



Beyond Conflict: Reconfiguring Supply Chain Approaches for Gold and Diamonds

-

Nicholas Garrett
(Resource Consulting Services Limited)
www.resourceglobal.co.uk

-

Responsible Jewelry Council
London, May 18, 2010





Resource Consulting Services Limited (RCS)

- RCS is a **London-based** research, strategy development and implementation consultancy that provides considered solutions to clients' challenges in extractive and agricultural sectors.
- RCS employs world-class analysis skills to develop practical strategies that are fact based and academically sound.
- RCS matches these skills with advisory, implementation and evaluation services throughout a project's lifespan.
- RCS has global reach drawing on core staff expertise and specialist in country associates.
- Examples are: investment facilitation, economic impact assessments, advice on government integrity issues., etc.



Nicholas Garrett

- Director of Resource Consulting Services Limited (RCS);
- Research Associate with the London School of Economics (LSE);
- PhD Candidate at FU Berlin (Mining in DRC);
- Based in South Africa

- Widely published specialist in the research and in-depth analysis of economic, political, and social structures in African natural resources sectors;

- Practical strategy development for multilateral development organisations, governments and multi-stakeholder initiatives;

- Investment facilitation and practical advice to the private sector on where and how to conduct business in high-risk areas



Background to Presentation

- Part of RCS' work is to analyse, advise, implement and audit 'chain of custody' assurance schemes in high risk-areas for the private and public sectors;
- RCS currently works on the issue on the ground in Africa and Asia;
- This presentation focuses on point of origin assurance (mine level) in the gold trading chain from Eastern DRC



Add some practical points to the theoretical debate



Area of Interest

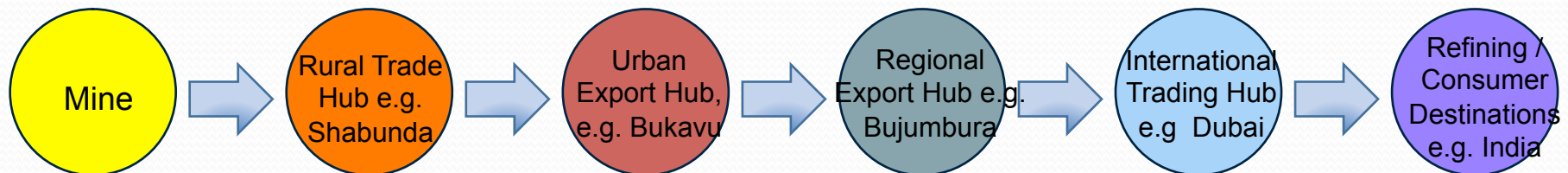




The Gold Trading Chain from Eastern DRC

- Eastern DRC's gold production is currently 100% artisanal
- Industrial gold exploitation to resume over the next 1-2 years in Orientale and South Kivu Provinces

Simplified Artisanal Gold Trading Chain from South Kivu, Eastern DRC:





Some Issues with the Gold Trading Chain from Eastern DRC

- Principle Challenges occur on the National and Sub-National Levels:
 - Vested Interests Benefitting from the Status Quo (i.e. Potential spoilers)
 - Military Predation on Trade
 - Human Rights Abuses
 - Working Conditions
 - Informality
 - Little Transparency



Divergent Views on How to Respond to Issues with the Gold Trading Chain from Eastern DRC

- **Western advocacy in alliance with popular media:**

“It’s the minerals fault - Natural resources endowments fuel conflict, facilitate rape and sustain poverty!”



Industry will continue to be confronted!

- **The reality on the ground (example of armed groups):**

“The causality counts: a) Minerals do not cause conflict, but conflict and underdevelopment have made population dependent on resource extraction; and b) Armed groups, incl. the national army prey on parts of the mining and other economic sectors - but it is the weak state structures facilitate these actions.”



Mix of security sector - and state -, and natural resource management reform is required.





How to Respond to Issues with the Gold Trading Chain from Eastern DRC

- **Short-term and Long-term goals have to be combined** → **incentives are key!!**
 - Communities need trade to continue (livelihood);
 - State needs assistance to reform security sector (armed groups) and build state organisational capacity (taxation and mining sector oversight);
 - Responsible international private sector needs assurance (social and political license to operate);
 - Domestic private sector needs professionalisation and formalisation (become politically acceptable stakeholder)
 - International advocacy groups need to show their donors they are being recognised and work to retain a seat at the table (media exposure; participation in discussion rounds etc.)



Industry Needs for Gold Trading Chain from Eastern DRC

- Industry needs point of origin assurance down to the level of the mine to be able to source with confidence;
- There are significant challenges to develop, effectively implement and sustainably operate point of origin schemes (see Discussion Paper and Fiona's Presentation)

WARNING: Kimberley Process Legacy Issues

- Advocacy Groups have woken up to the fact that the KPCS is unable to deliver on its promise to guarantee origin and conflict-free status in weak states!
- Weak states/KPCS have little visibility into - and control over – the domestic trading chain - this is an immense integrity threat

➔ Manage stakeholder expectations of what origin assurance schemes can achieve;

➔ They are not conflict resolution tools, but part of larger mineral sector professionalisation, formalisation and governance reform processes.



Selected Lessons: Making an Assurance Scheme in the Gold Trading Chain from Eastern DRC work

- Need to have a transparent point of origin assurance scheme design process, subject to stakeholder scrutiny and input;
- Need to have a targeted approach on quick win areas for pilot implementation with a possibility for upscaling;
- Need to access and assess target mines and update this info regularly;
- Need to build, manage and maintain relationships with domestic and international stakeholders;
- Need to have a sustainable security element;
- Need to have formally operating local companies in the value chain to be able to comply with chain of custody provisions (subject to audit);
- Need independent verification and verification response mechanism;
- Need to manage stakeholder expectations internationally, so that the process does not meet with the same disillusionment as the KPCS;
- Need to recover costs

➔ Importantly (and tricky) need Government commitment and leadership



THANK YOU



RESOURCE
CONSULTING SERVICES

www.resourceglobal.co.uk

contact@resourceglobal.co.uk