# Diamonds: Forever or For Good?

## The Economic Impact of Diamonds in Southern Africa

By Ralph Hazleton

In January 2001, *Professional Jeweler* ran an article entitled 'Diamonds for Good'.[1] The article argued that the NGO campaign against 'conflict diamonds' could destabilize Southern African nations where diamond revenue is used to improve the standard of living. It quoted the Governor of the Bank of Botswana, Linah Mohohlo, on what a properly managed diamond industry could do for the economy and the people of a poor country. As the article put it, 'The spectacle of U.S. [Congressman] Tony Hall parading Sierra Leone's children of conflict in front of Cartier's New York City store in October was on Mohohlo's mind in a recent meeting with US journalists. "Why not parade some of our healthy boys and girls from Botswana in front of Cartier?' she asked. "Why not show the good that diamonds do?"'

This report discusses the good that diamonds do, and concludes that while it is important, it has limitations and is not without controversy.

As in many other diamond producing countries, the history and nature of the diamond industry in Botswana, Namibia and South Africa are all about De Beers. In Botswana, which produces more diamonds by value than any other country in the world, De Beers — in partnership with the government — mines and markets everything. In Namibia, the world's fifth largest producer, De Beers mines and markets 80 per cent of the diamonds by value, again in

## The Study

South Africa, Botswana and Namibia have been at the forefront of the campaign to halt conflict diamonds and to create a certification system which would assist in this. They, along with the diamond industry, have also been the most vocal champions of 'prosperity diamonds' and 'diamonds for development'. NGOs focusing on conflict diamonds have been accused of neglecting this side of the coin and of endangering the entire diamond industry. Partnership Africa Canada and other NGOs concerned about conflict diamonds, however, have avoided any talk of a diamond boycott, precisely because they understand that many jobs, and even entire national economies, are diamond-dependent. This study was undertaken in part to redress the balance, and in part to investigate the extent to which the positive claims for diamonds could be verified. It deals with the economic impact of diamonds. It does not deal with environmental issues or conflict diamonds in the region, which are the subjects of other studies.

The report, written by Ralph Hazleton, was researched over several visits to Southern Africa. The author would like to thank the many individuals in the governments of South Africa, Botswana and Namibia for their help. Invaluable assistance was also provided by De Beers, the National Union of Mineworkers and many other companies, research institutions, NGOs, individuals and departments too numerous to mention. The report and its conclusions, however, are those of the author alone.

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partnership with the government. In South Africa, the world's third largest producer, De Beers alone — without any direct government partnership — mines nearly 95 per cent by value of all of the country's diamonds. De Beers is also involved in the cutting and polishing of diamonds in Namibia and Botswana.

None of this should come as a surprise, given the history of De Beers. Not long after 1866, when the first diamonds in South Africa were discovered on the De Beer farm near Kimberley, there were efforts to capture the entire industry. The modern shape of that capture began to form in 1917, when young Ernest Oppenheimer established the Anglo-American Corporation of South Africa Ltd., and began thinking beyond gold. He later said,

> From the very start, I expressed the hope that besides gold, we might create, step by step, a leading position in the diamond world, thus concentrating by degrees in the corporation's hands the position which the pioneers of the diamond industry formerly occupied. It is quite evident to my mind that eventually an amalgamation of the four big diamond producers (De Beers, Premier, Jagersfontein and Consolidated Diamonds) will be brought about, and I see no reason, if we continue our diamond policy, why we should not play a leading role in such an operation.[2]

## The source of diamonds

Diamonds are derived from three main sources. Primary deposits are those which occur in basic volcanic rock, known as kimberlite. Secondary deposits are those which occur in alluvial deposits of weathered kimberlite. And a third source of diamonds are alluvials that over millions of years have washed downstream from kimberlites into oceans. All three types are found in Southern Africa, although most diamond mining by value in Botswana and South Africa is from kimberlite pipes. Alluvial and ocean mining is more common in Namibia.

It took twelve years from the formation of Anglo-American for Oppenheimer to secure that role. His first foothold was in German South West Africa (now Namibia). Following World War I, Oppenheimer arranged an amalgamation of the old German diamond companies to form his own Consolidated Diamond Mines of South West Africa. It was the initial step in what some have referred to as his 'encirclement of De Beers'. By 1926 Oppenheimer had become a director of De Beers in South Africa, and in 1929 he became its chairman. By then, De Beers had established its dominance of the diamond trade in South Africa and what later became Namibia. The story was different in Botswana.


Photo: Ralph Hazleton

*"The Aquarium", Treatment Plant at Jwaneng Mine, Botswana*

# Botswana: 'Prosperity Diamonds'


Diamonds are a contemporary phenomenon in Botswana. De Beers did not begin prospecting there until 1956, discovering their first kimberlite pipe in 1967 and bringing the first mine to production in 1971. Unlike its experiences in Namibia and South Africa, De Beers faced no competition in Botswana. They were the first there and quickly formed a jointly-owned company with the Government. The De Beers-Botswana Mining Company (Debswana) is a private unlisted company, with the government and De Beers each holding 50 per cent ownership.

Diamond statistics in Botswana are astonishing. The country is by far the world's largest diamond producer, by value. In 2000, Botswana's only diamond mining company produced 24.65 million carats and sold it all to De Beers for US$1.9 billion.[3] This yielded a gross profit of US$1.67 billion for Debswana. In 2000, minerals, of which diamonds represented the lion's share, contributed over 33 per cent to Botswana's annual GDP and made up 79 per cent of the value of Botswana's exports. While the proportion of the total labour force working in the mining and quarrying industry is small (three per cent), its 6,000 workers comprise the largest labour sector in the country. Perhaps more important is the direct contribution of the diamond industry to the support of government. This single industry, with only three operating diamond mines, contributes 60 per cent of total government tax revenue.

There are two other statistics that further define the story of diamonds in Botswana. The most striking is that over 70 per cent of the profits of the diamond industry are paid to the government. This staggering figure still underestimates the impact of the diamond industry on the economy. Two other large sources of government revenue are also largely diamond dependent. Customs fees from the Southern Africa Customs Union are generated to a large extent from the export of diamonds, and interest on foreign investment and bank accounts is also derived mainly from diamond profits. In all, approximately 85 per cent of government revenue is derived from diamonds.

## The 70% solution

Under Botswana legislation, Debswana pays a 10 percent royalty based on gross market value, and a 25 percent tax based on its taxable income (i.e. after deducting current expenses, capital allowances and other allowables from gross income). In addition to tax and royalty, the government receives a variable dividend. The amount of the dividend is calculated so as to bring government's aggregate revenue up to a contractually agreed share of positive net cash flow. The dividend paid to the private shareholder (De Beers) essentially consists of whatever cash remains after the government has received the amount due to it. It is the variable dividend which enables the government to take in excess of 70 percent of the profits of Debswana, rather than the 35 percent or so that would result from statutory tax and royalty. The dividend arrangement is a function of the profitability of the business, which means that both the government and De Beers have an interest in making the industry successful.

Even this underestimates their economic impact. Much of the financial, construction, manufacturing sectors and foreign investment in Botswana are also based on the diamond economy.

Botswana continues to explore for new diamonds. The government encourages companies other than De Beers to participate, although De Beers is involved in almost all the present exploration. De Beers Prospecting Botswana Pty. Limited (Debot) started exploring in the 1950s, and is currently working on prospecting licenses covering more than 55,000 square kilometres, either on its own or in joint venture partnerships with other companies. Other prospecting companies partnering with De Beers have included TNK, Billiton, Ampal, SouthernEra, Repadre Corporation, Cratonic Resources and AfriOre.[4] Debswana plans to open a new mine in 2002, consisting of four small kimberlite pipes about 20 kilometers east of the existing Orapa mine in central Botswana. US$45 million is being spent on the development and the mine will create 180 new jobs.[5]

## Value Added

Botswana has had only modest success in developing a cutting and polishing industry. At present there are three factories employing approximately 600 people, although the number of workers was once twice as high. One factory is a subsidiary of Debswana, another is owned by Schachter & Namdar of Israel[6] and the third is owned by Mabrodiam International of Belgium. Teemane Manufacturing Company (Pty) Ltd., owned by Debswana, employs 214 staff and exports its production to De Beers' Diamond Trading Company (DTC). In 2000, total production from Teemane was 9,640 polished carats with an average weight of 0.11 carats. Teemane is moving toward polishing larger stones where there is less international competition.[7] All of the factories receive their rough diamonds from the DTC in London, which means that they do not know whether, in fact, they are polishing diamonds mined in Botswana

Debswana also owns the Botswana Diamond Valuing Company (Pty) Ltd. (BDVC), located in the capital, Gaborone. BDVC is one of the largest diamond sorting and valuing companies in the world, sorting the entire output of Debswana's rough diamonds. The company has a staff of 476 employees and plays a pivotal role in training and developing local citizens for positions in the diamond industry.[8]

Debswana's interests go far beyond diamonds. It owns a coal mine (Morupule Colliery Ltd.) which employs 304 people. It owns a short-term insurance company (West End Property Company (Pty) Ltd.), created to meet the company's insurance requirements. It also owns Masedi (Pty) Ltd., a company involved in agriculture. And Debswana owns a controlling interest in the best primary school in the country, Broadhurst Primary School (Pty) Ltd.[9]

Support for small and medium-size local business is facilitated through Peo Holdings (Pty) Limited, a business development initiative established by De Beers Botswana (Pty) Ltd. and Debswana in 1998. Its mandate is to promote and facilitate the development of commercially viable enterprises. During 2000, Peo Holdings assisted in the establishment of eight new businesses. The total financial assistance provided by Peo between 1998 and 2000 was approximately US$750,000. Together with capital provided by entrepreneurs and other financial institutions, total support for the program exceeds US$2.8 million, with 19 businesses providing employment for over 300 people.[10]

In addition to its diamond mining and other commercial activities, Debswana manages a fund for development activities. During 2000, the Debswana Donations Fund allocated approximately $562,000 to a variety of projects in Botswana.[11] Approximately one third of the Fund was donated to organizations that care for and rehabilitate disabled children and adults. The donations take the form of cash for specific projects and 'in-kind' donations of equipment and vehicles. An additional one third of the Fund in 2000 went to various community development projects in small rural communities. The remaining third of the Fund was divided between environmental and HIV/AIDS projects.

In pure economic terms, diamonds have resulted in Botswana having higher economic growth rates *than any* *other country in the world over the past thirty years*. Between 1965 and 1996, Botswana's annual growth rate of 9.2 per cent outstripped all of the so-called 'tiger' states of Asia. There are two issues that need further explanation. The first has to do with why the Botswana diamond experience is so different from others, and what lessons this might offer. The second is whether rapid diamond-led economic growth has resulted in meaningful social and economic development.

## Khama's Choice

Much of what has occurred in Botswana can only be understood in terms of the country's unique history — as least unique compared to most other African countries. Paramount in the Botswana phenomenon is the evolution of its political environment and governance. In Botswana, the very lack of known economic assets at independence likely contributed to its political stability and its future economic prosperity.

In 1885, much of the territory of modern Botswana was established as British Bechuanaland, a protectorate rather than a crown colony. The minimalist arrangement suited both the British and the local chiefs. There were none of the rich agricultural lands sought by European settlers elsewhere in Africa. There were few known natural resources worth exploiting. Britain was much more interested in the copper of Zambia, the minerals of what would become Zimbabwe and the whole of South Africa. Consequently, British policies toward Botswana were relatively benign, and there was little interest in, or incentive for, establishing firm control over the economy. The British presence, however, served another purpose, thwarting German advances from the west and Boer expansion from the east, and leaving the area without any externally induced conflict.[12]

In 1962 the Botswana Democratic Party (BDP) came into being, led by Seretse Khama (later Sir Seretse). In 1965 Bechuanaland attained self-government and became the independent Republic of Botswana the following year. Elections have taken place every five years since 1966, elections that are among the most free and fair on the continent. The BDP has won every election.

As it turns out, one of the most enlightened policies of Seretse Khama and the BDP was aimed at the mineral sector. At the time of independence, two issues required attention. First, traditional rights to land, and implicitly the minerals underground, were vested in individual ethnic groupings. If these rights were left unchanged, a chief in whose territory a major mineral discovery happened to lie would have considerable economic and political power, at the expense of the state. In the early 1960s most of the known mineral deposits and the major initial finds were located in the territory of Khama's own Bamangwato ethnic group, forcing Khama to choose between his own people and the nation. Second, some mineral rights had, in the past, been ceded to private companies.

Khama's choice was made clear in the BDP Election Manifesto of 1965:

> "…leaving mineral rights vested in tribal authorities and private companies must necessarily result in uneven growth of the country's economy, as well as deprive the Central Government of an important source of revenue for developing the country. …It will be the policy of the BDP Government to negotiate with all parties concerning the takeover of the country's mineral rights by the Central Government, and subsequently expand the present mining operations and step up prospecting activities throughout the territory."[13]

Khama's choice in vesting mineral rights in the central government would prove to be the key in establishing the authority of the state, and in providing a guaranteed source of government revenue. Rather than allowing inter-regional income differences to generate jealousies as has happened in other countries, the state's share of the mineral wealth could be used for national purposes. In the case of diamonds, this is exactly what occurred.

The government was thus in control when diamonds were discovered. With that discovery, the government next faced the task of devising a minerals taxation policy.

Again, in retrospect, the government proved to have been wise. It recognized that the value of any deposit was subject to considerable uncertainty. In such circumstances, a fixed royalty rate might yield far more than the rent attributable to the deposit, or far too little. Rather than relying solely on a high fixed royalty rate, the government focused on obtaining a significant share of the profits from the mining operation. This was accomplished by requiring, in addition to a modest royalty rate, that government share in the equity of the mining company.

Since the government owned the lands when De Beers discovered diamonds, it was in a good bargaining position. Initially, the government took a 15 per cent stake in the diamond mines, but once De Beers revealed the true scale and value of the diamonds, the government renegotiated the contract. Today, Debswana, is equally and jointly owned. Further, in 1987 the government actually purchased five per cent of the shares of De Beers itself. According to the Managing Director of Debswana, the move was aimed at diversifying the economic base away from the diamond industry. In 2001, the takeover of De Beers by Anglo-American, Debswana and the Oppenheimer family enlarged Botswana's influence in the world diamond market.

The fact that no diamond dealers are licensed in Botswana reduces the illicit diamond trade. This means that anyone found with a rough diamond has automatically broken the law. Between 1998 and 2001, 62 people were arrested in connection with rough diamond theft, although the diamonds involved were worth only $9000.[14] This is considerably less than another estimate, which suggests that losses from the mines may have been as much as $70 million a year, courtesy of criminal syndicates in South Africa — at least until the installation of a new security plant at Jwaneng in 2000.[15] Because of increasingly high levels of technology, rough diamonds are now said to be untouched by human hands and are not even seen between mining and their arrival at the sorting facility in Gaborone.

## Carat and stick

In January 2002, an issue that had been brewing for several years in Botswana became an international news item. Several hundred Basarwa, or San people living in the Central Kalahari Game Reserve were about to evicted from their land by the government. 'The government says it wants to protect the wildlife, and cannot afford to keep track of the Bushmen,' reported the BBC, using an old- fashioned and somewhat derogatory term for the San. 'But many believe that they are motivated by the huge mineral wealth the Kalahari is believed to possess, including diamonds and possibly uranium.' De Beers issued a statement saying that its interests in the area are limited to a 45km$^2$ fenced area in which no families live. 'It is unlikely that any mining will take place in the foreseeable future,' De Beers says. Survival, a London-based NGO with offices not more than two blocks from De Beers' own London headquarters, says 'the Botswana government is trying to drive the "Bushmen" out of the area to make way for tourism and diamond mining. Over a thousand have been coerced into moving out.' By early 2002, the government had closed health clinics in the area and stopped food trucks, and had dismantled the only water pump. At the time of writing, the issue remained unresolved.

*Sources:* De Beers, Survival, BBC and other news sources.

Responsible government, generally good governance, and good management of the diamond industry have played a strong role in preventing Botswana from becoming a transit country for conflict diamonds from Angola and the Congo. On the Transparency International 2001 Corruption Perceptions Index (CPI), Botswana is ranked 26$^{th}$ out of 91 in terms of 'clean' government. It ranked higher than any other country in Africa, all countries in Asia except Taiwan and Singapore, and all countries in South and Central

America, except Chile. It also surpassed many European countries, including Italy, Hungary, Greece, Poland, the Czech Republic and Russia.[16]

## Benefits: Growth versus Development

In 2000, the diamond industry in Botswana employed nearly 6,000 workers, and although this represented slightly less than three per cent of the formal labour force, it is still the largest sector of employment. About 80 per cent of the mineworkers belong to the Botswana Mine Workers' Union (BMWU). Compared with workers in other sectors, diamond workers are the 'labour aristocracy'. Debswana pays a minimum wage of Pula 900 (US$169) a month, compared with the national minimum wage of Pula 475 (US$89) per month. Diamond workers also receive medical benefits (70-80 per cent paid), and 20 per cent of salary contribution to a pension fund. Housing is provided free and is typically not in hostels but in semi-detached houses with electricity, water-borne sewage, in-house water taps and gas. All electricity and water costs are subsidized, and gas is generally free. All wages and other basic conditions of employment are negotiated in the Debswana Negotiating Forum.

Despite their relatively good position, union leaders note that their position has weakened since 1993 when there were between 9,000 and 10,000 miners in the sector. Although the production of rough diamonds has expanded greatly, increasingly sophisticated technology has displaced labour at an even faster rate.

It is not a new argument that rapid rates of growth in GDP and a prosperous government may or may not result in meaningful economic and social development. A growing GDP may be a necessary condition but it is not always sufficient. Given the economic growth rates in Botswana and the tremendous amount of money generated from the diamond industry, one might expect this to be reflected more positively in its social indicators. Botswana, however, ranked 114th out of the 162 countries on the UNDP Human Development Index (HDI) in the year 2000, dropping from 95th place in 1991. It lagged behind Swaziland, Morocco, Namibia, Equatorial Guinea, Gabon, Egypt, South Africa and Cape Verde. Some of this has to do with the rapid spread in HIV/AIDS. More people in Botswana, per capita, are living with HIV/AIDS than in any other country on earth, and this has reduced life expectancy statistics accordingly.[17]

**Table 1. Human Development Indicators in Botswana**

| Indicator | 1991 | Most Recent Yr. |
|---|---|---|
| GNP per capita (US$) | 2,580 | 3,240 (1999) |
| Population (millions) | 1.33 | 1.65 (2000) |
| Poverty rate (% of population) | 59 (1985-6) | 47 (1993-4) |
| Unemployment Rate | 13.9 | 19.6 (1998) |
| Literacy Rate (%) | 54 | 76.4 (1999) |
| Life Expectancy at Birth (yrs) | 65.3 | 41.9 (1999) |
| Infant Mortality Rate (per 1000) | 48 | 46 (1999) |
| Under 5 Mortality Rate (per 1000) | 38 | 59 (1999) |

Sources: Government of Botswana, UNDP Human Development Reports

But a major reason for Botswana's low ranking is the high per centage of the population living below the poverty line, along with the country's highly skewed income distribution. While per capita GNP in 1999 was $3,240, the *Human Development Report* shows that 33 per cent of the population live on less than US$l per day,[18] and the World Bank records 61.4 per cent living on less than $2 a day — fewer than many African countries, but more than in South Africa, Namibia, Côte d'Ivoire, Egypt and Tanzania. Studies by the Government of Botswana are equally revealing. According to a 1997 study of poverty and poverty alleviation in Botswana, 47 per cent of individuals and 38 per cent of households were living in poverty. A higher proportion of female-headed households — 50 per cent — were living in poverty.[19]

The National Development Plans of Botswana have long proclaimed social justice as one of the four planning objectives, along with sustained development, rapid economic growth and economic independence. To the extent that the distribution of income is related to social justice, the effort has not been very successful. One reflection of income distribution the share of national income of different groups in society. In Botswana, the bottom 40 per cent of the population receive 12 per cent of the national income, the middle 40 per cent receive 29 per cent, while the richest 20 per cent of the population receive 59 per cent of the national income. While it is significant that the distribution of income is highly skewed, it is also significant that in a recent 10-year period of rapid expansion in diamond output and revenue, the distribution has barely changed.[20]

One conclusion is that the rapid growth of real per capita GDP since the beginning of the diamond boom has scarcely touched the distribution of income or the poverty levels. The poor may be better off than before, but a small business elite has become far better off.

There is an additional issue. Despite the reserves — approximately 30 years at present production levels — diamonds in Botswana are unlikely to be forever. There has been little successful diversification of the economy, although this is a major emphasis in the government's National Development Plan. At some time in the future, the diamonds will be gone and other sectors of the economy will have to take over. The year 2000 is not atypical, in that there was a relatively high GDP growth rate of 7.7 per cent while at the same time the non-mining sector growth rate decreased from 7.8 per cent in 1999 to 5.7 per cent. This reflected the relatively poor performance of the manufacturing, construction and transport sectors.[21] Agriculture, the economic sector most detached from diamond mining, and already in decline for several years, declined by 8.7 per cent in 2000 over 1999. Presently the agricultural sector only produces 12 per cent of the country's cereals, and the rest are imported.

The Botswana Institute for Development Policy Analysis (BIDPA) argues that sustainable growth of GDP and employment require an expansion of non-traditional exports. 'Non-traditional exports' for BIDPA means goods other than beef products, diamonds and copper-nickel. BIDPA concludes that in 1999, every million Pula of GDP (about $216,000 at the time) that was generated in the mining sector employed approximately one person. Every million Pula of GDP generated in the manufacturing sector employed 22 people. The equivalent figure for the rest of the economy was just under 16.[22]

The Botswana government's recognition of the importance of diversification away from diamonds is reflected in all of its National Development Plans. Over the years, the government has put in place a number of policies and programs to promote private sector development. One such program is the Financial Assistance Policy (FAP), whose fourth evaluation was completed in 2000. The evaluation revealed a high failure rate among FAP-assisted businesses, as well as widespread abuse of the scheme by participants. The evaluation report confirmed that about 75 per cent of small-scale FAP projects had not survived beyond the period of assistance. Corresponding failure rates were 45 per cent failure for medium-scale and 35 per cent failure rate for large-scale projects.[23]

The *Economist Intelligence Unit* (EIU) reported that because the diamond industry performed poorly in 2001, Botswana's rate of real GDP growth was expected to fall from 4.3 per cent in 2001/02 to 4.1 per cent in 2002/03. The EIU stated that, 'Quotas on purchases of rough diamonds imposed in mid-2001 by the De Beers DTC will limit exports of diamonds in 2002 to 88 per cent of capacity. However, production levels will be unchanged and unsold stones will be stockpiled, so there will be no impact on GDP growth'.[24] The 2001 experience makes a point about the vulnerability of the diamond-dependent economy and perhaps more importantly about Botswana's dependence on the vagaries of the international market, and the marketing policies of De Beers. Unlike many African countries, however, Botswana has large, diamond-generated foreign exchange reserves. These can act as an economic shock absorber when required.

# Namibia — 'On Diamonds We Build'[25]

The area that comprises Namibia today became a German colony in 1884. During World War I, Namibia was occupied by South Africa and was later declared a mandated territory under the League of Nations, administered by South Africa on behalf of Britain. Subsequently, the United Nations refused to place the territory under trusteeship, and demanded South Africa's withdrawal. The Ovamboland People's Congress emerged in the 1950s, later becoming the South West Africa People's Organization (SWAPO), and eventually turning to armed struggle against South African occupation. The territory won independence in 1990. SWAPO leader Sam Nujoma became President of Namibia, following a UN-supervised election.


Diamonds were originally discovered in Namibia — then German South West Africa (SWA) — in 1908, on property owned by a German company, the Deutsche Koloniale Gesselschaft (DKG). Within a year practically all the known diamond fields were being mined by small syndicates or partnerships, most holding a 50-year concession from DKG. The German government, in agreement with the DKG, decreed a desolate, under-populated coastal strip of land extending some 350 km north of the Orange River as a restricted area. Thus the *Sperrgebiet* or 'Forbidden Territory' was formed. To this day, trespassers into the *Sperrgebiet* face prison sentences or heavy fines, with even heavier penalties if they are in possession of rough diamonds.

From an early stage, De Beers took an active interest in the diamond fields of German SWA. In 1914 Ernest Oppenheimer, then a 34 year-old merchant, visited German SWA at the request of De Beers to investigate diamond possibilities. In his report, Oppenheimer informed the chairman of De Beers that control of the whole of the diamond fields of German SWA had been reduced to two major companies. Following the end of the German administration of German SWA after World War I, an offshoot of De Beers — Consolidated Diamonds Mines of South West Africa (CDM) — was formed, and by 1919 had taken over all of the companies. CDM secured exclusive rights for 50 years, later extended over the entire Sperrgebiet, known as Diamond Area No.1, north of the Orange River. This Diamond Area 1, in addition to the more recent ocean mining, remains the most heavily mined area in Namibia. In effect, by the early 1920s, De Beers had control over all the diamond areas and companies of Namibia.

The *Sperrgebiet* was virtually a private preserve of De Beers' CDM, and after the independence of Namibia in 1990, it became a private preserve of the Namdeb Diamond Corporation Pty. Through an agreement between the Namibian Government and Namdeb (see below), access to the *Sperrgebiet* will remain restricted as long as present diamond mining operations continue, and until the possibility of further diamond reserves has been ruled out.[26]

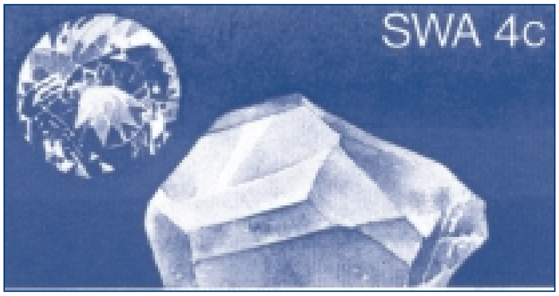
The modern history of the area has been dictated by exploitation: the guano trade in the 1840s, whaling in the late 1800s, commercial fishing from the mid 1900s, and diamond mining since 1908. Virtually all of the diamonds in Namibia come from the alluvial fields along the Sperrgebiet beaches or offshore of the *Sperrgebiet*. The development of Luderitz and

Oranjemund, the only two towns within the *Sperrgebiet*, has been, and still is, largely dependent on the diamond and fishing industries. Oranjemund, in fact, became a classic company town, virtually owned by De Beers. It is now a Namdeb company town.[27] Oranjemund is today a completely closed town, and visitors require security clearance and authorization from Namdeb.

In 1994, four years after Namibian independence, the Government of Namibia and De Beers formed Namdeb, a private Namibian diamond mining company owned equally by the Government of Namibia and De Beers Centenary AG. In 2000 another significant restructuring took place, with the formation of De Beers Marine Namibia (DBMN), an exclusive contractor to Namdeb replacing De Beers Marine. Namdeb has a 30 per cent stake in DBMN, and DBMN will conduct all ocean diamond mining on behalf of Namdeb.

Presently Namdeb is the country's largest taxpayer and foreign exchange generator, and its second largest employer. By value, Namibia was the fifth largest producer of diamonds in 2000. But the mining sector contribution to Namibia's GDP has shrunk considerably from the mid-1980s, when it exceeded 28 per cent. Economic diversification means that it now contributes between 12 and 14 per cent. Within the mining sector, diamonds retain their dominance among exports. In 1998 for example, minerals made up about 36 per cent of Namibia's US$1.2 billion worth of exports, with diamonds contributing two thirds of this. In 2000, Namibia mined 1.5 million carats of rough diamonds. Namdeb dominates the industry, with activities spread over six licensed areas, including extensive offshore deposits. In 2000 Namdeb produced about 80 per cent of the country's diamond output, which amounted to slightly over 1.3 million carats, sold exclusively through De Beers DTC, for US$409 million.

Namibian Minerals Corporation (Namco) was a distant second with production of 220,000 carats. Namco was chartered in Canada in 1967. It is listed on the Toronto Stock Exchange and NASDAQ, and is headquartered in the United Kingdom.




*Pre-independence Namibian Stamp*

Namco planned to produce a much larger volume of ocean diamonds in 2001 but a serious accident with one of its mining ships seriously disrupted production and almost drove the company into bankruptcy. The Namibian government bought into Namco, purchasing US$2.6 million worth of shares. But the company's saviour was the Tel Aviv-based L.L. Mining Corporation, headed by financier and diamantaire Lev Leviev. In 2001, L.L. Mining purchased US$18 million worth of shares giving it control over Namco. Perhaps more importantly, the Leviev Group was able to negotiate a 15-year exclusive marketing contract with Namco, generating new competition for De Beers. With 18,000 square kilometers of ocean concessions off the coasts of Namibia and South Africa, Namco could become a serious competitor to Namdeb in the future.

Companies are subject to a diamond mining tax and a diamond profits tax of 55 per cent, a diamond royalty at 10 per cent of revenue — irrespective of the profit level — and a non-resident shareholders' tax at 10 per cent of dividends. However, like Botswana, there is a confidential agreement between De Beers and the government of Namibia which spells out the specific share each partner receives. In 2000, Namdeb paid the government US$110 million in direct company taxes and royalties.

In addition to taxes, employment and capital investment, Namdeb operates a Social Fund which supports educational and welfare initiatives. In 2000, approximately US$172,000 was donated to some 51 projects in the fields of education, health and welfare, the environment and community development.

Approximately 16 per cent of the fund allocations in 2000 went to small business development projects. Twelve per cent of the fund was allocated to education projects, including the San Girl Child Education Fund which funds accommodation, school fees, tuition, uniforms and incidental expenses for girls from the marginalized Khoi San community.[28]

## Value Added

Six licenses have been issued for diamond manufacturing companies, but at the time of writing there was only one cutting operation in Namibia. NamGem Diamond Manufacturing Company began operations in 2000, with the first cutting license issued under the new Diamond Act. Another plant was due to open in 2002. NamGem, a wholly-owned subsidiary of Namdeb (i.e. De Beers and the Namibian government), is a De Beers sightholder,[29] which means that all of its rough stones come from De Beers' Diamond Trading Company in London. In its first year of operations, sales amounted to approximately US$4 million. In 2000, 25,000 stones were cut and polished at an average rate of 150 stones per day, and it was planned that production would soon double.

The plant was purposely placed in the rural town of Okahandja, which had a 78 per cent unemployment rate. When positions for the plant were first advertised in 2000, there were 5,000 applications. The majority of the cutters are grade 12 graduates, and they average 25 years of age — 60 per cent female and 40 per cent male. For most, it is their first permanent employment. All staff are trained at the plant, and the company has reached the stage where new staff can now be trained by those first hired in 2000. All of the cutters are Namibian. At the end of 2001 there were 70 workers, but long-term plans envisage an expansion to 500. The plant has state-of-the-art equipment, and the quality of the finished stones is high. A small portion of the polished stones are sold locally, but by far the majority are sold abroad. The plant is being subsidized by Namdeb, and it is anticipated that it will take seven years to reach a breakeven point.

## Regulatory Issues

The Minerals (Prospecting and Mining) Act of 1992 vests the ownership of minerals in the state, and provides for, *inter alia*, the issuing of mineral licenses. It spells out the rights and obligations of license holders, the powers of the Mining Commissioner and the Minister of Mines and Energy, details on the negotiation of mineral agreements, the royalties payable on unprocessed minerals and license fees. It also sets out monitoring and enforcement mechanisms. The Act also stipulates conditions for mining claims, primarily for the small-scale miner or prospector, or wholly Namibian-owned companies that hold non-exclusive prospecting licenses or, in exceptional circumstances, exclusive prospecting licenses.

A new Diamond Act became effective in 2000. The Act provides for the establishment of a Diamond Board and spells out its objectives, powers, duties and functions. The Act also provides for control measures in respect of the possession, purchase and sale, as well as the processing and the import and export of diamonds. Much of the Namibia Diamond Act has been patterned after the Botswana Diamond Act. The new Act provides for more stringent control measures around the possession, purchase and sale of rough diamonds, as well as the processing, import and export of diamonds. Properly implemented and interpreted, the Act should provide an enabling framework to guard against the trade in illicit and conflict stones. The Act further opens the industry to new players, and six new licenses for cutting and polishing, and five new dealer licenses were granted soon after it came into affect.

The Diamond Act provides the legal and regulatory framework for dealing with illicit and conflict diamonds, and the Protected Resources Unit (PRU) — a special unit of the Namibian Police — enforces it. While it is not possible here to describe or quantify the trade in illicit and conflict diamonds, it is probably significant, not least because of a long shared border with Angola.[30] Namibia is used as a transit point for rough diamonds moving out of both Angola and the Democratic Republic of the Congo (DRC).

The PRU estimates that 70 to 80 per cent of the trade in illicit and conflict diamonds is from the DRC and Angola, and the remainder are illicit diamonds from within Namibia. International criminal syndicates are involved in this illegal trade, but there are also large numbers of Namibians involved. While the Diamond Act provides the framework and provisions for stopping the illicit and conflict trade, enforcement is not as effective as it should be. The PRU has provision for an investigative staff of 72, but at the end of 2001, only 31 were in place.[31] Part of the reason for the shortage is that it is a dangerous and sometimes lethal vocation; several PRU officers have been killed in the line of duty.

## Labour

Diamond mining in the pre-independence years led to the institutionalization of a contract labour system, and the creation of cheap and inhospitable compound accommodation for black miners, similar to what prevailed in South Africa. The South West African Native Labour Association was established to recruit low-wage labourers, mainly from the north of the country in Ovamboland, to work in the southern mines. In fact, the contract system developed the so-called homelands into a kind of slave market. The present labour setup evolved from this contract system. Ovambo men could only leave their designated 'homeland' in the north for another part of the country if they had a contract. The contract took the form of an agreement between an individual and labour-recruiting organizations that belonged to the mining companies, and that had the support of the colonial state. Individuals taking a contract had no say in its terms and conditions. Miners christened the system 'the *draad*', meaning fence or prison. Workers could not change jobs in pursuit of better wages or conditions. If they left before the expiry of the contract, they were in breach of Master and Servant Pass Laws and could be jailed or forcibly returned to their employer. It was virtually impossible to challenge the contract labour system or the treatment of workers, because De Beers ruled the company towns, with the support of the colonial regime. This system of contract labour, hostels and general labour abuse was a feature of mineworkers' lives for several decades of the 20th century.[32]

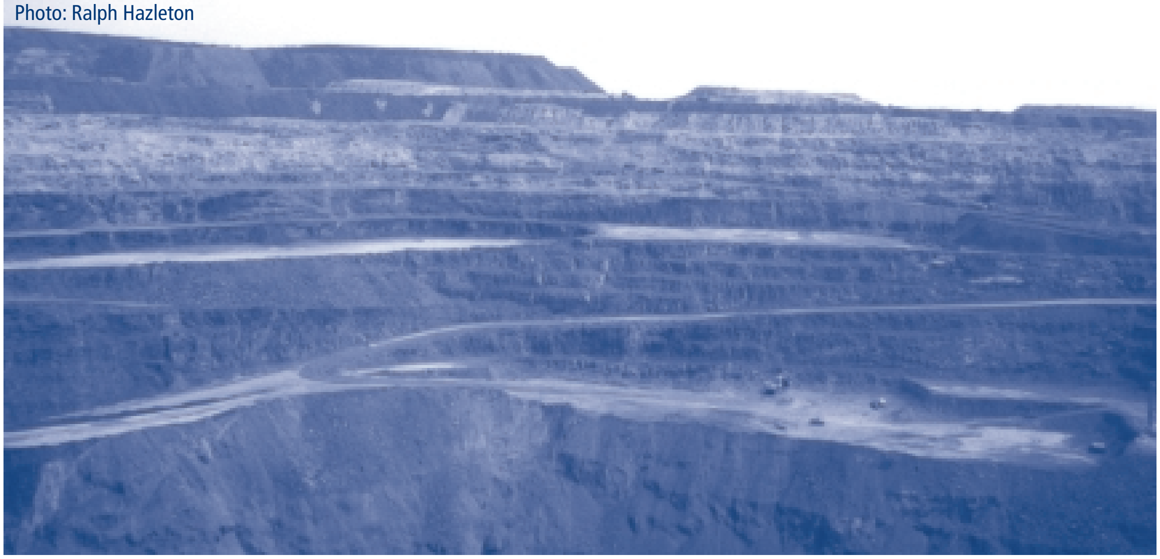
The Mineworkers Union of Namibia (MUN) was launched in 1986, but the attitude of De Beers' Consolidated Diamond Mines (CDM) towards organized labour remained hostile until shortly before independence in 1990. In the early days of SWAPO's 23-year armed struggle for independence, trade unions were regarded as SWAPO fronts. With a SWAPO government in power from 1990, however, De Beers became more accommodating. Still, the main battle of the MUN, even after independence, was the contract labour system. The union also fought against poor wages for black workers and job reservations for whites, which were seen as ongoing racial discrimination. The real breakthrough came shortly before independence in 1988, when the MUN signed a recognition agreement with CDM, providing for some aspects of collective bargaining and employment relationships. Under the agreement, CDM recognized the MUN as the collective bargaining representative of its workers, and the company also undertook not to victimize, intimidate or unlawfully interfere with MUN activities, its officials and members.

Today the MUN has recognition agreements with all the mining companies in Namibia. Agreements typically cover wage negotiation procedures, job evaluation, appointment and remuneration of full-time shop stewards and safety representatives. In Namdeb, the union represents about 80 per cent of the 3,024 diamond employees. A recent and rather unique development is the creation of the Mining Cooperation Council (MCC). The MCC is a joint initiative between the Chamber of Mines and the MUN, with support from government. The primary purpose of the body is to ensure the continued sustainability of the mining industry in Namibia.[33]

A reason for concern today is a massive reduction in the number of miners over the past 20 years. In 1981 there were approximately 20,000 active miners in the country, and by 2000 the number had dwindled to approximately 6,000, of which 3,024 were employed by Namdeb.[34] Two forces will further reduce the number of miners. First, Namdeb plans to scale down its labour-intensive onshore operations over the next 25 years, as reserves are depleted. And secondly, capital-intensive offshore mining will expand. The economic and social impact of this shift means more than just higher levels of unemployment. Northern Namibia is already in a precarious state with 35 per cent unemployment, and these changes spell economic and social calamity. Because one miner may support as many as 20 other people in the north, projected layoffs could affect 40,000 to 50,000 people.

While diamonds play an important role in the Namibian economy, they are not nearly as important as in Botswana. Namibia has a diversified economy with viable manufacturing, agriculture and business service sectors. This means that both the formal and informal non-diamond sectors represent a higher proportion of income earners than in Botswana. This helps to explain why Namibia, with an annual per capita GNP about half that of Botswana, and with relatively stagnant economic growth rates, actually ranks slightly above Botswana on UNDP's Human Development Index — at 111$^{th}$ compared to Botswana's 114$^{th}$. At the same time, the per centage of Namibians living below the poverty line is slightly higher than in Botswana. While the figure for Botswana is 33.3 per cent, in Namibia it is 34.9 per cent.[35] One of the legacies of the South African domination of Namibia and the apartheid era is that income distribution is one of the most unequal in the world. Based on the 1994 population estimate of 1.4 million, total expenditures of the richest 7,000 people (0.5 per cent of the population) equal the total expenditures of the poorest 800,000 people (57 per cent of the population).[36]

Photo: Ralph Hazleton



*Jwaneng — The Most Valuable Diamond Mine in the World*

# South Africa

The Union of South Africa was formed in 1910, following British victory in the Anglo-Boer wars of 1899-1902. In 1961, the Afrikaner-led National Party, in power since 1948, withdrew South Africa from the British Commonwealth. The National Party built up the legal and political framework for *apartheid*, which marginalized black South Africans by excluding them from participation in the formal political and economic systems.

South Africa's first non-racial elections were held in 1994, shortly after the collapse of apartheid. Nelson Mandela was elected President, at the head of a multi-party Government of National Unity. Mandela's policies of reconciliation laid the foundation for a new non-racial and more equal South Africa. In 1999, Thabo Mbeki became South Africa's second democratically elected President. Despite the present non-racial government, the vestiges of the apartheid regime still shape much of the economic and social character of the country.

South Africa's abundant mineral and energy resources form the core of the country's economic activity, and mining exports are led by gold and diamonds. South Africa's annual per capita income is about $3,170, placing it among middle-income countries, but its income disparities are among the most extreme in the world. Thirteen per cent of the population (about 5.4 million people) live in 'first world' conditions. At the other extreme, 53 per cent (about 22 million people), live in 'third world' conditions. In this group, half have a primary school education, only a quarter of the households have electricity and running water, and over a third of the children suffer from chronic malnutrition. Life expectancy declined by more than 12 per cent between 1990 and 2001 (a result, no doubt of HIV/AIDS), although infant mortality rates improved. Reducing inequality and poverty, and tackling unemployment — one of the highest rates in the world — are the key challenges faced by the post-apartheid government.[37]


After Botswana and Russia, South Africa is the third largest diamond producer in the world, by value. In 2000 there were 74 official diamond production licenses in South Africa, 52 of which actually produced diamonds. South Africa has the unique characteristic of mining diamonds from all three possible sources: kimberlite, alluvial and marine, however the kimberlite pipes produce more than 90 per cent of the total. Only 0.7 per cent of the diamonds come from the ocean, and alluvial fields generate the remaining 9.2 per cent.

*Official* rough diamond production in 2000 amounted to 10.78 million carats. These statistics do not include output from small-scale, alluvial diamond diggers operating in the Northern Cape, North-West and Free State Provinces. There are more than 1,500 such diggers licensed with the government. The Minerals Bureau estimates that production from these diggers and other small-scale producers who do not report statistics may have totaled another 400,000 carats, for an unofficial total national output of 11.2 million carats.[38]

Nearly half of South Africa's rough diamond output in 2000 came from one mine, the De Beers-owned Venetia mine located in the Northern Province. Mines owned (and co-owned) by De Beers accounted for 95.4 per cent, or 10.3 million carats of South Africa's total officially recorded production.[39] In 2001 the most significant corporate development was a $19 billion deal that saw Anglo-American, the Oppenheimer Family and Debswana buy out De Beers, taking the company private and delisting it from stock markets around the world.

Although De Beers is the major player in the industry, there are others. The Trans Hex Group is the second largest diamond miner in the country, producing 130,517 carats in 2001. Rex Diamonds, registered on a Canadian stock exchange, produced 23,000 carats. Alexcor, a state-owned mine, reported output of 139,850 carats in 2000, but it is likely that this figure contains stockpile sales, as the mine had been plagued with problems, and the government has been looking for a private company to manage the mine.

A number of black economic empowerment consortia have emerged since the beginning of majority rule in 1994. These are groups of black businesses and trade unions formed to acquire industrial, mining and media interests from white owners. Most significant among these is Mvelaphanda Holdings (Pty.) Ltd., led by former ANC politician Tokyo Sexwale.[40] Mvelaphanda Diamonds (Pty.) Ltd. has obtained a major shareholding in Trans Hex, and De Beers has sold a portion of its interests in the Marsfontein mine to a black economic empowerment consortium composed of New Diamond Corporation, Domba Investments and Vuwani Projects.

In light of more than 100 years of publicity surrounding South African diamonds, it is a surprise to learn how small the industry is in relation to the economy as a whole. The industry's contribution to GDP represents only 0.88 per cent of the total, and its 15,000 miners and 2,000 workers in the polishing industry represent only 0.10 per cent of the formal labour force. The industry contributes very little to government coffers — less than one per cent to state tax revenue. Because of the high value of diamonds, however, the industry's contribution to international exports is important. Diamonds make up eight per cent of the total value of South Africa's exports (see Table 4, below).

# Value Added

Increased 'beneficiation' or downstream value added by the diamond industry has become an important issue for the South African government in recent years. In 2000, a major study was undertaken, aiming to identify new opportunities in the jewelry sector for improved foreign exchange earning and job creation, and to make recommendations for the development of a world-class export capability. *The South African Jewelry Cluster Study,*[41] released in June 2001, was positive about the future of the diamond industry. It recommended that South Africa should:

- migrate towards increased cutting and polishing activities to generate further revenue from rough diamonds;
- concentrate its efforts in the mid-range of the cutting and polishing diamonds spectrum;
- create (expand) a diamond exchange (and include other gemstones) to take full advantage of the natural abundance of raw materials in the region.

As noted above, the South African government receives little direct benefit from the diamond industry. Combined fiscal revenue from income tax, lease and ownership fees, and a diamond export duty amounted to an annual average of 5.8 per cent of total diamond sales over the past 17 years.[42] There are, however, provisions in the current Diamond Act which theoretically should generate more revenue for the state. One is an export duty of 15 per cent of the fair market value, levied on unpolished diamond exports. Amazingly, no revenue has been generated by this export duty since 1989. The Diamond Act states that if locally-mined rough diamonds are offered first to local industry for cutting and polishing, companies will be allowed duty free exportation. The reality, therefore, is that no company pays the export duty. Trans Hex, for example, sells all its diamonds on the Kimberley Exchange. De Beers has an agreement with the Diamond Board stating they are not required to pay the export duty, if after exporting diamonds to the DTC in London, they in turn sell them back to sightholders in South Africa.[43]

The reality is that no one knows if South African diamonds come back to the country, any more than if Canadian diamonds return to Canada from Belgium after sorting.[44] Without an audit trail and independent oversight, diamonds could well be mixed at various stages of their journey. In any case, the system erodes the potential tax base of the government, and it has been severely criticized by South African cutters and polishers, who argue that they do not have sufficient diamonds to support and expand the industry. Trade union representatives of the cutting and polishing industry also argue that some sightholders in South Africa may be re-exporting diamonds to their cutting and polishing plants in other countries, something strictly prohibited under South African law.[45]

There are presently 436 diamond cutting licensees in South Africa, employing approximately 2,000 workers. Some plants are small cottage industries with two or three employees, while others are large enterprises. There are presently 19 De Beers's sightholders in South Africa, most with majority foreign ownership. Non-sightholders comprise a large number of small cutting firms that rely on non-De Beers mines, independent 'diggers', rough diamond dealers, imports and the South Africa Diamond Bourse for their supply of rough diamonds.[46]

## The De Beers Fund

De Beers operates a fund which provides support to a variety of community-based projects in South Africa. The De Beers Fund is a non-profit charitable organization. In 2000, the Fund made allocations of US$2.9 million to more than 600 initiatives. Projects in the Northern Cape and Northern Province, regions traditionally associated with De Beers operations, received almost half of the funding. Forty-six percent of the grants were to educational initiatives, primarily in support for pre- schools, building classrooms, curriculum support and adult education. Approximately US$1.5 million of the total went to tourism development, crime and malaria prevention, and to capacity development projects. In addition, the Fund supported hundreds of small community development projects ranging from juice and brick-making projects to community vegetable gardens and drama groups.

*Source*: De Beers *2000 Annual Report* and author's interview with De Beers Fund Manager, November 2001

## Labour

The employment generated by South Africa's diamond mines is small compared with other mining industries. There are presently 555,700 miners employed in South Africa, but only 2.7 per cent (15,000) are diamond miners. As a per centage of the total South African formal labour force, diamond miners represent 0.10 per cent (see Table 4, below). As in Namibia and Botswana, the trend is to more sophisticated machinery, requiring fewer and fewer diamond miners, resulting in a decrease of 25 per cent in less than a decade. Working conditions vary widely across the 52 active mines. Diamond mining is generally less dangerous and toxic than other forms of mining, and safety is not a major issue. Diamond mines are rarely deep, although there are currently proposals to extend some to a level of 1,000 metres. Other conditions, however, continue to reflect the apartheid legacy. Many mineworkers still live in single-sex hostels. In all of the Northern Cape mines, four-to-a-room hostels remain the norm. There have been company proposals to convert these to family units, but they remain proposals.

The National Union of Mineworkers (NUM) is the major organizing force in the sector, although there are some smaller, white-dominated unions as well. Within the NUM, diamond miners represent a very small sector, with 6,388 paid-up members. Even though the diamond sector is small, the union has succeeded in establishing a number of national collective bargaining structures. The key issues are wages, hours of work, and transport. Despite the relatively low wages, strikes amongst diamond miners are comparatively infrequent. The last major strike was at the state-owned Alexcor mine, where workers walked out for a few days in 2001 over wage demands. Diamond workers' wages are just below the industry median. In 1999, the industry average minimum was R1,848 (US $244) per month, while the diamond workers agreement was set at R1,605 (US $212).

The mining unions are currently fighting sub-contracting and outsourcing to non-unionized firms. An equally important union issue is the increasing trend to contract labour instead of permanent workers. At De Beers' Finsch mine, for example, union leaders say that of 2,000 employees, about 700 are contract workers. In 1992, all 2,000 were permanent staff. In addition, nearly half of the contract workers now come from Mozambique and Lesotho. Contract workers do not receive paid leave, they frequently work 12 to 14 hours a day, they must seek medical aid on their own time, and in general they work outside the normal health and safety standards of the mines.

## Regulatory Issues

Shortly after the collapse of the apartheid regime and the elections of 1994, the government began to focus on the diamond industry. The last inquiry had been conducted in 1970 and the new ANC government had significantly different priorities from its predecessor. In 1995, a Commission of Inquiry was appointed to investigate and report on all aspects of the South African diamond industry. The Inquiry was extensive, and the Commission received hundreds of written and verbal submissions. The result was a draft Minerals Development Bill, tabled in Parliament in late 2001, and the draft of a new Diamond Act, which was expected to be promulgated late in 2002.[47]

The central issue is the ownership of mineral rights. Under the Minerals Act of 1991, there is a provision for both private and public ownership of mineral rights. The new Act would transfer all mineral rights to the state. The government is clear that the Bill '…seeks to place the country's mineral wealth under the custodianship of the State…'[48] The Bill is a social and ethical code, as well as a technical mining Bill. It aims to correct the mining exploitation of the apartheid regime and to right some wrongs. Some of its more important objectives are to:

- recognize the right of the State to exercise sovereignty over all the mineral resources within the Republic;
- give effect to the principle of the national government's custodianship of the nation's mineral resources;
- promote equitable access of the nation's mineral resources to all the people of South Africa;
- expand opportunities for historically disadvantaged persons to enter the mining and minerals industry and to benefit from the exploitation of the nation's mineral resources;
- promote employment and advance the social and economic welfare of all South Africans;
- ensure that holders of mining rights contribute towards the socio-economic development of the areas in which they operate;
- transfer the regulatory functions to the Department of Minerals and Energy and the South African Revenue Services (away from the present Diamond Board);
- establish compulsory agreements with exporters of unpolished diamonds to ensure an adequate supply to local cutters; and
- establish new and strict import control measures to address the issue of conflict diamonds.[49]

The Bill is ambitious and contentious, and if passed as it stands, it will substantially change the face of South

## The Kimberley Process

The 'Kimberley Process' was initiated by the Government of South Africa in May 2000, in an effort to grapple with the problem of conflict diamonds. Concerned about how diamond-fueled wars in Angola, Sierra Leone and the Democratic Republic of the Congo might affect the legitimate trade in other producing countries, more than 35 countries have been meeting on a regular basis to develop an international certification system for rough diamonds. In November 2001, agreement was reached on the principles and many of the details in a system that is expected to begin during 2002. Key provisions on effective and credible monitoring have yet to be agreed, however. NGOs, including Partnership Africa Canada and Network Movement for Justice and Development, have been full participants in the process, along with representatives of the diamond industry.

African mining. Government argues that it will provide more opportunities for small-scale mine owners, especially those from disadvantaged communities. The stated aim is to reduce monopoly control in mining, and to bring South Africa in line with global trends. It would allow government to enforce a 'use it or lose it' principle on diamond producers. Speculative land holding would no longer be possible. In addition, mining companies would have rights for a limited period of time. This could vary from five to 25 years depending on the specific conditions of the holding. And all tax revenues from mineral rights would go to the Government of South Africa. At present some traditional authorities, such as the Bafokeng in North West Province, have earned considerable royalties from mining operations located in their areas. The Bill has motivated De Beers and other companies to move toward partnerships with black mining companies and to pursue black economic empowerment policies.

## Security Issues

The trade in illicit and conflict diamonds in South Africa is a complex issue that goes beyond the scope of this paper. There is emerging evidence, however, that there is an extensive illicit trade in domestic rough diamonds, and in conflict diamonds from Angola and the Congo. A United Nations Panel of Experts, reporting on the exploitation of natural resources in the Congo, concluded that:

> The Panel has credible information indicating that various actors, some based in South Africa and others outside, are using the territories and facilities of South Africa to conduct illicit commercial activities involving the natural resources of the Democratic Republic of the Congo. For example, the Panel has evidence that coltan, diamonds, and gold from the DRC are being smuggled into South Africa, either through its porous northern border or through its 4,000 unmonitored airstrips.[50]

A second UN Expert Panel — on Angola — found evidence of significant support provided to UNITA rebels by individuals operating from South Africa, many of them South African nationals. The support includes both non-military and military equipment, as well as the smuggling of conflict diamonds from Angola to South Africa.[51]

The South African diamond industry devotes significant resources to security, in pursuit of a 'protection at source' philosophy. The main players, particularly De Beers, have long-established, in-house security organizations, and in recent years a much closer relationship has evolved between the industry and the South African Police Service (SAPS).

The Diamond and Gold Branch (a section of the SAPS) operates what some consider a draconian system of entrapment of illicit diamond traders. However, the Branch, and SAPS in general, depend entirely on individual informers, and the police state that the 'traps' are consistent with the Criminal Procedure Second Amendment Act of 1996. After information is received and the necessary procedure has been followed, a police action (usually a 'sting' operation) is set up against the persons concerned. Any diamonds involved are forfeited to the state and are frequently offered to smaller cutting and polishing factories. In 1999, 328 persons were arrested for illegal possession or theft of rough diamonds and 2,826 carats of diamonds were forfeited. In 2000, 355 persons where arrested and 12,457 carats of diamonds were confiscated.[52]

The South African Government is committed to combating conflict and illicit diamonds. South Africa initiated the Kimberley Process, and the new Diamond Act will have tighter provisions to combat illicit and conflict diamonds. The South African Diamond Board has set up a special office in Kimberley to monitor conflict diamonds, amid speculation that the diamond town has become a key laundering point for illicit gems. The new office will be staffed by inspectors who will work with the police and who will have powers to examine all diamonds. The Minister of Minerals and Energy has stated that the new Minerals Development Bill will introduce tougher background checks on those applying for exploration licenses and mining permits. 'They will not obtain such licenses or permits if they are involved in the "blood" diamond trade.' The new Precious Metals Act will also contain provisions dealing with the illegal trade.[54]

# Conclusions

A recent report, written for Oxfam America by political scientist Michael Ross, examines the correlation between poverty and the oil, gas and mineral extraction industries in developing countries.[55] The report finds that oil and mineral dependence are strongly associated with bad conditions for the poor. Overall living standards are exceptionally low, and lower than they should be, given per capita income levels. Higher standards of mineral dependence are strongly correlated with higher poverty rates and income inequality. Oil and mineral-dependent states tend also to suffer from unusually high rates of corruption, authoritarian government, military spending and government ineffectiveness and civil war.

These findings certainly pertain to the states afflicted by today's diamond wars, but do they hold in Southern Africa? Are diamond industry claims about 'prosperity diamonds' well founded? To what extent do diamonds contribute to development in South Africa, Namibia and Botswana? The answer is important, because concern about possible economic damage to these countries has caused NGOs campaigning against conflict diamonds to be less aggressive where consumers are concerned, than might otherwise have been the case.

The answer is ambiguous. Diamonds are extremely important to the economy of Botswana; less so to Namibia, and much less so to South Africa. Because the population of Botswana is small and government revenue — mainly from diamonds — is high, some statistics there take on different proportions. For example, Botswana spends less as a per centage of its GDP on health care than Senegal. But because the GDP-population ratios of the two countries are so different, the actual per capita expenditure in Botswana is more than four times higher than in Senegal. That said, overall development statistics tell a mixed story.

While most health-related statistics in the region are better than elsewhere on the continent, adult literacy is not appreciably better, and the overall poverty rates in Botswana and Namibia are actually higher than in many other African countries. The only place where diamonds might be considered a significant plus or minus factor in development statistics is Botswana, where the diamond contribution to GDP, total exports and tax revenue is high (see Table 4, below). Diamonds have allowed Botswana to build its infrastructure and to provide better facilities for its people. Poverty declined in Botswana by 12 per cent between 1985 and 1994. But diamonds have so far led to 'prosperity' for a limited number. Over 60 per cent of the population still lives on less than $2 a day, a figure that looks odd compared with the $3.57 per capita in diamonds that leaves the country, on average, every day. Another way of looking at it is to compare the country's 1999 GNP per capita of $3,240 with the fact that more than 60 per cent of the people live on less than $730 a year.

Each year, UNDP publishes a 'Human Development Index' (HDI) which ranks human well-being by combining economic data with information on life expectancy, health and education. The data and the data bases have changed over the years, but it is informative to see what has happened to the ranking of Botswana, South Africa and Namibia.

While the three countries suffering most from the problem of conflict diamonds have remained at or near the bottom of the list, Botswana, Namibia and South Africa have all slipped appreciably.

**Table 2. Selected Development Statistics for Six African Countries**

| | GDP per capita (US$) | Adult Illiteracy (%) | % with Access to Improved Water | % with access to essential drugs | Infant Mortality Rate (per 1000 live births) | % of Population Living on Less than $1/day |
|---|---|---|---|---|---|---|
| Botswana | 6,872 | 23.6 | n.a. | 90 | 46 | 33.3 |
| Namibia | 5,468 | 18.6 | 77 | 80 | 56 | 34.9 |
| South Africa | 8,908 | 21.7 | 86 | 80 | 54 | 11.5 |
| Kenya | 1,022 | 19.5 | 49 | 36 | 76 | 26.5 |
| Cameroon | 1,573 | 25.2 | 66 | 66 | 95 | n.a. |
| Senegal | 1,419 | 63.6 | 78 | 66 | 68 | 26.3 |

Source: UNDP *Human Development Report 2001*, OUP, New York, 2001. Most statistics are for 1999

With the exception of Botswana, diamonds contribute little to total government revenue in the region, and their contribution to employment in all three countries is small and declining, as shown in Table 4. This means that diamonds cannot be identified very directly either with good development or its absence.

The characteristics of the diamond industry and its socio-economic role in the societies of Botswana, Namibia and South Africa have been defined by each country's unique history. The fact that South Africa was colonized from within and did not become 'independent' until 1994 helps to explain the tax structure, why there is such a dearth of black-owned mining enterprises, and why black communities have received little benefit from diamond mining. The history helps explain South Africa's proposed new Diamond Act and the Minerals Development Act. Present mining legislation is an anachronism, tied to a past which favoured a minority, exploited the majority and resulted in policies that were the antithesis of what is understood by the term 'social and economic development'. The proposed mining legislation is not just a regulatory mechanism, it is a social document, intended to transform an industry. Time will tell whether it succeeds.

The diamond industry in Namibia is also tied to history. Nothing demonstrates this more clearly than the fact that it took until 2000 to create a Diamond Act that was appropriately detached from the industry. The opening of the first cutting and polishing plant in 2000 was not just the development of a new manufacturing initiative, it represented a break with a past that had been based only on the extraction of resources and the adding of value elsewhere. Until 1994, Namibia was at the receiving end of classic, 19th century capitalism.

De Beers and Anglo-American have to accept much of the responsibility for the lack of meaningful social and economic development in both South Africa and Namibia. They helped to perfect the contract labour system, participated in holding back social development, subjected labour to inhumane living conditions

**Table 3. Changes in HDI Ranking in Selected Countries**

| | 1991 Rank (out of 160) | 2001 Rank (out of 162) |
|---|---|---|
| Botswana | 95 | 114 |
| Namibia | 105 | 111 |
| South Africa | 57 | 94 |
| Angola | 147 | 146 |
| Democratic Republic of the Congo | 124 | 142 |
| Sierra Leone | 160 | 162 |

Source: *UNDP Human Development Reports 1991 and 2001*, OUP, New York, 1991 and 2001

and undoubtedly participated in the purchase of conflict diamonds from Angola and elsewhere until the late 1990s.[56] The Oppenheimer family were consistent critics of apartheid, and Harry Oppenheimer sat as an opposition Member of the South African Parliament for many years. But De Beers, if nothing else, has historically been very successful in its pragmatism. Any company that could flourish in its dealings with the apartheid regimes of South Africa and Namibia, and then with the ANC and SWAPO, certainly wins a prize for agility. De Beers worked successfully with the Portuguese colonists and then with the Marxist MPLA of Angola. And it managed profitable dealings with the Soviet Union at the very height of the Cold War.

Botswana has a different history altogether. It benefitted from its non-traditional colonial experience, its apparent lack of resources, and its wise post-independence political leadership. Botswana did not have to fight for independence, nor did it suffer from internal strife. It had the space and the stability required to develop its own governmental systems, and its own economic policies. When De Beers arrived, Botswana was in a position to maximize the benefits from what had already become a state resource.

Despite the importance of history to the diamond industry of the region, history is past. What lessons might the diamond experience hold for the future, or for other countries? Among them are the following:

**Table 4. Contribution of Diamonds to the Economies of Botswana, Namibia and South Africa**

| | Contribution to GDP | Contribution to Total Exports | Contribution to Formal Sector Employment | Contribution to Total Government Tax Revenue |
|---|---|---|---|---|
| Botswana | 33% | 79% | 3% | 60% |
| Namibia | 13% | 25% | 1.2% | 6% |
| South Africa | 0.88% | 8% | 0.10% | 0.07% |

Source: Various government documents, Annual Reports of Debswana, Namdeb and De Beers. The statistics for exports and contribution to GNP for South Africa include polished as well as rough diamonds.

- by working with De Beers in controlling the supply of diamonds for the world market, the governments of Botswana, Namibia and South Africa, along with other producers, have managed to garner significant financial benefits during a period in history when the earnings from other commodities — cocoa, palm oil, copper and many others — have tumbled or disappeared.

- Botswana has proven the critical value of good governance and a stable political environment. Botswana has managed its diamond resources well, and negotiated in ways that maximize revenue from those resources. Botswana is, in fact, a counter-example to findings in a 2001 World Bank study which showed that countries with a dependence of more than 32% of GDP on a single primary commodity export are in 'peak danger' of civil war.[57] The variable, in fact, may not be economic dependence on a single commodity, but the way in which the commodity and governance are managed.

- Botswana contradicts another aspect of received wisdom. Its direct involvement in the diamond industry runs contrary to current ideas about the role of government in relation to industry. Its equity in Debswana, De Beers, the Teemane Manufacturing Company and other enterprises has resulted in an immense amount of revenue for the state. While this model may not be right for all countries, it appears to be right for Botswana.

- Botswana and South Africa have developed a secondary industry in the form of cutting and polishing rough diamonds, but in Botswana the industry is small and subsidy-dependent, and it appears to be declining. Namibia has only just started with one manufacturing plant, but under the new Diamond Act it has recently issued six new licenses. It remains to be seen whether the cutting and polishing industry in Southern Africa can be expanded significantly, given the serious competition it faces from countries with advantages of scale and lower costs, such as India.

- The problems of Namibia's *Sperrgebiet* or Forbidden Territory notwithstanding, the country's relatively good (in comparison to other countries) control over alluvial diamond mining has spared it the chaos, criminality and decline that have afflicted the alluvial diamond areas of Angola, Sierra Leone and the Congo.

- The fact that the diamond industry is capital intensive, and becoming more so, means that very few people benefit directly from employment in the industry. An important challenge for all three countries and for the industry itself, will be to devise more ways in which local economies can benefit.[58]

- The international conflict diamond campaign has had a positive effect on all three countries. Botswana has surveyed its legislation and regulatory mechanisms for compliance with Kimberley Process provisions. Namibia has a new Diamond Act, which should allow it to comply, and South Africa's new Minerals Development Bill has integrated controls based on the Kimberley Process as well. In due course, ways should be found to share these improvements with other diamond-producing countries.

- There is a growing body of evidence, however, primarily from UN Security Council Expert Panels, of a substantial trade in conflict and illicit diamonds in South Africa. The fact that South Africa has so many alluvial diamond fields complicates the problem of control over the illicit trade. The government does not currently have systems for the regulation of — or even the collection of reliable data on — alluvial diamonds.

- Tight control over diamond dealer licenses, and the restricted nature of kimberlite mining in Botswana have contributed to a greater degree of control over the trade in illicit diamonds. This has not been the case in Namibia, where the Diamond Act allows the issuing of even more licenses.

A final point can be made about the concept of corporate social responsibility. The diamond industry, prodded by NGOs and accompanied by governments, is — through the Kimberley Process — on the verge of creating what could turn out to be one of the most ambitious efforts to end an alarming business-related calamity: conflict diamonds. K.G. Moshashane, Botswana's Director of Mineral Affairs, has said that 'Diamonds, one of God's most precious gifts to Africa and mankind, have been used as a tool of corruption, conflict and suffering.'[59] That may be coming to an end. But in the future, there will be new expectations of corporate social responsibility in the diamond industry. Corporate social responsibility will mean more than donations to local charities. It will involve greater investments in adding value locally. And it will mean much greater vigilance to ensure that opportunists, thieves and killers never gain access to this gift again.

# Notes

[1] Weldon, Robert, 'Diamonds for Good', *Professional Jeweler*, January 2001

[2] Green, Timothy, *The World of Diamonds*, Weidenfeld and Nicholson, London, 1981, pg 31

[3] Debswana Diamond Company, *Annual Report 2000*, Gaborone, 2001, pg 8.

[4] De Beers' web site: www.debeersgroup.com/exploration/expGloActBotswana.asp.

[5] 'South African Company to Build Diamond Mine in Botswana', Office for the Coordination of Humanitarian Affairs (OCHA), Integrated Regional Information Network (IRIN), November 29, 2000

[6] The Schachter & Namdar factory was once a Lazare Kaplan facility, bought by De Beers and sold to Schachter & Namdar in the 1990s at a bargain-basement price in order, it is said, to keep Israeli financier and diamantaire Lev Leviev out of Botswana

[7] Debswana Diamond Company, *Annual Report 2000*, Gaborone, 2001, pg 29.

[8] *Ibid*, pg. 27.

[9] *Ibid*, pg. 3.

[10] For more detail on the social and development programs of De Beers and Debswana in Botswana see the *2000 Annual Report* of De Beers and the *2000 Annual Report* of Debswana

[11] Southern African currencies have been converted to US dollars throughout this report. For consistency and comparability the exchange rates used are those in De Beers' *Annual Report 2000*: US$1.00 = 7.57 South African Rand, 7.57 Namibian Dollars and 5.33 Botswana Pula. The South African Rand and the Namibian Dollar later experienced an extensive depreciation (US$1.00 = R1l.50; January 2002), while diamonds are still valued in US dollars.

[12] Much of this background is taken from Leith, J Clark, 'Why Botswana Prospered', Draft, October 2001.

[13] Reproduced in Leith, J Clark, op cit, pg. 31.

[14] Botswana Police, November 2001

[15] Hart, Matthew, *Diamond: A Journey to the Heart of an Obsession*, Viking, Toronto, 2001, pg. 121

[16] Transparency International, *2001 Corruption Perceptions Index*, www.transparency.org/documents/cpi/2001/cpi2001.html, 2001. Transparency International (TI) is a Berlin-based NGO that tracks corruption. The CPI relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts. TI conducts up to fourteen independent surveys for each country and averages the results for development of the CPI score. A totally clean government would have an index number of 10 and the most corrupt could have a negative CPI score. In the case of Botswana three independent surveys were conducted and the CPI scores ranged from 5.6 to 6.6 ending up with a final CPI score of 6.0. For comparative purposes, some of the lower CPI scores include Bangladesh 0.4, Nigeria 1.0, Uganda 1.9 Indonesia 1.9, Kenya 2.0 and Tanzania 2.2. The Congo, Sierra Leone and Angola are not ranked.

[17] In 1999, 35.8% of adults between the ages of 15 and 49 were living with HIV/AIDS, compared with 19.4% in South Africa and 19.5% in Namibia (UNDP *Human Development Report 2001*)

[18] United Nations Development Program, *Human Development Report 2001*, Oxford University Press, New York, 2001. The HDI index can be found on pg. 114 and the poverty statistics on pg. 150.

[19] Ministry of Finance and Development Planning, *Mid-Term Review of National Development Plan 8*, Republic of Botswana, Gaborone, 2000, pg 5.

[20] Central Statistics office, *Statistical Bulletin Vol 25 No. 1*, Republic of Botswana, Gaborone, March 2000, pg. 7.

[21] *Annual Economic Report – 2001*, Republic of Botswana, Ministry of Finance and Development Planning, February 2001, pg 1.

[22] Harvey, Charles, *BIDPA Briefing*, The Botswana Institute for Development Policy Analysis, Gaborone, 4th Quarter 2000, pg 2.

[23] See *BIDPA Briefing* of February 2001, pg 1 and Annual *Economic Report 2001*, Ministry of Finance

and Development Planning, Republic of Botswana, Gaborone, February 2001, pg. 46.

[24] 'Botswana: Reduced Diamond Sales Hits Economic Prospects', Office for the Coordination of Humanitarian Affairs (OCHA), Integrated Regional Information network (IRIN), January 4, 2002

[25] 'On Diamonds We Build' is the title of the *Namdeb Annual Review* 2000

[26] Pallet, J (ed), *The Sperrgebiet: Namibia's Least Known Wilderness*, Desert Research Foundation of Namibia and Namdeb Diamond Corporation, Windhoek, 1995, pg.3. This document is primarily an environmental profile of the *Sperrgebiet*, but it also includes a good history of diamond mining in the area.

[27] For an account of a classic diamond company town see: Carstens, Peter, *In the Company of Diamonds: De Beers, Kleinzee and the Control of a Town*, Ohio University Press, Athens, Ohio, 2001

[28] *Namdeb Annual Review* 2000

[29] Only those designated as 'sightholders' by De Beers are entitled to buy from the company. The Diamond Trading Company holds several sales, or 'sights', each year for the approximately 125 sightholders.

[30] Matthew Hart (*op cit*, pg. 108) estimates that Namdeb's losses may have amounted to 30 per cent of production in 1999, and that Alexkor may have lost an additional $20 million worth of diamonds.

[31] Author's interviews with senior members of the Resources Protective Unit of the Namibian Police, October 2001

[32] See Carstens, *op cit*, for a detailed description of the contract labour system and the Northern Ovambos, in both South West Africa and South Africa

[33] Most of the information in this section is from *Report on Diamond Workers in South Africa, Botswana and Namibia*, International Labour Resource and Information Group, Capetown, September 2001

[34] *Annual Report 2000*, The Chamber of Mines of Namibia, Windhoek, 2001, pg 31.

[35] All statistics are from the UNDP *Human Development Report 2001*, Oxford University Press, New York, 2001

[36] The World Bank Group, *Namibia Country Profile*, www.worldbank.org/afr/na2.htm.

[37] The World Bank Group, *South Africa Country Profile*, www.worldbank.org/afr/za2.htm

[38] The government does not actually know what the diamond output is from independent diggers and other small-scale producers. The author was given estimates that ranged from 100,000 to 400,000 carats annually.

[39] Statistics are from Damarupurshad, Ashok, *South African Diamond Handbook and Operating Diamond Mines Directory 2001*, Department of Minerals and Energy Government of South Africa, 2001

[40] Sexwale was Premier of Gauteng Province (Johannesburg); during the apartheid era he was head of the armed wing of the ANC

[41] *The South African Jewelry Cluster Study*, Kaiser Associates, Johannesburg, June 2001

[42] *Ibid*, Chapter 12, pg. 5.

[43] The information in this paragraph is taken from the Diamond Act of 1986, and from the author's interviews with Ashok Damarupurshad, Chief Mineral Economist, South African Department of Minerals and Energy

[44] For a discussion of this issue where Canadian diamonds are concerned, see Ian Smillie, *Fire in the Ice, Benefits, Protection and Regulation in the Canadian Diamond Industry*, Partnership Africa Canada, Ottawa, 2002

[45] Interview with John D. Leenaerts, Manager: Diamond and Jewelry Sector of the United Association of South Africa (UASA). UASA is the labour union representing most diamond cutters and polishers in South Africa.

[46] Damarupurshad, Ashok, *op cit*, pp. 9-10.

[47] *The Commission of Inquiry into the South African Diamond Industry*, 2000, Chapter 1, pg 4.

[48] *Annual Report of 2000-2001*, Department of Minerals and Energy, Government of the Republic of South Africa, Pretoria, 2001, pg 1.

[49] *Ibid*, pg. 84-85.

[50] *Addendum to the Report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo*, UN Security Council Document S/2001/1072, November 2001, p 22.

[51] *Report of the Panel of Experts on Violations of Security Council Sanctions Against UNITA*, appointed pursuant to Security Council resolution 1237 (1999), UN Security Council Document S/2000/203, March 2000, paragraph 27, pg 10.

[52] Information provided to the author by the Diamond and Gold Branch of the South Africa Police Service, November 2001

[53] Soggot, Mungo, 'Kimberley Takes a Look at Itself Over Blood Diamonds', *Mail & Guardian*, Johannesburg, December 7, 2001

[54] Interview with Phumzile Mlambo-Ngcuka, 'South Africa No Place for Blood Diamond Dealers' in *Financial Times Information, Global News Wire*, November 30 2001

[55] Ross, Michael, 'Extractive Industries and the Poor', Oxfam America, Washington, October 2001

[56] See *A Rough Trade: The Role of Companies and Governments in the Angolan Conflict*, Global Witness, London, 1998; and Smillie, Gberie and Hazleton, *The Heart of the Matter: Sierra Leone, Diamonds and Human Security*, Partnership Africa Canada, Ottawa, 2000

[57] Collier, Paul and Hoeffler, Anke, 'Greed and Grievance in Civil War', World Bank, October 2001

[58] BHP-Billiton, Rio Tinto and De Beers have all negotiated detailed Impact Benefit Agreements with Aboriginal People in Canada's Northwest Territories. These agreements were a prerequisite to the granting of mining licences. The agreements include direct payments to the communities, job guarantees, scholarships, assistance with small enterprise development, and the re-packaging of service contracts into segments that can be handled by local businesses. See Smillie, *op cit*

[59] Quoted in Weldon, Robert, 'Diamonds for Good', *Professional Jeweler*, January 2001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