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# Mineral Resources and Beneficiation in Africa: Initiatives and Impacts

23 June 2014

Meeting sponsored by De Beers, as part of the 'Diamond Dialogue' series

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### Preface

This document provides a summary of a meeting and question-and-answer session held at Chatham House on 23 June 2014 on beneficiation of mineral resources.

The speakers discussed the successful case of De Beers' transition to Botswana, alongside certain less positive examples, including South Africa's and Zambia's beneficiation policies. They highlighted lessons that could be learnt from such examples, particularly the need for engagement and commitment by both the government and the private sector. Beneficiation must be seen as a long-term policy that requires development of the country's infrastructure prior to implementation. The speakers also examined the negative dimensions of public-private partnerships in countries like the Democratic Republic of the Congo, an example that indicated the need for good governance and strong institutions in order for beneficiation to take place successfully.

The meeting was held on the record. The following summary is intended to serve as an aide-memoire for those who took part and to provide a general summary of discussions for those who did not.

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### List of Speakers

**Elizabeth Donnelly**, Assistant Head, Africa Programme, Chatham House, London

**Sheila Khama**, Director, African Natural Resources Centre, African Development Bank, Former CEO, De Beers, Botswana (2005–10)

**Varda Shine**, Former Chairman, Diamond Trading Company, Botswana

**Jaakko Kooroshy**, Research Fellow, Energy, Environment and Resources, Chatham House

**Muzong Kodi**, Associate Fellow, Chatham House; Board Member, Diamond Development Initiative

**Dr Oladiran Bello**, Head, Governance of Africa's Resources Programme, South African Institute of International Affairs

**Prof. Happy Siphambe**, Dean, Faculty of Social Sciences, University of Botswana

**Terry Heymann**, Managing Director, Gold for Development, World Gold Council

**Andrew Bone**, Director, International Relations, De Beers; and Vice President, World Diamond Council

**Ben Shepherd**, Associate Fellow, Africa Programme, Chatham House, London

### Chairs:

**Elizabeth Donnelly**, Assistant Head, Africa Programme, Chatham House, London

**Rosemarie Cadogan**, Legal Counsel, Commonwealth Secretariat

## Session 1: Regulation, Legislation and Business Environment

### Sheila Khama

The speaker stated that African governments' desire to extract greater value from their resources and become producers of products rather than net exporters of raw materials was legitimate and reasonable. She noted that this desire was seen in the African Union (AU) itself, with participating in the value chain downstream one of the eight action items included in the organization's African Mining Vision. The speaker explained that there were two factors informing the debate around beneficiation. First, the governments are under pressure to engage their populations, because of enormous population growth and high levels of unemployment throughout the continent – conditions that could lead to social unrest and run the risk of destabilizing the business environment. If successful, beneficiation will help governments engage their populations, as well as add value for investors by stabilizing the business environment. Second, the speaker detailed how governments tend to be limited in envisaging the execution of beneficiation, often purely relying on legislation and viewing beneficiation as a natural resources phenomenon. The speaker indicated that it was an error for governments to assume legislation will be sufficient for successful beneficiation, and she described how beneficiation is an industrialization and trade policy issue. Government intervention is a requisite, as there is a correlation between the country's infrastructural capacity to support industry and the successful performance of industry.

Khama noted that industry also had a role to play in ensuring the success of beneficiation projects, particularly in bridging the knowledge gap. She explained that industry must share its knowledge of the challenges with governments, so as better to reconcile state aspirations with commercial imperatives. She emphasized that these were not irreconcilable, but required that government and industry actively move closer to one another in order better to understand the varying challenges and perspectives. Khama stated that industry also faced a challenge in communicating to governments that other organs may be better suited to extracting minerals, as governments were inclined to presume that the nation state was the best actor through which value could be extracted from state resources. She underlined the necessity of developing a productive relationship between government and investors in overcoming these challenges, as was seen between the Botswana government and De Beers. Khama concluded by highlighting the need for both government and industry to understand their roles and partner together to overcome the issues; this will increase the likelihood of successes. On the other hand, neither the government legislating nor industry refusing to shift its position will create positive changes in mineral extraction for either side. Khama stated that it was in both parties' interests to engage in dialogue, and she noted that there remains a gap here that must be closed.

### Varda Shine

Shine described how, historically, natural resource wealth has failed to bring about many political and economic benefits for the countries in which they are found, and there is an increasing demand by governments for greater value addition at the source. The competition for resources has also increased, which has resulted in companies having to deliver more than simply extraction in order to be attractive to governments. On the other side, Shine explained that business's shareholders desire greater returns. She indicated that it was very important for governments and businesses to develop a mutually beneficial solution, as poorly conducted beneficiation could result in value destruction. As such, commitment and cooperation from both parties are essential for addressing the major challenges. Shine discussed what businesses looked for in beneficiation: a sustainable margin; sustainable domestic industry, which requires skills training rather than subsidies; and support from the government through clear legislation

that is applied consistently and fairly, constant and effective monitoring, less bureaucracy, a fast response time, sufficient infrastructure and a competitive tax regime. Governments desire sustainable revenue; job creation; well regulated industry; skills development and a commitment from business to develop local industry and go beyond the minimum requirements of corporate social responsibility; and positive public relations so as to indicate their capacity to host foreign investors and thereby attract investment beyond natural resources.

The speaker examined the De Beers and Botswana beneficiation project, and suggested that this could be a prototype for other sectors. The speaker explained that both De Beers and the Botswana government envisaged outcomes from the beneficiation. The policy allowed the company to develop a new area of commercial advantage and improve the company's reputation for buyers, at the same time as signalling that Botswana was a safe and welcoming place for foreign investment. The beneficiation programme began in 2006, with the development of Diamond Trading Company Botswana (DTC Botswana), a 50/50 joint venture partnership between the Botswana government and De Beers. De Beers completed the move of its international trading activity from London to Botswana in October 2013. The relocation led to the development of new hotels, catering services, and leisure and entertainment businesses, and international media's attention to Botswana has been increased, creating a platform for future foreign investment in the country beyond the diamond industry. Over 350 new jobs were created in Botswana's diamond cutting and polishing industry, and an estimated 150 000 people in Southern Africa have benefited from the migration.

The speaker discussed the lessons that could be learnt from the case of Botswana. She indicated that clear tactics and objectives were essential for success and these objectives should be monitored by both parties. There should be a strong alignment between business and government before the beneficiation process begins, with a joint government and business steering committee. A joint working group should also be established to create consensus between the two parties and a clear delivery plan and communication protocols must be set up. The speaker emphasized the importance of the participation of individuals who are able to make a difference and are responsible within government and business. The project team needs to involve expertise in a wide range of sectors to ensure that all angles are taken into account. Furthermore, the beneficiation policy must be timed well and viewed as a long term process. The speaker concluded by highlighting the three major factors necessary for conducting beneficiation. The first of these is motivation, as it is important that both the government and businesses have vested interests. Secondly, collaboration between the two partners is essential. Finally, continuity is necessary to ensure that the beneficiation can develop beyond a single event. As such, sustainability is a key theme in beneficiation.

### **Jaakko Kooroshy**

The speaker stated that there were two rationales behind governments' desire to engage in beneficiation policies – economic and political. The economic theory proposes that the country will see long term benefits from the emergence of a downstream sector, which involves more technology and labour, is more capital intensive and captures a greater part of value addition than the primary sector. This would lead to broader growth. Beneficiation strategies are typically presented politically as means to prevent the exploitation of countries' resources by foreigners who may leave behind little in-country development, and move the countries on from being suppliers of cheap raw materials. The speaker highlighted how governments had come under political pressure to show that changes were being made to support development and prevent the resource curse.

Kooroshy discussed the example of South Africa's beneficiation, which he explained had been considered since 1994. Public pressure for progress on beneficiation has increased, and the South African government passed an amendment in March 2014 that gave the Minister of Mineral Resources the power to designate specific materials for beneficiation. While companies are quite wary as to how this will turn out, Kooroshy noted that a lot of certainty remained over the specifications as the amendment has yet to be signed into law and detailed regulations have not been published. Kooroshy highlighted how Zambia had also begun a programme of beneficiation, whereby the government introduced a 10 per cent export tax on unprocessed copper with the aim of establishing a tax incentive to escape the tax through beneficiation. However, Kooroshy noted that the government was wavering on the issue, producing the law in 2011, suspending it in October 2013 and reinstating it a month later. He suggested that this was partly due to companies stockpiling their copper as a negotiating strategy to push the government towards developing a mutually beneficial solution, and due to Zambia's lack of the necessary beneficiation infrastructure. The final policy example that Kooroshy examined was Indonesia, the government of which announced in 2009 that raw mineral exports would be banned from 2014. Kooroshy described how the industry miscalculated, assuming that the ban would not be implemented, and failed to develop the necessary downstream infrastructure during the four interim years. With the commencement of the ban in January 2014, thousands of jobs have been lost and global market prices increased. Kooroshy suggested that a negotiated settlement between the government and businesses could be anticipated, although he noted that both candidates for the presidential elections had committed to continuing the ban.

Kooroshy emphasized that beneficiation policies had a lot of potential risks, with the uncertainty of the lengthy processes often resulting in companies holding back investments until the policy's outcome is clearer. To avoid uncertainty, policy commitment and credibility are key, as without these companies would challenge the government's ability to implement beneficiation programmes. Additionally, Kooroshy stated that governments could not simply legislate for beneficiation and industrialization. Significant government capacity, complex decision and coordination with the private sector were required. Companies in turn need to understand the pressure that government often faces, and if they are concerned about the impact of the public policies the onus is often on the company to engage the government in dialogue and suggest alternatives. Kooroshy noted that other strategies of leveraging resource wealth that may be easier to achieve and contribute more effectively to the governments' objectives were available, such as investment in agriculture or upstream linkages.

### **Muzong Kodi**

Kodi queried how the lessons of beneficiation could be applied in the majority of African countries that possess huge natural resources, many of which lack stability and strong institutions. Such countries often face huge constraints in terms of exploiting their natural resources, such as limited infrastructure, technical skills and technology, and Kodi specified that public-private partnerships (PPPs) were frequently presented as the solution due to the private sector's superior capacity and experience. However, Kodi emphasized that such partnerships were not a panacea, and he highlighted the example of the Democratic Republic of the Congo (DRC), where PPPs had been used extensively to negative results. After the start of the war in 1996, the governance of natural resources in the DRC changed dramatically, with those in power lacking a long term development vision and using the state owned cobalt and copper mines to obtain the necessary funding to maintain the political positions. Joint ventures were signed with a number of foreign companies, the majority of which were unfavourable to the country with assets sold below value to enormous profit for the foreign companies. Kodi noted that this situation continued to the present day. He explained that in countries like the DRC that lack good governance, PPPs could be very

negative, and he highlighted how despite the DRC's huge forests and enormous mineral resources it was now the world's poorest country.

Kodi noted that lessons could be drawn from the DRC's experiences. He stated that a committed and dedicated leadership was highly important, and a long term development vision including the natural resource sector needed to be developed in a consultative and inclusive manner. Appropriate legislation, regulatory frameworks and strong democratic institutions must be developed in order to promote transparency and accountability, and transparency must exist throughout the value chain, beginning with the negotiation of exploration contracts. Kodi specified that the private sector should support increased transparency, as this is in their long term interests. Without transparency, the government can recall agreements that are not suitably beneficial to the country. Kodi concluded by emphasizing that while PPPs could lead to inclusive and sustainable development in countries with committed elite, where such an elite is lacking the partnerships could instead result in the further impoverishment of the country.

## Summary of Questions and Answers

### Question

How can governments be encouraged to develop reasonable expectations about beneficiation, not move on their political vision too quickly, and regulate rather than enforce beneficiation through decrees?

### Response

Shine indicated that dialogue was key to successful beneficiation, without which the process would be one sided, even if the government develops its policy through regulation over a long time. It is important for individuals within government and business to engage in discussion and increase their understandings of the other side's needs and vision, as well as the challenges to the process as a whole. A long term vision is also important. For De Beers' migration to London, a solution was developed to ensure that neither the company's nor the government's profit margins would be harmed. The speaker suggested that De Beers had paved the way for businesses greater involvement in government, but she underlined that businesses cannot solely tackle the issues of beneficiation.

Khama stated that it was necessary to understand the driver of expectations, with governments under pressure from the public to deliver and companies under pressure from their shareholders. She detailed how governments seeking re-election were unlikely to refute public expectations of increased wealth, as it is difficult to explain to the public that tangible benefits will not be felt for many years. She noted how governments also frequently fail to translate the wealth into public benefits, and she suggested that this could be mitigated against by maintaining public knowledge of how governments work and what realistically they can deliver. She emphasized that Botswana's example was unique, with the government's and De Beers' vested interests so aligned from the beginning that the partnership started from a position with a likelihood of convergence. Other industries are not structured like the diamond industry and the experience cannot be anticipated to be replicated elsewhere. The speaker drew particular attention to the importance of other companies and countries understanding this, so as to manage expectations.

Both governments and companies are guilty of inflating expectations of resource extraction, and Mr Kooroshy noted that this was also true of the international community. The internal community is guilty of propagating the myth that the resource sector is the answer to African politics, and Kooroshy explained that he disagreed with the claim that the proper management of Africa's natural resources would be the engine of African development. He explained that while this might be true for certain African countries such as Mozambique and Guinea, a lot of other countries would instead benefit further from focusing on the development of other industries, such as agriculture.

### Comments and questions

Resource nationalization can make dialogue between governments and the corporate sector unnecessarily difficult, and in South Africa the development of a mutually supportive relationship has been impaired by the high levels of suspicion around the debate on nationalization.

How much did the Botswana government understand the difficulties De Beers faced in its move to the country, and what were the challenges in making the government better understand?

### Response

Shine specified that De Beers and Botswana had a unique relationship, with a partnership for the last 45 years and constant dialogue over the last 20. The government has been educated through this process, aided by the biannual meetings between Botswana's Mineral Policy Committee and De Beers' management, during which the diamond industry, consumer confidence issues and mining difficulties were all discussed. Shine further highlighted how the move to Botswana could not have taken place twenty years ago, as the development of technology had been integral by reducing the dependency on technical skills for cutting and polishing diamonds. There has also been a shift in consumer expectations to include an ethical dimension and buyers are now interested in a diamond's origin and how it was processed. The migration had to take place in steps, engaging in discussion and preparing the environment to ensure a sustainable outcome.

Shine stated that the outcome of resource nationalization depended on the willingness of government to work with industry. If both parties look for a mutual solution together then strategies for coexistence can be developed, even if the threat of resource nationalization remains.

Khama explained that the responsible institutions must be structured in a manner that allowed for the development of institutional memory and the transfer of knowledge through a constant structure, and she highlighted the example of Botswana's Mineral Policy Committee success. The speaker indicated that there were two challenges to this. First, there is an issue over how knowledge can be moved from a few individuals, who may not remain with the institution, to the institution itself. Second, she noted that this should not be limited to politicians and a relationship between institutions and academia must be developed so that the information can be transferred to the public. The speaker also explained that governments need to think about what internal knowledge is necessary for legislation, and what knowledge can be outsourced, and she stated that this is something most governments lack clarity on.

One of the top risks perceived by mining companies over the last decade has been resource nationalism. The speaker explained that the conception of resource nationalism has altered to now include beneficiation policies, the nature of the supply chain and local content, not just complete state control over resources. The speaker stated that this was due to paranoia amongst the industry. She described how the mining industry in turn was challenged by perennially poor public relations, with a misperception that the industry was more harmful than beneficial. The speaker underlined that nationalism to the degree seen in Zimbabwe was ill advised as it fails to recognize that financial, technical and mining capabilities are essential for extracting resources and gaining values from these, instead prizing state ownership above all else.

Kodi noted that the private sector, and mining companies in particular, find resource nationalism concerning due to a lack of understanding about the difference between nationalization and nationalism. Nationalization is the transfer of assets from the private sector to the public sector, whereas resource nationalism involves a perception that natural resource assets belong to the specific country in which they are found and hence should benefit it. He suggested that this was a more positive way of understanding the concept that could be beneficial to both the country and the private companies working in it.

Kooroshy noted that the term resource nationalism was unhelpfully vague, encompassing a wide variety of policies. He explained that extreme policies of resource nationalism were quite rare, with governments more likely to equivocate on applying such policies, as seen in Zambia's vacillation on its 10 per cent tax as a result of governments' awareness of the need to attract investors. Kooroshy stated that such a recriminatory debate around South Africa's policy towards the mining sector was concerning, and he



indicated that there was a failure on the part of the political, corporate and trade union leadership. He queried how it would be possible for the country to move towards a more constructive and inclusive debate that included a long term perspective.

### **Question**

What lessons can be learnt from De Beer's work with Botswana Power Corporation on ensuring an efficient supply of electricity, and is the energy supply an issue for people investing in South Africa and Zambia?

### **Response**

The supply of both electricity and water was a risk for De Beers' migration, but Shine specified that the resolution of these issues was dependent on good leadership and commitment of the parties to working together. She highlighted how the Botswana government prioritized the electricity supply for the company's move. These issues also depend on the specific industry and the desired value addition, and Shine gave the example of how the development of aluminium smelters could not take place as it would require too much electricity.

Khama clarified that Botswana's management of its power supply was poor. She explained that the industry knew in 2008 that there would be a shortage of energy by 2011 and De Beers had to purchase two generators in 2009 so as to ensure that the mines continued. She noted that these generators also backed up the national power grid during cuts. However, Khama stated that while the government could be slow in responding, it was always pragmatic in resolving such issues and this made a big difference to the successes.

## Session 2: Regulation, Legislation and Business Environment

### Dr Ola Bello

Dr Ola Bello spoke about the use of legislation as an incentive or disincentive for domestic beneficiation in sub-Saharan Africa. He argued that beneficiation is likely to work only where pre-existing physical and human capital levels are high, and when business/state relations are sufficiently robust to accommodate the level of mutual support and understanding necessary to make beneficiation work for both parties. In southern Africa there is no 'one-size-fits-all' approach to beneficiation.

Dr Bello compared South Africa's Minerals and Petroleum Resources Development Act (MPRDA) with the regulatory framework in Botswana. The aim of the MPRDA was to leverage the country's large resource endowment for the purpose of development. However the legislation proved controversial as the act proposed that some minerals be labelled as strategic and be liable to export quotas and restrictions in an effort to keep them for domestic processing, and that the government would get a 'free carry' on oil and gas investments. Dr Bello noted that the new Minister of Mineral Resources, Ngoako Ramatlhodi, was advising the President not to sign the bill.

Dr Bello stated that the relocation of De Beers' diamond processing from London to Gaborone was successful because the agreement was underpinned by long standing cooperation between the company and the government of Botswana. It was supported by an attractive downstream business environment with reasonable regulation, taxes and currency exchange. Dr Bello argued that the critical factor for the success in Botswana was the pre-existing partnership and not legislation.

The speaker noted some other African experiences of domestic beneficiation. In 2011 Zimbabwe banned chrome exports in order to develop internal refining capacity. The ban was subsequently relaxed after mines shut down due to a lack of smelting capacity. Dr Bello stated that thousands of jobs and millions of dollars of revenue were lost. Yet, despite the experience, the speaker noted that the Zimbabwean government is now considering a similar plan on platinum exports. In Zambia, a calibrated approach allowing companies to deduct the cost of smelting from mineral royalties, and applying export taxes to unrefined products only, has resulted in an impressive increase in processed copper exports.

Dr Bello stated that competitive pricing of inputs, skill levels and technical capacity are crucial. He argued that SADC countries are restricted by a shortage of energy, infrastructure and skills. He said that countries need to identify their competitive advantage and agree on an implementation method, whether through a corporate buy in or through arbitrary enforcement.

Dr Bello concluded that domestic beneficiation in southern Africa will only work where physical and human capital levels are already high enough to process materials, rather than expect enforced processing to generate the required skills and infrastructure. The relationship between business and the state must be based on trust, and mutual understanding. He recommended that policy makers tailor beneficiation policies to their countries' needs; that they implement robust but flexible tax regimes to promote local value adding without undermining businesses; and that policy makers consider external strategic partnerships with, for example, China.

### **Prof. Happy Siphambe**

Prof. Happy Siphambe stated that diamond beneficiation in Botswana is an attempt to strengthen backward linkages by trying to process the diamonds before export and therefore generate much needed employment.

Prof. Siphambe noted that for some time it was thought that having a booming resource such as diamond or oil would provide revenue to provide the needed foreign exchange needed for provision of human development and infrastructure, as well as assisting to overcome balance of payment deficits and allow the country to import the capital goods needed for industrial development. It was also expected to provide direct and indirect employment. This was then followed by a belief that the existence of a booming commodity may not necessarily lead to development as mineral and oil booms may lead to 'Dutch disease', increase of general wages, and a worsening of corruption.

Botswana has a reputation for managing diamond revenues well, but following double-digit growth in the 1970s and 1980s growth has slowed considerably. The government has sought to diversify the economy and the downstream processing of diamonds which were previously exported as rough diamonds and processed elsewhere has been a major element of that policy. Prof. Siphambe stated that the mineral beneficiation policy was strongly supported and there was a lot of political will.

Prof. Siphambe outlined the incentives for the cutting and polishing firms to locate in Botswana. They benefit from favourable tax rates as manufacturing companies. The sector was able to fast-track work permit applications of skilled labour into the country to train locals; they are exempt from paying the training levy and are able to get training rebate for accredited programmes. These companies are exempt from paying taxes on polished diamond exports and only pay taxes on exports of unpolished diamond, and they do not pay import duties on their technology imports.

Prof. Siphambe raised some criticisms of the move. There is currently no local research for these downstream activities, and there is insufficient knowledge of the industry even for those involved in its regulation and support. He argued that a local innovation hub may be the answer. Also, there is no local skills training institution.

Prof. Siphambe said that work ethic issues are a common problem for Botswana. There is a need to address this nationally if diamond beneficiation is to be sustainable in the future, even beyond the supply of diamonds in Botswana.

Prof. Siphambe concluded that for the country to be competitive in the future – at least beyond the rough diamond supply – policy-makers need to address the skills gap and work ethic issues. There is a need to implement and monitor the transfer of skills. The move towards competitiveness must occur while stocks last, and the primary focus should be on workforce issues such as education and training, productivity, labour costs, work ethic, labour relations, immigration and work permit issues.

### **Andy Bone**

Andy Bone started by describing the move of diamond processing from London to Gaborone as evolutionary. He noted that the day of the workshop, 23 June 2014, marked the 45th anniversary of the creation of Debswana. This means that there is a generation of people in Botswana who have grown up benefiting from the proceeds of this PPP.

Bone highlighted the long term investment that de beers have made in Botswana. The time period from finding a mine to making into a profitable venture is around 30 years. This is why the relationship between the company and the government is so important. He said that there is also a continual need for dialogue and engagement with other industries. These public private partnerships also need to stimulate other industries and support and drive investment in the economy.

Bone highlighted the role of the international community. He shared an anecdote of showing British MPs around a mine in the DRC. The local chamber of commerce commented to the MPs that what they wanted was not aid, but rather for the British government to help the government of the DRC to shape the business environment.

The speaker emphasized the role of civil society. He stated that there needs to be greater engagement with civil society and local businesses by extractive companies. In the past, the lack of dialogue meant that the benefits of extraction were not inclusive or beneficial to the country.

### **Terry Heymann**

Terry Heymann started by noting that the extraction of gold is different to diamonds in that it is widely dispersed, and that concentration is a factor of value adding. No continent currently accounts for more than 20 percent of world gold production annually. Heymann argued that it is not necessarily about beneficiation, but reframing the question to ask: how do countries benefit more.

Heymann stated that the global economic impact of the gold industry is around \$210 billion per year, the equivalent of Ireland or Beijing. He questioned where the money goes, indicating that the majority goes to costs increased in the country of extraction. These domestic costs represent local engagement in the industry, both directly and indirectly, and lead to economic development.

The speaker noted that the debate on beneficiation was part of a broader discussion on how to grow the industry, and the level of local content. However, it is difficult to find arguments that make sense in support of pure beneficiation. One of the main reasons for national governments pursuing policies to encourage domestic beneficiation is merely prestige. The governments want to be seen to be adding value.

The speaker underlined that the example that de Beers is setting in Botswana is not about the benefits of beneficiation, but one of trust and the benefits of a good, long term relationship with the government. This example extends beyond the mineral extractive sector and is about broader economic engagement.

## Summary of Questions and Answers

### Questions

Coal in South Africa is exhaustible and once used up there will be nothing left to sell. What are the options moving forward?

What are the lessons for the wider mining industry, beyond high value gemstones and precious metals?

### Responses

It was stated that many minerals are exhaustible. Coal is currently the main power source in South Africa. South Africa currently produces around 40,000 megawatts of power, and this is not enough. It currently only covers 80-85 per cent of South Africa's energy needs. There are two new coal fired power stations being built at Medupi and Kusile, but these are behind schedule and are yet to come online. It was stated that the 'nuclear hangman' overshadows South Africa. It was pointed out that the government would explore a nuclear option and that they would likely partner with Russia.

Regarding the lessons for the wider industry, Andy Bone stated that De Beers has nothing to teach the major mining companies such as Anglo-American, Rio Tinto or BHP Billiton. But, it is an example of a very successful PPP. The company is over 120 years old, and the reason for its longevity is its positive government relations. It has been in partnership with the government of Botswana since 1969. Mr Bone went on to say that the relationship between the government and the company has been one based on dialogue and engagement. Many other industries and extractive companies have a 'citadel' approach, whereas De Beers has a much more engaged model. This model is not just about engaging with government, but it is broader. It is about engaging with local people.

### Comment

Muzong Kodi stated that Botswana has a problem with transparency. Mining contracts are not published, and Botswana has not joined the (Extractive Industries Transparency Initiative (EITI). The pillar of the executive is very powerful and not wholly fulfilling its oversight role.

### Response

It was stated that there has been a shift towards good governance in Botswana. Institutions that have been created for the purpose of creating better governance are becoming nuisances to the government in their own way.

There was a request for better technical assistance to Botswana. It was stated that Botswana used to receive external technical assistance, and that this is in decline. It was joked that it was a case of 'welcoming Botswana to Africa'. It was further noted that the Commonwealth has created an anti-corruption centre in Botswana. It was also argued that in terms of citizen participation, Botswana is one of the lowest ranked on the continent.

### Question

It is assumed that there is a linkage between beneficiation and diversification. Is there an example in the world where beneficiation has led to diversification? By diversifying from upstream to downstream have Botswana increased its dependence on a single resource?

### Response

It was stated that moving away from a position where exports are dominated by a single product is always a difficult transition, and that this is the path chose by the government of Botswana.

It was acknowledged that diamonds are a depletable resource and that, contrary to the slogan, diamonds are not 'forever'. However, from a practical side it is possible to diversify within an industry. Varda Shine noted that it has been done elsewhere in the world. The technical skills and the communication infrastructure required can be a catalyst to diversification, generating new skills, entrepreneurship and leading to an increase in SMEs. The test will be in 10 to 15 years' time to assess whether beneficiation has led to diversification in Botswana.

Jaakko Kooroshy stated that there are other examples of downstream diversification that have been linked to broader economic strategies and institutions, such as Brazil.

### Comment

Trinidad and Tobago put in place the infrastructure for liquid natural gas (LNG) production. The government was unable to find any company that was interested in partnering with them. They decided to go it alone, and now they are the biggest LNG exporter to the USA. The government then pushed for diversification into banking, and the country is now a regional financial hub and is exporting knowledge and skills. Many of these companies came out of the beneficiation process.

### Question

Constant and clear legislation and regulation create an environment where diversification can happen. For example, in South Africa there is no shortage of power potential, but the legislative environment has not allowed it to develop, and Eskom, the national power producer, is not efficient. In Botswana, there are large deposits of coal under the Kalahari, so where are the tax incentives to start exploiting that resource?

### Response

It was noted that it would be an ideal system for Botswana to fully benefit from the coal under the Kalahari, but the country has been affected by its big brother to the south. However, Eskom don't want to be dependent on electricity generated in South Africa.

It was questioned what is meant by beneficiation as the term had been used in multiple ways and contexts. At the most simple level it is the process of manufacturing minerals to take to market at an increased price. For some, the term not only includes value addition, but also means manufacturing more generally. At its broadest the term is used in a way that alludes to its potential social benefits.

Andy Bone stated that beneficiation is a means to an end. It is a seed, and having the right economic environment is critical. The real focus is skills and expertise development. He emphasized that there is no one-size-fits-all blueprint for beneficiation, and, similarly, any definition must be tailor-made for the specific country.

### Ben Shepherd

Shepherd concluded the proceedings. He noted that beneficiation is an opaque, unclear term and that there is a need to use less technical language to communicate better, particularly with African communities directly impacted by mining.

Botswana is often used as an example of success, but; Botswana is unique, notably in the length of the partnership between De Beers and the government of Botswana; and diamonds are unique, in that their value is directly sensitive to brand and emotion, making management of impacts in country central to the industry.

Shepherd cited four criteria for successful beneficiation: sufficient government capacity; stable politics, necessary to build long-term partnerships; infrastructure; and economic viability. He argued that these could be developed into benchmarks or formal tests.

The speaker argued that if these criteria are not in place, attempts at beneficiation can do more harm than good, through a variety of mechanisms. It can damage the economy by leading to job losses. It can also prop up dysfunctional politics through feeding the addiction to a single resource, fund patronage networks, undermine work ethics, or subsidize inefficiency if the wrong projects are chosen.

Shepherd highlighted the need to manage public expectations and trust. Business needs a strong relationship with government but risks public suspicion, particularly if the government is performing badly. They need to avoid the 'citadel' approach of only working with the government, and not engaging and communicating with local people. Building tripartite relations between businesses, civil society and government, rather than bilateral government–business relationships might help.

Shepherd said that the discussion must view beneficiation and diversification separately. There is a need to think beyond industries immediately connected to mining, such as agriculture, knowledge economies, and local businesses content. There is no one-size-fits-all answer.

The speaker concluded that investors and international businesses can't wish away domestic politics; and in fact political stability without democracy may bring long-term challenges; as in the Botswana example of a single party since independence. There is a need to recognize that African politics may be volatile in the future – African states are increasingly confident in defining their own political models and pathways. Combined with a young, unemployed and often angry population, this means that politics will become more of a challenge, not less, and politics will trump economics on decisions i.e. around the viability of a refinery. Institutions may be one answer, as will be emphasis on information and accountability.

## Annex 1

**09:00 – 09:15**    **Registration and Coffee**

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### **Welcome and Opening Remarks**

**Elizabeth Donnelly**, Assistant Head, Africa Programme, Chatham House, London

**09:15 – 09:30**    **Andrew Bone**, Director, International Relations, De Beers; and Vice President, World Diamond Council

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### **Session 1: Experiences of Value-Added Production**

#### ***Context: Understanding the Value of Domestic Beneficiation***

**Sheila Khama**, Director, African Natural Resources Centre, African Development Bank, Former CEO, De Beers, Botswana (2005–10)

#### ***Diamond Beneficiation in Botswana***

**Varda Shine**, Former Chairman, Diamond Trading Company, Botswana

#### ***Beneficiation of non-Precious Metals***

**Jaakko Kooroshy**, Research Fellow, Energy, Environment and Resources, Chatham House

#### ***Natural Resource Governance and Public Private Partnerships***

**Muzong Kodi**, Associate Fellow, Chatham House; Board Member, Diamond Development Initiative

**09:30 – 11:00**    Chair: **Elizabeth Donnelly**, Assistant Head, Africa Programme, Chatham House, London

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**11:00 – 11:30**    **Coffee**

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### **Session 2: Regulation, Legislation and Business Environment**

#### ***Mining Regulation as an Incentive for Beneficiation in Southern Africa***

**Dr Oladiran Bello**, Head, Governance of Africa's Resources Programme, South African Institute of International Affairs

#### ***Steps to Diamond Beneficiation in Botswana: Policies and Practicalities***

**11:30 – 13:00**    **Prof. Happy Siphambe**, Dean, Faculty of Social Sciences, University of Botswana

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***Industry Responsibilities and Responses***

**Terry Heymann**, Managing Director, Gold for Development, World Gold Council

**Andrew Bone**, Director, International Relations, De Beers; and Vice President, World Diamond Council

Chair: **Rosemarie Cadogan**, Legal Counsel, Commonwealth Secretariat

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**Closing Remarks**

**13:00 – 13:15**

**Ben Shepherd**, Associate Fellow, Africa Programme, Chatham House, London

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