Botswana – Partnership as a Strategic Choice

Soon after independence in 1966 the Government of Botswana was faced with choices around how to develop its highly prospective diamond deposits, which had the potential to be the most productive in the world. Analysis of the structure of the international diamond mining and marketing industry revealed some key facts:

- The industry was highly concentrated with one company, De Beers, in its early years producing 90% of the world's rough diamonds and remains a dominant presence with 70-80% of world diamond sales controlled by their Central Selling Organisation (CSO).
- Processing and marketing of cut diamonds are an important driver of value – promotion of the finished product and matching supply and demand (if necessary by stockpiles) are key if revenue in the industry is to be both maximised long term and smoothed.

A number of strategic approaches were possible: i) open competition for the resource via an auction process risked an uncertain outcome with perhaps only one capable bidder, with a failed bid process damaging perceived value of the resource, ii) establishment of a national champion in opposition to De Beers risked competition for market share which would have been damaging to both parties, with the added problem that Botswana would need to build the capability to challenge the incumbent, iii) participation in mining only without a route to market risked low prices for rough diamonds because of the restricted number of buyers capable of handling the likely volumes, and finally iv) a negotiated partnership which could result in a good outcome for Botswana and De Beers if both parties approached the negotiations pragmatically but also a process which would inevitably lack complete transparency during the negotiation process.

Botswana chose the partnership route eventually forming the Debswana Diamond Mining Company 50/50 joint venture with De Beers, which has since extended its activities via subsidiaries that value and trade rough diamonds and promote cutting and polishing of diamonds in Botswana (Mtunzi, Silibasizo. "The Private-Public Partnership Model: the Debswana Case." OpenSpace 4 (2006)). As the partnership developed Botswana in 2004 acquired a direct 15% shareholding in the top level De Beers company. The success of the initial negotiations and subsequent development of the partnership have been due to two key factors:

- Botswana has maintained a government legitimised by democracy and highly rated for its honesty and transparency, allowing commercial negotiations to proceed with public confidence.
- Both parties recognised that other options could be a worse outcome, in particular the structure of the diamond industry would be radically different if Botswana's supply of nearly half of the Diamond Trading Company's (formerly CSO) sales were not marketed via that organisation.

The result has been very beneficial for Botswana, with wise investment of revenues allowing infrastructure development and a GDP per capita that had grown to $12,800 by 2009, though challenges such as unemployment and the prevalence of HIV/AIDS remain. However, countries minded emulate the Botswana partnership experience should consider carefully whether the competitive structure of the natural resource industry they are participating in and their own strengths and weaknesses make this the best route to value maximisation and process integrity.