

Promoting transformation in the diamond industry

In order to facilitate the growth and transformation of the South African diamond industry, De Beers has embarked on an Enterprise Development Project for Diamond Beneficiators. *MechChem Africa* talks to Frank Auger, project manager for De Beers Group.



Established in 1888, De Beers is synonymous with diamond mining in South and Southern Africa. "And for as long as we have had a diamond industry, people have been cutting and polishing diamonds here," begins Auger.

"Looking back in history, there have been attempts to intervene to expand local cutting and polishing through various incentives, but most of this work was always done overseas. For many years Antwerp, in Belgium, was the main diamond cutting centre, but today over 90% of the world's diamonds by volume are cut in India," he tells *MechChem Africa*.

"25 years ago 5 000 employees were estimated to be involved in local diamond cutting and polishing. However, as competition has increased from lower-cost centres overseas, numbers of local cutters and polishers have seen significant declines despite the efforts of De Beers to support the sector. Ten years ago, the industry was down to 2 500 people and today we are talking of less than 400 people beneficiating diamonds in South Africa," he notes.

This decline has come about despite Government attempts to ensure diamond beneficiation occurs in South Africa with a

number of legislative and regulatory interventions, one of which being the formation of the State Diamond Trader, to which all diamond mining companies in the country must make available up to 10% of their production.

In addition to this, legislation compels mining companies to sell an additional percentage of their production to local polishers. As a large producer De Beers has to make a significant portion of its production available to local cutters and polishers.

De Beers sells its diamonds in the globally adopted traditional way. "We sell to clients called Sightholders. To become Sightholders, companies now need to prove financial robustness and transparency supported by unqualified audits of financial statements, compliance with strict ethical criteria, and their ongoing demand for the products we sell.

"Our Sightholders in South Africa are local entities with B-BBEE partners, but most of them are essentially financed and owned from overseas entities. And while we are able to fulfil our commitments to local beneficiation through these customers, De Beers remains committed to local enterprise development and transformation of the industry," Auger informs *MechChem Africa*.

The Enterprise Development Project for Diamond Beneficiators

With this focus on local enterprise development in mind, De Beers began an initiative to provide opportunities for locally owned businesses to grow in the diamond sector. De Beers' enterprise development project began with third-party research to identify the barriers to growth in diamond beneficiation in South Africa.

Four key issues emerged:

1. Lack of access to raw materials, ie, rough diamonds.
 2. Lack of access to funding, in particular for the purchase of rough diamonds.
 3. Lack of access to the international marketplace, since "South African jewellery consumption is not sufficient on its own to support local diamond beneficiation".
 4. Lack of entrepreneurial and business skills.
- "It was interesting that the research showed that a lack of access to rough diamonds was



not the only barrier to growth and the lack of skills and technology required were not mentioned. All the project participants have subsequently agreed that access to markets and finance are the most important issues to address in order for them to be successful," Auger notes.

These four issues became the four key pillars of De Beers' Enterprise Development Project for Diamond Beneficiators.

"We then selected five small cutting and polishing companies, all with some experience of diamond polishing and trading.

Most importantly, the owners of these companies needed to demonstrate passion for the diamond industry and the ability and willingness to learn," says Auger.

"All five of the businesses' owners are historically disadvantaged South Africans (HDSAs). Two are 100% female owned and one has 50% female ownership, so we have a nice mixture."

In January 2016, these owners were put into a three-year business entrepreneurial development course using the business incubator Raizcorp. "The selected companies' owners attend customised business courses, tailored towards hands-on learning and how to apply it to the diamond industry. Raizcorp also provides mentors to ensure the newly learned skills are implemented into each of the businesses. The skills cover a wide range of areas, including finance, marketing, sales, business strategy, and personal development," continues Auger.

"Our owners have recently come to the end of their second year and, according to Raizcorp, compared with people participating in other bespoke courses, our trainee Sightholders are strong," he adds.

"With respect to access to diamonds, we are providing the project members with access to a smaller, lower value supply of our rough diamonds than would be the norm with established Sightholders servicing international markets. This targeted approach means we can meet their needs effectively as their businesses develop."

"A bespoke supply is being made available

to our project members depending on the funding available to them and their current market commitments. This is a significant step for any local diamond producer," Auger reveals, adding that South African financial institutions are very reluctant to lend money into the South African diamond cutting industry. "Getting ongoing operating capital is a big challenge and, while we have been able to knock on a few doors, we continue to look for long term answers to this," he notes.

"Ultimately, the long-term sustainability of local diamond beneficiation relates to finding markets," Auger suggests. "If our project members can find successful and reputable jewellers that can guarantee off-take, then lenders will forgo some of the collateral requirements."

"So we are trying to open doors to new markets, taking the project members to international trade shows and continuing to work on new initiatives to build new markets."

Auger believes that there is a new generation of consumers that buy into the notion of doing social and economic good for people in diamond-producing countries. "So the question is, do we have a unique marketing proposition? Does the consumer have an interest in helping African countries to progress?" he asks.

"We should be delivering diamonds with comprehensive 'stories': who polished them, where they came from and all of the people along the value chain who benefit from their sale. If we can establish such a market, in the USA, for example, then we will be better able to fix the funding problem," he argues.

"We are confident. We think there are wealthy philanthropists who will be willing to champion this approach and many ordinary people looking to spend their money in ways that promote a better world," Auger says.

"This project is a long game for us. If we can just get some of our local beneficiators to be fully qualified De Beers Sightholders by 2022, with the finance and the organisational structures and markets required, then we will have succeeded."

"But whether they become Sightholders or not, the experience gained during their time in the project will ensure that they will be in better space to build sustainable businesses even if outside of diamonds.

Beneficiation Project Members:

THOKO'S DIAMONDS: After a number of years as a diamond polisher and time spent as part of the Velani Hive initiative, Thoko Zwane established her own diamond cutting and polishing company in 2004. She has since been joined in the business by her son Zipho Dlamini.

KWAME DIAMONDS: After a career in the financial trading industry, Musibudi Jo Mathole began her own diamond business. She has managed an international Sightholder's South African diamond manufacturing factory, the first such operation to be headed by a black woman. She has been joined by her sister, Khomotso Ramodipa.

MOLEFI LETSIKI DIAMOND HOLDINGS: Molefi Letsiki launched his diamond cutting and polishing business in 2006. Mr Letsiki is co-founder and President of the South African Young Diamond Beneficiators Guild.

NUNGU DIAMONDS: Kealeboga Pule, a law graduate and young diamantaire, established Nungu Diamonds in 2007 whilst in his second year at university.

DIAMONDS AFRICA: Munirah Desai undertook a diamond polishing course at the Harry Oppenheimer Diamond Training School and a diamond graduate course run by the GIA before setting up her own cutting and polishing business. She is passionate about the industry and is keen to explore new markets for South African polished diamonds.

And if they remain in the sector, they will be able to play a significant role in the diamond industry and economy of this country. And we at De Beers would have played our role in promoting and supporting the economic transformation of the country and the diamond industry," he concludes. □

"So we are trying to open doors to new markets, taking the project members to international trade shows and continuing to work on new initiatives to build new markets."



The members of the De Beers Enterprise Development Project for Diamond Beneficiators, from left: Musibudi Jo Mathole, Kwame Diamonds; Molefi Letsiki, Molefi Letsiki Diamond Holdings; Kealeboga Pule, Nungu Diamonds; Zipho Dlamini, and Thoko Zwane from Thoko's Diamonds; Munirah Desai, Diamonds Africa; and Khomotso Ramodipa from Kwame Diamonds.

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