



# **The Contribution of Diamonds to the Namibian Economy**

A presentation to the Diamond  
Omugongo by Robin Sherbourne

2 November 2005

# Presentation Outline



- ◆ Key events
- ◆ Economic performance so far
- ◆ Getting more out of the diamond industry

# Key Events



- 1990 Independence
- 1994 **Namdeb** created
- Namco** lists on NSX
- 1998 **NamGem** established
- Diamond Fields Namibia** established
- 1999 Namco takes over **ODM**
- Diamond Act** passed (Sections 58 and 59)
- Trans Hex Group** lists on NSX
- 2000 **De Beers** de-lists from NSX
- 2001 **De Beers Marine Namibia** created
- NamCot Diamonds** opens in Windhoek
- 2002 **Hard Stone Processing** opens in Windhoek
- 2003 **Samicor** created out of Namco assets
- 2004 **LLD** opens in Windhoek
- 2005 **Diamdel** opens in Windhoek
- Namdeb** on track to mine 1.8 million carats

# Diamond Policy

Key characteristics of Namibia's diamond policy:

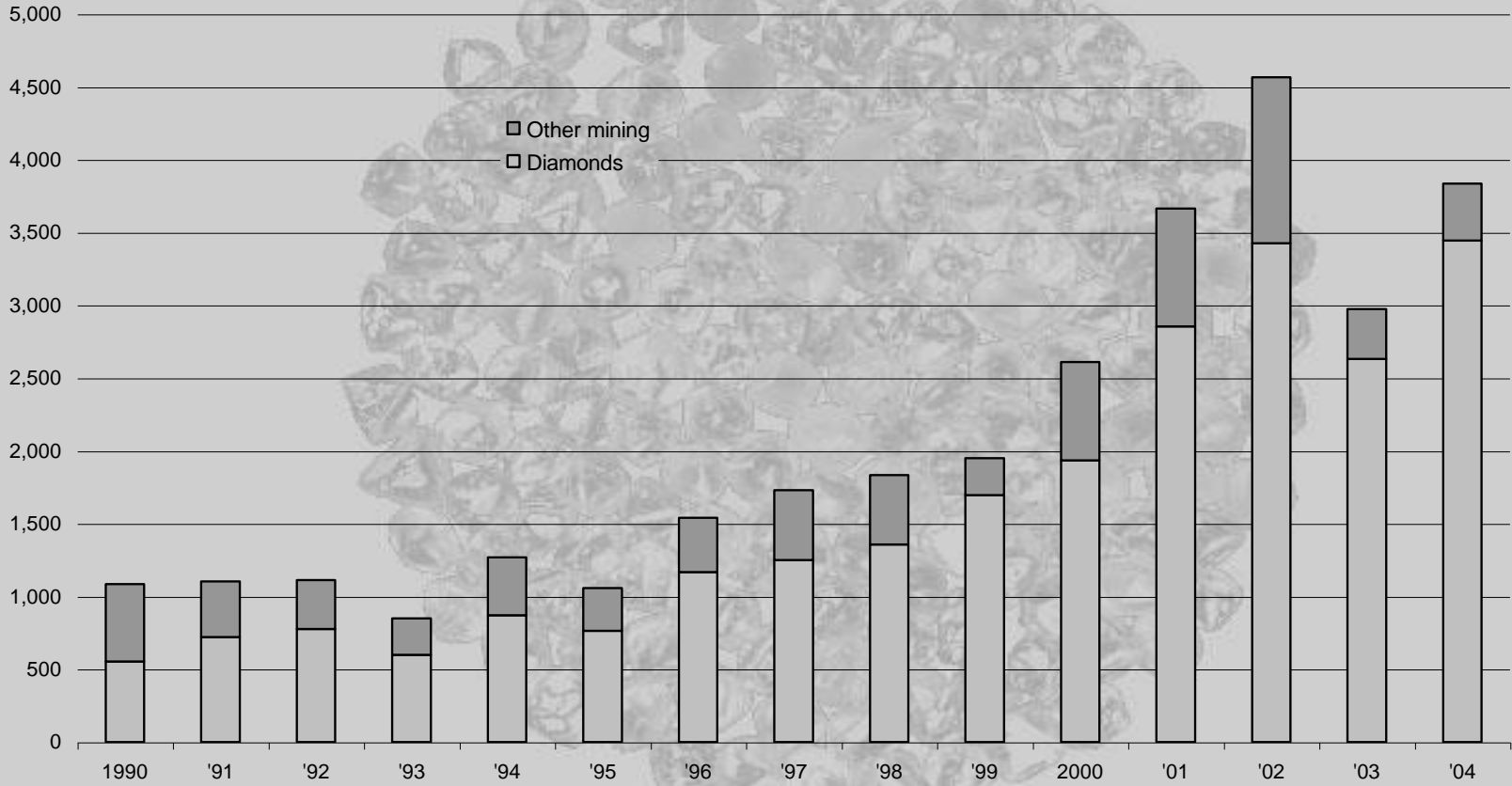
- ◆ Government “holds ring” but is also shareholder
- ◆ Namdeb “strategic” player
- ◆ Transition to offshore mining
- ◆ Encourages diversity of players
- ◆ Supposed to encourage cutters and polishers

# Economic Performance

Direct contribution of diamond industry:

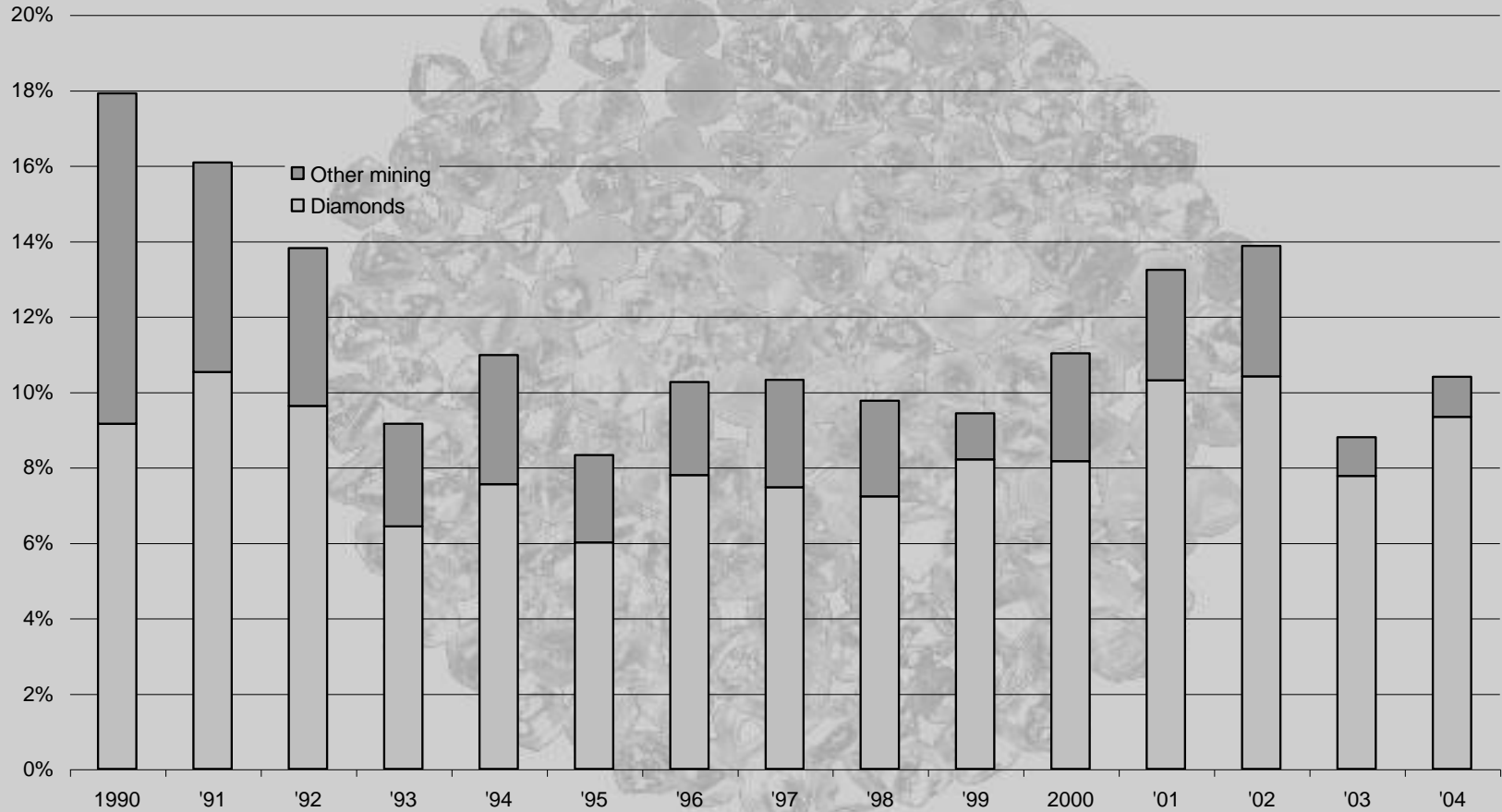
- ◆ Value added
- ◆ Exports
- ◆ Tax revenue
- ◆ Employment

# Mining value added in current prices (N\$m)



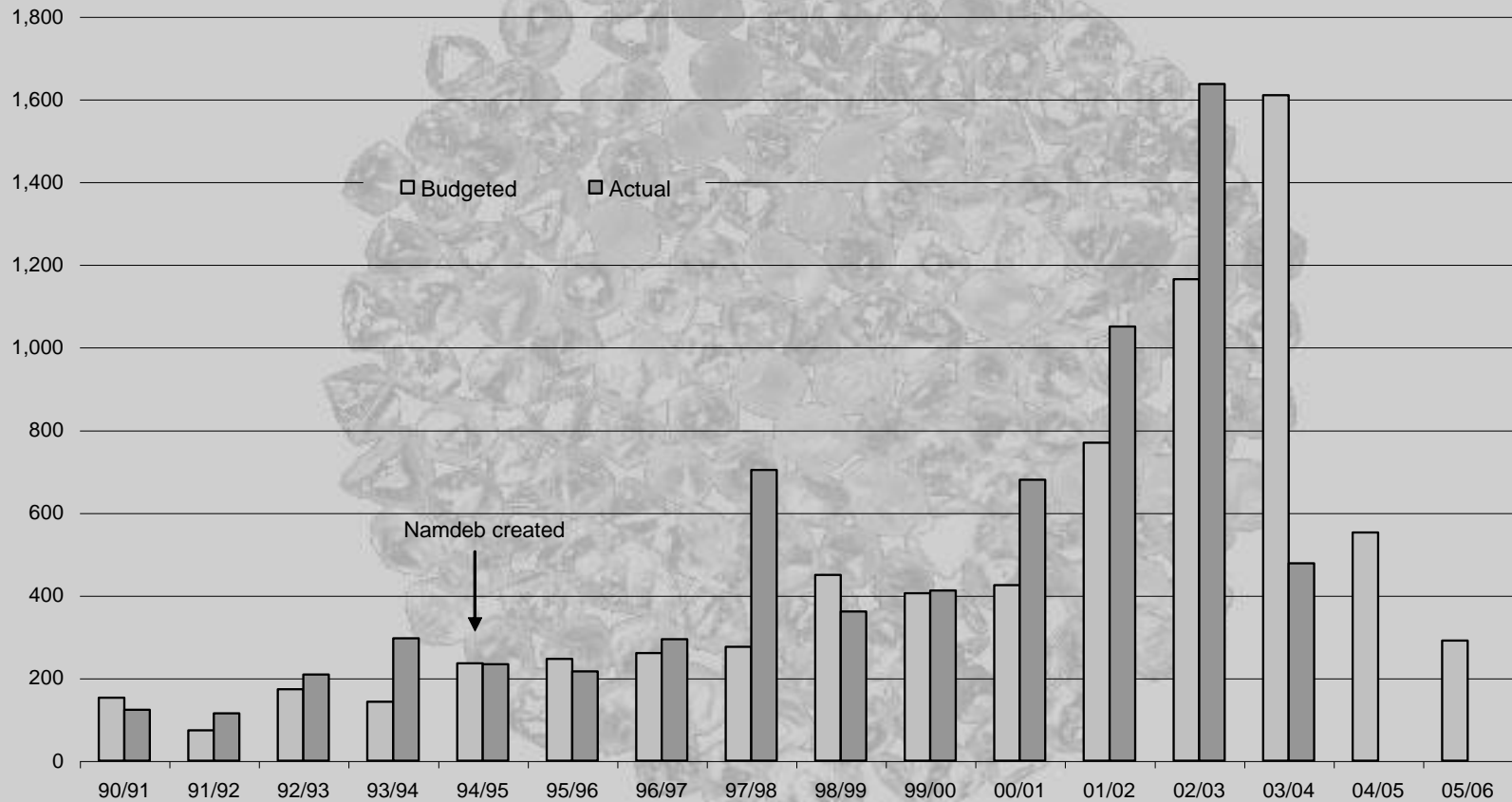
Source: National accounts, Central Bureau of Statistics

## Mining value added as % of GDP



Source: National accounts, Central Bureau of Statistics

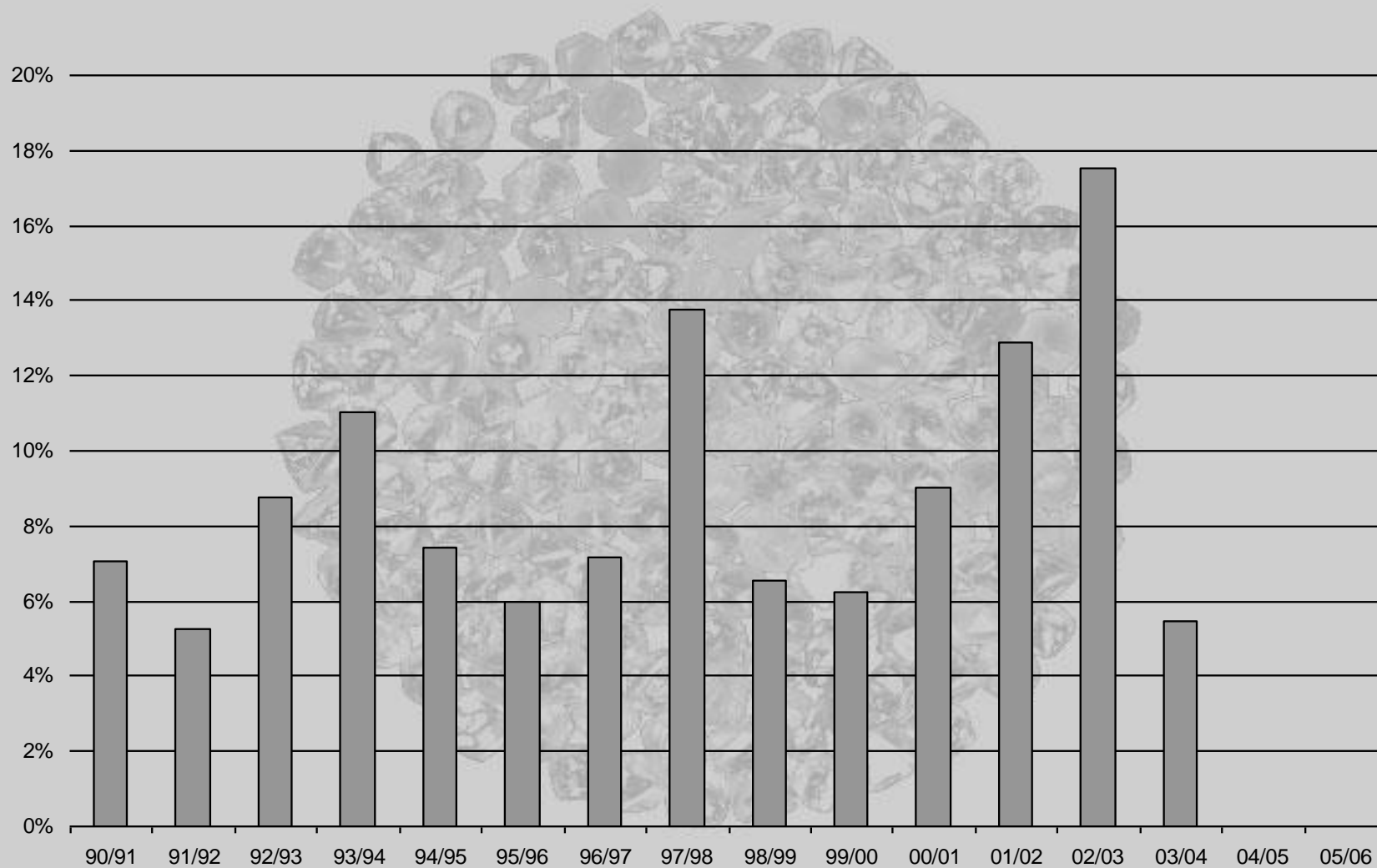
## Budgeted and actual diamond tax revenue (N\$m)\*



\* from 1990/91-1994/95 diamond corporate tax + diamond profits tax + diamond export duty

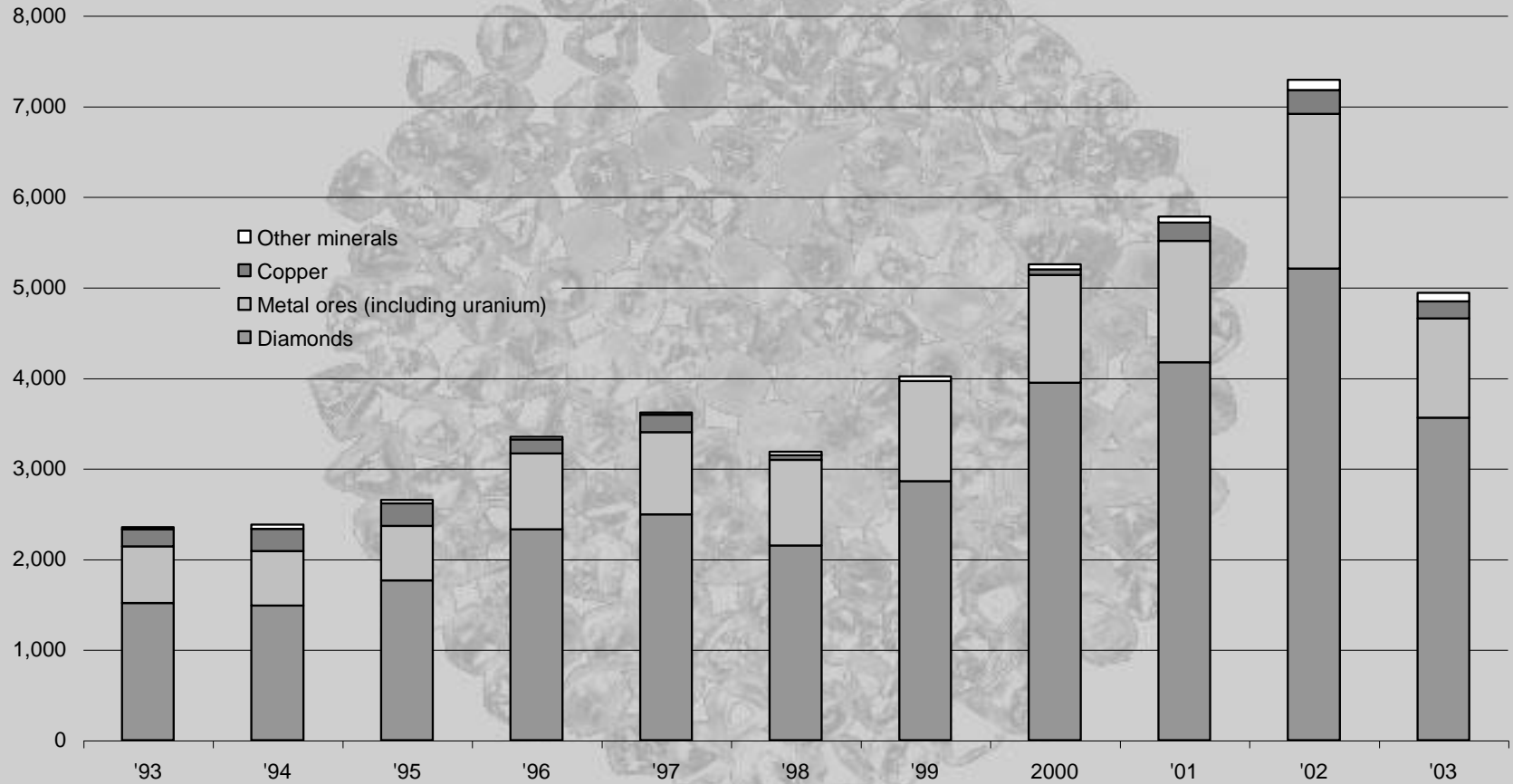
Source: budget documents

## Diamond revenue as % of total tax revenue



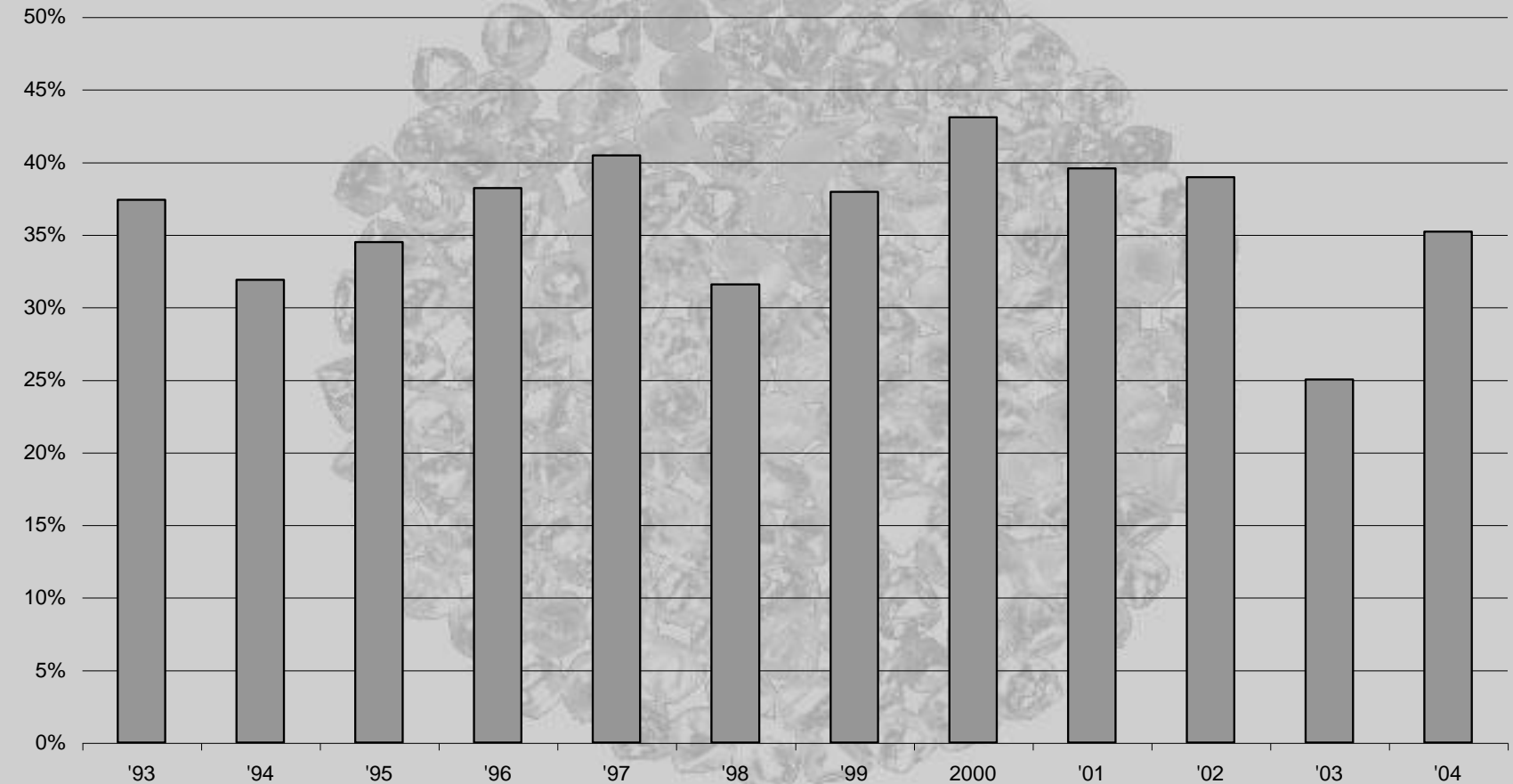
Source: Budget documents

## Mining exports (N\$m)



Source: Bank of Namibia annual reports

## Diamonds as % of merchandise exports



Source: Central Bureau of Statistics

# Employment



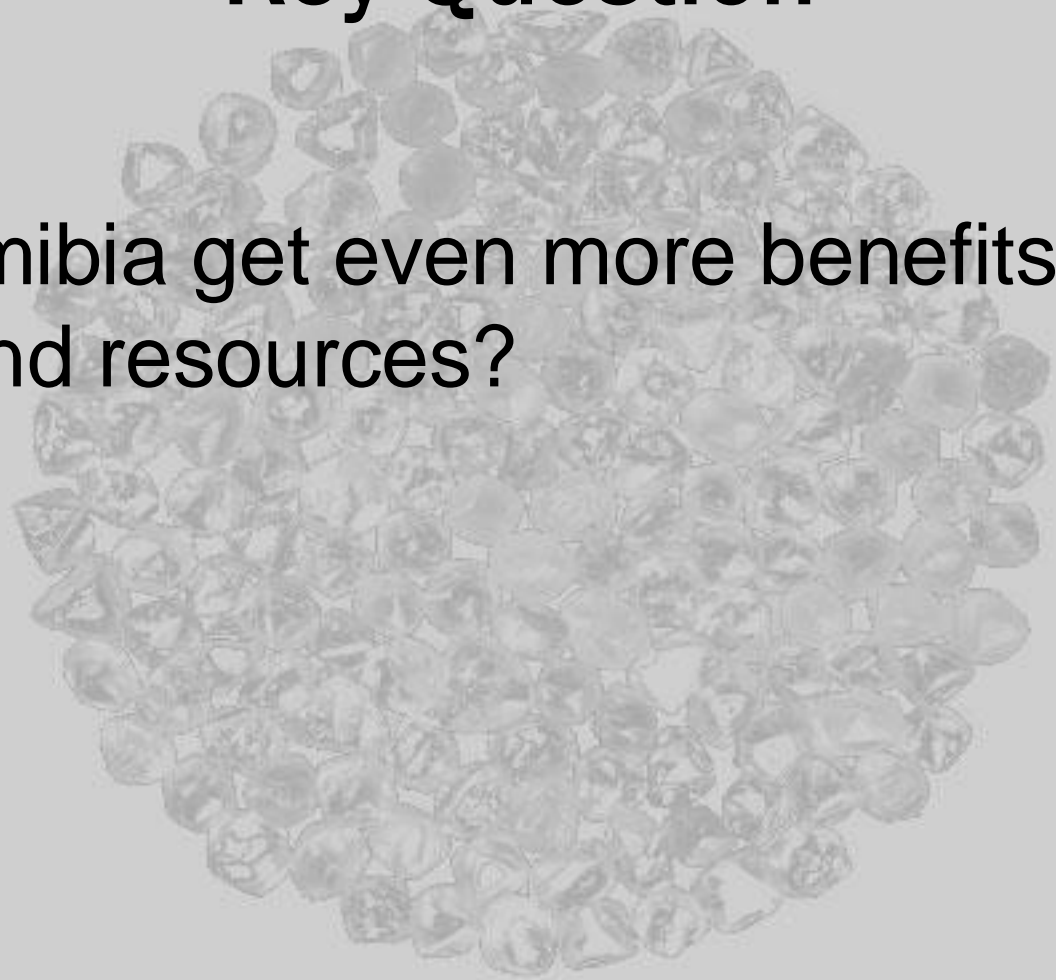
- ◆ Namdeb ~ 3,000
  - ◆ De Beers Marine Namibia ~ 570
  - ◆ Samicor ~ 210
  - ◆ Trans Hex (contract) ~ 120
  - ◆ Diamond Fields Namibia ~70
  - ◆ LLD ~ 440
  - ◆ Hard Stone Processing ~ 40
  - ◆ NamCot ~ 100
  - ◆ NamGem ~ 120
- Total direct employment ~ 4,670

# Summary of Economic Performance

- ◆ Diamond mining performed well: value added, exports, tax revenues
- ◆ Tax revenues highly variable and hard to forecast
- ◆ Tax revenues used as current income
- ◆ Diamond mining less labour intensive
- ◆ High degree of diamond dependency
- ◆ Dependence on Namdeb
- ◆ Cutting and polishing still underdeveloped

# Key Question

Can Namibia get even more benefits from its diamond resources?



# Getting More From Diamonds

- ◆ Cutting, polishing and jewellery
- ◆ Procurement and contracting
- ◆ Training and skills
- ◆ Corporate social responsibility
- ◆ Improving use of revenues
- ◆ Exchange rate

# Cutting, Polishing and Jewellery

- ◆ Brand and image dependent
- ◆ Skills and labour costs critical
- ◆ Undermines single channel marketing
- ◆ Could cut and polish “equivalent amount”
- ◆ Potential to create ~ 2,000 jobs
- ◆ Potential to add to export earnings
- ◆ Forgo diamond export royalties
- ◆ Requires careful monitoring to avoid abuse
- ◆ Devil in detail (profile of diamonds, ramping up skills)

# Procurement and Contracting

- ◆ Namdeb already participating in Namibian Preferential Procurement Council up and running with Rosh Pinah and Skorpion
- ◆ Namdeb uses contract mining companies to promote empowerment
- ◆ Challenge to create sustainable businesses
- ◆ Challenge to avoid “letter boxes” and higher costs

# Training and Skills

- ◆ Is there more companies can do?
- ◆ General versus specific skills?
- ◆ Should companies be expected to do more than what they themselves require?
- ◆ How can they avoid free riding?

# Corporate Social Responsibility

- ◆ Does it add to available resources?
- ◆ Better when government inefficient
- ◆ Is it sustainable?
- ◆ Not better to focus on growth and jobs?
- ◆ Namdeb spent N\$2.1 in 2004
- ◆ Oshipe established

# Improving Use of Revenues

- ◆ Tax revenues treated as current revenues
- ◆ Use for long-term investment
- ◆ Treat windfalls as windfalls
- ◆ Improve efficiency of public sector
- ◆ More growth-oriented spending allocations

# Exchange Rate

- ◆ “Dutch Disease” common among resource rich economies
- ◆ Wrong exchange rate can damage export drive
- ◆ What is it that makes Namibia uncompetitive in other areas and not only in diamonds?

# Conclusions

- ◆ Namibia's diamond policies successful (perhaps too successful!)
- ◆ Ever greater dependence on diamonds with less scope to experiment
- ◆ More on procurement and contracting, training and skills
- ◆ Cutting and polishing next big step