



ANNUAL PERFORMANCE PLAN 2018–19



state diamond trader
REPUBLIC OF SOUTH AFRICA



STATE DIAMOND TRADER

**ANNUAL
PERFORMANCE PLAN
2018-19**

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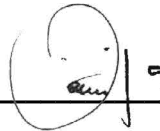
Official sign-off

It is hereby certified that the Annual Performance Plan:

- was developed by the management of the State Diamond Trader under the guidance of the Board;
- takes into account all the relevant policies, legislation and other mandates guiding the entity for which the Department of Mineral Resources, as the entity shareholder, is responsible; and
- accurately reflects the strategic outcome-orientated goals and objectives that the State Diamond Trader will endeavour to achieve over the period 2018–19


Ms N Danisa
Chief Financial Officer

Signature:



Mr K J Menoe
Acting Chief Executive Officer

Signature:



Approved by:
Accounting Authority
and signed on its behalf by:

Signature:



Chairperson: Mr MJ Carstens

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List of Acronyms and Abbreviations

DMR	Department of Mineral Resources
EDP	Enterprise Development Programme
HDSA	Historically disadvantaged South Africans
IDC	Industrial Development Corporation
MoU	Memorandum of Understanding
NDP	National Development Plan
PFMA	Public Finance Management Act
ROM	Run of mine
SDT	State Diamond Trader
The Act	The Diamonds Act, 1986, as amended



PART A

Strategic Overview

PART A: STRATEGIC OVERVIEW

1. Introduction

The State Diamond Trader was established in terms of section 14 of the Diamonds Act, 1986, as amended (the Act). The entity was established with the aim of ensuring equitable access to and promoting local beneficiation of diamonds. This strategy document was developed following a resolution of the Board in July 2017 to craft a strategy that will enable the State Diamond Trader to better achieve its developmental mandate given the current operating constraints.

As part of the strategy development process, a strategic assessment of the State Diamond Trader and its environment was carried out to identify key strengths, opportunities, weaknesses and threats. The identified key strengths and opportunities will be leveraged, and weaknesses and threats will be ameliorated through activities that will be carried out to achieve strategic objectives leading to strategic outcomes linked to the legislative mandate of the institution.

2. Legislative Mandate

Section 14 of the Act makes provision for the establishment of the State Diamond Trader. The Act further specifies the objects of the entity, which are to promote equitable access to and local beneficiation of the Republic's diamonds. The entity is a schedule 3B entity in terms of the Public Finance Management Act (PFMA), 1999, as amended.

3. Vision

To be a catalyst for transformation and growth of the local diamond beneficiation industry.

4. Mission

- Ensure acquisition of and equitable access to rough diamonds, with a particular focus on historically disadvantaged South Africans (HDSAs).
- Promote the growth of the diamond beneficiation industry through relevant interventions.
- Establish and maintain a transformed client base of local diamond beneficiaries.

5. The State Diamond Trader's Strategic Outcomes and their Alignment to the NDP and DMR

The National Development Plan (NDP) aims to eliminate poverty and reduce inequality by 2030. The creation of decent employment by growing an inclusive economy is one of the mechanisms through which the NDP seeks to achieve its objectives. The Department of Mineral Resources (DMR) is one of the departments that plays a direct role in facilitating growth and the transformation of the economy. It therefore contributes to the creation of decent employment through an inclusive economy.

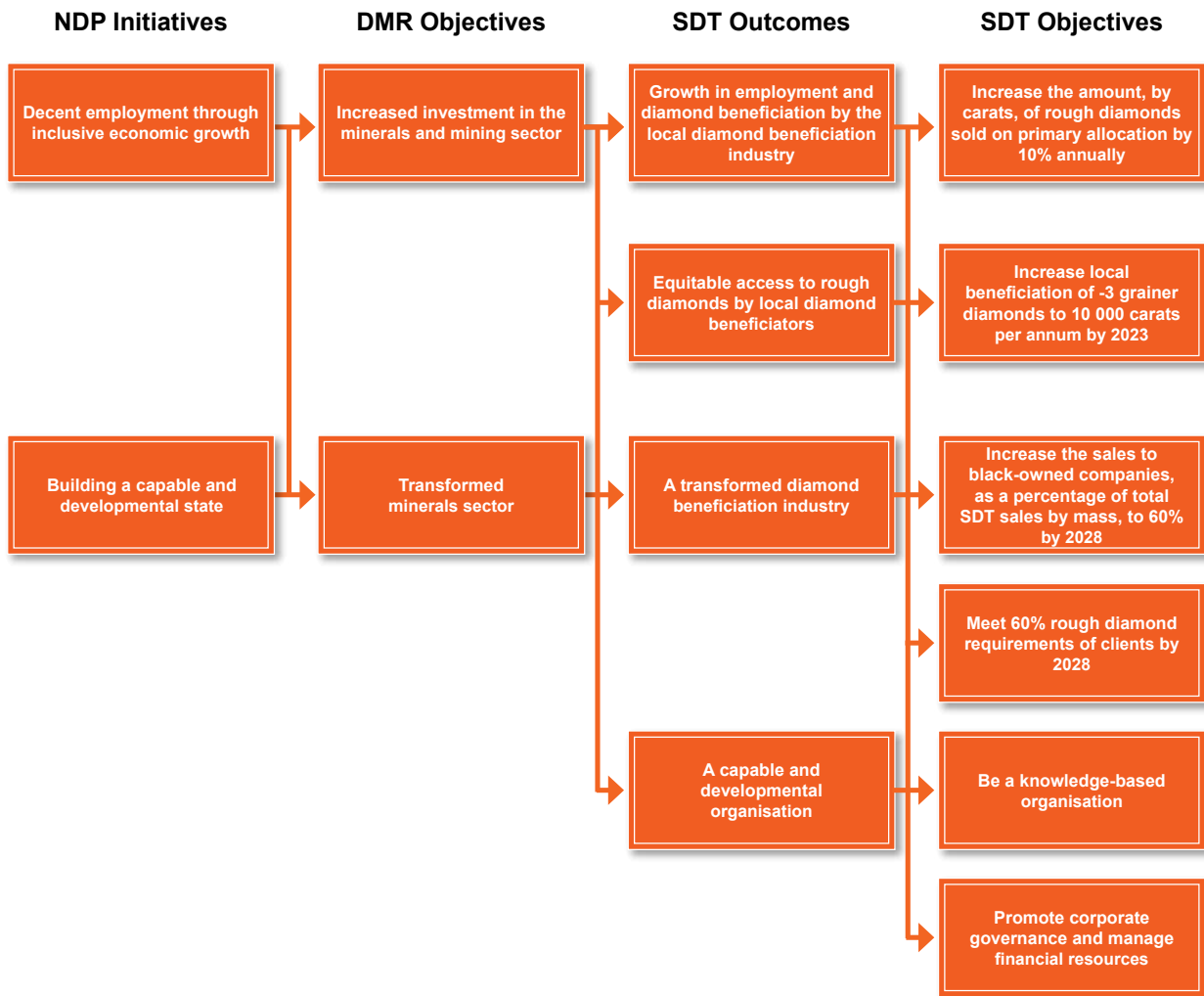
The DMR, as part of its role in implementing the NDP, has a strategic objective of increasing investment in the minerals and mining sector and a transformed minerals sector. The State Diamond Trader, as a state-owned entity of the DMR, has to ensure that its strategic objectives and key activities are geared towards achieving the strategic objectives of the DMR, and ultimately of the NDP. To realise this, the strategic outcomes of the State Diamond Trader have been aligned to the legislative mandate and designed to fast track the NDP's imperatives for economic transformation through inclusive economic growth and building a capable and developmental state. To drive this transformation agenda, the entity will also need to be a capable and developmental organisation as envisaged by the NDP.

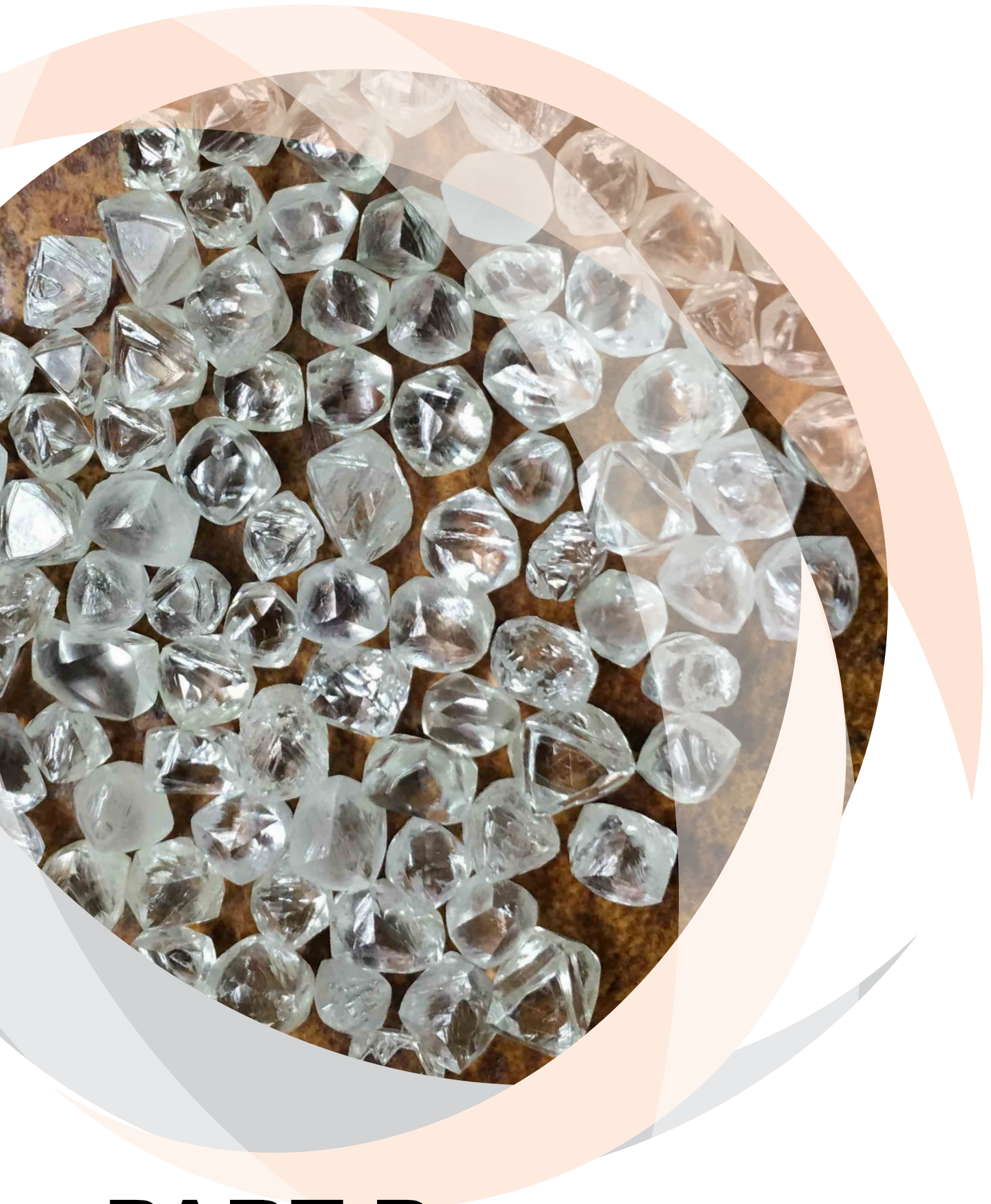
The strategic outcomes of the State Diamond Trader are therefore:

1. Growth in employment and diamond beneficiation by the local diamond beneficiation industry.
2. A transformed domestic diamond beneficiation industry.
3. Equitable access to rough diamonds by local diamond beneficiators.
4. A capable and developmental organisation.

Figure 1 shows the alignment of the State Diamond Trader’s strategic outcomes and strategic objectives to the strategic goals of the DMR and the initiatives of the NDP.

Figure 1: Alignment of the State Diamond Trader’s Outcomes and Objectives with the NDP’s Initiatives





PART B

Annual Performance Plan

6. Annual Performance Plan

6.1 Operating Environment

The State Diamond Trader is the government's attempt to address a market failure in the local diamond beneficiation sector with the legislative mandate to provide equitable access to and promote local beneficiation of the country's diamonds. The Act supports this mandate by, among other things, enabling the State Diamond Trader to source rough diamonds from outside the country and to purchase up to 10% of the total run of mine (ROM) production from all producers in the country. Despite this intervention, local diamond beneficiation has been on the decline and the majority of rough diamonds purchased by State Diamond Trader clients leave the country in a rough form for beneficiation elsewhere.

The global economic growth prospects are predicted to be positive for 2017 and 2018 in general, and for the major diamond jewellery market economies. There is, however, uncertainty as to what the growth prospects are beyond 2018 due to downside risks such as the possible implementation of protectionist measures by developed economies that will dampen global trade and consequently economic growth.

An analysis of the diamond value chain shows that recovery of the sector from the economic crisis (of 2018) has been slow and is characterised by volatility in prices, and the growth in demand for diamond jewellery is slower than expected. The manufacturing part of the value chain (cutting and polishing, and diamond jewellery manufacturing) has been impacted on the most negatively with this state of affairs. The weak bargaining position of players in this sector relative to rough diamond producers and diamond jewellery retailers has resulted in a situation where their profit margins have been eroded because of their limited scope to negotiate rough diamond prices downwards or to pass rough price increases on to retailers. This situation has led to rough diamond beneficiation activities migrating from high-cost diamond beneficiation centres to the two lowest cost centres in India and China.

The State Diamond Trader's operating model is a challenging one. An analysis of South African production in the last financial year shows that only about 15% of diamonds mined in South Africa are preferred by the State Diamond Trader's clients for local beneficiation. Furthermore, the State Diamond Trader's classification as a schedule 3B entity in terms of the PFMA means that the entity does not receive any funding from the fiscus. It is with these factors in mind that the Strategic Plan was developed. On the one hand, the State Diamond Trader must endeavour to implement its mandate and further a developmental mandate, while on the other hand, there is the issue of funding, as well as ROM, resulting in a constrained operating environment.

6.2 Strategic Objectives

The strategic objectives specified in this section will be used to realise the outcomes of the State Diamond Trader (Table 1). To ensure alignment, each strategic outcome is associated with at least one objective.

Table 1: Strategic objectives of the State Diamond Trader

No.	Strategic outcomes	Strategic objectives
1.	Growth in employment and diamond beneficiation by the local diamond beneficiation industry	Increase the amount, by carats, of rough diamonds sold on primary allocation by 10% annually
		Increase local beneficiation of -3 grainer gem quality and all sizes of near gem quality and industrial diamonds by State Diamond Trader clients to 10 000 carats per annum by 2022/23
2.	A transformed domestic diamond beneficiation industry	Increase sales to black-owned companies, as a percentage of total State Diamond Trader sales by mass, to 30% by 2022/23
3.	Equitable access to rough diamonds by local diamond beneficiators	Meet 30% by mass rough diamond requirements of clients by 2022/23
4.	A capable and developmental organisation	Be a knowledge-based organisation
		Promote corporate governance and manage financial resources

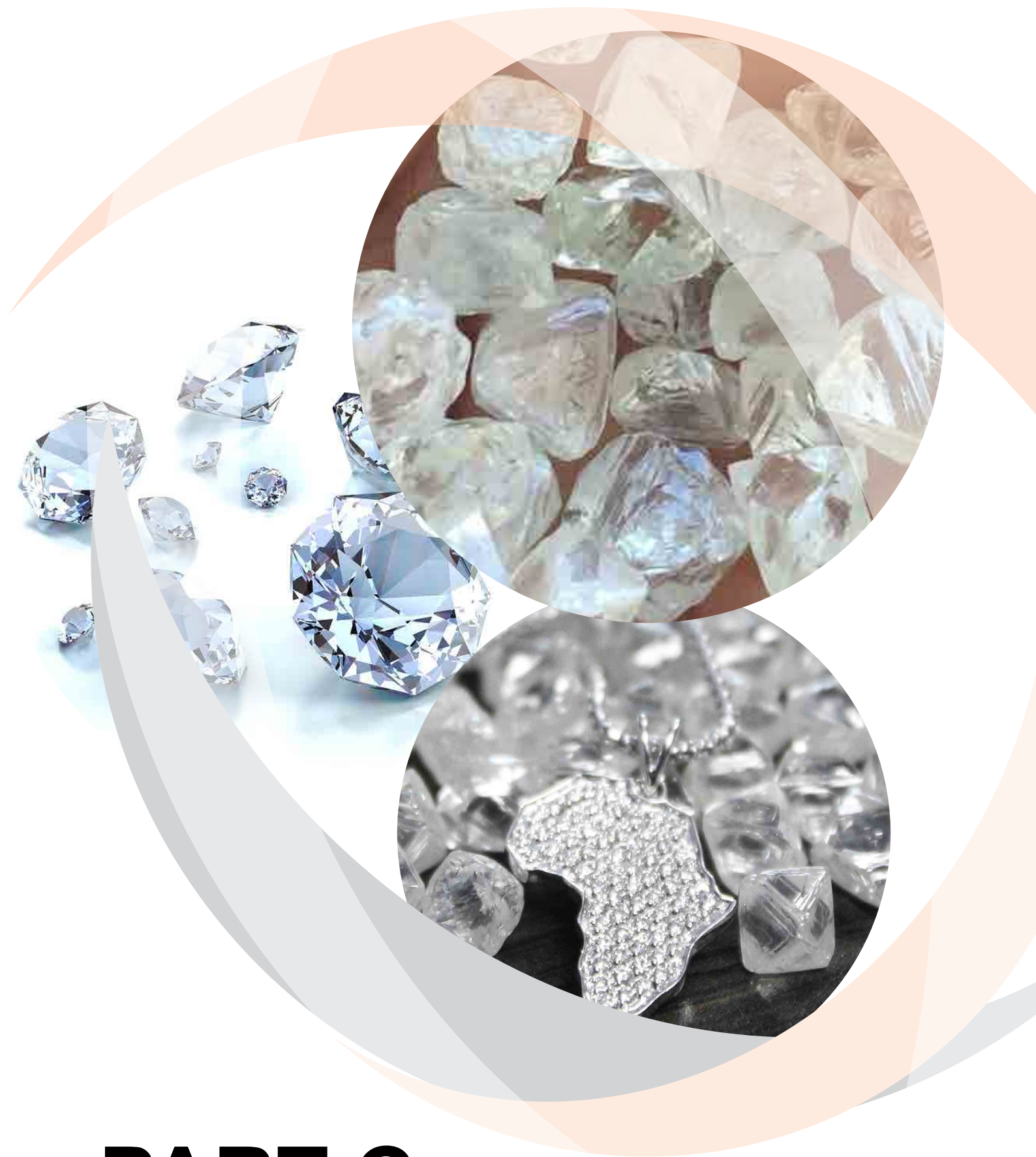
6.3. 2018/19 Annual Performance Plan

Strategic outcomes	Strategic objectives	Key activities	Performance measures	Annual target 2018/19	Targets			
					Quarter 1	Quarter 2	Quarter 3	Quarter 4
Growth in employment and diamond beneficiation by the local diamond beneficiation industry	Increase the amount, by carats, of rough diamonds sold on primary allocation by 10% annually	Secure more gem quality rough diamonds for primary allocation	Percentage increase in the amount of rough diamonds sold through primary allocation Baseline – 2016/17 primary allocation actual sales	10%	10%	10%	10%	Produce a report on the analysis conducted with regard to the amount of gems available from South African production
		Develop and implement process for rough diamonds aggregation from different producers to create suitable mixes for local beneficiators	Develop and seek approval for a rough diamonds aggregation procedure	1	Conduct and report on the survey with regard to the diamond requirements from State Diamond Trader clients	Determine and report on resource requirements for the process of rough diamonds aggregation	Approved procedures for drawing up rough diamonds purchasing plans	
		Secure funding from other organs of state, for use in acquiring more rough diamonds for primary allocation	Submit proposals to organs of state identified from which funding can be secured	4	Submit funding proposal	Submit funding proposal	Submit funding proposal	Submit funding proposal

Strategic outcomes	Strategic objectives	Key activities	Performance measures	Annual target 2018/19	Targets			
					Quarter 1	Quarter 2	Quarter 3	Quarter 4
Growth in employment and diamond beneficiation by the local diamond beneficiation industry	Increase local beneficiation of -3 grainer gem quality and all sizes of near gem quality and industrial diamonds by State Diamond Trader clients to 10 000 carats per annum by 2022/23	Facilitate local beneficiation of -3 grainer gem quality diamonds	Approved developmental model of -3 grainer gem quality	Approved developmental model for beneficiation of -3 grainer gem quality diamonds	Report on feasibility study conducted	Risk assessment and development of procedures	Enter into memoranda of understanding (MoUs) with industry partners	Approved model that will promote local beneficiation -3 grainer gem quality rough diamonds
		Facilitate local beneficiation of all sizes of near gem and industrial quality diamonds		Report on non-jewellery applications of diamonds	Conduct desktop research on the near gem quality diamonds	Conduct desktop research on industrial diamonds	Engage beneficiaries of near gem quality and industrial diamonds	Report submitted on non-jewellery applications of diamonds globally and in South Africa
A transformed domestic diamond beneficiation industry	Increase sales to black-owned companies, as a percentage of total State Diamond Trader sales by mass, to 30% by 2022/23	Supply rough diamonds to black-owned ² companies on developmental terms	A developmental model for supplying rough diamonds to black-owned companies	Approved developmental model for supplying rough diamonds to black-owned companies	Report on feasibility study conducted	Solicit proposals from identified industry partners	Determine resource requirements Do risk assessment and develop procedures	Approved developmental model that will increase sales to black-owned companies
		Create a talent pipeline of black diamond beneficiation entrepreneurs	EDP progress reports submitted	4	1	1	1	4
		Facilitate access to the major local and international diamond markets	Percentage implementation of marketing and communication strategic activities	100% implementation of marketing and communication strategic activities	Formulation of the State Diamond Trader's Marketing and Communication Strategy (2018–23)	State Diamond Trader's Marketing and Communication Strategy approved	100% implementation of the strategy	100% implementation of the strategy

Strategic outcomes	Strategic objectives	Key activities	Performance measures	Annual target 2018/19	Targets			
					Quarter 1	Quarter 2	Quarter 3	Quarter 4
Equitable access to rough diamonds by local diamond beneficiaries	Meet 30%, by mass, rough diamond requirements of clients by 2022/23	Provide clients with requisite volumes and qualities of rough diamonds	Percentage of total State Diamond Trader client's rough diamond requirements met (measure to apply in 2019/20 once process for meeting clients' rough diamond requirements is approved)		Conduct and report on the survey with regard to the diamond requirements from State Diamond Trader's clients	Report on the characteristics of South African diamond production	Develop a baseline and resource requirements for meeting clients' requirements	Processes for meeting clients' requirements approved
					2	2	2	2
A capable and developmental organisation	Be a knowledge-based organisation	Provide training opportunities in accordance with organisational and strategic needs analysis	Number of staff trained as per conducted training needs analysis	Six State Diamond Trader staff members trained	Identify training providers as per identified needs	2	2	1
		Get staff trained in advanced diamond skills in renowned global centres	Number of staff trained	2	Identify diamond centres as per identified needs	2	1	1

Strategic outcomes	Strategic objectives	Key activities	Performance measures	Annual target 2018/19	Targets			
					Quarter 1	Quarter 2	Quarter 3	Quarter 4
	Promote corporate governance and manage financial resources	Implement management action plans (Internal Audit and External Audit)	Percentage implementation of management action plans	100%	100%	100%	100%	100%
		Implement risk management action plans	Percentage implementation of risk management action plans	100%	100%	100%	100%	100%
		Review the funding strategy of the State Diamond Trader	State Diamond Trader business case submitted to the DMR	One report	Engage DMR to determine requirements for amending State Diamond Trader's business case	Amend State Diamond Trader's business case	Determine resource requirements for amended business case	State Diamond Trader's business case approved and submitted to the DMR



PART C

Allocation of Budget

7. 2018/19 – 2022/23 Budget Allocation

SUMMARY OF STATEMENT OF COMPREHENSIVE INCOME

	2018/19	2019/20	2020/21	2021/22	2022/23
Sales	751 378 905	776 750 825	810 645 583	831 918 205	868 917 756
Cost of goods sold	720 891 131	745 457 949	777 297 789	796 820 702	830 967 953
Gross profit	30 487 774	31 292 875	33 347 793	35 097 503	37 949 803
Overheads	29 335 178	31 061 038	32 602 210	34 419 090	35 173 804
Of which:					
Salaries	14 596 302	16 306 306	17 460 331	18 640 689	18 777 554
Leases	760 541	798 568	838 496	880 421	924 442
Computer and other IT	733 324	769 990	803 963	848 914	891 360
Travel	2 863 369	3 006 537	3 156 864	3 314 707	3 480 442
Fees	1 966 391	2 064 711	2 064 711	2 276 344	2 486 843
Other	8 415 251	8 114 926	8 277 844	8 458 015	8 613 162
Earnings before interest and tax	1 152 596	231 837	745 584	678 413	2 775 999
Interest income	3 117 475	2 955 202	2 351 757	3 836 927	2 159 569
Interest expense	-1 096 205	-1 770 221	-1 899 421	-1 244 714	-2 185 556
Net profit	3 173 867	1 416 818	1 197 920	3 270 626	2 750 012

DIAMOND PURCHASES AND SALES OF THE STATE DIAMOND TRADER

	2018/19	2019/20	2020/21	2021/22	2022/23
Value of diamonds inspected from producers (USD)	1 144 536 663	1 144 536 663	1 144 536 663	1 144 536 663	1 144 536 663
Value of diamonds acquired in USD	57 226 833	57 025 844	57 570 194	59 172 545	61 118 258
Percentage of annual production purchased	5.0%	5.0%	5.0%	5.2%	5.3%
Value of diamonds acquired in ZAR	718 196 756	746 004 487	777 197 621	798 829 364	825 096 480
Average rand/USD rate	12.53	13.50	13.50	13.50	13.50
Budgeted closing stock	9 596 940	10 143 477	10 043 309	12 051 971	6 180 498
Cost of diamonds sold	720 891 131	745 457 949	777 297 789	798 829 364	830 967 953
Sales revenue in ZAR	751 378 905	776 750 825	810 645 583	831 918 205	868 917 756

BUDGETED ANNUAL CASH FLOW STATEMENTS

	2018/19	2019/20	2020/21	2021/22	2022/23
Earnings before interest and tax	1 152 596	231 837	745 584	678 413	2 775 999
Working capital changes	4 645 501	(5 838 990)	(5 360 595)	(12 979 973)	11 742 946
- (Increase)/decrease in inventory	-	(10 143 477)	(10 043 309)	(12 051 971)	5 871 473
- Increase/(decrease) in accounts payable	4 645 501	4 304 487	4 682 715	(928 002)	5 871 473
- (Increase)/decrease in accounts receivable	0	0	0	-	-
Cash generated/(utilised) from operations	5 798 097	(5 607 153)	(4 615 011)	(12 301 560)	14 782 451
Interest received	3 117 475	2 955 202	2 351 757	2 379 667	2 159 569
Interest paid	(1 096 205)	(1 770 221)	(1 899 421)	(1 244 714)	(2 185 556)
Net cash inflow/(outflow) from operating activities	7 819 368	(4 422 172)	(4 162 675)	(11 166 607)	14 756 464
Cash flows from investing activities					
Acquisition of fixed assets	(1 300 000)	(300 000)	0	0	-
Net cash inflow/(outflow) from investing activities	(1 300 000)	(300 000)	0	0	-
Cash flows from financing activities					
Revolving credit facility raised	371 384 128	351 635 665	377 299 920	247 249 383	434 137 661
Revolving credit facility (repaid)	(371 384 128)	(351 635 665)	(377 299 920)	(247 249 383)	-434 137 661
Net cash inflows/(outflows) from financing activities	0	0	0	0	0
Net increase/(decrease) in cash and cash equivalents	6 519 368	(4 722 172)	(4 162 675)	(11 166 607)	14 756 464
Cash and cash equivalents at beginning of period	32 475 726	38 995 094	34 272 922	40 253 724	29 087 118
Cash and cash equivalents at end of period	38 995 094	34 272 922	40 253 724	29 087 118	43 843 582

BUDGETED FIXED ASSETS PURCHASES OF THE STATE DIAMOND TRADER

	2018/19	2019/20	2020/21	2021/22	2022/23
Computer equipment and software	100 000	-	-	-	-
Security equipment and diamond machinery	800 000	-	-	-	-
Furniture	400 000	-	-	-	-
Vehicle	-	300 000	-	-	-
Total	1 300 000	300 000	-	-	-

	June 2020	July 2020	August 2020	September 2020	October 2020	November 2015	December 2020	January 2021	February 2021	March 2021	TOTAL
IDC REVOLVING CREDIT FACILITY											
Opening balance	0	0	0	0	0	0	0	0	0	0	0
Amount drawn/advanced	4 743 060	60 000 000	0	60 000 000	0	54 534 238	1 571 664	60 000 000	9 797 399	60 000 000	377 299 920
Interest expense	23 878	302 055	0	302 055	0	274 539	7 912	302 055	49 323	302 055	1 899 421
Interest paid	(23 878)	(302 055)	-	(302 055)	-	(274 539)	(7 912)	(302 055)	(49 323)	(302 055)	(1 899 421)
Capital paid	(4 743 060)	(60 000 000)	-	(60 000 000)	-	(54 534 238)	(1 571 664)	(60 000 000)	(9 797 399)	(60 000 000)	(377 299 920)
Closing balance	0	0	0	0	0	0	0	0	0	0	0

IDC REVOLVING CREDIT FACILITY

Opening balance

Amount drawn/advanced

Interest expense

Interest paid

Capital paid

Closing balance

	June 2021	July 2021	August 2021	September 2021	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022	TOTAL
IDC REVOLVING CREDIT FACILITY											
Opening balance	0	0	0	0	0	0	0	0	0	0	0
Amount drawn/advanced	13 796 275	53 287 102	0	46 767 896	0	19 101 614	0	26 324 791	0	55 302 559	247 249 383
Interest expense	69 454	268 260	0	235 441	0	96 162	0	132 525	0	278 407	1 244 714
Interest paid	(69 454)	(268 260)	-	(235 441)	-	(96 162)	-	(132 525)	-	(278 407)	(1 244 714)
Capital paid	(13 796 275)	(53 287 102)	-	(46 767 896)	-	(19 101 614)	-	(26 324 791)	-	(55 302 559)	(247 249 383)
Closing balance	0	0	0	0	0	0	0	0	0	0	0

IDC REVOLVING CREDIT FACILITY

Opening balance

Amount drawn/advanced

Interest expense

Interest paid

Capital paid

Closing balance

	June 2022	July 2022	August 2022	September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	March 2023	TOTAL
IDC REVOLVING CREDIT FACILITY											
Opening balance	0	0	0	0	0	0	0	0	0	0	0
Amount drawn/advanced	60 000 000	44 459 625	28 041 984	9 768 250	60 000 000	42 697 236	26 043 913	7 853 000	60 000 000	40 062 319	377 299 920
Interest expense	302 055	223 821	141 170	49 176	302 055	214 948	131 111	39 534	302 055	201 684	1 899 421
Interest paid	(302 055)	(223 821)	(141 170)	(49 176)	(302 055)	(214 948)	(131 111)	(39 534)	(302 055)	(201 684)	(1 899 421)
Capital paid	(60 000 000)	(44 459 625)	(28 041 984)	(9 768 250)	(60 000 000)	(42 697 236)	(26 043 913)	(7 853 000)	(60 000 000)	(40 062 319)	(377 299 920)
Closing balance	0	0	0	0	0	0	0	0	0	0	0

IDC REVOLVING CREDIT FACILITY

Opening balance

Amount drawn/advanced

Interest expense

Interest paid

Capital paid

Closing balance



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