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TALKING BUSINESS

## Diamonds Are Forever in Botswana

By [JOE NOCERA](#)

In 1967, the year after Botswana gained its independence from Britain, a huge diamond mine was discovered in a remote area called Orapa, about 250 miles from the capital city of Gaborone. The company that found the mine was De Beers, which was then — as it is now — the dominant seller of “rough stones” in the world. Four years and \$33 million later, the mine was ready for production.

The country's president, Seretse Khama, officiated at the opening.

In the early years of its nationhood, Botswana was one of the poorest countries in the world, with a per capita income of about \$80 a year. Today, it is among the most prosperous countries in Africa, with a real middle class, and a per capita income approaching \$6,000 a year. By contrast, the average citizen in Angola earns about \$2,500 a year, while in the Democratic Republic of the Congo, it's a little more than \$1,500, according to the [World Bank](#).

There is no question that the discovery of diamonds was the most important catalyst in Botswana's economic growth. Prior to the discovery, Botswana had an agricultural economy. By the early 1980s, however, Edward Jay Epstein could report in his book, “The Rise and Fall of Diamonds,” that diamond, manganese and copper mines controlled by De Beers accounted for fully 50 percent of the country's gross domestic product. Though the Botswana economy has since diversified somewhat, the operations of De Beers still account for around a third of the country's gross domestic product.

There is also no question, though, that Botswana was greatly aided by something else: De Beers's own sense of — to use the current term of art — corporate social responsibility. Unlike most big companies that have exploited Africa's resources over the course of its tragic history — indeed, unlike most Chinese companies operating in Africa today — De Beers did not simply plunder Botswana. Practically from the start, it entered into a 50-50 joint venture with the government; about a decade ago, it also sold the government a 15 percent stake in the company. (De Beers has only two other shareholders: the South African-based Oppenheimer family, which has controlled the company for over 100 years, and the publicly traded Anglo-American Corporation.)

It has also built roads, hospitals and schools in Botswana; worked to help the country deal with H.I.V. and AIDS; and been involved in and paid for a hundred other things that have helped make Botswana an African success story. Most of the executives in the government-company joint venture are black Africans who have been trained by De Beers. In March, the company closed its diamond sorting facility in London, and opened the largest, most technologically advanced diamond sorting complex in the world in Gaborone. It employs 600 people and is also part of the company's 50-50 joint venture with the government.

"We think our approach is a competitive advantage," said Gareth Penny, the cherubic 45-year-old South African who has been the company's chief executive since 2006. It's hard to disagree. Botswana's citizens need roads — but so does De Beers, to transport its diamonds. De Beers needs a healthy work force, so its emphasis on H.I.V. awareness and treatment is clearly in its self interest. Indeed, a more prosperous Botswana helps De Beers in every way imaginable, not least by providing a stable environment in which it can do business. "The country can now attract banks and service industries — and avoid the natural resource curse," Mr. Penny told me.

In the two years he's been the chief executive, Mr. Penny has become a proselytizer for what he likes to call "beneficiation" — which is a fancy word for doing well while doing good. I heard him make a speech in Washington a few months ago, in which he repeatedly used the Botswana example and to a less extent Namibia, where De Beers has a number of similar programs, to show what socially responsible companies can accomplish in Africa. He went on to say that every company doing business in Africa needed to practice this kind of enlightened stewardship if it hoped to succeed over the long haul.

So why don't they?

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The transformation of De Beers over the past decade or so is a remarkable, little-known story. For decades, the company had been an unapologetic monopolist, working to keep diamond prices high by controlling supply. It had offices all over Africa — indeed, all over the world — that bought up the vast majority of rough stones as they were mined. It held onto the excess supply, and sold to diamond merchants and traders only enough product to meet demand. Its business model created the perception of scarcity — a necessity in no small part because diamonds are not, in fact, scarce.

(De Beers was also one of the world's great marketing organizations, whose founder, Cecil Rhodes, invented from whole cloth the idea that an expensive diamond was a symbol of love and devotion; decades later, De Beers's marketers came up with the slogan "Diamonds Are Forever." But that's a story for another day.)

In the late 1990s, De Beers's business model began to founder. Whenever demand dropped, De Beers would have to stockpile diamonds — at one point, it had a staggering \$5 billion worth of inventory. In addition, diamonds were being discovered that De Beers could not control. Canada, it turns out, is a country full of high quality diamonds — and it refused to be part of the De Beers cartel. More menacingly, rebels in strife-torn African countries would force people to mine diamonds and then sell them to raise money to buy arms. These so-called blood diamonds were beginning to give diamonds a reputation in the West akin to fur.

Mr. Penny was among a group of Young Turks at De Beers who conducted a strategic review that helped persuade management that the company had to change. It stopped buying third-party diamonds, and focused instead on selling its own diamonds — though to only around 100 dealers who agreed to play by its rules. (It didn't give up control entirely.) And it became a company that focused on increasing demand rather than controlling supply. Today, De Beers has about 40 percent of the diamond market — but it is far more profitable than under the old regime, when it controlled 80 percent of the market.

The blood diamond issue largely went away when De Beers, at the urging of the N.G.O. community, helped devise something called the Kimberley Process, which effectively created a way to ensure that buyers were

getting only diamonds that had been mined legally. Besides being the right thing to do, this also had a business rationale: it restored the reputation diamonds had long enjoyed, while eliminating a source of excess supply.

As for its emphasis on corporate social responsibility, you may be surprised to learn that this was probably the least revolutionary part of the De Beers transformation. Partly this is because it is an African company — its roots have always been in South Africa — and has always had a huge interest in African economic success. And it has long built roads and hospitals in the countries where it did business.

But it was also because the Oppenheims were, by the standards of the day, enlightened corporate leaders. They gave scholarships to promising young students. They believed in philanthropy. And Harry Oppenheimer, the father of the current chairman, Nicky Oppenheimer, made no secret of his opposition to apartheid. “They were good guys,” said Mr. Epstein, the author.

Mr. Penny has continued that tradition of enlightened leadership; indeed, he can sometimes sound more passionate about the importance of helping Africa than about the importance of making money. “We are making a contribution by helping to build a more civil society,” he told me with no small pride. “We are part of the solution.”

True enough — but only, it would seem, in a small handful of places like Botswana. And hence the real dilemma. Companies can have all the good intentions in the world — as De Beers clearly does — but it only works if the countries will let it work. Angola and the Democratic Republic of the Congo both have unexploited diamond deposits that could help those countries prosper. But they are too unstable — and too corrupt — for De Beers to do business there. It takes two to tango.

Thus, what’s really unique about the De Beers-Botswana relationship isn’t so much De Beers’s good intentions — it’s Botswana’s as well. The country has been democratic since it gained independence; it has had intelligent, honest leadership; it has avoided civil strife — and it has understood the power of economic growth to improve the lives of its citizens. All the good that De Beers has done has come about with the government’s encouragement and support.

That’s something you can’t say about much of the rest of Africa. A few months ago, *Fast Company* magazine published a powerful account of China’s invasion of Africa, a story that showed in gruesome detail how Chinese companies are extracting resources, paying off governments, and doing exactly what Mr. Penny says won’t work: pillaging the continent with not even a nod toward “beneficiation.” It would be nice, certainly, if Chinese companies had a greater sense of responsibility — but ultimately it is up to governments to make companies act on behalf of its citizens. “It’s the real lesson here: the importance of decent governments,” said Sonia Marciano, a professor at [New York University](#) Stern School of Business, who has written several case studies about De Beers.

Which is why, although Mr. Penny professes to be an optimist about Africa’s economic future, I find it a little hard to share his optimism. So much of Africa is still governed so poorly — Zimbabwe, anyone? — with problems that seem so intractable. And there isn’t a thing De Beers can do about them. What De Beers ultimately illustrates isn’t just the good that corporate social responsibility can do, but its limits as well.

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