities, artisanal and small-scale diamond mining is often the only way to create a reliable source of income. According to the World Bank, artisanal mining assists rural households in building more dynamic and resilient livelihood strategies. ASM operations are often a stimulus for trade and subsidiary business development around mine sites.

Diamond mines are mainly operated by the local communities, where miners dig for diamond in a primitive and basic fashion. Most of the time, health and safety regulations are non-existent, the impact on the environment and the biodiversity is unregulated and harmful, the lack of product knowledge sometimes contributes to unfair diamond valuation and, due to the informality of the industry, the government misses out on essential revenue.

The biggest issue with artisanal and small-scale mining – representing 15% of the world diamond production, 5% of total value and employing 1.5 million people – is that it operates in an informal economy. This activity happens outside any legal framework, which is detrimental both for the State and the miners, who find themselves in a very precarious employment without any official license to operate.



Artisanal and small-scale mining

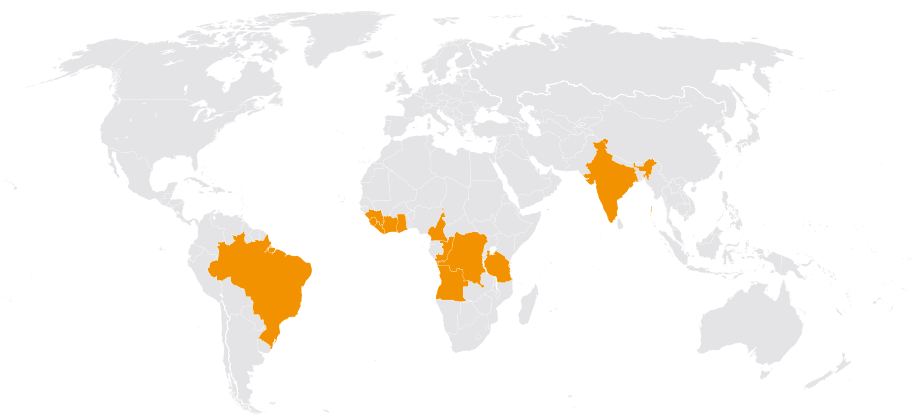
Informal mining operations are often unproductive and can pose many challenges to the government, like the inability to raise tax revenue, collect data and impose rules and regulations. A formalized diamond industry constitutes a direct positive benefit to the budget of the state and strengthens the government's control over the mine sites. Legalizing and formalizing artisanal and small-scale mining remains a challenge for many developing countries, but it would also unlock many issues like the transparency of diamonds and money flows and ensuring decent working conditions.

HUMAN RIGHTS, WORKING CONDITIONS AND ENVIRONMENTAL IMPACT

If diamonds represent an important source of revenues in many developing countries, they are often linked to unfair prices or practices, poor governance, unregulated markets, illegal exploitation, human rights abuses and similar. It is important that the diamond industry as well as governments acknowledge this situation and rebalance the trade toward a more positive impact of the industry in diamond-producing countries. Any effort in this respect contributes de facto to more integrity in the supply chain too, as is further explained under the chapter "Integrity".

When looking at issues of human rights, labor rights and the impact on the environment, one should make a difference between large scale mining and artisanal and Small-Scale Mining (ASM).

Globally, 14% of the world's diamonds are mined via ASM operations. This form of mining is mostly informal and unregulated, hence issues linked to human rights, labor rights and the impact on the environment are mostly located here.



ASM

Across Africa, efforts to operationalize ASM based on a sustainable development framework have been quite tedious and often ineffective. Nevertheless, in 2015, the AWDC actively backed a project from CAP Source, in collaboration with the Diamond Development Initiative (DDI), an NGO focusing on enhancing the working and living conditions of artisanal and small-scale miners. The project set out to establish a fully ethical and traceable diamond supply chain from artisanal mines in Koidu, Sierra Leone, directly to the Antwerp diamond and jewelry market (see detail in the textbox below).

Throughout this project, the focus has been set on creating, through a sustainable economic model, a positive contribution to UN SDGs 1, 4, 8, 9 and 17 as appears from the figure below. It is clear that the main beneficiaries of this project are located at the mining stage in the country of origin of the diamonds, especially via:

- **Target 1.4:** By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
- **Target 4.1:** By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
- **Target 8.1:** Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries
- **Target 8.3:** Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
- **Target 9.1:** Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
- **Target 9.2:** Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries
- **Target 17.1:** Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection

- **Target 17.2:** Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of ODA/GNI to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries
- **Target 17.3:** Mobilize additional financial resources for developing countries from multiple sources
- **Target 17.7:** Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favorable terms, including on concessional and preferential terms, as mutually agreed
- **Target 17.9:** Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the sustainable development goals, including through North-South, South-South and triangular cooperation
- **Target 17.11:** Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020.

My Fair Diamond

In our previous sustainability report of 2014, the AWDC put great emphasis on the indirect economic impact in diamond-producing countries and integrity along the supply chain. We discussed the importance and the growing need of beneficiation programs and the vertical integration of the diamond value chain in diamond-producing countries. Even though we always strive to maximize returns to the governments and local mining communities, we found out that there is no such thing as a ready-made, all-applicable formula.

That is why in 2015, CAP Conseil, a sustainable development consulting company, and the AWDC started their cooperation to realize a jewelry project with entirely ethical and traceable diamonds. The AWDC not only supported the project financially, but also provided contact information with relevant stakeholders in every phase of the project, expertise, intelligence of the (local) diamond market and overall support.

In 2017, the first collection of "My Fair Diamond" jewels became a reality. The diamonds meet demanding criteria of ethics, transparency and third-party verification.



Coming from artisanal mines in the Koidu region of eastern Sierra Leone, the diamonds originate from the first mines certified according to the Maendeleo Diamond Standards of the DDI. The standard effectively ensures respect for human rights, decent work, health, safety and protection of the environment. They contribute to the preservation and development of the local mining communities and truly benefit them, making sure that fair and equitable prices are being offered for their diamonds.

All selected rough stones have been cut and laser engraved in Antwerp, which is also where each unique piece of jewelry was designed and produced, all according to the highest standards of Antwerp craftsmanship.

GUINEA PROJECT

The positive results from this project convinced AWDC to start an even more ambitious project in Guinea in 2018. Guinea is one of the partner countries of Belgian governmental cooperation and an important diamond-producing country.

According to the latest KP statistics (2017), Guinea was the world's 16th largest producer in terms of volume (181,450 carats) and the 15th largest in terms of value (\$20.5 million), both of which account for less than 0.2 percent of production globally. However, the country has potential for the further development of the diamond industry, with a potential production capacity of up to 500,000 carats valued at anywhere between 15-75 million USD annually. Rough diamonds currently comprise 1 - 1.5% of the country's total exports.

The objective of this public-private-civil society partnership is to open an official channel to the international trade for ethical diamonds originating from certified artisanal mines. As a consequence, it will bring adequate development aid to the benefit of isolated mining communities and provide them with technical expertise and knowledge of the international diamond trade. Both from an ethical and a commercial point of view, there is an expectation to bring to the market diamonds that are traceable and socially responsible. AWDC is the pilot of this multi-stakeholder initiative.

KP VALUATION TRAINING



"Give a man a fish and you feed him for a day. Teach a man to fish and you will feed him for a lifetime". - Stakeholder interviews

The same is true when it comes to the diamond value chain. The valuation of rough diamonds is a very difficult process. There are no spot prices that identify what a 'normal' rough diamond would be worth. Learning how to value diamonds is an essential prerequisite to understand the value of a diamond. Particularly in artisanal and small-scale mining areas, diamonds are often undervalued because of the lack of knowledge of the persons who are selling the diamonds, of those responsible for diamond valuation, or because of incentives to use diamonds for money laundering or corruption purposes. As chairman of a KP subgroup on valuation (see *"What is AWDC's involvement in the KP?"*), the AWDC ordered a study to map the different valuation methodologies that are used in KP countries to better harmonize the different methodologies.

To teach officials and miners how to sort and value diamonds and better understand the value of a diamond (also for taxation purposes), the AWDC offers courses by diamond experts to representatives from African diamond-producing countries. Many of the training courses are organized free of charge for African diamond-producing countries so that these countries can obtain more knowledge and revenues from their precious stones. The level of knowledge and expertise in Antwerp is amongst the highest in the world.

THE DIAMOND DEVELOPMENT INITIATIVE (DDI)

→ The DDI was founded in 2005. It parallels and complements the regulatory instruments of the KPCS. The DDI seeks to fill in the gaps not addressed by the KP, such as poverty and exploitation in artisanal diamond areas. It does so through registering local miners and giving them a legal status, bringing them into the formal economy and providing them with protection, legitimacy and access to government support. It also organizes artisanal miner cooperatives and fosters the use of certification.

(For more information about DDI, see "Integrity in the diamond value chain")

Antwerp Tender Facility

In 2012, the Antwerp Diamond Tender Facility (ATF) was inaugurated in the AWDC building. The ATF is a neutral business space, fully equipped with all facilities required to sell diamonds by tender. This selling method can be compared with an auction, with the difference that the bids are sealed. AWDC makes the ATF available and acts as facilitator, but has no commercial involvement with the tenders themselves.

2018 > 12 tenders

2017 > 14 tenders

2016 > 6 tenders

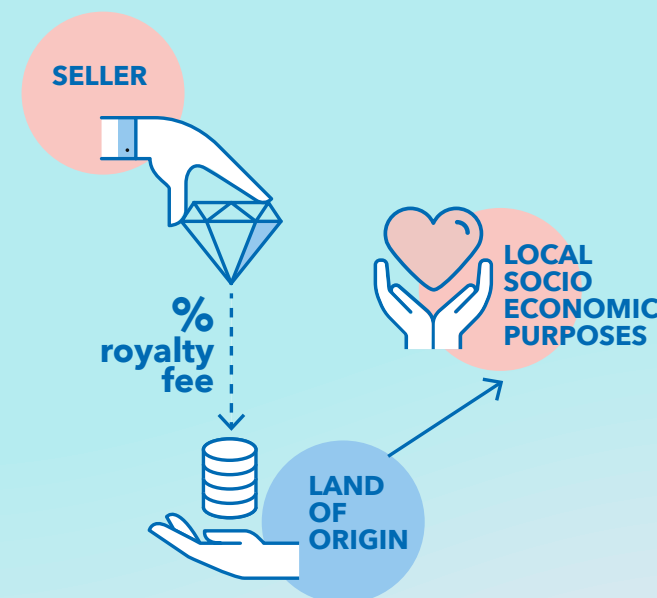
2015 > 7 tenders

2014 > 10 tenders

2013 > 15 tenders

The tender facility is first and foremost useful for small mining companies, particularly those operating in African countries. Whereas the large mining companies often work with fixed clients, guaranteeing them constant demand, the small mining companies generally sell their production via one-off transactions. It is important for the seller to get the best price for his or her goods. For sales, which take place at the ATF, all registered diamond traders in Antwerp can register to view the goods and bid on them. It is thanks to the critical mass of potential buyers and the professional context of the ATF that the mining companies can obtain the best price for their goods.

In most cases, a portion of the revenue the seller has earned goes to the government in the country of origin, in the form of a royalty fee. A higher sales price therefore also means a larger income for the government of the diamond-producing country, which can subsequently use these means for local socioeconomic purposes.



In addition to the effect on the price, sales via the ATF also contribute to transparency. All goods are extensively documented so that the buyers are perfectly kept up to date with the offer on hand. Potential buyers must be registered as an official diamond trader. An independent and professional service provider registers all bids. At the end, a report is made of the sale of the different parcels, and a comparison is made between the result and the reference prices. The service subsequently provides this information to the seller, who can gain insight from this for the future sale of his production.

