

## DIAMONDS, DEVELOPMENT AND DEMOCRACY

The annual Lubbock Lecture in Management Studies  
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April 29 2008

You may wonder why I entitled this lecture, Diamonds, Development and Democracy. It has a nice ring - but these three Ds are more important than just that. There is no doubt that every country in the world, and particularly those of my continent, aspire to Development and Democracy but the role diamonds can play in achieving both these goals this is not immediately apparent to those not involved in this industry.

Diamonds are, after all, a most unusual natural resource. A gem diamond has no material worth, but it has, since history began, been recognised as special, worn first by Kings and Emperors and in today's world given as the ultimate gift of love or in recognition of success. The business itself has been dominated by a rather strange breed of businessman combining the vastly different attributes of horse trader and artist. And diamond mines, in which thousands of tons of earth are moved to liberate a single carat of diamond, are themselves unusual. So a strange business, but one that, I believe, can and should play a key role in bringing Development and, one hopes, Democracy to where ever diamonds are found.

There are some today who argue that this is no more than a hopeless and self-deluding aspiration. But to my mind their thinking suggests that the Deity has a somewhat sardonic sense of humour. How else, if you follow their argument, could He have concentrated so large a share of the world's diamond and other natural resources in some of the most inaccessible places in the world's poorest continent; how could He, moreover, have ensured that many of the places so blessed have also been cursed with some of the world's worst governments - with the ineluctable consequence that, human nature being what it is, the proximity of those riches made bad governments worse, and people poorer?

This is the paradox that has become known and labelled in recent years as the "resource curse", the allegedly bitter fruit of Africa's abundance of natural resources. Far from alleviating poverty, it is argued, these very assets have been a spur to decay and the cause of conflict, corruption and impoverishment.

I firmly reject this. Rather, I believe, that throughout our history, man has been challenged to be worthy of the good Lord's beneficence. Natural resources are morally neutral. They can be a source of greed - and all that implies - or a source for good. The choice, as it has always been, is ours.

The historical record of how that choice was often made, from the 19th century when the Colonial powers first stumbled on Africa's riches to the dreadful civil wars in Sierra Leone, the Congo and Angola of the late 20<sup>th</sup> century, is not one with which anyone can be comfortable. However, to believe for a moment that all African countries are incapable of making the best use of these resources is as big a mistake as refusing to accept that the proper, non-predatory exploitation of Africa's resource endowment represents its best possible chance of levering itself out of poverty. A far, far better opportunity, in fact, than the estimated US\$1 trillion in aid that the Continent has received since the departure of the Colonial powers. Far from making poverty history, a reliance on aid has too often guaranteed poverty's survival and done nothing for development or democracy.

Today, of course, the connection between the exploitation of natural resources and the sustainable development of those countries where they are found is increasingly acknowledged by responsible business. The desire, however, to give something back is not entirely new, although the means through which that desire was expressed has changed according to the fashion of the times and our changing perception of the needs of the world in which we find ourselves.

Speaking before an Oxford audience, anyone from De Beers is reminded inescapably of De Beers' founder, Cecil John Rhodes. I do not judge whether he was an ogre or a man with vision, but there is no doubt that Rhodes, whom Euro Business magazine called the businessman of the century, was a man of his time in both in his political passions and his philanthropy. Victorian entrepreneurs like Rhodes exemplify that old saying "*on...honour... honest*". The drive to "get on", the motivating force

of their entrepreneurship, led in their lifetime first to the power and then to the honours; but it also fuelled a desire to do good things. This University must never forget the extraordinary vision he showed when endowing the Rhodes Scholarships. The generations of Rhodes Scholars who have come to Oxford and then returned to their own countries to form the intellectual, business and political elites of their time are his testimony.

Of course, Rhodes's complex legacy has ambivalent strands and there are elements which sit uneasily with many of today's beliefs, but what is often forgotten is that his most enduring gift to the world was funded by diamonds from the soil of South Africa. Rather than simply an exploitative venture, it was also an early example of natural resources as a source of good, and more particularly of diamonds as a source of human development. Today, in post apartheid South Africa the name of this imperialist is now joined to that of South Africa's greatest son, Nelson Mandela, in the Mandela-Rhodes Foundation which has its headquarters in Rhodes House, the historic old Cape Town offices of De Beers. There Nelson Mandela sits beneath a portrait of Rhodes as this partnership between the Mandela Foundation and the Rhodes Trust dedicates itself to building leadership capacity in Africa thereby ensuring Development and Democracy for the continent.

But the diamonds of Rhodes' era did more than just offer opportunities to the future leaders of the world to come to this special University. They were also the foundation of the modern economic powerhouse that is South Africa today. The capital generated on the diamond fields flowed out to the goldfields of the then Transvaal and beyond to create Africa's first fully industrialised society. .

Helping to create the leaders of the future was of course central to Rhodes' own motivation for the Rhodes Scholarships and I like to think that this is why a connection beyond business to the needs of wider society is part of the DNA of the company he founded 120 years ago in South Africa. Another essential strand in that DNA is a deep commitment to the continent in which our company was born and which remain the basis and the prime focus of our world-wide endeavours.

Africa is not the easiest place to do business. It is a challenging and demanding environment: the institutions in many - but I stress by no means all - of its countries are weak, their physical infrastructure equally

so and the scale of human need for the basic necessities of life daunting to say the least, but impossible to ignore. Then mining and in our case diamond mining - especially on the scale on which we operate - demands billion dollar up-front capital investment and very long time horizons. It is not a business for those without very deep pockets, a lot of patience and, most of all, a vision of the long term future.

It is not surprising, therefore, that we know that the prosperity of our business depends absolutely on the long-term stability of the countries in which we operate. This is not philanthropy as the Victorians would have understood it, and it is also far removed from the simple corporate social responsibility box ticking so fashionable today. It is instead an absolute recognition that contributing to the economic development of the countries and the communities in which we work is essential if we are to ensure their stability and continued access to the raw material that is the basis and the reason for our existence. In Africa, as elsewhere in the world, it is good business to be a good citizen. My grandfather, who became Chairman of De Beers in 1926, was ahead of his time when he declared that any company he was involved in had to make money but had to do so in a manner which would make a permanent contribution to the regions and countries where it operated.

Good citizenship, however, requires good governance without which, at the very least, the risk and reward ratio of major, long-term capital investment is fatally skewed. Mining companies - particularly those which like De Beers are prepared to make long-term commitments - need, at the very least, clarity, certainty and transparency in the rules and laws under they operate and in the administration of those laws.

But good governance should never be seen simply as shelter for secure investment. If investment is to be truly secure, the investor must become a partner with the host government in driving development, both on the macro scale through tax and royalty revenues and the micro through a positive engagement with the needs of the community. People who see the connection between good governance and their growing share - through better infrastructure, education and jobs - of the wealth generated by the natural resources of their country, will have a vested interest in demanding and maintaining good governance. It goes without saying therefore that it is incumbent on business to partner governments in this task.

For example De Beers today, with and through its partner companies, contributes some US\$4.6 billion to African economies every year. It is no coincidence that the governments of the countries where De Beers operates are those that deploy the considerable revenues they derive from diamond mining not for the profit of a few, but for the benefit of all their people. Nowhere is this more evident than in Botswana - a landlocked arid country that in 1967 was ranked the poorest in the world. 1967 is an important date in Botswana's history because that was when De Beers's geologists first discovered diamonds there. In 1969 De Beers and the Government of Botswana formed a historic partnership with the creation of Debswana to mine the country's diamond wealth. Today Debswana's mines produce 33.6 million carats a year and have transformed the country into the world's largest producer, when measured by value, of gem diamonds which in turn represent more than a third of its Gross Domestic Product.

These figures - as impressive as they are - would mean nothing or, as we have seen elsewhere in the world, worse than nothing - if those revenues had been squandered by a profligate government, if they had not been translated by good governance into public goods. In the 40 years since the creation of the De Beers-Botswana partnership the Government's diamond revenues have been used, through prudent and wise stewardship, to create the country's physical and financial infrastructure, to build its transport system, to educate its citizens and to create a proper healthcare system which also includes free access to anti-retroviral drugs to counter the scourge of AIDS.

The distinguished Oxford historian, Professor Niall Ferguson also looks to Botswana to refute the concept of the resource curse. The poverty of a country like Liberia, he argues, is not explicable in terms of resource endowment, "otherwise Botswana would be just as poor". Instead, as he says, for the last 35 years, this country has enjoyed the world's highest sustained per capita growth. It now ranks as a middle income country on the international scale and one of the wealthiest in Africa.

The key, he says, is that Botswana has kept in good repair all the institutions of a transparent and functioning democracy: including an effective public service and institutions which, "protect the property rights of actual and potential investors, provide political stability and

ensure that political elites are constrained by the political system and the participation of a broad cross-section of society".

A recent World Bank report bears out this message: it ranked Botswana as 19 out of 145 of the world's most open economies, and one of the best in which do business. It is surely no coincidence that Transparency International - that arbiter of good behaviour - gives Botswana a better anticorruption record than several Western countries. Neither is it simply because of its diamond wealth that today the country is seen as an oasis of peace and prosperity and a beacon of hope for those countries still struggling to turn the wealth under their soil into development and democracy for their citizens.

A real, embedded, functioning democracy which maintains good governance, the careful, prudent deployment of those diamond revenues into public goods and, I venture to suggest, a fully engaged, active and innovative 40-year old 50-50 partnership between Government and the country's biggest investor have all contributed to this, Africa's biggest success story.

But - as those of us in the mining industry know only too well - and the rest of the world is beginning to discover, if somewhat belatedly, all natural resources, from what we put in our cars to what we wear on our fingers, are finite. There will come a time - hopefully in the very distant future - when even Botswana's great diamond reserves will begin to dwindle. The challenge to both investor and Government is to so maximise the benefits they receive today that a fully diversified economy can be built, fit for the time when diamonds are no longer the primary source of income.. And one way of doing this is to unlock the downstream value of its diamond production through local beneficiation. To achieve this goal the De Beers-Botswana partnership has taken another major step forward, involving one of the largest transfers of skills and commercial activity that Africa has ever seen.

Last month President Festus Mogae opened a De Beers-funded US\$83 million state-of-the-art facility in Gaborone to sort and value more than 30 million carats a year, making it by far the largest sorting facility in the world. The ultimate goal, which will involve not only sorting the stones, but also selling and marketing, is to transform Gaborone into one of the world's biggest diamond centres. This will require the support of a host of other sectors which will have to expand employment and skills

including banking, security and IT. Thus will Botswana's wealth - already shared by its citizens - become a catalyst for the kind of economic diversification which must take place if its diamond wealth is to cascade through the generations.

I see this as a good example of the kind of innovative and thoughtful private-public partnership, firmly founded on mutual trust and respect, a real commitment to the host country and, above all, the concept of shared wealth, which could lift the so-called resource curse from developing countries.

De Beers has a similar relationship, through Namdeb, with the Government of Namibia, with whom it also has a 50/50 mining partnership. It, too, has moved down the local beneficiation route. But if this is a good model, it is not the only one. In South Africa, where the diamond mining industry is as old as De Beers itself, other models in line with the Government's policy of Black Economic Empowerment have been used to bring the majority population into private sector joint venture partnerships to make shared wealth a reality. Here De Beers sold 26% of De Beers Consolidated Mines to a black empowerment company in a deal carefully designed to benefit future generations of South Africans and not just enrich a few.

All this is comparatively new to the mining investor in Africa and I hope I haven't given the impression that De Beers, from the beginning of its 120 year old history, was miraculously possessed of all the wisdom and the nostrums of today's business practice. We live and work according to the values and norms of the times. What we have always tried to do, however, is to look a little over the horizon to see not only how we can produce profits for the present generation, but how we can continue to do so for future generations. Our remarkable longevity bears witness to this.

I would like to give you one small, but possibly not insignificant example of how a company's history can shape its responses to present challenges: From the beginning and for some historical quirk, possibly associated with a love of hunting among those 19<sup>th</sup> century mining magnates, De Beers had always had a passion for conservation. Wherever we found a viable deposit and established a mine, we would, to ensure the security of the product, acquire large tracts of the surrounding land which we would then convert into game reserves. In the mid 20<sup>th</sup> century this involvement

segued naturally into a real concern for the environment. We thus became the first mining company to appoint a Chief Ecologist whose remit was not only to look at how best we could secure a viable future for Southern Africa's wild life, from vulture restaurants to disease free buffalo herds, but more importantly to ensure that our mining operations met ecological standards long before they were thought of, let alone imposed, by governments. This is something you do, not because it is required by law, but because it comes and has always come naturally, when it is rooted in a company's history and its culture. It would make no sense at all if you were only there for the short term, but, long-term commitment carries its own costs and its own rewards.

Another vital part of our business philosophy- especially in Africa - is concern for local communities. There is no doubt that the most vital contribution a mining company can make to a country's economy is through the tax, royalties and - if you are in partnership - the dividends that flow to Government. But this cannot absolve you of your duty to your immediate neighbours. The scale of social investment in local communities around our mines is, of necessity, dwarfed by our overall economic contribution in producer countries. But it does not diminish their importance. They are critical to managing risk and promoting stability and growth. It means employing local people and building local management and confronting and addressing threats to the workforce such as AIDS - which is why we became the first mining group in Southern Africa to adopt a programme of free anti-retroviral treatment for all AIDS-affected employees and their long term partners.

It means supporting local business through preferential procurement policies, and it means working with - not I stress for - both local and wider communities on projects to address their most pressing concerns, especially Africa's greatest need - education and skills development.

I mention all this not to claim some special moral status for De Beers, but to illustrate the depth and breadth of engagement with the host country and the local community that a responsible investor in Africa must be prepared to make if he, or she, is willing to commit to the long term and be part of development and democracy. Could we do more? Probably. Could we have done better at times during our long history? Certainly; but we live in our own time and the best we can do is to respond to its needs and, if we are very wise, anticipate future challenges.

But we in the diamond industry do have one big advantage over the other extractive industries and that is our product. The diamond itself with all its attributes is a great control of error.

As I said at the beginning of my talk gem diamonds have no practical use. You can't eat them, use them to build a shelter or run your car. And yet demand for them generates a multi-billion dollar world wide industry. Why? The answer is in their unique symbolic value which has caused them to be valued by humanity from the time of the Greeks and the Romans and ancient Indian civilisations, Their hardness, their rarity, clarity, and beauty, the fact that they were formed many millennia before Man walked the earth, their unique ability to capture and refract light - all this has earned them a special place in our affection as a symbol of purity and enduring love.

But this very nature of the gem diamond value makes it extremely vulnerable to reputational risk which we in the industry understand all too well. So when in the late 1990s we were alerted by an NGO, Global Witness, to the fact that diamonds in Sierra Leone were being used to fund one of Africa's most brutal civil wars, we had to act.

Despite the fact that less than four percent of world diamond production was ever involved in funding Africa's wars, and that De Beers had not been active in Sierra Leone for a generation, we decided firstly to suspend all its outside buying operations in Africa because we could not be 100% sure of provenance.

Acting on the principle that one diamond used to fund conflict was one diamond too many, we also used our leadership position to alert the whole diamond industry to the risk. The result, in a remarkably short time, was an independently audited system of warranties which followed the diamond through the pipeline from manufacturer to retailer and consumer, guaranteeing that it had not been involved in funding conflict in compliance with UN resolutions. At the same time we played a major role in the so-called Kimberley Process- a unique coming together of governments, the UN, the diamond industry and NGOs to stem the flow of conflict diamonds. The Kimberley Process began in 2000 and by December that year all 191 UN members had voted unanimously to support it, making it the first time that a global industry had cooperated with the UN, governments and civil society to address a humanitarian issue. The process is both simple and successful. It involves sealing all

rough diamonds in tamper-proof containers, accompanied by forgery resistant certificates, each time they cross an international border. Governments - and to date 74 have signed up to the process - are responsible for implementing it. So effective has it been in preventing conflict diamonds from entering the supply chain that today nearly all diamond production is conflict-free. In effect what we at De Beers and the rest of the industry were doing was to live up to the diamond.

I have related this history, because I believe it best illustrates key elements in my argument:

- The way in which the very nature of the product itself acts as a *Control of Error* - it keeps the industry honest;
- The fact that the Kimberley Process was led - not by Western governments - but by African diamond producing countries themselves acting in concert with the industry, effectively refutes the patronising slur of the "resource curse". These were not hapless victims, but were actively, vigorously and successfully engaged in the protection and defence of one of the mainstems of their economies.
- The realisation that natural resources can and should be the wellspring, not of conflict, poverty and disaster, but of economic health and a secure, independent route out of poverty is spreading through Africa.

Some 25 years ago there were only three democracies in Africa. Today more than 40 have held multi-party elections. Some, of course, have yet to realise that holding an election is not enough; more important still is to accept the result. And admittedly some democracies are more stable than others, but the trend is growing, powered by a yearning for good governance and the direct investment that will assuredly follow.

Following the first Presidential elections in the DRC since independence, De Beers has returned to resume exploration there, as it has to Angola, now enjoying the benefits of peace after Africa's longest civil war. In Sierra Leone and Liberia we have been invited by the UN to assist in the establishment of Government Diamond Offices - a transfer of skills and expertise we are delighted to make and which will, we, trust enable those countries, once the object of predation by warlords and criminals, to begin to receive the diamond

revenues which rightfully belong to all their citizens. De Beers is also an enthusiastic founder member of the Diamond Development Initiative, a commitment to the reduction of poverty among artisanal mining communities in regions once closely associated with conflict diamonds. We are also members of the Partnership against Corruption and the Extractive Industries Transparency Initiative - both actively involved in the international campaign against the cancer which destroys business and competition as well as countries

As I said at the beginning, some countries in Africa offer a challenging environment for the investor. I stress some because to paint all Africa with the same dark brush is both ignorant and patronising. One must admit, however, that in some countries not the least of those challenges is the prevalence of corruption, with all its ambiguities.

Corruption is a product of impoverishment but, in the ultimate vicious cycle, it is also its cause. Multi-national companies with a worldwide reputation to preserve on behalf of themselves - and in the case of diamonds, their product- have to rely on their own culture to respond to these challenges and ambiguities. For our part we know, and that knowledge is embedded in our corporate DNA, that corruption will destroy the very stability and good governance we seek as a guarantor of our long-term commitment. Good governance is not democracy, it is sometimes its pre-cursor and sometimes its product, but it is essential if democracy is to take root and grow. And in this governments and investors have equal, if complementary, roles

The title of my speech today, Diamonds, Development and Democracy, was not chosen simply for its alliterative appeal. The promise of good governance is obviously a basic requirement of any responsible international investor in Africa's natural resources without which the risks, both reputational and real, become unsustainable. But the investor too has a vital role to play in demonstrating through his commitment to the host country and his contribution to its sustainable development, the real and tangible benefits that good governance can bring. What any investor needs to do is to live up to the diamond regardless of what business they are in and then we will truly contribute to development and democracy.

As a diamond miner, and someone who is proud to call himself an African, I firmly believe that through enlightened and engaged private - public sector partnerships, Africa's diamond and other mineral wealth can help to underpin and enlarge its appetite for democracy. Then the challenge to all of us implicit in the continent's extraordinary resource endowment will be answered in the way the Creator intended.

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