

Dialogue 2: Business risk and responsibility in Africa

Dialogues are convened by De Beers and moderated by Professor Alyson Warhurst, Warwick Business School and Maplecroft

Key themes:

- **Knowledge of the socio-economic, political situation** – The fragility of post-conflict countries cannot be underestimated. There are great challenges in setting up business in these countries; from lack of infrastructure in rural areas, to high corruption at both local and national government levels. These need to be fully understood at the local level prior to even the early stages of exploration decision making. It becomes increasingly important in these operating environments to assess feasibility, operating risks and reputation risks relating to employees, local communities and the company as a whole. To work in a post-conflict country business needs to maintain flexibility in working with a very dynamic community and government, no more so than DRC and Angola.
 - **DRC** – The DRC has undergone a complete societal breakdown, with the arteries of infrastructure destroyed. There is a high level of corruption, particularly within government. Despite a democratic election, the opposition leader has been forced to flee the country and many of the opposition are subject to bribery. The government has not shifted the war-time mentality to deal with the post-war development issues – they were described very much as “war lords”; thus, there is a lack of health and education infrastructure which means that poverty alleviation is not being addressed and that there will be high expectations of business (“the only show in town” syndrome). There is extreme poverty of security infrastructure and corrupted rule of law.
 - **Angola** – Angola is experiencing a period of rapid growth, with economic development beginning to cultivate. However, Angola remains one of the most difficult countries to work in, with very high cost margins and the socio-economic situation categorised as one of the poorest in Africa. Again, the government has a strong stranglehold on investment and licence to operate, with corruption playing a role. In particular, the security situation is tense. Examples were presented of human rights violations perpetrated by private security firms protecting the interests of diamond companies.
- **Ensuring positive impact on the community** – It is very tempting for the international community to undertake a ‘cut and run’ approach to industry in post-conflict countries as the reputation risks are high. The stakes are also high in terms of opportunities. This was considered a short-term mentality, which will ultimately not benefit the company and will inhibit the reconstruction and development of the country further. Instead, there needs to be an understanding of community impact, and the predicted reaction to action. Distrust and uncertainty by the community will hinder business success and spark tension, even conflict. Rather, the company must be seen as an ally and integrate within the local community’s development aspirations. For business to work in the community, the company must work with, rather than impose themselves on the community, in some instances – in partnership with government – playing a facilitating role towards promoting education, health and infrastructure development. However, companies must be aware of limitations and barriers; and the importance of sustainable solutions.
- **Understanding expectation and responsibility** – The communities in the DRC and Angola are in desperate need of resources and investment. These communities have not known just government or local governance, thus there can be a great expectation that the incoming industry will provide social development needs. The government can often be in the same line of thought, and may also look to the incoming companies as an apparently easy solution to problems. This needs to be approached through constant communication with both the communities and the national government, to be clear what the company will and will not provide. A balance must be set for development to prevent dependency, with full knowledge of the consequences. Tools such as those of International Alert and SEAT could support decision making. Further, different solutions are required at different levels within the country
- **Lessons learnt** – There needs to be dialogue with other extractive industries in post-conflict countries, to understand their successes, failures and challenges. E.g. In Sierra Leone, apparently Kodi Holdings did not integrate themselves with the whole community, limiting communication to the chiefs, and consequently were held in distrust by the rest of community. Nevertheless, it is imperative not to stereotype or blue print communities in post-conflict areas. Time and resources still need to be spent in each community tailored to local needs.
- **Security** – Despite the obvious advantages in being the first and only extractive industry in a country, in a post-conflict country, there exists the potential to generate a great security challenge. The volatility of post-conflict countries means that in establishing a business, the sound approach is safety in numbers. The best way to ensure responsible security is to know your local community. This involves full transparency, and good communication lines with both critics and friends.

- **Point of engagement** – A great concern for companies is at what point to engage with the communities in which work is being done? It is common for companies in the exploration period to only be in an area for a short time, and it is not deemed necessary to initiate contact with the community. However, even the first helicopter flying overhead might set expectations. In the instances when the company does decide to proceed to full-scale investment, it was felt that good communications should be in place supported by robust impact assessments. Advice was thus to initiate positive contact with the community even before the company lands in the area in the first place, i.e. build a well when drilling, which some companies like De Beers do. There should be full communication about the company's activity at every stage of the process.
- **Local and national partnerships** – Many of the problems outlined can be assisted through working in partnership with a number of organisations and initiatives. For example: EITI is progressing into minerals, alongside its concentration on oil and gas; the Post Conflict Reconstruction Unit (PCRUC – part of DFID) is dedicated to assisting countries recovering from violent conflict; a new carbon credit scheme is expanding to enable micro-finance to support development. Overall, it was deemed crucial to build up effective partnerships with both the local and national governments
- **Competition** – There has been a recent rapid growth within the last six months in investment activity in the post-conflict countries of Angola and DRC, with financial markets suddenly appearing. This brings along with it many problems for responsible business. Some investors are not taking adequate precautions, and are proceeding with haste – particularly certain SMEs. The group also reaffirmed the importance of a future discussion about the role of Chinese investment in Africa. There needs to be a balance in this excitement, to build up relationships, put in time rather than money and place responsible security first.

Conclusions:

- **Understanding** – There is no substitute for good local knowledge. Business needs to understand as much as possible the environment in which it is going in to. This is both for success in communication with local communities and the national government, and the importance of understanding the security implications and risks related to the company's presence.
- **Communication, communication, communication** – There must be extensive community engagement from the beginning, with full transparency with both the community and the government even though this might not have been the previous norm.
- **Safety in numbers** – Companies cannot establish an investment in a post-conflict country alone. It is better to work in partnership with other organisations, including other companies. This is especially helpful for joint investments relating to transparency, anti-corruption, community engagement and security.

Next steps:

- There was great interest in continuing the lunch time dialogues on natural resources and Africa. The schedule is:
 - What are the implications and what should be the response and outreach to Chinese investment in natural resources in Africa? (**Thursday 20 September**)
 - How does one measure and evaluate the development "footprint" of a business involved in natural resource production in Africa (**Thursday 13 December**)
- Follow up with those who wished to engage but who gave apologies, to gauge their interest in our proposed next steps and broaden the invitation to other diamond mining companies.