



AFRICAN DEVELOPMENT BANK GROUP

MAXIMIZING VALUE FROM AFRICA'S DIAMOND INDUSTRY

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CONTEXT

1. Introduction

2. Africa's Diamond Production and the Challenge of Value Creation

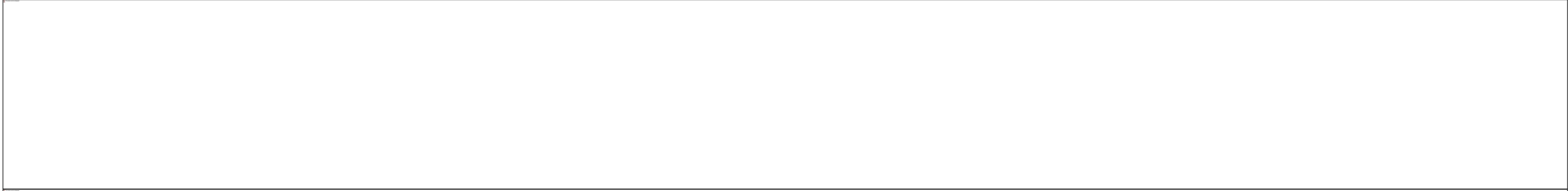
3. Overview of the Diamond Value Chain

- Key Elements of the Diamond Value Chain
- Vertical & Horizontal Integration through Supply Chains
- Cutting & Polishing
- Profit Margin

4. Conclusions and Policy Proposals for Value Optimization



Introduction: African Development Bank's 5 Priorities



INTRODUCTION: GLOBAL ANNUAL DIAMOND PRODUCTION [MILLIONS OF CARATS]

Africa contributed >50% of Annual Global Rough Diamond Production (2010 – 2017)



INTRODUCTION: GLOBAL DIAMOND PRODUCTION – DOMINATED BY 5 COS



INTRODUCTION: AFRICAN NATION'S DIAMOND OUTPUT BY VOLUME AND VALUE

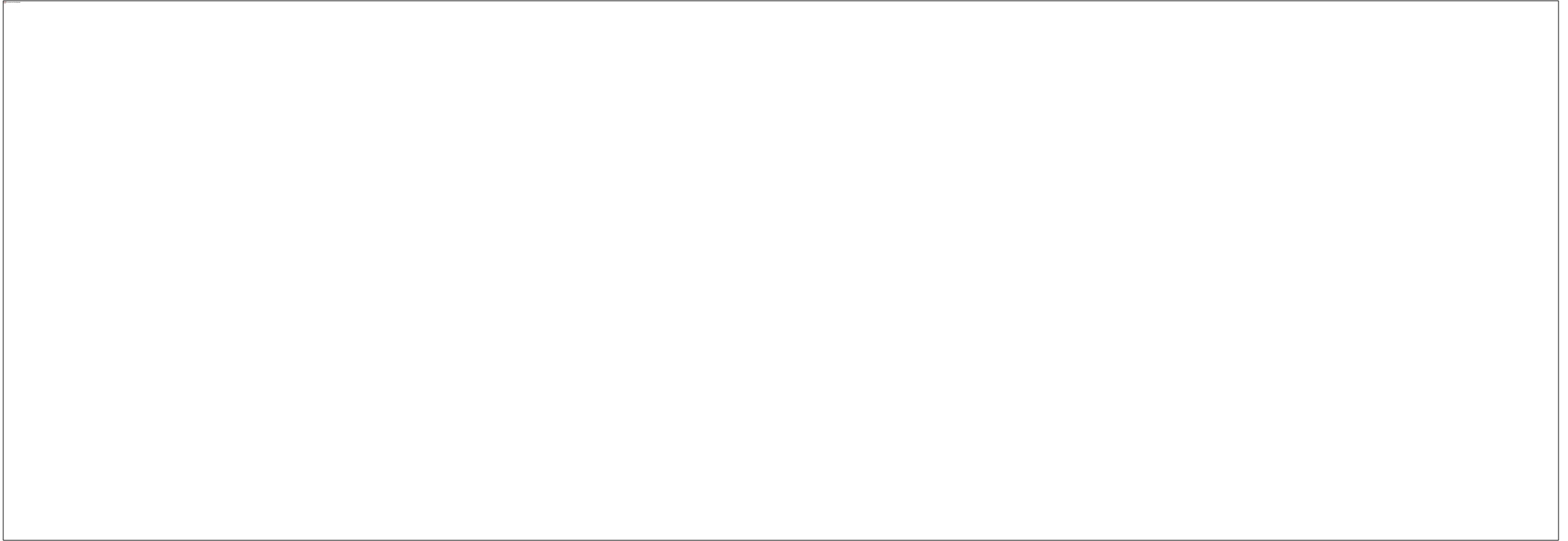
- >50% Global Contribution
 - But, polishing - 10% of global production by value;
 - 0.5% of the jobs in the global cutting, polishing and jewellery manufacturing sectors.

Factors accounting for this low performance include:

- Low exploration capital
- High operating costs
- Lack of offtake arrangements
- Low consumption demand of polished products



OVERVIEW OF THE DIAMOND VALUE CHAIN



The diamond industry faces some key persistent challenges:

- **Synthetic (Lab-grown) diamonds and the financial sustainability of the midstream**

DVC OVERVIEW: ANALYSIS OF KEY ELEMENTS

- **Exploration & Mining**

- Discovery leads to optimization of socio-economic impacts.
- Thus the need for conducive framework to attract investors for discoveries that will help develop a strong mining industry.
- **Supply Chains, EPCMs, Efficient Regulation of Cos**

- **Sorting: 4 Cs: Cut (Shape), Clarity (or quality), Carat (or weight) and Colour.**

- **Sales:** Through **Tender/Auction** or by **Contracts**

- **Cutting and Polishing:**

- Requires a blend of skills, efficient processes and technologies;
- **This segment is estimated to add about 15% to the mining sales value**

- **Jewellery Manufacturing & Retail**

- Higher end luxury & branded jewellery tends to be manufactured by the leading branded companies: Tiffany, Bulgari, Cartier.
- And this is typically closer to consumer markets in Europe & USA.

Deepening Vertical & Horizontal Integration in the Value Chain



DVC VALUE CHAIN: Cost Efficiency Analysis - Cutting and Polishing

Challenge Vs. Opportunity

NB: India's dominance (90% of global polished diamond manufacturing by value in 2016) and China's rapid growth stem from their distinct labour advantage, both in terms of cost per carat manufactured as well as overall productivity.



DVC VALUE CHAIN: Cost Efficiency Analysis - Cutting and Polishing

MANUFACTURING COST PER CARAT COMPARISM

	China	India	Botswana	South Africa	Namibia	Russia	Belgium
COST PER CARAT (US\$)	20 to 50	10 to 50	60 to 120	130 to 150	60 to 140	70 to 120	60 to 130

- **Drivers of Profitability in Diamond Manufacturing & Retail**

- Maximise gross profit through consistent supply in sufficient volumes of appropriate categories of diamonds, fair purchase prices, reliable offtake arrangements, etc.)
- Minimise Operating Costs through upscaling skills etc
- Minimise Financing Cost through minimizing credit terms



Profit Margin Analysis of the Diamond Value Chain



Conclusion & Policy Proposals to Optimize Value (1)

- **Develop Regional & National Visions for the Minerals Sector**

- Examine the VC to inform strategies on areas of Value maximization:
- Use Regional Mining Visions (e.g. SADC) in developing regional strategies for diamond cutting and polishing
- Long term strategy for Linkage Development
 - Develop **Supply Chains**, Downstream Value Addition , Science, Tech, Eng. & Maths (STEM) Skills Devt etc.
 - Introduce incentives to promote downstream industry e.g. subsidies etc.

- **Active State Participation through Smart Partnership Agreements (SPA)**

- The State is encouraged to invest in geological information as equity in acquiring shares in the business.

- **Apply Technology to Enhance Productivity**

- Adapt innovative technologies to continuously shorten production cycles such as **Automated Cutting Processes** and advanced digital modeling of diamond cutting to optimize yields.

- **Strategies to Manage Price Volatility**

- The State must have a strategy to manage price and market volatilities. As exemplified by Botswana's Capital Reserves through sound economic policies.



Conclusion & Policy Proposals to Optimize Value (2)

- **Establishment of Free-Trade Zones or Manufacturing Hubs**

- Free-trade zones: Additional Benefits - import/export concessions for manufacturing companies in the free trade zones.
- These zones also provide opportunity to develop purpose-built infrastructure, creating a geographic focus for the sector, which may have benefits in terms of security and general support service provision.

- **Licensing Credible Manufacturers**

- Develop robust assessment criteria for licensing manufacturers to deal in diamonds. Criteria could include: Technical, Financial, Operational and Distribution Strength etc.

- **Governance Improvement: Adherence to KPCS Measures etc.**

- Voluntarily joining the KPCS to increase transparency in the value chain;
- Involvement of stakeholders in the management of the extractive sector.
- **3Ds – Detection, Disclosure & Differentiation** – Address challenge of Lab Grown Diamonds etc.

- **Explore Market Opportunities:** for African countries for capturing a greater share of the downstream value segments (processing and retail), especially tapping into CFTA and other South-South or bilateral trade agreements.

- **The DVC responds to 3 of AfDBs strategies: Integrate Africa, Industrialise Africa and Improve quality of life.....**

Thank you Merci Beaucoup

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