



INSIGHT December 8, 2006, 1:26PM EST

## The Other Diamond Story

The World Economic Forum's Alyson Warhurst argues that not all African diamonds are bad for the continent

by [Alyson Warhurst](#)

The movie *Blood Diamond*, released in the U.S. on Dec. 8, is a powerful indictment of the "conflict diamonds" that fueled civil war in Africa during the 1990s. The film stars Leonardo DiCaprio as a mercenary on a quest to find a pink diamond in the West African state of Sierra Leone in 1999.

During the 1990s, civil wars in Sierra Leone, Angola, Cote D'Ivoire, and the Democratic Republic of Congo were worsened and prolonged by diamond smuggling and the abuse, by a few, of those countries' natural resources. However, it would be a disservice to Africa and the companies that invest there today if we came away from this film believing that all business in Africa—and the diamond business in particular—is bad, illicit, and exploitive.

In fact, the diamond industries of Botswana, South Africa, Namibia, and Tanzania are a force for good in those countries. The diamond industry has played a leading role in workplace and community health projects. The De Beers Group and its government partners, which are responsible for 40% of global diamond production, make more than 83% of its employee payments and 92% of its tax payments in Africa.

### AFRICAN DIAMOND SOURCES

Why have diamonds been beneficial to southern Africa, while in western and central Africa they have been linked to conflict and poverty? There are geological as well as political factors.

Diamonds were created through volcanic activity millions of years ago. There are two types of diamond resources. The first are kimberlite "pipes" hidden beneath ancient volcanoes. They make for vertical hard rock mines, with a very small geographical imprint on the surface, and require large investments of capital and expertise. These are the type most often found in southern Africa.

The second, more often found in central and western Africa, are alluvial deposits, where erosion over millions of years has scattered diamonds across river beds and flood plains. Unlike kimberlite, such deposits are rarely of interest to big companies because the diamonds are too spread out and difficult to extract economically.

### INFORMAL VS. FORMAL

But up to 15% of the world's rough diamonds come from these small-scale informal digging activities. These activities are often unlicensed, trading is in cash through nonregistered intermediaries, and they are open to abuse such as money-laundering.

Governments do not receive taxes and royalties from small-scale mining and the diggers themselves are often exploited by rogue traders, like DiCaprio's character Archer, who undervalue their stones and offer limited routes to market. The countries that are home to small-scale informal mining are among the poorest in the world.

Mainstream diamond companies have worked with the U.N., governments, and nongovernmental organizations to develop the so-called Kimberley Process. Under this system, started in 2003, conflict diamonds are prevented from entering the global supply chain, helping to ensure that revenue is channeled through governments. Today, the formal diamond industry is one of the most responsible and effective forms of business investment in Africa. Now 99.8% of diamonds are certified conflict-free.

### MORE WORK TO BE DONE

*Blood Diamond* highlights two key challenges that remain in the aftermath of conflict diamonds. The first is to disarm and demobilize up to 200,000 child soldiers, to reunite them with their families and give them the opportunity to have an education and a childhood that has until now been denied to them. *Blood Diamond* captures their plight well.

The second challenge is the urgent need to transform the informal diamond sector—to drive out the few remaining conflict diamonds, ensure fair prices for diggers, reduce the role of intermediaries, and develop new technology and skills.

While ensuring continued commitment to the Kimberley Process, we should take care that poor people in the countries portrayed in *Blood Diamond*, who are dependent on diamond mining, do not lose their livelihoods. They have no buffer and no alternatives if demand dries up. They need sustainable business models and access to improved health and education.

The diamond companies are understandably wary of venturing into the informal sector—especially in the wake of such a powerful film—but they are part of the solution. Now more than ever, Africa needs big business, and it needs responsible business. It needs solutions that are not simply about salving the consciences of consumers in Europe and the U.S., but that are about development.

*Warhurst is chair of Strategy and International Development at Britain's Warwick Business School, a fellow of the World Economic Forum, and a founding director of social enterprise and advisory firm Maplecroft. She has advised De Beers and international humanitarian and human rights organizations, among others, on corporate social responsibility.*

---

Copyright 2000-2006 by The McGraw-Hill Companies Inc. All rights reserved.

**The McGraw-Hill Companies**