

EXECUTIVE SUMMARY

IN THE 50 YEARS SINCE INDEPENDENCE, BOTSWANA HAS EXPERIENCED REMARKABLE ECONOMIC GROWTH. THIS GROWTH HAS BEEN UNDERPINNED BY THE PARTNERSHIP BETWEEN BOTSWANA AND DE BEERS.

Botswana's diamond-led development story is widely celebrated as an African success story. In just 50 years, the country has transformed itself from one of the poorest nations in the world into a modern, upper middle-income country.² By any measure, this is an achievement of which Botswana can be proud.

This economic and social progress has been built largely on a diamond foundation, enabled by high standards of governance, political stability, and the judicious investment of diamond-generated wealth.

While historically resource-rich economies often grow more slowly than resource-scarce economies, the reverse has been true for Botswana. This has been largely due to the fact that it has managed its resource with long-term development goals in mind.

Importantly, it has avoided the worst effects of Dutch Disease (a sharp currency appreciation that makes other exports less competitive). It did this in a number of ways. Firstly, it introduced a revenue stabilisation fund in 1970 to even out revenue fluctuations and to store budget surpluses. Secondly, it accumulated international reserves and

introduced a national currency, the Pula, which was pegged to a basket of currencies to prevent rapid currency appreciation. Thirdly, it established a sovereign wealth fund as an offshore investment vehicle for diamond revenues, which could be drawn on in times of crisis.

Moreover, a decision was taken to partner with the private sector in developing the diamond resource. Engaging private capital and expertise was an unusual decision in an era when nationalisation and a preference for state-led development was common in much of Africa.

Diamonds have made a hugely positive contribution to Botswana through the application of a simple partnership formula: locate and mine diamonds efficiently and provide a steady supply; grow the demand for diamonds and maintain high product equity; sell rough diamonds to the world's leading diamantaires; maximise exposure to the diamond value chain within Botswana; and invest diamond revenues wisely.

Capital expenditure on mines helped to kick-start other sectors, including construction, financial services and transport. Growth of the economy increased development investment and lifted national wealth levels rapidly. From 1966 to 2014, Botswana's GDP per capita grew at an average rate of 5.9 per cent a year (measured in purchasing power parity which is used worldwide to compare the income levels in different countries), one of the highest rates in the world in that period.

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THE PARTNERSHIP IS THE LARGEST SINGLE CONTRIBUTOR TO THE BOTSWANA ECONOMY, BESIDES GOVERNMENT ITSELF.

High levels of public spending created a better quality of life for many Batswana, providing access to free public healthcare, free education, transport, energy and water infrastructure.

Botswana's success in the diamond industry has been supported by a five-decade partnership between the Government of Botswana (the Government) and The De Beers Group of Companies (De Beers), referred to as the Partnership in this report. This is one of the world's longest existing public-private partnerships.

Starting with mining, the Partnership later extended operations further down the value chain to the sorting, valuing and selling of rough diamonds in Botswana. This ultimately led to the relocation of De Beers' international sales function – De Beers Global Sightholder Sales (DBGSS) – from London to Gaborone at the end of 2013.

The success of the Partnership, and what that success has meant to the growth of Botswana, has been underpinned by a shared understanding by both the Government and De Beers that diamonds are unique and require a long-term view. They are a finite resource and are ultimately a luxury product.

Perhaps most importantly, the Partnership has endured because it has linked the success of one partner with the success of the other. Partnership interests have become intertwined over time with the establishment of two 50/50 joint ventures and the Government's increased shareholding in De Beers' main holding company, De Beers Société Anonyme.

De Beers has provided capital, technology, skills transfer and an effective route to market, while the Government has ensured a stable and supportive operating environment. De Beers has also respected and supported the broader developmental aspirations of Botswana, while the Government has granted De Beers long-term access to diamond supply.

THE PARTNERSHIP HAS MADE, AND CONTINUES TO MAKE, A SIGNIFICANT SOCIO-ECONOMIC CONTRIBUTION TO BOTSWANA, SUPPORTING MORE THAN A 500 TIMES INCREASE IN NOMINAL GDP SINCE 1960 AS WELL AS A SUBSTANTIAL IMPROVEMENT IN THE HUMAN DEVELOPMENT INDEX.

This analysis – the first of its kind – examines the value generated by the Partnership in 2014, and demonstrates the shared long-term vision of the respective partners. It demonstrates a shared understanding that as much value as possible should be generated from the activities of the Partnership in Botswana, for Batswana.

On Partnership revenues of almost US\$7 billion in 2014, the Partnership directly generated US\$4 billion of value to the economy, which was the equivalent of 25 per cent of GDP

for the year. Put into context, the Partnership contributed nearly double that of the entire wholesale and retail trade sector combined in Botswana to the country's GDP.

When the direct contributions of the Partnership to the economy are combined with the contribution through the supply chain and employee spending, the total economic contribution grows to US\$4.4 billion, or 27 per cent of Botswana's GDP in 2014.

With taxes, royalties and dividends combined, the total distribution of Partnership revenues to the Government represents a significant proportion of its total revenue raised in 2014.

These revenues help to provide employment and support skills development, which is strongly supported by the Partnership. In total, the Partnership contributed more than 34,000 jobs in Botswana. Directly, it employed almost 8,000 people in 2014, of whom 96 per cent were Botswana citizens, including almost 85 per cent of management. A further 12,870 jobs in the broader economy were supported through the Partnership's supply chain contribution. Another 13,400 jobs were supported by the spending of employees of the Partnership and its suppliers' employees.

In total, the Partnership supported one in every 20 jobs in Botswana. In addition, the Partnership spent approximately US\$6 million on 550,000 hours of training and skills development for employees.

2014 was the first full year that DBGSS operated from Botswana. The revenues generated from the sale of De Beers' supply of rough diamonds to international diamantaires contributed US\$380 million, or nine per cent of the Partnership's total direct contribution to GDP. In addition, through supplier and employee expenditure, DBGSS added another US\$30 million to GDP, representing 2.5 per cent of Botswana's GDP.

This analysis suggests that the Partnership is the largest single contributor to the Botswana economy, besides the Government itself.

MINDFUL STEWARDSHIP OF BOTSWANA'S DIAMOND RESOURCE HAS PROVIDED A STRONG FOUNDATION FOR FURTHER GROWTH AND ECONOMIC DIVERSIFICATION.

Botswana has managed to turn the promise of resources below ground into opportunities above ground. A previously poor, small nation has achieved economic and social progress that is a modern success story. The foundations of this have been political stability, good governance, and the wise investment of diamond revenues in the long-term development of infrastructure and human capital.

The Partnership between the Government and De Beers has played an important role in funding this progress by securing and realising high value from Botswana's natural resource.

Few can dispute that diamonds have been positive for Botswana, but they have not been a panacea.

The Government has been quick to recognise that past achievements do not automatically translate into future successes. Challenges such as unemployment, high levels of income inequality, residual poverty and an over-reliance on diamonds still need to be overcome. Progress is, however, being made. This is particularly true with regards to economic diversity, with the non-mining sector now making up 70 per cent of total value added to GDP compared with less than 50 per cent in 2002.

The Partnership can help Botswana to move further down this path. Arguably, its first responsibility is to continue to maximise the value of every Botswana diamond yet to be mined and sold. This will provide the fiscal basis to support further developmental investment, improve health and education, provide social safety nets and, importantly, support new, more sustainable sectors.

This will require the extraction of diamonds as efficiently and safely as possible, making use of new technologies; exploring for new reserves; and investing in new assets such as Cut-8 at the Jwaneng Mine. The Partnership will need to continue to invest in building global demand for diamonds, safeguarding their image and guarding against challenges from other luxury products and synthetics.

It must also continue to support and promote Botswana as a global diamond hub, and use its considerable power in the economy to build linkages to local businesses, as well as to support initiatives outside of diamonds with enterprise development programmes such as Tokafala.

The Partnership provides a model of how public and private interests can work together in the long term. The key is to have an aligned vision: in this case, a deep appreciation of diamonds as a finite, luxury product, and a long-term approach to creating value from one of nature's treasures. The partners will need to retain this long-term vision in order to deliver the next 50 years of development.

The challenge that Botswana faces is to build on a foundation of wise development to create new areas of competitiveness and employment, while moving to a post-diamond era. But these challenges should not detract from the success the Partnership has had in spurring the country's socio-economic development. By translating the potential of resources below ground into enduring value above ground, Botswana has succeeded where many others have failed.

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Jobs in Botswana supported by the Partnership