



2008 Annual Report

Beyond Dreams: The Journey Begins.



DDIP's Mission

To gather all interested parties into a process that will address, in a comprehensive way, the political, social and economic challenges facing the artisanal diamond mining sector in order to optimize the beneficial development impact of artisanal diamond mining to miners and their communities within the countries in which the diamonds are mined.

Objectives

DDIP seeks to promote better understanding of, and possible solutions for: government regulation and mining regulation; distribution and marketing channels; organizational aspects of artisanal production; legitimate and transparent distribution channels; organization among artisanal miners; free and open markets for artisanally mined diamonds.

We promote wide participation in this process, including involvement from governments, donors, industry and development organizations.

Goals

Diamonds have the potential to be a catalyst for individual and national development. Through education, policy dialogue and projects working directly with artisanal miners and their communities, DDIP seeks to promote better understanding and possible solutions for issues relating to this sector. Our goal is to have miners, their communities and their countries become an appreciated and respected part of the diamond value chain. We seek to shift the legacy of violence and chaos to a heritage of prosperity.

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Message from the Chair

Diamonds are a girl's best friend. Diamonds are forever. Diamonds are symbols of wealth, purity and love. But diamonds have also fuelled wars, and for the many hundreds of thousands of people who mine them across the alluvial diamond fields of Africa and South America, they represent backbreaking work and the unrequited hope of a better life.

As civil society organizations, governments and the diamond industry came to grips with the issue of conflict diamonds, we began to see that the regulatory framework created by the Kimberley Process was just that: it regulated. But the problem for artisanal miners, their communities and their governments is an economic one. There are no big companies involved in the diamond fields we are dealing with. There is little government oversight, and environmental damage is rampant. Without development opportunities, the grinding poverty of the diamond fields will not change, and the potential for violence will not end.

DDII parallels and complements the Kimberley Process, applying development solutions to development problems. We do not imagine that significant improvements will come easily to a system that has remained unchanged for 75 years. We know that it requires research, policy dialogue, experimentation and learning. That is why everything we do has a learning component, and it is why we have tried to bring so many diverse elements together in our Board of Directors, our Advisory Group and the work we do.

The first meeting to discuss the possibility of an organization like DDII took place in 2005. It took us three years of discussion, debate and pilot projects to get to the stage we are at now. That may seem like a long gestation period, but it enabled us to clarify our goals, our thinking and our approach. 2008 was our first operational year, and I believe we are off to an excellent start. We have a terrific collection of committed people. We have attracted great interest from governments, civil society and the industry. We are privileged

to have received generous support from industry — led by the estimable Tiffany Foundation — and from governments, led by Sweden, Canada and Ireland. We hope they will soon be joined by others because the need is great and we can see that the opportunities are abundant.

Some ten million people depend on artisanal diamond mining for a livelihood. They work under difficult conditions and most earn less than a dollar a day. Many are children. We aim to change that and to show that diamonds can be a symbol not just of wealth, purity and love, but also of meaningful development for some of the world's poorest people.

Ian Smillie
Chair
DDII Board of Directors





Executive Director's Report

The ancient Taoist master Lao Tzu (604BC - 531BC) said that "a journey of a thousand miles begins with a single step". In 2008, DDII took several important steps on that journey. Through education, policy dialogue and projects with artisanal miners, we seek to promote better understanding and solutions to deeply entrenched problems in the artisanal diamond sector. Our goal is to ensure that miners, their communities and their countries are an appreciated and respected part of the diamond value chain, and to transform a legacy of violence and chaos into a future where people earn decent livelihoods in peace.

Because DDII is a multi-stakeholder initiative, we dedicated much of 2008 to building links with important institutions such as the Kimberley Process; the Communities and Small Scale Mining initiative (CASM); the Madison Dialogue, an industry-civil society forum where DDII chairs the Diamond Group; the Responsible Jewellery Council; and the Association for Responsible Mining (ARM)—DDII's counterpart in artisanal gold mining. We have established several working partnerships with African civil society organizations on which we rely for grass roots activities in their own countries.

One of DDII's earliest priorities was the problem of child labour in the artisanal mining fields, an issue identified by the International Labour Organization as one of the worst forms of exploitation. During 2008, in consultation with Congolese NGOs and community organizations, we designed a project to remove children from artisanal diamond mines in the Mbuji-Mayi region of DRC. The project is a pilot that will test several approaches, aiming to find the most cost-effective means to replicate what works in other areas and other countries.

If artisanal diamond mining is to contribute to meaningful development, it requires a strong and fair regulatory environment. In 2008, DDII initiated a study of the system used in Guyana for the registration of miners and diamond production tracking. This essential element of internal controls in diamond mining is largely absent in Africa. In 2009, DDII will hold workshops and training sessions in Africa to share the study and to pilot similar efforts there.

In the Democratic Republic of the Congo, DDII has produced a set of Standards and Guidelines as a reference containing practical, relevant information about artisanal mining for companies, government departments and development organizations. This complements a similar guide produced by DDII for Sierra Leone in 2007.

Finally, recognizing that we cannot do it all, and in the spirit of supporting the efforts of others, DDII has created a "Partnering Fund" to co-finance projects undertaken by other organizations interested in supporting DDII's aims and objectives. This programme, launched in December 2008, had an immediate uptake by organizations in the Central African Republic, Guinea, Sierra Leone and elsewhere, for exciting and innovative projects that will be implemented in 2009.

2008 was our first year in a "journey of a thousand miles", a journey of learning, partnership and investment in sustainable conflict prevention and durable, long term development.

Dorothee Gizenga
Executive Director

Our Donors and Supporters

Diamond Development Initiative International (DDII) gratefully acknowledges the generous programme support in 2008 of the Government of Sweden, the Tiffany & Co. Foundation, the JCK Industry Fund, and Partnership Africa Canada.

Project supporters included BHP Billiton, Cartier International, Communities and Small Scale Mining, De Beers, the Government of Canada, the International Development Research Centre, the International Diamond Manufacturers Association, Irish Aid, Jewelers of America, Rio Tinto Diamonds, the Rapaport Group, and the Signet Group. DDII is also grateful to Inter Pares, and to Ted Jackson and friends for their support.

DDII would also like to thank CENADEP and GAERN, the two Congolese partner NGOs that assisted DDII with the organization of the Standards and Guidelines-DRC and Child Labour workshops in the Democratic Republic of Congo; and the Network Movement for Justice and Development (NMJD) for organizing in Freetown the Standards and Guidelines-Sierra Leone workshop.



Board of Directors

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Research Coordinator, Partnership Africa Canada; Independent Development Consultant and author

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Jeffery Fischer- President, International Diamond Manufacturers Association, New York

Nigel Fisher- President and CEO, UNICEF Canada, Toronto

Darci Glass-Royal- Foundation for Environmental Security & Sustainability, Washington D.C.

John Hall- Rio Tinto Diamonds, Antwerp

Karen Hayes- PACT, London

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Baudouin Hamuli Kabarhuzza- CENADEP, Kinshasa

Usman Kamara- Ministry of Mineral Resources, Sierra Leone

Ben Kinzler- International Diamond Manufacturers Association, New York

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Paul Mitchell- Secretary General, International Commission on Mining, London

António Pedro- United Nations Economic Commission for Africa, Addis Ababa

David Pratt- former Minister of Defense, Ottawa, Canada

Martin Rappaport- Rapaport Group of Companies

Christopher Sheldon- Communities & Small-Scale Mining Secretariat, World Bank

Bernard Taylor- Executive Director, Partnership Africa Canada, Ottawa, Canada

Salil Tripathi- International Alert, London

Steven Ursino- International Development Consultant

Greg Valerio- Association for Responsible Mining, Chichester

Prof. Alyson Warhurst- University of Warwick, founding director of Maplecroft Consulting

Dr. John Watson- International Development Consultant, Ottawa, Canada

Alex Yearsley- Global Witness, London

Edward Zwick- Film Producer and Director (Last Samurai, Blood Diamond, Defiance)

DDII Staff

Dorothee Gizenga- Executive Director

Andrew Strutt- Executive Assistant

"We encourage support for the ... multistakeholder Diamond Development Initiative (DDII), which emerged from the Kimberley Process to strengthen the developmental impacts associated with artisanal diamond mining in Africa"

*Growth and Responsibility in the World Economy,
G8 Summit Declaration, June 2007*

Some Perspectives on DDII

African Civil Society

In DRC, diamonds have meant sudden wealth for a very few. But for most who live and work in the diamond areas, they have meant hardship and for some conflict. In a country that is already poor, the poorest people, the poorest schools, the poorest health services can all be found in the diamond areas that have produced so much wealth for others. This can change. We are working for that change and we are pleased that an organization like DDII has been created to work with us in making a difference.

Félicien Mbikayi, GAERN

The Retail Perspective

The U.S. jewellery market—which accounts for more than half of the worldwide jewellery market—recognizes the growing significance of the artisanal mining sector to the diamond industry.

There are several reasons artisanal and small-scale mining (ASM) of diamonds is important to diamond retailers, wholesalers and manufacturers in the U.S. First, the diamond and jewellery industry, which worked with governments and non-governmental organizations to implement the Kimberley Process—adopted in 2002 to end the trade in conflict diamonds—recognizes that the KP is unable to address labour and development issues within the artisanal sector.

At the same time, the diamond and jewellery industry is committed to contributing to supply chain projects that benefit developing countries where diamonds are mined. Miners in these countries who work in the artisanal sector are as integral a part of the diamond and jewellery industry as those working for larger concerns—their rights and needs must be addressed. The Diamond Development Initiative International enables the industry to address these issues.

Susan Posnock, Jewelers of America

An Industry Perspective

De Beers has been involved with the DDII since its inception in 2005. The idea at the initial meeting in London was to stimulate the formation of a stand-alone initiative and organisation that would be able to make a real difference to artisanal diamond mining communities, not only in Africa but around the globe. It has been very satisfying to watch DDII develop over the past two years into a fully fledged and functioning institution that is beginning to have the impact we had all envisaged.

De Beers believes that sustainable and profitable businesses; whether they are artisanal, small scale, medium or large-scale mining enterprises, need an enabling atmosphere that will allow them to grow into communities that themselves foster stable, secure and predictable environments. It is precisely for these reasons that DDII has sought to work in close partnership with government, civil society and communities to bring about the changes that are necessary for the artisanal communities to benefit from the fruits of their labours.

We are all experiencing and struggling to confront a very different economic cycle from what we have seen for the past 25 years. There is a real concern that artisanal communities may become the forgotten communities in such unstable times. This is undoubtedly another reason why the diamond industry needs the DDII, to ensure that the issues and challenges facing this sector are addressed in a sensitive and thorough fashion.

Simon Gilbert, De Beers

"The DDII offers an intelligent approach to the long-standing problems of artisanal diamond mining. Regulation has its place, but development problems require development solutions."

Ministry of Mineral Resources, Sierra Leone



"I intend to stay involved in it with passion and determination, because if luck smiles on me, my earnings will be multiplied ten or twenty times"

Leon T., Guinea

Human Faces of DDII: Personal stories of two artisanal miners

André L., Democratic Republic of the Congo

Born in 1967

Digger at Tshitenge, near the city of Mbuji-Mayi in East Kasai

Married and father of eight children

I have been involved in small-scale diamond mining for 12 years. I don't earn very much in the mines. I often have to work for two to three weeks—sometimes more if I'm not lucky—before finding stones ranging in value from one hundred to several thousand American dollars. In exchange, I receive between twenty and one hundred American dollars. You have to realize that I often work with a group of about ten diggers. We have to split the earnings among us.

Because of these meagre earnings, I am not able to meet my family responsibilities. My children, my wife and I do not eat every day. When I do find diamonds, we have a meal in the evening, consisting of fufu—a dish prepared from corn flour and cassava, vegetables and, on rare occasions, some fish. Our house is falling apart. We aren't able to care for ourselves when we're sick or clothe ourselves decently.

It is really difficult to work in the diamond mines. If I had a choice, I would do something else.

"The little money I make is devoted to my family's survival. That really hurts me, because I'm getting older."

André L., Democratic Republic of the Congo

My greatest disappointment is that only one of my eight children, a fourteen-year-old boy, goes to school. He is in the sixth grade at primary school. My income doesn't allow me to pay school fees for the others. I would so like to be able to do so. Right now, I don't have any choice. The little money I make is devoted to my family's survival. That really hurts me, because I'm getting older.

It's clear to me that improvement in miners' living conditions depends on an activity that is complementary to diamond mining. I personally would like to have a small field to farm. With higher earnings, I could help my wife start a food business (corn, beans, etc.). But how can I get involved in an agricultural undertaking without help? This area has been deforested, because selling wood used to be a major activity. We didn't benefit from it though. Now with the trees gone and the rain, it's difficult to produce much to sell. And we have to buy tools and seeds. We need help for all that. Just the same, I believe that one day my dream will come true.

Léno T., Guinea

Born in 1967

Digger at Francowaroo in southeast Guinea

Married and father of two children

I quit school to become a digger after I completed my primary education. I was fourteen years old. My parents were poor and were no longer able to pay for my studies. I had to look after myself. In the beginning, I worked in the mines secretly, for myself. Today, I am bound to two dealers. When I find diamonds, I'm obliged to sell to them. They dictate their price. Then I have to share my earnings with the three members of my team. They do the same when they find something. In exchange for exclusive rights to our stones, our sponsors—the dealers—must finance the purchase or rental of our tools and assume a share of our living expenses. These are very small amounts, especially when I consider the profit they make from our diamonds.

Our sponsors grant us a piece of land. For several weeks, shovelful by shovelful, we dig this sixteen-square-metre "mine" to a depth of nearly 4 metres to get down to the gravel. It's very hard work. After extracting the gravel, we wash and screen it. Last year, my colleagues and I found eight stones ranging between 0.25 and 3.5 carats. The discovery of the 3.5-carat diamond (a real stroke of luck) allowed me to make a substantial profit. My three co-workers sold me their share of this stone. I had to pay them 3.5 million Guinean francs (700 US dollars). The sponsor bought it from me for 5 million Guinean francs (1,000 US dollars).

Thanks to this single profitable transaction, I was able to substantially raise my family's standard of living for a while. I gave 1.5 million Guinean francs (300 US dollars) to my wife to encourage her little business (basic food and school-supplies trade) in our village of Francowaroo. Today, with her stable income, my wife looks after a good part of the family's expenses.

I am fairly happy to work in a small-scale mine because of the potential earnings. I intend to stay involved in it with passion and determination, because if luck smiles on me, my earnings will be multiplied ten or twenty times. For me, a man with little education, this job offers prospects—it's very encouraging—as long as I can count on a dynamic sponsor. Incidentally, I am looking for a new sponsor who has the means to undertake larger mining activities. I am also counting on the government to help improve my situation and that of other diggers in Guinea. International or national organizations could also help us gain access to credit so we could be less dependent on our sponsors. They keep getting richer while we, the diggers, continue to live in poverty. It's not right.

Auditors' Report

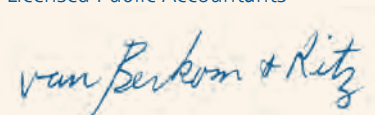
To the Directors of DIAMOND DEVELOPMENT INITIATIVE INTERNATIONAL:

We have audited the statement of financial position of DIAMOND DEVELOPMENT INITIATIVE INTERNATIONAL as at December 31, 2008 and the statement of revenues, expenses and changes in net assets for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion these financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Ontario Chartered Accountants
February 19, 2009
Licensed Public Accountants



Statement of Financial Position

(Expressed in U.S. dollars)

December 31, 2008

Assets

Current Assets

Cash	\$ 255,335
Investments – Note C	273,988
Accounts receivable	1,880
Prepaid expenses	1,049
	532,252

Capital Assets – Note D	8,460
	\$ 540,712

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued liabilities	\$ 19,948
Deferred revenue – Note E	533,238
	553,186

Net Assets

Unrestricted	(12,474)
	\$ 540,712

Approved by the Board of Directors:



Ian Smillie
Chair, DDII Board of Directors



John Lowden
Director

Statement of Revenues, Expenses and Changes in Net Assets

(Expressed in U.S. dollars)

Year Ended December 31, 2008

Revenues

Contributions

Government of Sweden	\$ 141,484
The Tiffany & Co. Foundation	111,305
Partnership Africa Canada	14,961
JCK Industry Fund	12,182
Interest	7,648
	287,580

Expenses

Strategic Partnerships	33,196
Standards and Guidelines – DRC	52,066
Outreach	15,673
Child Labour	32,422
Administration	146,575
Foreign exchange loss – Note F	21,850
	301,782

(Deficiency) Excess of

Revenues Over Expenses	(14,202)
Net assets at beginning of year	1,728
Net assets at end of year	\$ (12,474)

A complete version of the Audited Statements by van Berkum & Ritz Chartered Accountants is available from DDII.

DDII Publications

Background Paper on Micro Development Issues,
by Ian Smillie, August 2005

Background Paper on Macroeconomic Issues,
by Chaim Even-Zohar, August 2005

Report of the Proceedings of the DDII Conference,
DDII Convening Conference, Accra Ghana, October 2005

The Dynamics of Diamond Pricing and Marketing in Sierra Leone,
by Estelle Levin Et Lansana Gberie, March 2006, Full Version

The Dynamics of Diamond Pricing and Marketing in Sierra Leone,
by Estelle Levin and Lansana Gberie, March 2006, Summary Version

Policy Brief: The Dynamics of Diamond Pricing and Marketing in Sierra Leone,
April 2006

Standards & Guidelines for Sierra Leone's Artisanal Diamond Mining Sector,
May 2008

Artisanal Diamond Cooperatives in Sierra Leone: Success or Failure?
By Estelle Levin with Ansumana Babar Turay,
June 2008, full version

Policy Brief: Artisanal Diamond Cooperatives in Sierra Leone: Success or Failure?
June 2008 (also available in Portuguese and French)



The Kimberly Process and the Diamond Development Initiative International

The Kimberly Process Certification Scheme (KPCS) was implemented in 2003 to help end conflicts linked to diamonds. The Diamond Development Initiative (DDII) is complementary to the KPCS.

The differences between the KPCS and the Diamond Development Initiative International are not always clear. Below is a comparative look at the two mechanisms.

The Kimberley Process

The Kimberley Process (KP) is a joint government-industry-civil society initiative, implemented to stem the flow of conflict diamonds.

- ◆ The Kimberley Process is an international regulatory system, with a narrow mandate to regulate the international rough diamond trade and is enforced through national legislation and backed by the UN.
- ◆ The KP is open to all countries willing and able to implement its 'minimum requirements', as outlined in the KPCS document which governs the KP.
- ◆ Participants can only trade with other Participants who have also met the minimum requirements of the scheme.
- ◆ It is a conflict prevention mechanism that involves 99% of the world diamond producing and trading countries.
- ◆ The KP covers diamonds that are produced both artisanally and industrially. Its structure incorporates a Working Group on Alluvial Artisanal Production that focuses on regulatory mechanisms for the artisanal diamond sector.
- ◆ Other KP working groups deal with monitoring, statistics, membership and technical matters.
- ◆ The success of KP is attributed to its limited mandate. The limitation is also perceived by many as a weakness, because it does not deal with human rights, environmental and labour issues, or the improvement of social and economic conditions of the people and communities involved in the diamond mining.
- ◆ The Kimberley Process does not:
 - address development, but supports it through conflict preventing trade regime regulation.
 - Technically, the KPCS does not address 'illicit' diamonds. In order to curtail conflict diamonds, however, the KPCS must cast a wide net. If it were to regulate one kind of illicit behavior and not another, it would compromise its effectiveness in halting conflict diamonds.

The Diamond Development Initiative International

The Diamond Development Initiative International (DDII) brings together NGOs, governments and the private sector in a process that aims to address, in a comprehensive manner, the political, social and economic challenges facing the artisanal diamond mining sector.

- ◆ DDII is an international organization with a larger mandate of influencing governments, donor agencies and NGOs to engage and to work more constructively in artisanal diamond producing regions.
- ◆ DDII takes a development approach to government mining regulations, to the organizational aspects of artisanal miners and mining, and to legitimate, open, transparent distribution and marketing channels for artisanally mined diamonds.
- ◆ DDII is also a conflict prevention mechanism that is development-focused, concerned with creating social and economic stability in the artisanal diamond mining sector which is vulnerable to economic predators, violence-prone and difficult to regulate.
- ◆ DDII deals only with artisanal diamond production.
- ◆ DDII International is a development focused organization. It aims to address the relationship between alluvial diamond diggers and all eight UN Millennium Development Goals.
- ◆ DDII complements the Kimberley Process and enhances human security sustainability by focusing on the development issues that the KP does not address: human rights, environment, improving livelihoods, working conditions, environment and community beneficitation.
- ◆ The Diamond Development Initiative International does not:
 - regulate the diamond industry; it supports regulation through the formalization of artisanal mining;
 - certify or authenticate the origins of diamonds.



DDI International is registered
in the United States as a
Nonprofit 501 (c)3 Organization
(EIN/tax ID number:
51-0616171)

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this Annual Report.