



The GemFair Way 2020-2021

Building Forever by creating
scalable solutions to raise
livelihoods of artisanal miners.

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The context

GemFair began 2021 with a return to purchasing rough diamonds from artisanal miners after a pause caused by pandemic related travel restrictions during 2020. We also scaled up the next phase of our Forward Purchase programme (see the Programme section for an update).



Sierra Leone's economy, as with many other parts of the world, is seeing high levels of inflation, making everything from common household goods and groceries to pre-financing of artisanal mining operations less attainable. It's too soon to say what this means for the artisanal diamond mining sector in Koidu, but our initial research shows that miners report being far less able to afford food and other essentials than prior to 2020. One way we are helping tackle food insecurity and the economic shocks brought on by the pandemic is with our reclamation and sustainable agriculture programme. This year saw the successful scaling of our efforts to bring former artisanal mining areas back to productive use for cultivation, whilst providing additional income and fresh produce for families in Kono.

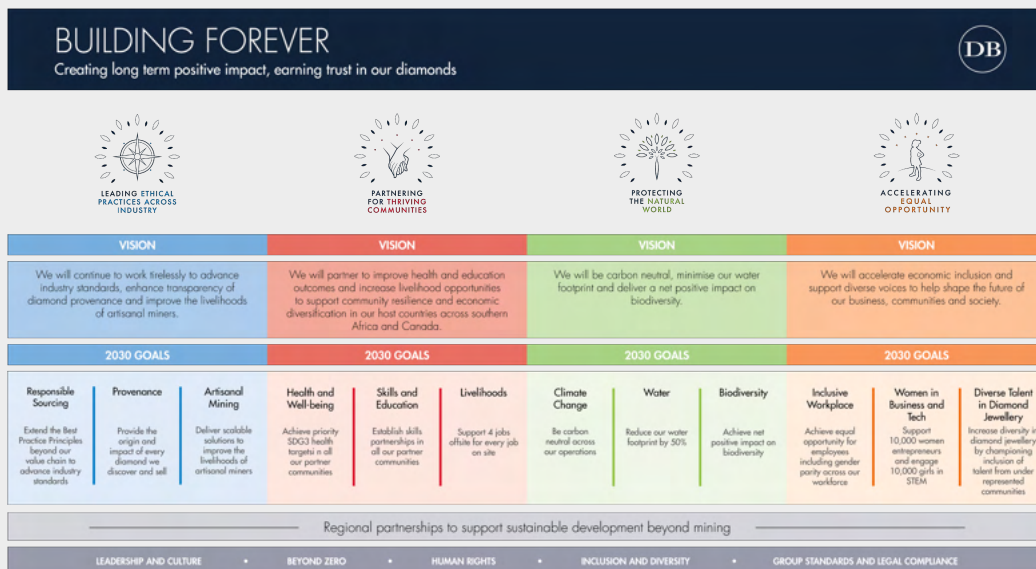


We reached an important milestone this year when we brought the first dedicated parcels of GemFair diamonds to auction via De Beers Group Auctions. For the first time, we were able to auction segregated lots of GemFair-assured goods to approved bidders. Achieving this milestone completes the mine to market journey for GemFair-sourced diamonds and was only made possible by overcoming several key hurdles over the past few years: setting up operations in a new territory, building trust with artisanal diamond miners so they have the confidence to sell their diamonds to us, increasing the volume and assortment of diamonds, and transporting the diamonds securely through several national jurisdictions —all during a global pandemic.



Building Forever

De Beers Group's Building Forever sustainability framework encompasses the company's entire business pipeline, is embedded within its operating model, and sits at the heart of everything it does. It is a promise to De Beers Group's host communities, stakeholders and employees that every diamond discovered or sold by De Beers will have a positive and sustainable impact on people and the planet. Building Forever encompasses 12 ambitious sustainability goals across four thematic pillars that De Beers Group has committed to achieving by 2030. The pillars are: leading ethical practices across industry, partnering for thriving communities, protecting the natural world and accelerating equal opportunity.



Artisanal and small-scale mining forms an integral part of the Leading Ethical Practices Across Industry pillar, with the following specific goal: by 2030, De Beers will deliver scalable solutions to raise the livelihoods of artisanal miners. GemFair is the programme that will enable the achievement of this goal.

Over the next eight years, GemFair will expand our support for the formalisation of the artisanal mining sector to include more artisanal mine sites, raise standards to protect workers and the environment and partner to scale the GemFair model to new regions and minerals. In so doing, we will encourage others to source responsibly from the artisanal and small-scale mining (ASM) sector and amplify the voice of miners working within the sector.

How we will get there

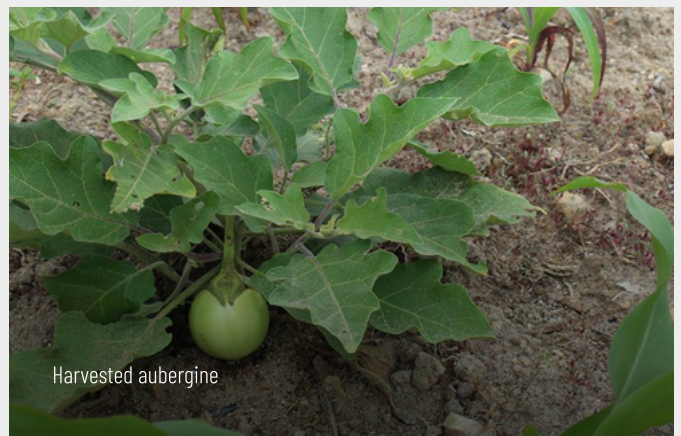
Mine site reclamation

This year, GemFair focused on testing solutions to help raise the livelihoods of artisanal mining communities in Kono, District, Sierra Leone, where GemFair operates. A focus area was on mine site closure, which is the process of bringing abandoned mined pits back to productive use, creating local employment, increasing food security, and enabling mining communities to grow crops to sell at the local market.

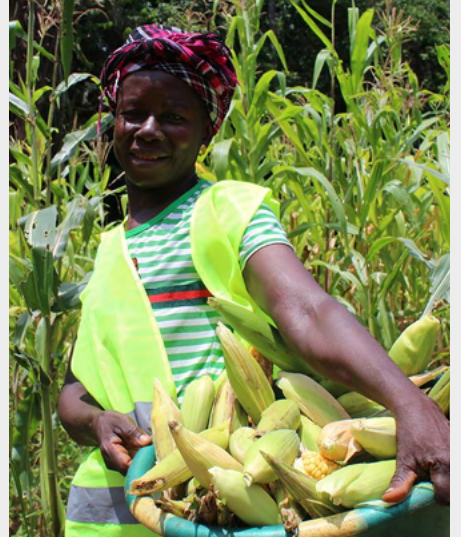
The majority of ASM sites in Kono are abandoned at the completion of mining activity without any backfilling. This practice means deep pits are left in the ground which poses a safety risk, serves as a breeding ground for water-borne diseases and represents a waste of productive land.

We decided to implement a pilot programme to better understand the practicalities of reclaiming mined out areas, specifically, how long it would take, the cost per site and how we could scale the initiative. We selected three areas of approximately one acre each in size, chosen in close consultation with community stakeholders and government authorities.

Then we worked with a team leader from the community to hire local artisanal diggers and farmers to work on back-filling, monitoring their progress several times a week. Once the backfilling was complete, we handed over the land and donated seedlings at each site.



We're now partnering with members of neighbouring villages – 80 per cent of whom are women – to cultivate the land. The crops produced are the villagers to keep and we pay their daily wage. The project has seen significant success to date, and we plan to roll-out across several more areas in the coming year.



Here are a some progress indicators:

1,040

Direct and indirect beneficiaries (workers and their families)

3

Acres reclaimed

42

Pits back-filled

420

Kg of crop seedlings donated 4 harvests completed

4

Harvests completed

25

Plants harvested

The pilot is exciting for many reasons, not least of which is that we are working with a community that has been hard-hit economically by the pandemic. Food prices have increased since 2020 and we are working to help bolster the community's food security through returning abandoned ASM sites to productive use. Likewise, the practice of reclaiming ASM sites is sorely lacking in the ASM sector globally. Through this pilot, we want to show that reclamation can be done in a frugal manner and that standards for doing so are feasible for artisanal miners.

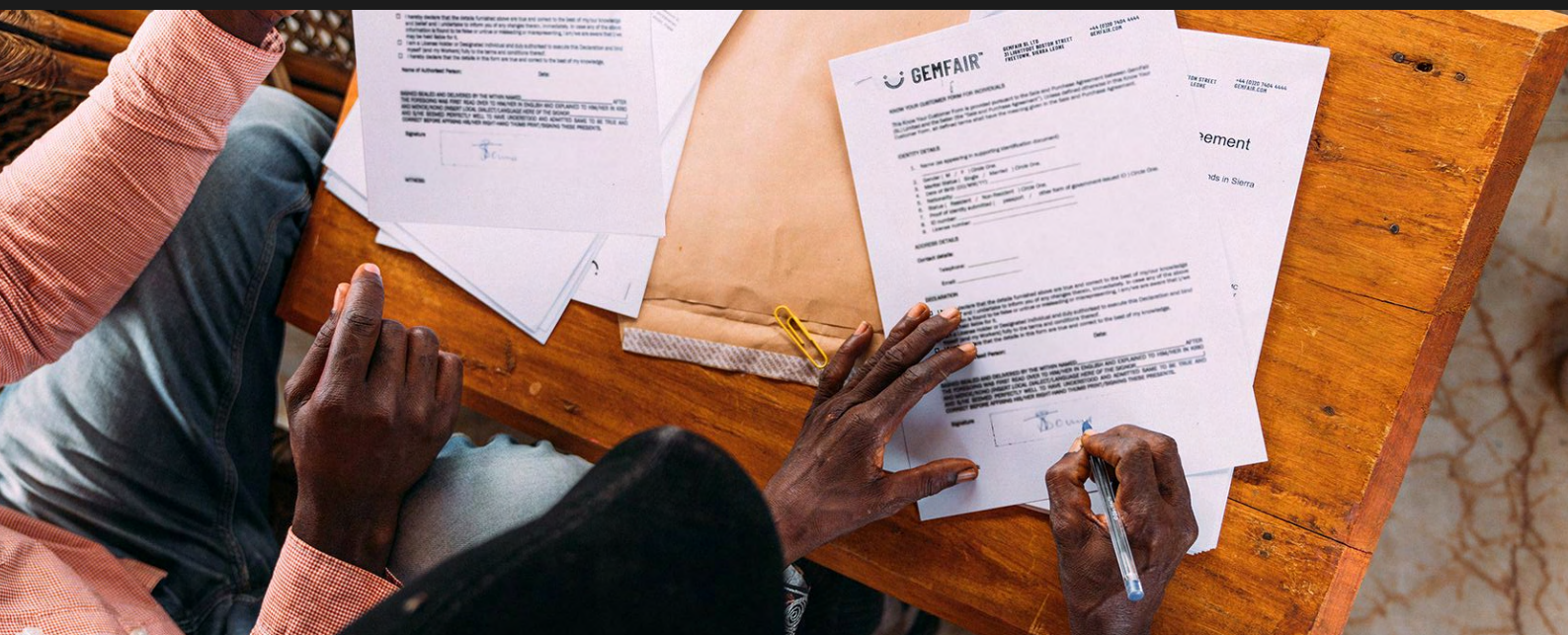
Another exciting spinoff project is the inclusion of a potential carbon capture component. We're investigating the concept of artisanal mining communities contributing to the capture of carbon, receiving additional income from carbon credits and contributing to the essential work of climate change adaptation. While early days, our vision is to try and bring these elements together. We will share more insights from this exploration work in the year ahead.

Access to Finance programme

Accessing formal finance is a significant challenge for artisanal and small-scale miners. This is due to several factors, including high levels of informality, a lack of available credit, limited or non-existent credit risk profiles and high capital investment requirements. The ASM diamond landscape is also notorious for irregular production patterns, which further disincentivises formal financial service providers from investing in the sector.

The current financing landscape for ASM in Kono, Sierra Leone is therefore predominantly informal. These informal relationships and the rules that govern them are complex and opaque. Although informal finance has an important role to play in supporting the diamond economy, the rules are rarely set to favour the miners and the surrounding community. Uncapped risk premiums and debt accrual from previous seasons can lead to an unhealthy state of dependency between miner and supporter, which can negatively impact prices paid for diamonds and the terms of future arrangements. Since these relationships are rarely governed by written, enforceable contracts, miners expose themselves to the risk of shifting goalposts and even theft of the diamonds that they recover.

In short, informal finance does not provide the predictable and rules-based environment necessary for businesses to thrive. The cycle of dependency and debt creates knock-on effects often observed at artisanal mine sites, including low standards, low wages and poor environmental management.



GemFair's Forward Purchase programme is our way of helping address the gap that exists in access to formal finance for participants in the ASM sector. We do so by referring to the way informal financing is structured in the sector, whilst extending finance on fair, predictable, mutually agreeable and enforceable terms. Our agreements with participating miners treat the creditor and debtor as equals by:

- Clearly and transparently documenting the terms of the financial agreement in a contract
- Absorbing the risk of irregular production by writing off credit that remains unpaid at the end of the FPA period (not longer than the annual mine cycle)
- Capping the risk premium so that highly productive sites retain a greater proportion of the income they generate from diamond sales
- Supporting cash flow of miners by paying out 30 per cent of the market value of production, even before the forwarded finance and risk premium has been repaid
- Guaranteeing fair market value to all FPA members.

GemFair does not intend to make a profit on this programme. Instead, we see the programme as a vehicle to allow more miners to receive fair and equitable access to finance, drive improvements in mine site management, leverage performance against our standards and drive diamond volume in support of the long-term commercial viability of responsible ASM diamond sourcing.

The results of the FPA pilot are positive thus far, showing that greater access to finance can be an important tool to support formalisation of business practices and improve standards at ASM sites. Throughout the course of the next year, we will further explore how our FPA programme can be fine-tuned to support these outcomes.

Improving diamond recovery rates

Many miners work with dated and inefficient systems for processing diamondiferous gravel. GemFair worked with a mining expert to introduce and trial modern wash-plant technology to separate diamonds from the gravel in which they are found. Gravel and water pass through a screen and then across trays where diamonds, and other heavy material, are trapped.

We hosted the wash plant's manufacturer in Sierra Leone, where he showed our team how to use the machine and introduced it to miners at several sites. We conducted several trials and found that the plant has a better design than the existing plants miners use in Kono, making diamond recovery a faster and more efficient process. Next year we'll test out a smaller design that is easier to move between remote mine sites. We also plan to identify and upskill local manufacturers, so the equipment parts do not need to be imported.

We also procured several hand augers and learned how to use them at participating mine sites. Augers are hand-operated drills that sample the overburden at a mine site and can measure the depth of a diamond-bearing gravel layer. At an ASM license area this is a very useful component of assessing the viability of a mine site and can give confidence to the miner and an investor before proceeding with work.



Testing a new wash plant in the field

We're using the hand augers to confirm that miners are mining in locations where there is a gravel layer, which could potentially hold diamonds. As we learn more, we hope to use the hand augers as a tool to help miners determine whether an area has been mined before.



Using the hand auger to identify the presence and depth of diamondiferous gravel



The auger allows us to identify the composition of soil sitting above the gravel

Programme

We have significantly expanded our membership this year, which also means that our engagement with artisanal miners in the Kono community has increased. We have carried out spot checks at all participating mine sites and are in the process of following up on our initial baseline assessment of the miners' working standards with the aim to implement corrective action plans.

Our management system

2021 highlights

221

Mine sites participating in GemFair

3,165

Individual workers (approx.)

413

Anti-money laundering checks

27

Classroom trainings

563

People trained

1,509

Mine site assessments (cuml. since 2018)

We are also planning our next Assurance Programme audit for early 2022.

Making our impact and raising standards, one ASM site at a time

In 2021, we focused on identifying the key areas requiring improvement at all our member mine sites, which now sit at more than 200. The GemFair field team was deployed to participating mine sites to carry out either a baseline site assessment – for newly onboarded sites – or a follow up visit to verify the member's progress in meeting the GemFair ASM Standard General Requirements with regards to labour, safety and environmental management standards. Participating miners had little trouble in meeting GemFair's minimum safety and environmental standards. Where we have had to work hard to raise standards is in the areas of formalising worker contracts, securing personal protective equipment for all workers and implementing mine site closure. These are each discussed further below. There were no material breaches of GemFair's requirements in 2021.

Helping workers know their rights

Miners will often have a verbal agreement with their workers, but written and signed agreements were rare before GemFair's intervention. We are working closely with miners to provide onsite mentoring so that each worker and miner mutually agree, in writing, what the roles, responsibilities, wages and diamond profit distribution will be. Formalised work agreements help ensure that artisanal diggers are receiving their fair share of the diamond proceeds. We are also forming a clearer picture of the wages earned by different types of miners in Kono's diamond sector.

Taking mine site safety to a new level

In 2021, we closed out several common corrective action plans that had been noted at participating mine sites. One notable gap we observed was that artisanal diamond miners did not routinely wear personal protective equipment (PPE). To address this, we ordered different types of kit and tested out the equipment with the miners. The miners gave us feedback on the usability, appropriateness for their role and reliability of the kit. Then we procured the most activity appropriate pieces of equipment, including hard hats, glasses, ear defenders, high-visibility vests, gloves and boots. We distributed the PPE to all our active members and will distribute to new members and replenish the kit as needed.



GemFair staff testing out PPE with a miner onsite

Promoting responsible mine site closure

Many artisanal mine sites do not plan for reclamation. There are simple ways that miners can ease the burden of closing their site once they have exhausted the resource, such as separating topsoil from the gravel as they work, and then backfilling pits, starting with a gravel layer, followed by topsoil, once the diamonds have been separated. We will be rolling out a training next year to support the miners to properly plan for and implement site closure when the time comes.

Licensing: the importance of recognising good faith efforts of miners

Artisanal and small-scale miners in Sierra Leone are legally required to hold a licence, which needs to be renewed annually. In line with our duty as a responsible business, GemFair requires this as a minimum threshold to engage in commercial relationships with members. However, significant administrative delays in the licence application and renewal process over the last 12 months has meant that even when miners uphold their side of the commitment, they find themselves unlicensed whilst they await their licences.

Recognising these challenges, which in the long-term can erode the good strides made in formalising the country's ASM sector and present commercial risks for responsible industry players, we have worked closely with miners and the government to find a solution. This has involved encouraging miners to acquire and renew their licences in a timely manner, following up on the progress of miners' licence applications with the regulator and working with the government to streamline the process. The long-term dividend of this approach is increased miner confidence in formal processes and the continual improvement of government systems to efficiently manage licence applications.

In Sierra Leone, we are fortunate that formalisation of the ASM diamond sector is relatively advanced, which has allowed us to resolve the issue of licence backlogs through formal channels. But we recognise that in some contexts, a weak enabling environment is the norm. In such contexts, it is important to recognise the "good faith efforts" of "legitimate" artisanal miners, as outlined in the OECD Due Diligence Guidance. Going forward, we are especially interested in learning from others and lending our voice to the debate on how industry can manage legal risks with this approach in export countries.

Training programme scaled

In 2021, we extended our Memorandum of Understanding with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Mano River Union (MRU), which will enable more stakeholders to benefit from training and capacity building programmes to advance ASM standards in West Africa. The MoU involves the three parties jointly working together to deliver a regional training programme in the MRU to stakeholders in the ASM sector. The programme also includes a capacity-building element, with a focus on ‘training of trainers’ to help expand the programme’s reach and impact.

We had the privilege of teaming up with the Alliance for Responsible Mining (ARM) in a Training of Trainers Workshop on the OECD Due Diligence Guidance for Responsible Mineral Supply Chains and the European Union Conflict Minerals Regulations for stakeholders of the artisanal and small-scale mining sector in the Mano River Union. The training was attended by 44 participants from the mining sector, government and civil society and included virtual and in-person components, where the trainers dialled in from Canada and Colombia and the participants attended the training at GIZ’s country offices.



GEMFAIR: TRANSPARENCY, EMPOWERMENT AND FAIR VALUE FOR THE ASM SECTOR

PURPOSE	A secure route to market for ethically-sourced artisanal and small-scale mined diamonds		
OPPORTUNITY	Create scalable solutions to improve livelihoods of artisanal miners		
RECAP	<p>RATIONALE</p> <ul style="list-style-type: none"> • Support formalisation of the ASM sector • ASM as a source of development • Fair value 	<p>THE PROGRAMME</p> <ul style="list-style-type: none"> • Kono District, Sierra Leone • Started with 14 sites, now over 150 sites registered • GemFair as a local diamond buyer • Training and capacity development to promote responsible ASM standards • Diamond pipeline secured through technology solution at the mine site and buying office. 	<p>INTENDED IMPACTS</p> <ul style="list-style-type: none"> • Encourage higher standards in the ASM sector • Deliver quantifiable social impact for miners and their communities • Demonstrate workable solution for responsible sourcing from ASM • Change the narrative around ASM diamonds.

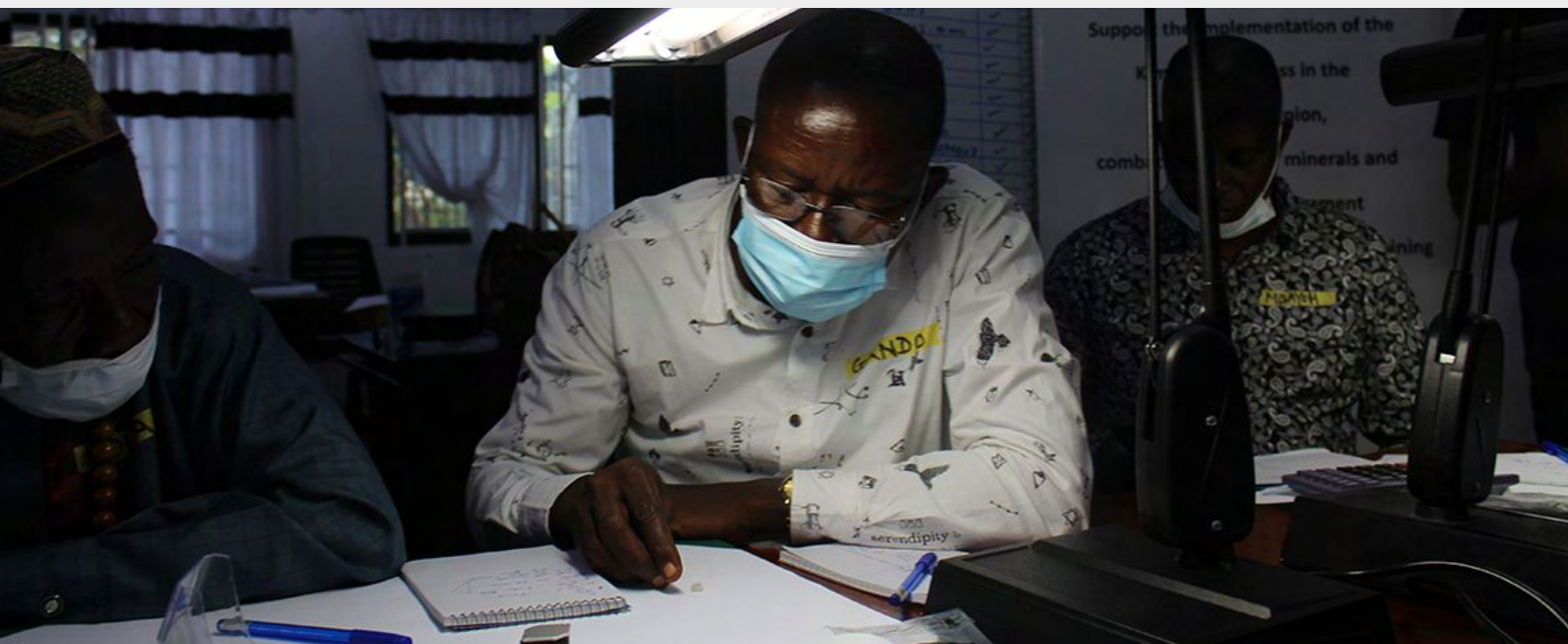




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Diamond valuation training

In November we also hosted a foundation level diamond valuation training at our buying office in Kono for miners, civil society stakeholders and members of the regional mining administration. During the course, we introduced participants to rough valuation fundamentals that will help them to better determine the value of a diamond. The training course included acquainting participants with a valuation methodology, introducing the principles of yield estimation, calculating values based on a price book and extensive practical activities using a range of rough diamonds. We will host this course again in early 2022.



Auction

In 2021, for the first time, ethically sourced GemFair diamonds were brought to market as dedicated, traceable parcels, sold via De Beers Group Auctions. Following good customer interest, all the gem quality lots, including an 11 carat near gem quality diamond, were sold. This marked a major step forward for GemFair and the wider ASM sector, demonstrating both that it is possible to bring ethically sourced ASM production to market in a sustainable way and that there is strong interest for GemFair-assured artisanal diamonds.



This milestone was made even more significant when reflecting on the complexity of the journey of GemFair-sourced diamonds from mine to market. From the moment a diamond is uncovered at a GemFair-assured mine, it is logged on the GemFair App and associated with a unique QR-code in a tamper-proof bag. At the buying office the stone is valued, and an offer is made to the miner reflecting the fair market value of the diamond. At this stage the diamond is scanned, with a digital footprint generated, and this is uploaded onto the Tracr platform. This is vital in maintaining the diamond story all the way back to the miner that unearthed it, because it allows for the link to the original diamond and its QR code to be maintained, even as the diamond progresses through valuation, Kimberley Process certification, export and cleaning.

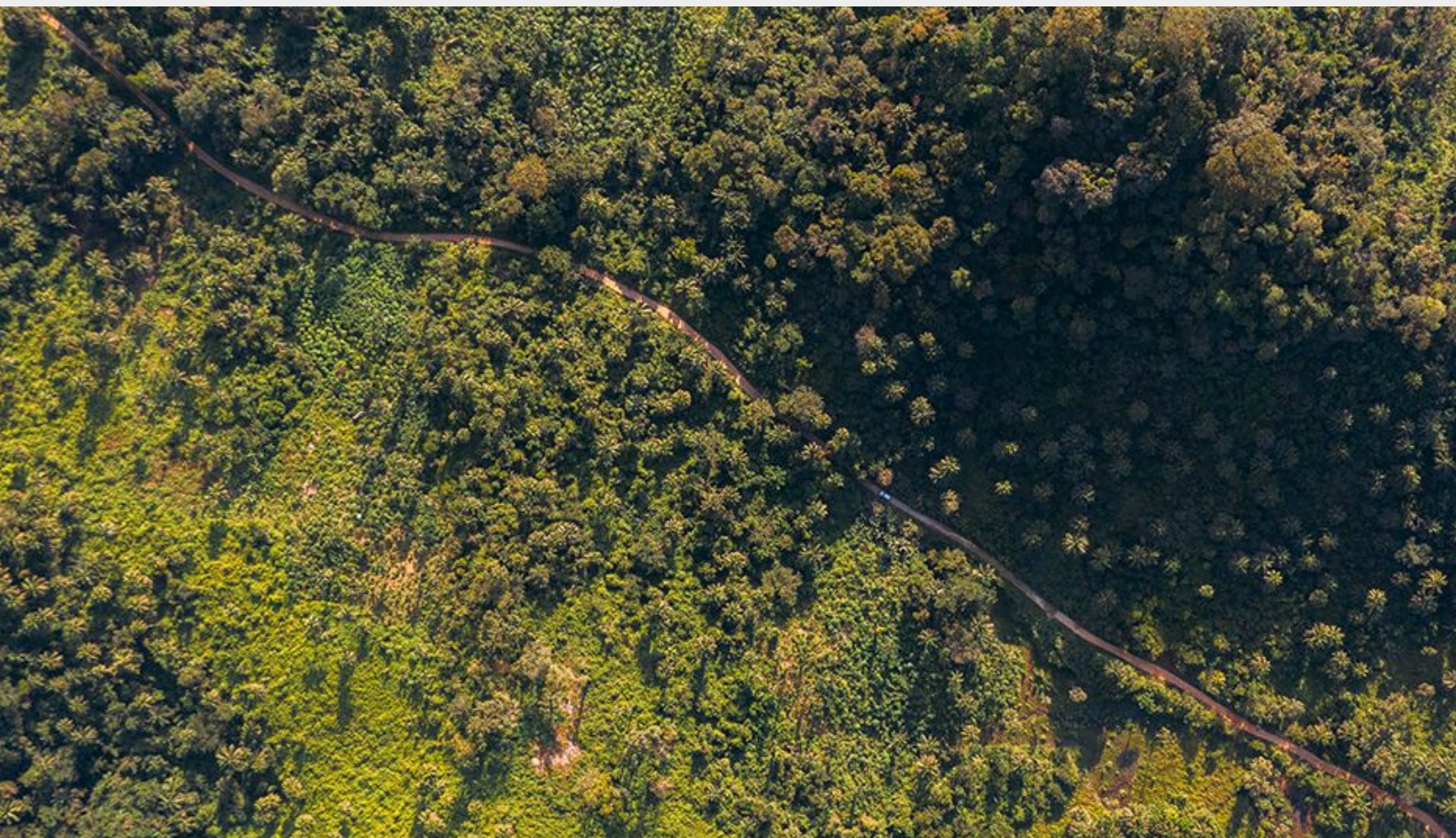
The diamonds are then organised into lots (based on size and quality) ready for sale via De Beers Group Auctions. This rigorous traceability solution, which involves capturing a unique digital record for each diamond at multiple stages of the supply chain and storing this on a blockchain powered platform, ensures customers buying GemFair diamonds can: (1) be assured of the claims we make; and (2) continue to trace the diamond as it passes through the next stage of its journey, should they wish.

We look forward to bringing more GemFair-assured diamonds to market in due course.

Conclusion

In 2021, we saw a “new normal” established in a number of areas. The first waves of the Covid-19 pandemic in 2020 reinforced that GemFair’s potential to make a positive impact in the ASM sector extends beyond providing traceability, empowerment and fair value for rough diamonds. As a good corporate citizen and a member of the Kono community, we stepped up our efforts to support the formalisation of the ASM sector. In 2020, this involved supporting the community by distributing food aid and medical supplies to miners and frontline workers. In 2021, we amplified our capacity development activities for miners and their families. This meant more support for occupational health and safety improvements within and beyond mining areas. We also launched a reclamation programme that will have positive impacts on both the livelihoods and food security of surrounding communities. We also delivered crucial training on diamond valuation and categorisation and on the OECD Due Diligence Guidance to participants from the Mano River Union.

Beyond our work on the ground, we achieved an important milestone by bringing GemFair-assured diamonds to market through the De Beers Group Auctions platform. In the coming year, we hope to work with the buyers of GemFair’s diamonds and support them in communicating the unique GemFair story as the diamonds sold via De Beers Group Auctions are brought to retail. In doing so, we hope to be able to demonstrate to consumers that buying a diamond sourced by GemFair contributes to the betterment of artisanal mining communities in Sierra Leone.



Another crucial factor to our success has been the ongoing delivery of financial support to miners through our FPA programme, serving as a vital ingredient to boost production whilst providing leverage to enhance mine site standards. We plan to extend the programme further in 2022.

GemFair's journey has made it clear that the artisanal mining sector cannot exist in isolation. While the ASM sector is an important contributor to the local economy in Kono, it interacts with other rural livelihood opportunities – and often, the miners themselves spend part of the year engaged in other livelihoods. We must support the bolstering of both ASM and complementary livelihoods, like agriculture, that exist in the same landscape – making space for both helps to foster a year-round income for miners and their families.

Through GemFair, we are demonstrating how responsible sourcing from ASM can be done, in the hope that more stakeholders will proactively engage with the sector. Namely, building a local footprint has been instrumental to our social licence to operate. Our in-country staff are from the Kono area and have worked tirelessly to build trusting relationships with the artisanal mining communities.



*Photo taken before the Covid-19 pandemic