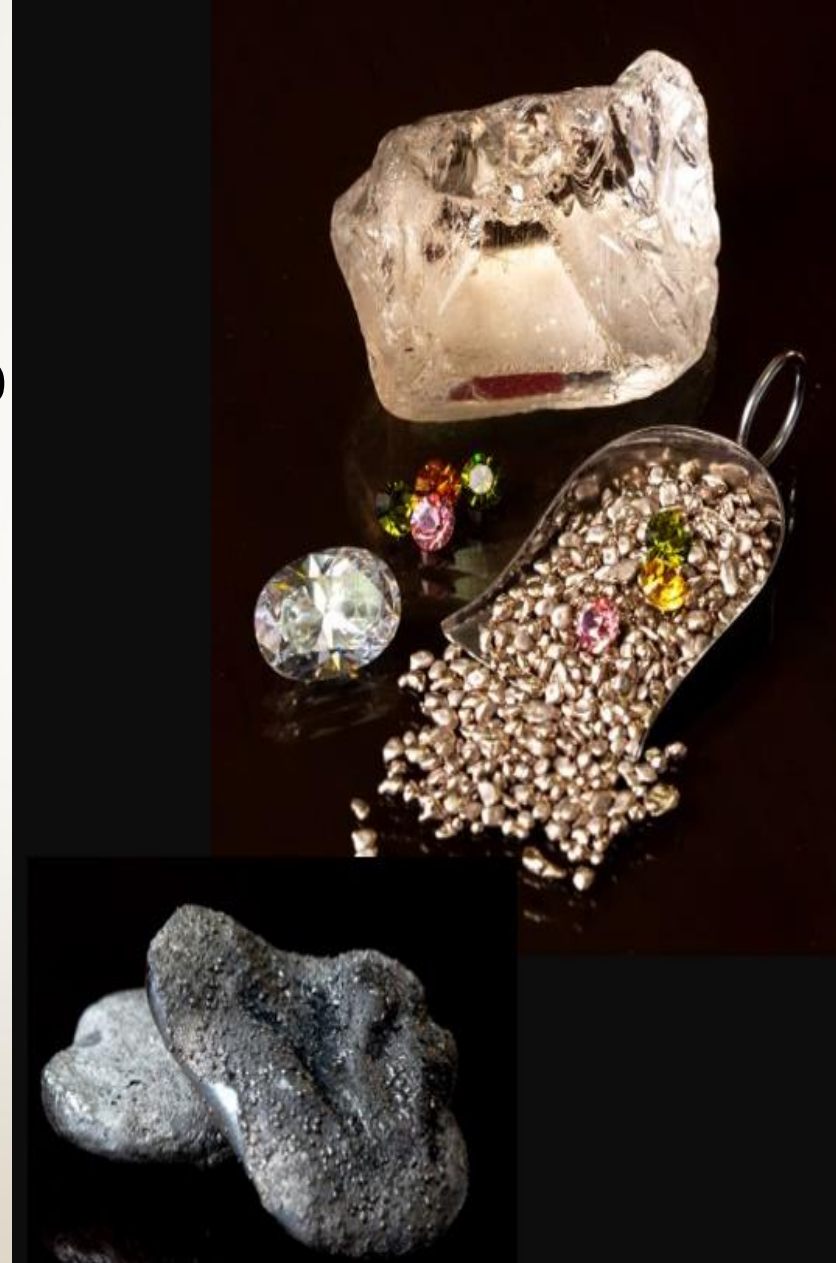


# **SOUTH AFRICAN DIAMOND AND PRECIOUS METALS REGULATOR (SADPMR)**

## **FINANCIAL SUSTAINABILITY**

**Presentation to PPC**

**November 2020**



**SOUTH AFRICAN DIAMOND AND  
PRECIOUS METALS REGULATOR**

# PRESENTATION OUTLINE

- ☐ **Mandate, Vision and Mission**
- ☐ **Core Business**
- ☐ **Stimulation of the Industry**
- ☐ **Problem Statement**
- ☐ **Resolutions**



# MANDATE, VISION & MISSION

## ❑ MANDATE:

- To regulate the buying, selling, importing and exporting of diamonds and precious metals i.t.o The Diamond Act, 1986 (Act No 56 of 1986); Diamond Export Levy (Administration) Act, 2007; Diamond Export Levy Act, 2007 and Precious Metals Act, 2005 (Act No. 32 of 2005)

❑ VISION: To be a socio-economic transformative regulator that is centred on local beneficiation of diamonds and precious metals and to strive for business excellence

❑ MISSION: Promoting transformation; ensuring equitable access to resources; promoting local beneficiation; collaborating with stakeholders; support black industrialists; enforcing compliance with legislation; advancing intra-Africa diamond trade; promoting business development support and growth; supporting skills development; promotion and marketing; research and development.

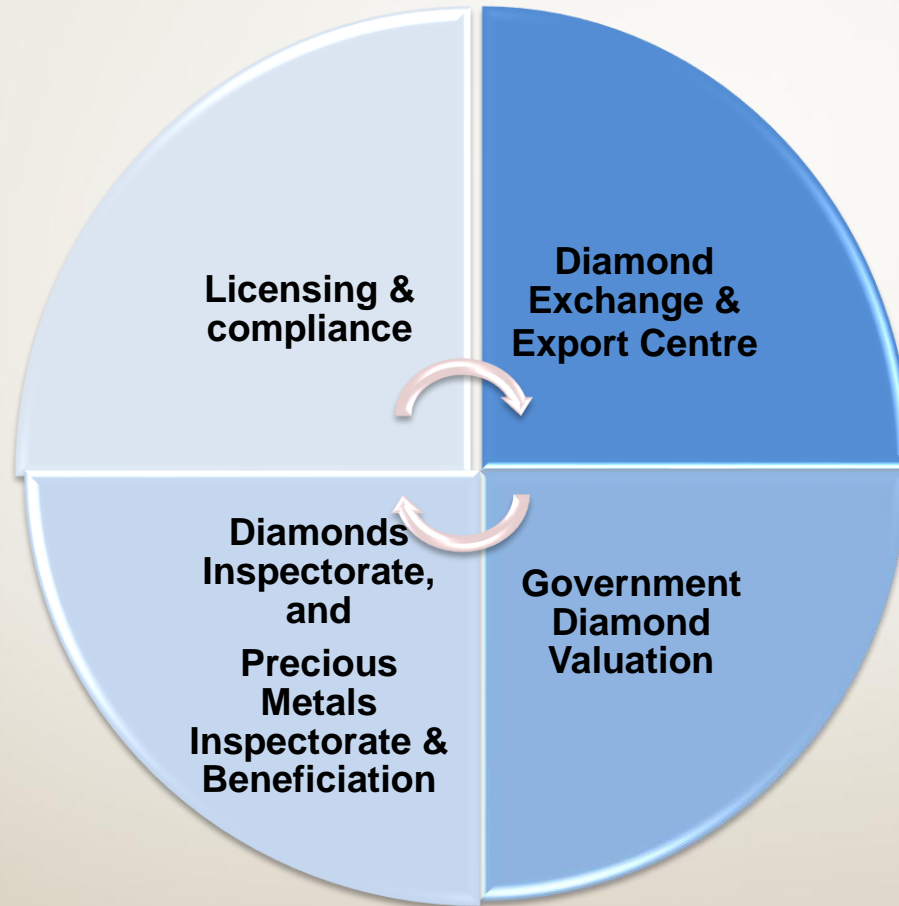


# SADPMR – SCHEDULE 3A PUBLIC ENTITY

- As a Schedule 3A entity, SADPMR was to be substantially funded by appropriations of Parliament.
- Provision was made i.t.o legislation for the entity to generate additional income.
- Any profits accrued would be repatriated/surrendered to the national fiscus
- Over the years the SADPMR has been funded just over 50% and the shortfall augmented by revenue generated from sale of services.
- Previously the entity requested for retention of surpluses/reserves



# CORE BUSINESS



# STIMULATION OF THE INDUSTRY

## Promotion of Intra-Africa Trade

- No VAT on import of minerals from SADC regions destined to South Africa for beneficiation purposes.
- SARS can play a major role by implementing a VAT exemption on imports for the industry in order to unlock cash.
- Establishment a trading platform/market (bourse) for mineral commodities and other products, e.g. gems stones,



# PROBLEM STATEMENT (1)

- Revenue from sale of services reduced on average by 8.8% during the 2019/20 financial year compared to the 2018/19 financial year.
- The root cause for this decline being purely as a result of the unfavourable economic environment which had a negative impact on the diamond and precious metals industry.
- Actual revenue for the six months ending in September 2020 is R14 million, which is 55% of the budgeted target for September 2020.
- The projected revenue from sale of services at end March 2021 is R26.7 million which is 52% of the annual budgeted target.
- Relocation to the ORTIA Special Economic Zone (GIDZ) will require funding for establishment.





## PROBLEM STATEMENT (2)

### ❑ Financial situation post-National lockdown and impact of COVID 19

- At the end of September 2020, the six months financial performance reflects a deficit of R2.2m due to the declining revenue generated from sale of services.
- The SADPMR is further burdened by employee costs which amounts to over 75% of its operational expenditure and is a fixed cost.
- The Regulator in fulfilling its mandate requires Human Capital and as a result is a labour-intensive entity, which is the root cause for 75% of the budget being allocated to employee costs.
- A reduction in the government grant together with a reduction in revenue generated whilst employee costs is increasing at the rate of inflation in the 2021 financial year does not bode well for the SADPMR's financial position.
- As a result, the financial position does not improve over the next six months despite implementation of austerity measures on other expenditure line items.
- This results in a projected **deficit of R22.5** million for the year ended March 2021 as reflected in the statement of financial performance above.



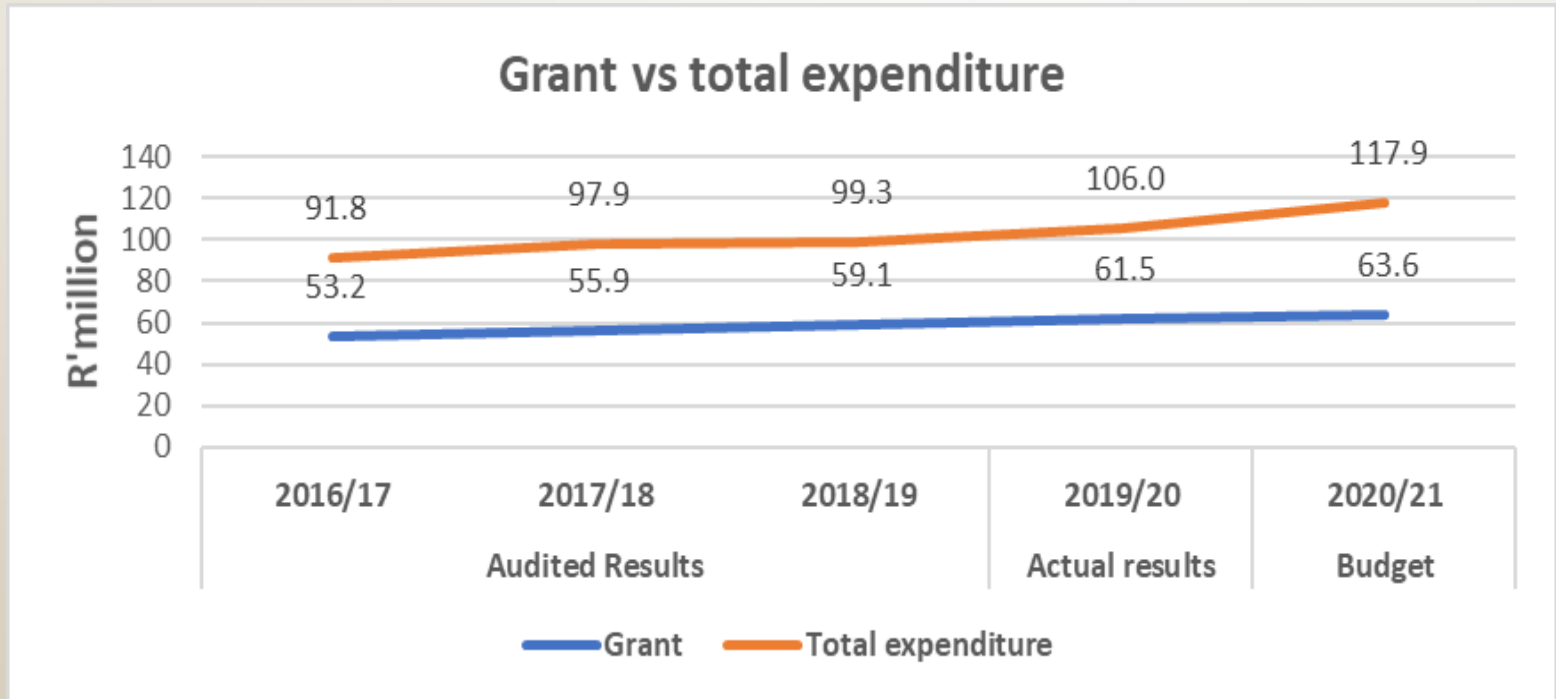


# FINANCIAL POSITION

□ The financial situation in the past financial years (2016 – 2021)

□ Grant vs Expenditure

Historically the financial position of the SADPMR was as follows



- Grant allocation has not been adequate to cover all expenses.
- Shortfall has been augmented by inhouse generation of revenue over the years.



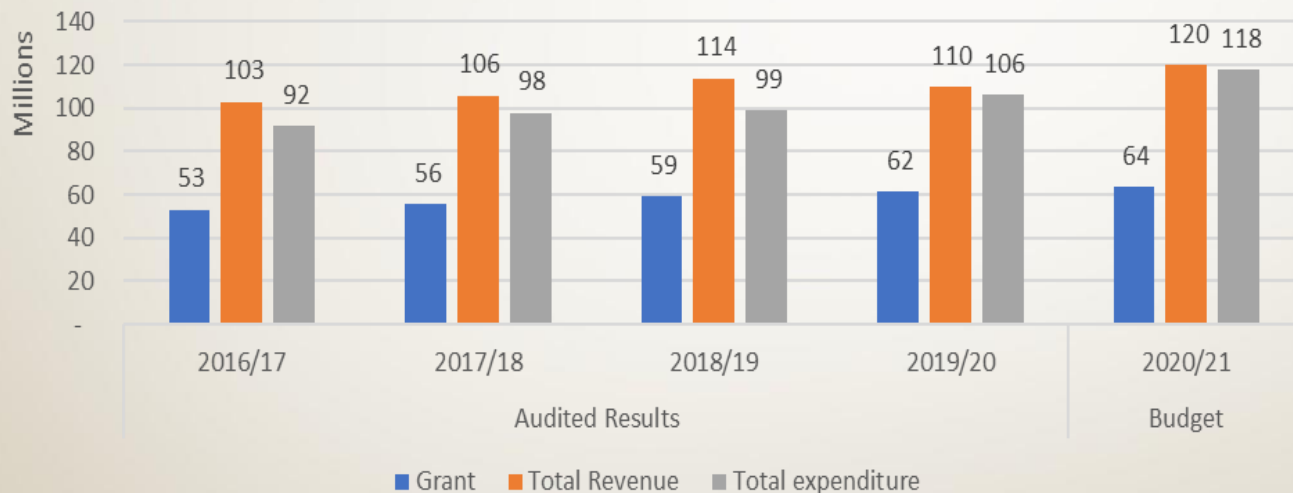
# FINANCIAL POSITION

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Historically the financial position of the SADPMR was as follows

Grant, Total revenue and expenditure



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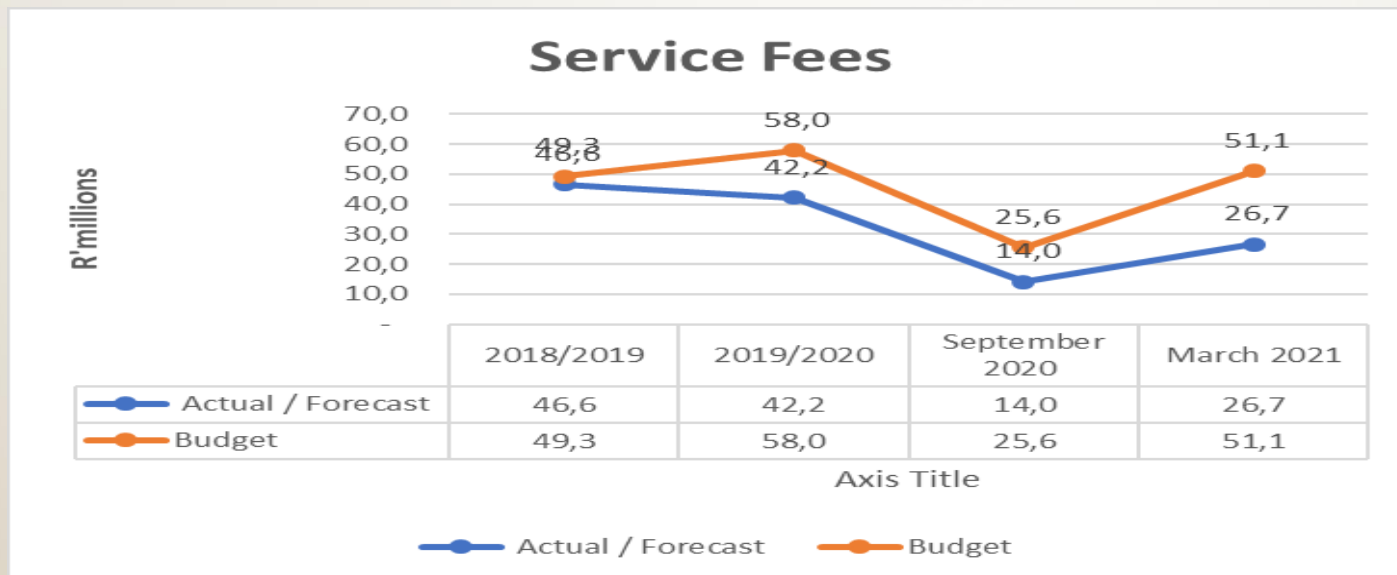


# FINANCIAL POSITION

□ The financial situation in the past financial years (2019 – 2021)

□ Revenue generated

The financial position is regressing impacting negatively on its sustainability.



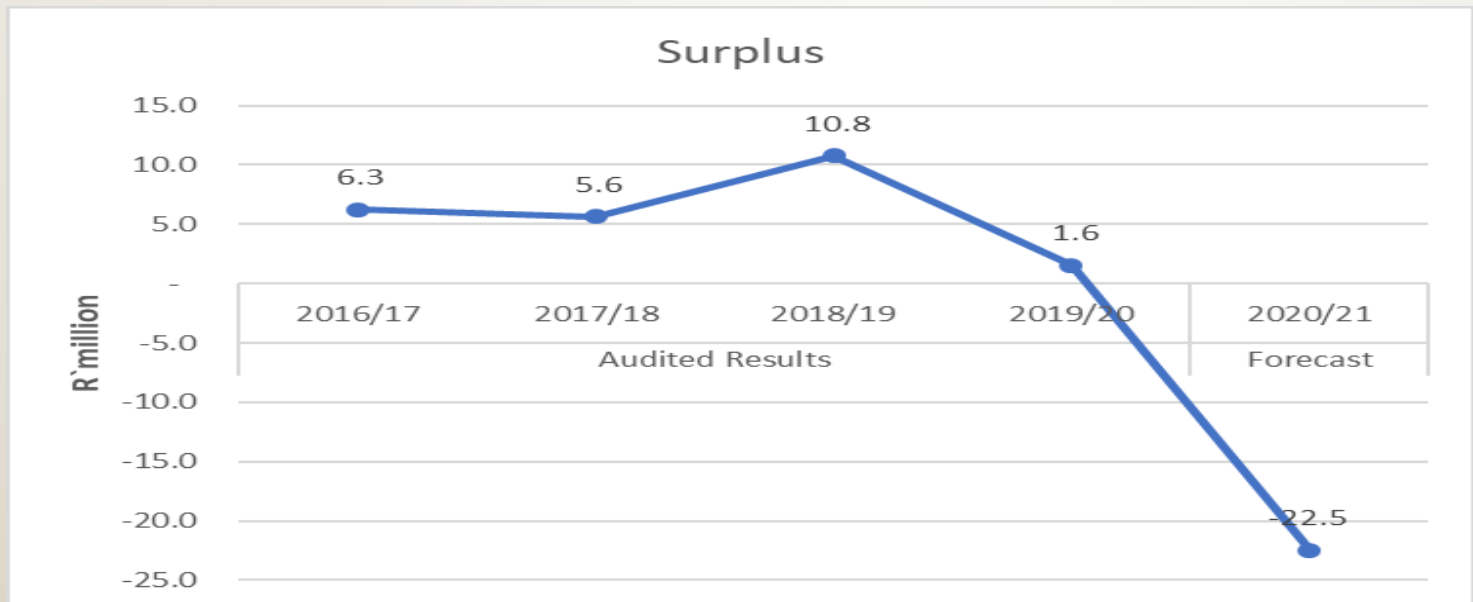
- The SA diamond production has significantly declined in 2019/20 compared to 2018/19 financial year.
- The decline in production negatively affects the SADPMRs financial position
- Decline exacerbated by COVID-19 pandemic during 2020/21
- Revenue shortfall of R24.4 million in the 2020/21 financial year



# FINANCIAL POSITION

■ The financial situation in the past financial years (2016 – 2021)

■ Surpluses

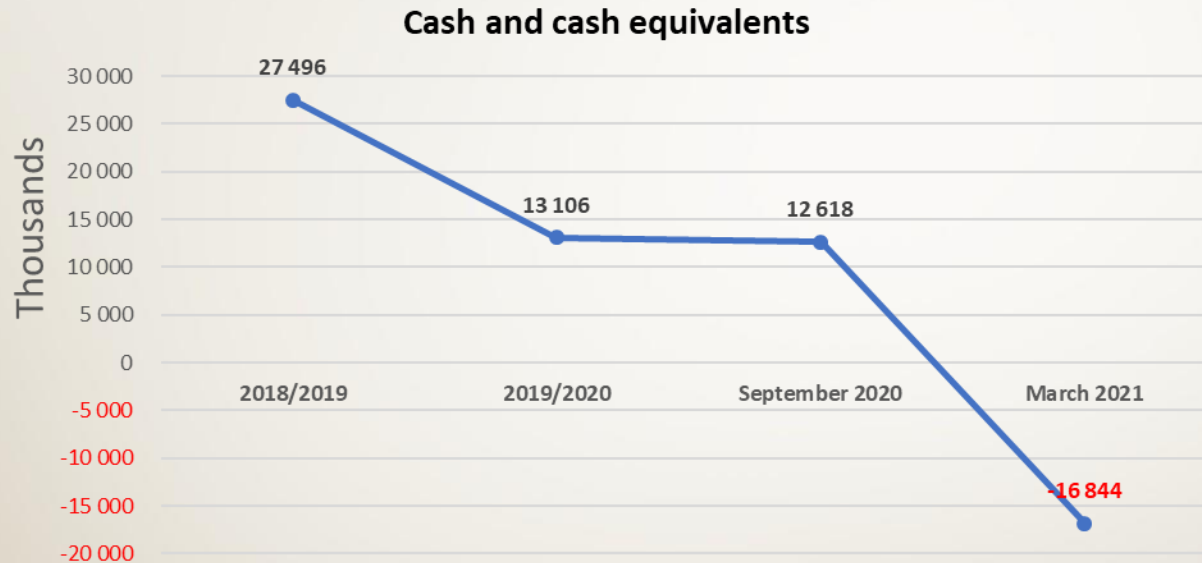


- Decline in surplus from the decline in revenue
- Austerity measures implemented to contain expenditure



# FINANCIAL POSITION

☐ Cash and cash equivalents from 2018/19 to 2020/21



- Decline due to inadequate revenue generation
- Funding of operations from reserves
- Further impacted by COVID-19



# FINANCIAL POSITION

## Financial situation post-National lockdown and impact of COVID 19

- 2021 Financial year

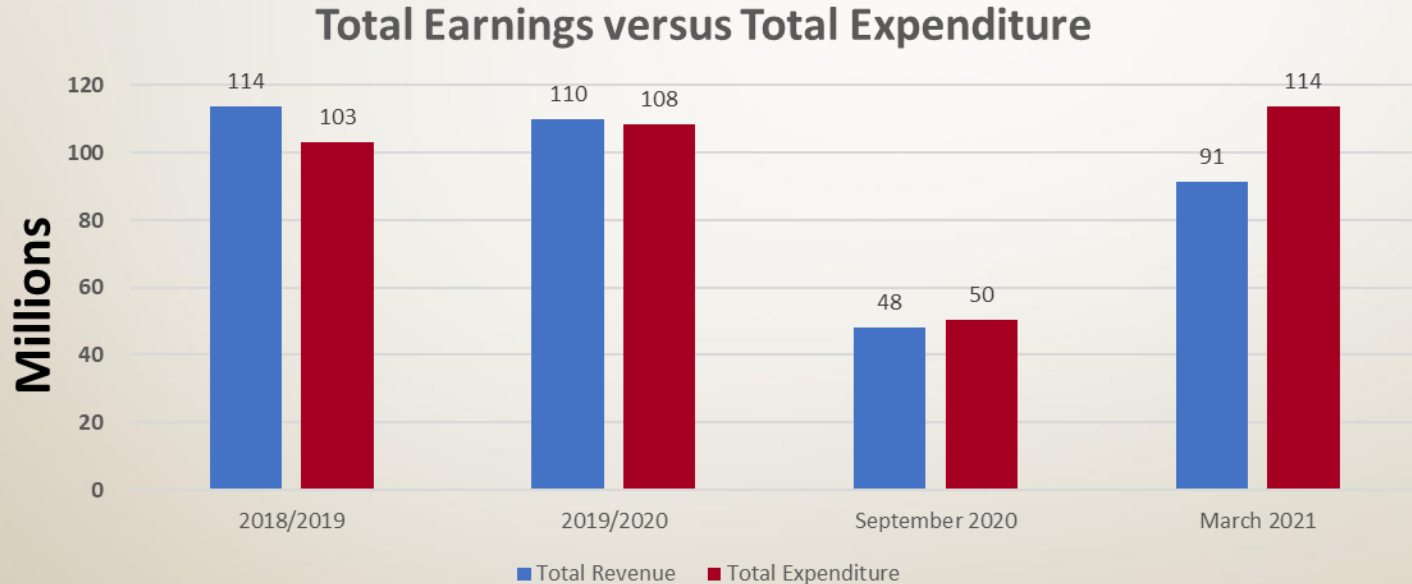
Statement of financial performance	31-Mar-20	September 2020			31-Mar-21	30-Sep-19
	Audited R'000	Actual R'000	Budget R'000	Variance R'000	Forecast R'000	Actual R'000
<b>Revenue from exchange transactions</b>	<b>44,518</b>	<b>15,180</b>	<b>27,548</b>	<b>(12,369)</b>	<b>28,992</b>	<b>20,730</b>
Service fees	37,633	13,258	23,620	(10,362)	25,754	17,244
License fees	3,243	749	1,932	(1,183)	932	1,649
Interest income	3,405	1,095	1,774	(679)	2,190	1,722
Other income	237	77	222	(145)	116.24	115.69
<b>Revenue from non - exchange transactions</b>	<b>65,376</b>	<b>32,986</b>	<b>33,750</b>	<b>(765)</b>	<b>62,229</b>	<b>30,197</b>
Transfer payment (Grant)	64,044	33,000	33,000	-	62,054	29,517
Penalties	1,332	(15)	750	(765)	175	680
<b>Total operating revenue</b>	<b>109,894</b>	<b>48,165</b>	<b>61,298</b>	<b>(13,133)</b>	<b>91,221</b>	<b>50,927</b>
<b>Expenditure</b>						
Finance costs	81	24	30	6	49	46
Employee costs	79,739	41,769	45,709	3,940	88,538	42,425
Depreciation and amortisation	1,115	632	670	38	1,453	911
Other operating expenses	27,583	7,878	13,302	5,424	23,634	13,325
<b>Total expenditure</b>	<b>108,519</b>	<b>50,303</b>	<b>59,711</b>	<b>9,408</b>	<b>113,673</b>	<b>56,707</b>
Other gains/ losses	186	(71)	-	71	-	8
<b>Surplus/(Deficit) for the period</b>	<b>1,562</b>	<b>(2,209)</b>	<b>1,587</b>	<b>(22,471)</b>	<b>(22,453)</b>	<b>(5,772)</b>



# FINANCIAL POSITION

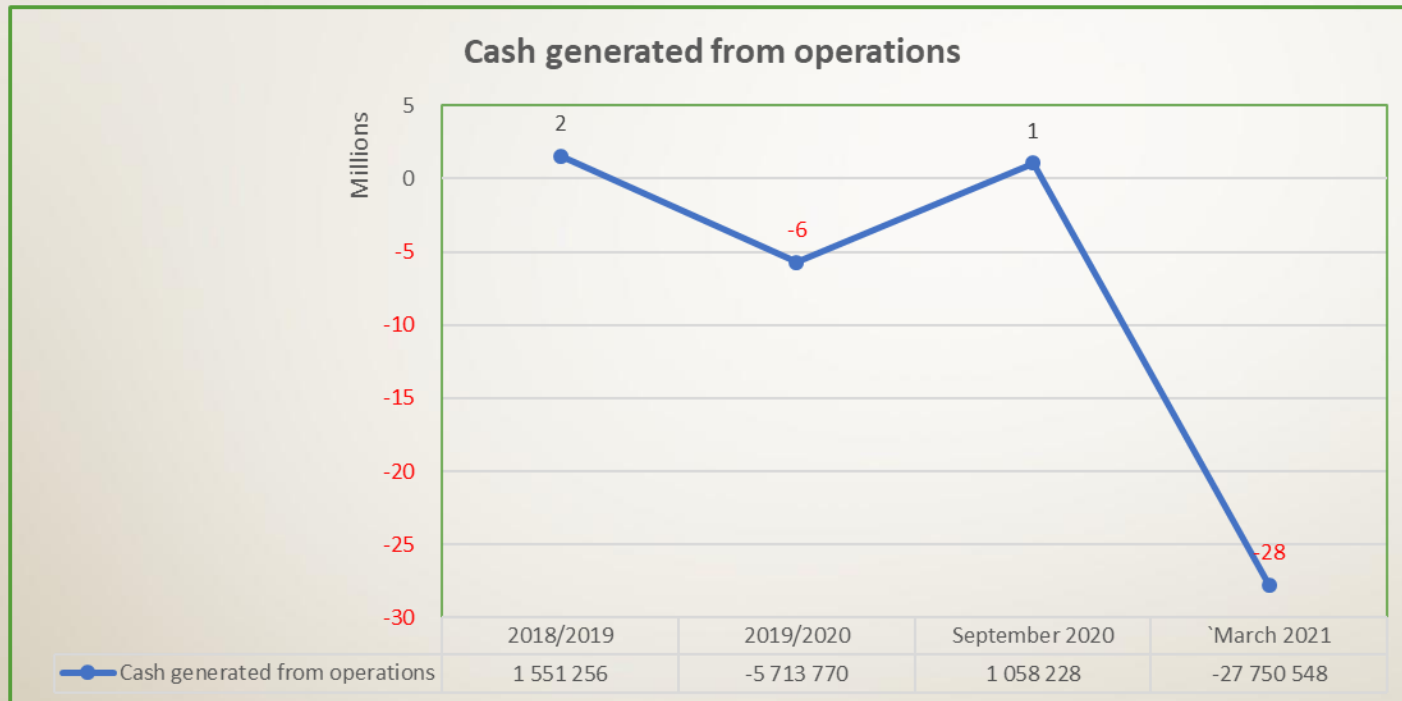
## Financial situation post-National lockdown and impact of COVID 19

- The total revenue versus total expenditure from the 18/19; 19/20; September 2020 and projected for March 2021 are depicted below.





# CASH GENERATED FROM OPERATIONS POST-LOCKDOWN



- There is a negative impact on cash generated from operations as there is continued decline in revenue generation



# INITIATIVES IMPLEMENTED BY THE SADPMR TO ENSURE ITS FINANCIAL SUSTAINABILITY

## COST CONTAINMENT

Areas where savings were realized	Amount saved (in million Rands)
Board fees	R0.9m
Inspection costs	R0.3m
International travel	R0.2m
Kimberley Process Certification Scheme	R0.6m
Public Relations	R0.7m
Transformation	R0.2m
Employee costs	R6.5m
<b>Total Savings</b>	<b>R9.4 million</b>



# INITIATIVES IMPLEMENTED BY THE SADPMR TO ENSURE ITS FINANCIAL SUSTAINABILITY

- Utilization of reserves:
  - This option will result in **going concern challenges**
- Executive and Senior Managers not receiving annual increases.
- Revision of Tariff structure which will be implemented post the Covid - 19 pandemic.
  - This option was commenced with and suspended upon the announcement of the State of National Disaster by the State President.
- Turnaround strategy initiated with the objective of obtaining the optimal resource requirements to mitigate the cost burden.



# RECOMMENDATIONS TO DEAL WITH THE FINANCIAL CHALLENGES

## Short term

- Cash injection from the Shareholder to cover the shortfall in revenue to the extent of R24.4 million that will not be generated in the 2020/21 financial year to cover operational costs.
- Assisting with funding the move to the GIDZ which is projected to cost at least R15.8 million.
- **Worse case scenario if Shareholder cannot assist with short term option**
- The combined shortfall above of R40.2 million will be funded from reserves.
- Safety net of R35 million, which in itself is insufficient to cover the above shortfall will be eroded.
- Resulting in **going concern** issues



# RECOMMENDATIONS TO DEAL WITH THE FINANCIAL CHALLENGES

## Medium Term

- Reprioritization of MTEF allocations by the DMRE.
- Increased appropriation by parliament by at least 12% of the budget.
- Additional revenue generated and not approved for retention will be surrendered to the fiscus.
- Approval of revised tariff structure by the Minister for implementation post the Covid-19 pandemic. This is dependent on Ministerial approval and the minimum timeframe required to publish same in the National Gazette.
- Rationalization of the entity pending the outcomes and recommendations of a resources utilization optimization study.



# RECOMMENDATIONS TO DEAL WITH THE FINANCIAL CHALLENGES

## Long term

- Generation of revenue – through amendments of the Precious Metals Act to include provisions that allow for charging of tariffs. Requires amendment of the Act
- To include provisions that will allow charging of tariffs for precious metals similar or equivalent to those charged to the diamond industry.
- Inclusion of other minerals besides diamonds and precious metals, e.g. scrap metals. This would resolve quite a number of challenges in the industry relating to illicit trading and loss of revenue.



**THANK YOU**

**AND**

**DISCUSSIONS**

