

# BENEFICIATION:

## A Case for Zimbabwe's Diamonds

CENTRE FOR NATURAL RESOURCE GOVERNANCE

## Introduction

Since the start of commercial diamond mining activities in Marange in 2009, Zimbabwe has been exporting thousands of jobs annually through the export of rough diamonds and by frustrating the fledgling local cutting and polishing industry. Centre for Natural Resources Governance believes Zimbabwe can create over 210,000 jobs and generate over \$8 billion in revenues annually if a significant percentage of its rough diamonds were cut and polished locally.

The government of Zimbabwe has begun to take positive steps towards value addition. In May 2013, the Ministry of Mines and Mineral Development released a Draft Minerals Policy whose vision statement is: ***“Equitable and optimal exploitation of Zimbabwe’s mineral resources to underpin broad-based sustainable growth and socio-economic development”***

The first aim of the Draft Mineral Policy is: To achieve a knowledge-driven mining sector that catalyses and contributes to the broad-based growth and development of, and is fully integrated into, an African market through down-stream linkages into **mineral beneficiation** and **manufacturing**. The Ministry has correctly identified beneficiation as a key activity to maximize the benefits derived from the country’s mineral resources.

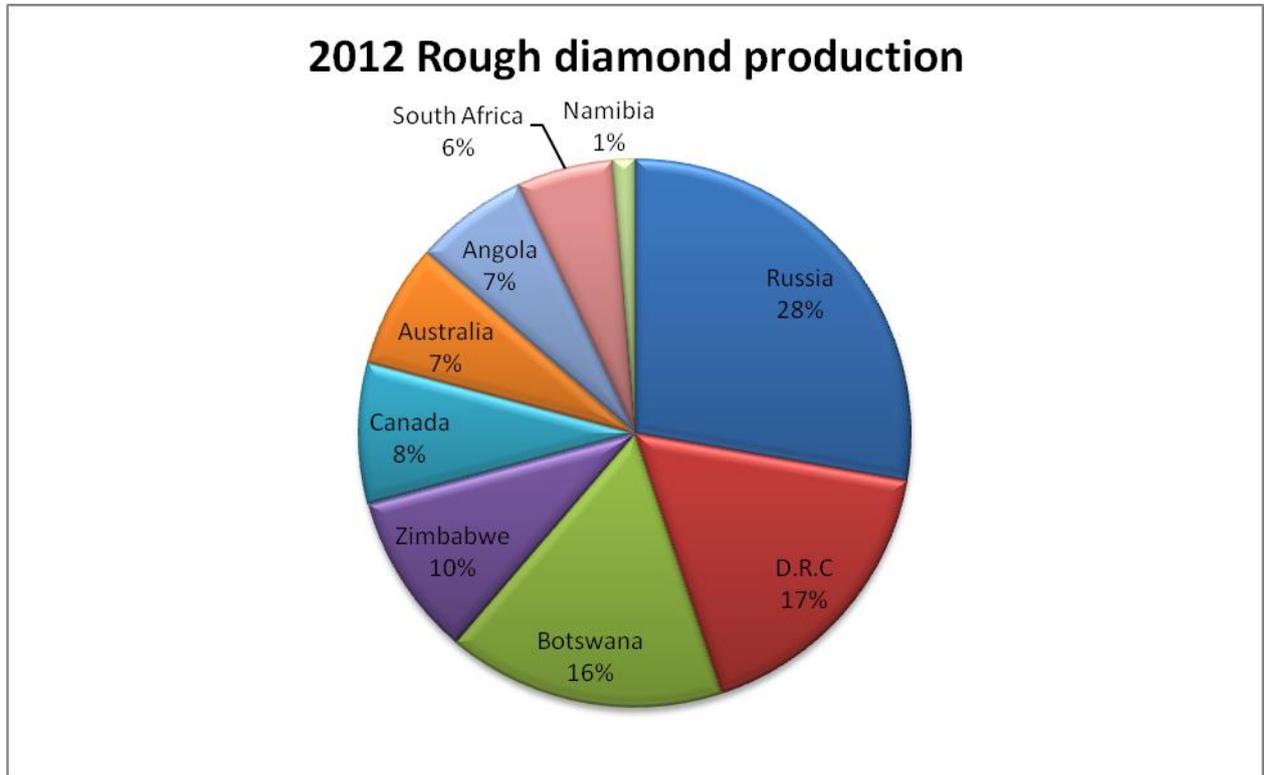
The new Mines and Minerals Development Minister Walter Chidhakwa has indicated that value addition is central to his plans of increasing the contribution of mining to the economy: “I see value addition of our minerals as the new area of industrialisation. For example, by polishing diamonds, you open the jewellery sector, that is industrialisation” said the minister.

This is underscored by President Mugabe’s speeches on several forums where he decries the exportation of minerals without value addition. This shows government, as represented by the President and the responsible minister, knows what needs to be done. It is however important to look at the economics of exporting rough diamonds and what need to be done to discourage the practices and promote beneficiation. This paper seeks to explore the opportunities for beneficiation in Zimbabwe’s diamond sector, analyse the challenges and offer recommendations based on best practices in the region.

## Background

Zimbabwe was a low-scale diamond producer before the discovery of massive alluvial diamond deposits in Marange in 2006. Prior to the Marange discovery two underground mines, River Ranch and Murowa Diamonds were the only producers. A diamond rush began in Marange in September 2006 when De Beers Exclusive Prospecting Order for Marange expired. The artisanal miners initially sold their diamonds to the Mines and Mineral’s Corporation of Zimbabwe but a black market rapidly formed, offering better prices. As Zimbabwe’s economic crisis reached its peak in 2008, tens of thousands Zimbabweans turned to diamond digging for a survival. This resulted in a flourishing illegal diamond business whose impact was felt throughout the SADC region and the whole world. This led to takeover of the diamond fields by the Government in November 2008.

The Zimbabwe Mining Development Corporation was given the mandate to mine diamonds in Marange and it entered into several joint venture partnerships with various local and international business entities to exploit Marange diamonds. With the discovery of diamonds in Marange, Zimbabwe has become one of the top five diamond producing countries in the world as depicted in the chart below:



**Fig 1: Pie chart showing the top diamond producing countries in the world - 2012 figures (CNRG ©2013)**

Zimbabwe produced 12 million carats of rough diamonds valued at US\$ 644,033,522.30 in 2012. The exact figure could be higher than the official one given the myriad of challenges associated with marketing Zimbabwe's diamonds. According to the Kimberley Process, Zimbabwe is projected to produce 17 million carats in 2013. Marange diamonds have been certified as conflict-free and diamonds and are now being exported without KPCS supervision. However, despite having risen to become one of the top diamond producers in the world, Zimbabwe has not generated both significant jobs and revenues as almost all its diamonds are exported in the rough. There has been insignificant beneficiation of diamonds carried out within Zimbabwe i.e. cutting and polishing and jewellery manufacturing.

The diamond supply chain has six stages:

1. Exploration
2. Mining
3. Sorting
4. Cutting and Polishing
5. Jewellery Manufacturing

## 6. Retailing

Of these stages only the first three occur in Zimbabwe.

### **Attempts at Beneficiation**

In 2012 government announced that it had introduced a quota system where 10 percent of Zimbabwe's diamonds would be cut and polished locally. President Robert Mugabe revealed during Zimbabwe's Inaugural Diamond Conference in November 2012 that in 2011 only 0.1 percent of diamonds produced in Zimbabwe were cut and polished locally. It is important to note that the quota system announced by the president is not backed by policy or legislation. Further, the Zimbabwe Diamond Policy which was unveiled by the Ministry of Mines and Mining Development in November 2012 also outlines the government intention to promote beneficiation without stipulating what percentage of diamonds will be set aside for beneficiation locally. It says 'a quota of all locally produced rough diamonds as set by the Minister of Mines and Mining Development shall be reserved for local beneficiation'. The policy also promises that 'government shall offer incentives to players in the local cutting and polishing industry'.

Pursuant to this goal government licensed a significant number of local cutters and polishers who were allowed to buy auctioned diamonds. However in 2012 the Diamond Beneficiation Association of Zimbabwe Chairman Richard Mvududu told the Parliamentary Portfolio Committee on Mines and Energy that of the diamonds supplied by miners to local cutters and polishers only 25% was good quality whilst the rest was poor quality.<sup>1</sup> Mr Mvududu said mining companies preferred to sell good quality stones to international dealers, adding that the auction system favoured international dealers who had more money than local players.

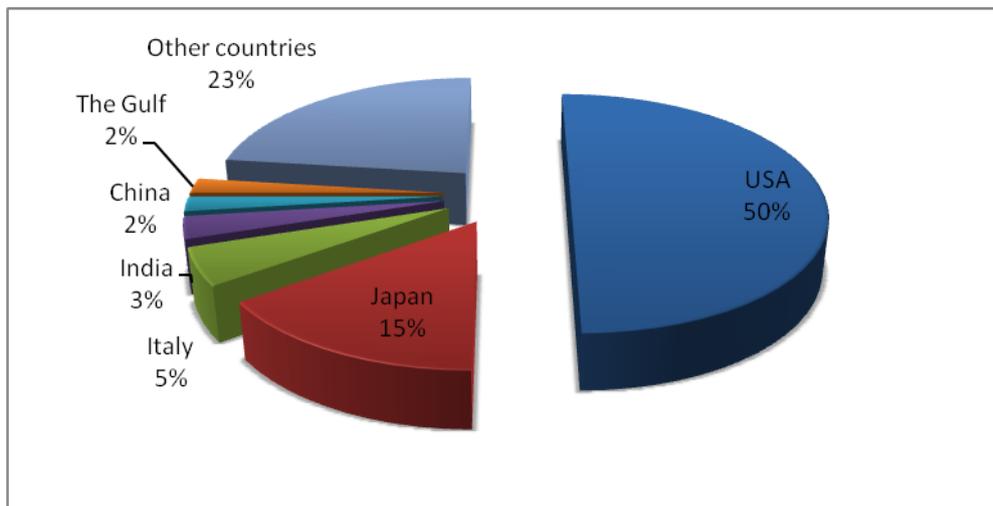
In May 2013 government added to the woes of the local cutting and polishing industry by increasing the licensing fees from \$20 000 to \$100 000 before reducing it to \$50 000 following an outcry from local industry players. Further the tenure for a cutting and polishing license in Zimbabwe is one year whilst in the region, where licences cost between \$100 and \$500, a license is valid for 5 to 10 years. Only 6 out of 29 companies managed to reapply whilst others were delisted. The inability of local cutting and polishing players to raise the \$50,000 registration fees shows that the sector is framed in a manner that does not encourage the active participation of local players. Already the Minister of Mines has indicated many foreign businesses are interested in establishing cutting and polishing industries in Zimbabwe. Whilst government ought to encourage the global diamond industry players to establish cutting and polishing industries in Zimbabwe, there is need to help build the capacity of local players to compete with foreign companies. CNRG believes sustainable indigenization is assisting aspiring indigenous Zimbabweans to establish their own companies through financial and technical assistance from the state. This will give them muscle to compete with established companies in all sectors of the economy. This approach to indigenization will empower locals without threatening foreign business interests, thereby creating a vibrant economy.

---

<sup>1</sup> **Diamond cutting firms cry foul**, Newsday May 29 2012

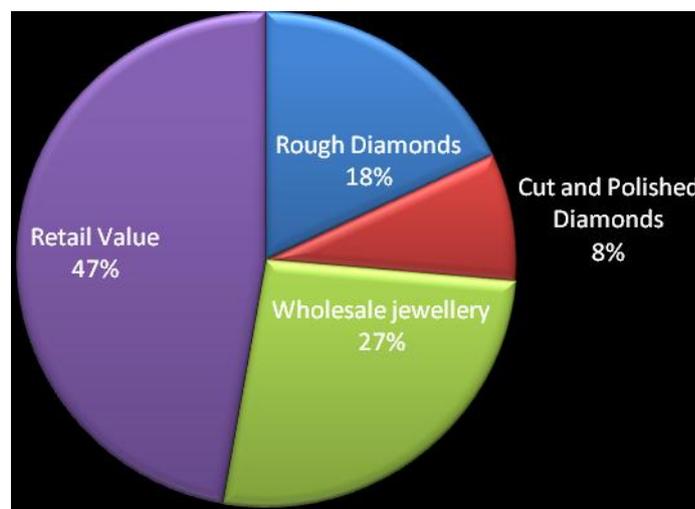
## Global Diamond Market

The global diamond industry was worth US\$72 billion in 2012. 128 million carats of rough diamonds worth US\$12.6 billion were produced globally, with US\$8.5 billion worth of diamonds coming from Africa. These diamonds were exported to Antwerp, Mumbai, Tel Aviv, New York, China, Thailand and Johannesburg where they are sold to diamantaires for cutting and polishing. Eight of every ten rough diamonds are traded in Antwerp (a city in Belgium) and 95% of all rough diamonds are cut in India, mainly in the city of Surat. After cutting and polishing the diamonds are worth approximately US\$19 billion. They are sold to wholesale jewellery manufacturers who then sell them to retailers for approximately US\$38 billion. The diamond jewellery is then sold to consumers for US\$72 billion (World Diamond Council, 2013). The top markets for retail diamonds are shown below:



**Fig 2: Top retail diamond consumers**

Diamonds appreciate in value immensely throughout their beneficiation process, increasing value from rough to retailed diamonds by an astounding 553% in 2012. This is depicted below:



## **Fig 2: Pie chart showing the appreciation of the value of diamonds while undergoing beneficiation**

Rough diamonds are worth only 18% of the final price that jewellery buyers pay for them after they have been cut, polished and set in jewellery. Cutting and polishing increases the value of diamonds by 8%, while setting them in jewellery increases the value by a further 27%. However it is in retail that most of the profit is made as the diamonds are sold at 47% more than they are wholesaled at by jewellery manufacturers. Ironically no African country, maybe with the exception of Botswana and South Africa, has taken beneficiation seriously? On the contrary countries that do not produce diamonds, such as Belgium, Israel and India, are making impressive gains through cutting, polishing and jewellery manufacturing from the cheaply sourced rough diamonds.

## **Employment**

Globally, over ten million people are employed in the diamond industry. Of these only 38,000 are employed in southern Africa, mainly at diamond mines (World Diamond Council, 2013). India alone employs over one million people in their diamond industry, 800 000 of whom cut and polish diamonds in Surat (The Herald, 2013). New York, Antwerp and Tel Aviv employ 40 000, 30 000 and 20 000 people respectively in their diamond industries (Wikipedia).

New York's Diamond District, in Manhattan, is considered by the *Business Insider* as "one of the driving forces behind New York City's economy". It generates US\$24 billion annually - the amount of money McDonald's generates in global sales in a year.

Zimbabwe, whose total labour force in the diamond sector is less than 6,000, is thus producing diamonds that generate US\$2.24 billion for those that cut, polish, manufacture and sell the jewellery. At the same time Zimbabwe's diamonds are creating an unquantifiable number of jobs in Surat, Tel Aviv, and China and now with the lifting of sanctions on ZMDC, even in Antwerp, Belgium.

## **Beneficiation should be prioritized**

It is imperative that diamonds be beneficiated locally, beginning with cutting and polishing before moving to manufacturing of jewellery. There is no law, both domestic and international, that prohibits Zimbabwe from manufacturing and exporting jewellery directly to the major diamond jewellery markets such as the USA, Japan and Italy. Government needs to put in place the right policies and legal instruments that force diamond mines to avail a certain percentage of locally produced diamonds to the local players in the cutting and polishing industry.

The Centre for Natural Resource Governance applauds the newly appointed Minister of Mines and Mineral Development, Mr Walter Chidhakwa for his call to beneficiate diamonds in Zimbabwe. In a speech delivered at the Confederation of Zimbabwe Industries annual congress on the 10<sup>th</sup> of October 2013, he declared: "We have to reverse the colonial system, come up with a diamond park where diamonds are cut, polished and cleaned."

Not only does Zimbabwe have the potential to produce rough diamonds worth US\$4 billion annually, it also has the potential to cut and polish them into diamonds worth US\$5.8 billion, or go on to produce wholesale diamond jewellery that can rake in revenues of US\$11.6 billion

annually and create 210,000 jobs. Whilst this feat cannot be achieved in the short term, there is need to start with the less sophisticated cutting and polishing industry before moving to jewellery manufacturing.

## **Factors prohibiting beneficiation**

### **1. Prohibitive fees for local cutters and polishers**

As mentioned above Zimbabwe's cutting and polishing license fees are too exorbitant for the local players. There is need to slash the fees to bring them in line with regional standards. Apart from reducing the fees government should also assist aspiring diamantaires with access to loans. Without empowering indigenous Zimbabweans to enter the cutting and polishing industry, the indigenization policy remains a pie in the sky.

### **2. Legal and Policy frameworks**

According to Zimbabwe's diamond policy 'a quota of all locally produced rough diamonds as set by the Minister of Mines and Mining Development shall be reserved for local beneficiation'. This policy announcement has not yet been translated into action as revealed by President Mugabe during Zimbabwe's inaugural diamond conference in 2012. Whilst there are laws on prospecting, exploration, mining and marketing of rough diamonds, Zimbabwe has no law on cutting and polishing of diamonds. Lack of legislation makes it difficult to enforce the quota system.

It is essential that a new minerals legislation that promotes value addition is crafted. This should be done in consultation with local business and civil society.

### **3. Skills shortage**

Cutting and polishing of diamonds are skills that take a lot of training and years to master. 95% of rough diamonds produced globally are cut and polished in Surat, India where over 800 000 people are employed in the sector. The few Zimbabweans who are trained to cut and polish diamonds will not be adequate if the quota system proposed in the diamond policy is to be effected. Recommendations

#### **1. Quota System**

The Centre for Natural Resource Governance calls on the Minister of Mines and Minerals Development to declare that a quota of 25% of rough diamonds produced in Zimbabwe be cut and polished locally. This quota system should be reviewed from time to time in response to local supply and demand for rough diamonds.

#### **2. Invite international diamantaires to set up factories in Zimbabwe**

Zimbabwe should emulate Botswana which now boasts of the biggest cutting and polishing sector in Africa. "In 2012, Botswana cut 18-20% of its own rough diamond production domestically. Botswana signed a new marketing agreement with De Beers,

its partner whereby all its diamonds will be sold through the Diamond Trading Corporation Botswana (DTCB) by December 2012. This implies that all sorting of De Beers diamonds, that once took place in London, will now be done in Gaborone. At present, Botswana's diamond cutting and polishing industry employs 3,200 workers, 94% of whom are nationals. This is the single largest manufacturing activity in Botswana. The beneficiation of diamonds is a direct result of the conditions required to be a DTCB sight holder. One of the criteria is that local processing should take place. Simply put no processing, no access to rough diamonds." (Grynberg, 2013).

### **3. Skills Training**

Diamond cutting schools should receive Government assistance. The Government should also encourage Indian firms to set up diamond cutting centres in Zimbabwe under the Indigenization model which will result in the transfer of knowledge and skills to locals. By taking these steps, there will be an increase in revenues generated from the diamond industry and creation of thousands of jobs for Zimbabweans.

### **4. Export Duty**

Diamond mining companies that fail to sell the declared quota to Zimbabwean Cutting and Polishing Companies should be exposed to an export duty. However this should not be applied on miners who decide to beneficiate their own diamonds.

## **References**

1. The Diamond Industry Fact Sheet, World Diamond Council (2013)
2. *The Herald*, "Miners bypass diamond cutters", 18 June 2013
3. *En.wikipedia.org/wiki/Diamond\_(gemstone)*
4. Grynberg, R. 2013. *Diamond beneficiation in Botswana. GREAT Insights, Volume 2, Issue 2. February-March 2013*