



International
Labour
Office



ILO Policy Note:
Inclusive business practices
in Africa's extractive industries
Key Highlights

The policy note presents key factors contributing to inclusive growth linked to the extractive industries in Africa, reflecting on the distinctive yet complementary roles of governments and multinational enterprises. While the focus of this note is on policy specific to local content and inclusive business practices, it is situated within a broader resource governance framework. As such, government's role in harnessing extractive industries for development is vital at every stage along the chain of decision-making. The document considers the types of economic linkages to local communities and national economies that contribute towards employment, enterprise development, infrastructure, and ultimately to the economic transformation required for sustainable development. The factors are explained with reference to lessons learned from African countries at various stages of development of their mining, oil and gas sectors. In the final section some of the innovative strategies to developing inclusive extractive industries are identified and recommendations given to the ILO's tripartite constituencies and key stakeholders in building more inclusive extractive industries in Africa.



Introduction

The Extractive Industries (EI) contribute favourably to economic growth in many developing countries. For example, Mozambique's economy has been growing at an annual average of 7.3 per cent for the past decade (IMF *World Economic Outlook Database*, 2015). Zambia has recorded spectacular growth in GDP per capita from USD 395 in 2002 to USD 1,533 in 2010 (ibid.). However, this growth is not equally distributed across society and has provided limited opportunities for job creation. The entrance of multinational and domestic enterprises in resource-rich areas generates high expectations by the local populations of increased formal employment and investment in local economies. However, developing countries can struggle to ensure widespread benefits from extractive industries, as profits and benefits flow out of the local economy and are transferred abroad, often only positively benefiting a few elites in the country.

EI require large capital investments, as well as highly and specialized qualified workers who are not easily found in many developing countries or in remote areas of operation. Territories where operations take place often have low or unskilled labour, and lack the technical knowledge and capacities required to link to the value chains of this sector; this situation constrains companies to bring both physical and human capital from abroad, by-passing the local economy. Moreover, inadequate strategies and policies to enable the access of domestic enterprises to the EI value chain can further contribute to the tendency of this sector to create foreign dominated enclaves.

Finding ways to harness the benefits from the EI, especially through designing and implementing policies and programmes aimed at promoting economic and employment opportunities, to allow the productive inclusion of the poorest and most vulnerable groups is thus a policy priority.

This document outlines a few of the key factors (refer to the original document for full list and details), to bring about inclusive growth linked to the extractive industries in Africa, with a focus on direct and indirect employment creation, such as strategies to establish economic linkages, creating an enabling environment for SMEs and programmes to develop relevant skills and capacities, as well as minimizing livelihood losses through green jobs. In doing so, it reflects on the distinctive yet complimentary roles of governments and multinational enterprises, in line with the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy ([MNE Declaration](#)). The MNE Declaration is the ILO's tripartite key tool for promoting labour standards and principles in the corporate world, and it aims at "maximising the positive contribution which multinationals can make to economic and social progress and to minimize and resolve the difficulties to which their various operations may give rise" (ILO, 2014, para.2, p. 2). It does so by providing specific recommendations to governments, enterprises and employers' and workers' organizations in the areas of general policies, employment, training, conditions of work and life, and industrial relations.

Factors for inclusive extractive industries

Direct employment in mining, oil and gas

Demand for labour varies at different stages of the life mining, oil and gas projects, with often the initial stages being most labour intensive and thereafter tapering off. Not only does the quantity of workers needed fluctuate, but also each stage requires a different set of skills. To maximize the benefits of direct employment for the local and national economy, the government and MNEs need to work together throughout project cycle, from inception to closure, in setting joint employment targets and appropriate planning to meet these targets through public-private investment in skills training, internships and mentoring programmes.

The promotion of social dialogue between the government, employers' and workers' organizations is an important vehicle for responding to the oscillation in prices, production and demand of labour and local expectations, as well as promoting decent work in mining operations.

In setting employment targets, specific efforts should be made to attract and retain women in direct employment in the traditionally male dominated extractive industries, as women are far more engaged in the provision of goods and services around mines in Africa than they are in direct employment in the extractives sector (Kotsadam and Tolonen, 2014).

Inclusive business practices in Africa's extractive industries

Local linkages for indirect and induced employment

Whereas direct employment opportunities available from these projects can be limited in number, employment figures for indirect and induced jobs linked to the extractive industries are estimated to be between three and six times larger than direct formal jobs in the sector (Östensson and Roe, 2013, p. 4).

Creating an enabling environment for value chain development is therefore the single most important policy intervention for job creation through the extractive industries. Fostering these business linkages can include the expansion of upstream linkages in the form of procurement of local equipment and products or the provision of services (e.g. catering, cleaning, sales) and skilled manual labour (e.g. electricians, plumbers, brick layers, tailors, bakers), as well as downstream linkages with a focus on diversification strategies to support refineries, smelters, cutting and polishing of gemstones and other forms of beneficiation. Although these spin off goods and services generate employment and income, many of the jobs and businesses are informal, dominated by young women with little opportunity for progression to formal jobs that offer social protection and regular contracts.

In turn, local content policies can develop conditions to foster these economic linkages between the extractive industries and the local and national economy. The key is for governments to set up a variety of complementary policies and programs to create an enabling environment to facilitate the integration of local businesses in the supply chains of MNEs and for MNEs to increase their local procurement targets, in order to foster the development of local industry linked to the extractives sector.

In doing so, the introduction of gender sensitive training and enterprise development programmes are needed, as economic linkages have been found to benefit men and women differently, often with women moving into service sector employment and more men finding skilled manual jobs. The promotion of women's enterprises should take into account the informal nature of their activities when relevant as well as their assets, when designing enterprise development and entrepreneurship programmes.

Create an enabling environment for SMEs

Besides local content strategies, there are a range of policy and institutional measures for creating a more enabling environment for sustainable enterprises, which can facilitate growth of SMEs linked to the extractive industries.

Governments should eliminate the bureaucratic hurdles and high costs associated with setting up and running a small business. Depending on the context, these reforms and policies may include: simplifying business registration and licensing procedures; streamlining tax policies and administration; facilitating access to finance, especially micro-credit for business start-ups; improving land titles, registers and administration; simplifying and accelerating access to commercial courts and alternative dispute resolution mechanisms; improving access to market information to 'level the playing field' for SMEs; and broadening public-private dialogue processes (ILO, 2015b, p. 39). It is important to ascertain whether the enabling environment for enterprise development is equally conducive to both women and men starting up and growing their enterprises. This can be done through the participation of women in dialogue processes when business reforms are being discussed and implemented.

MNEs also have a key role in streamlining their own sizeable internal bureaucracies to facilitate local and smaller scale procurement of goods and services. A special focus can be placed on procuring from women-owned enterprises. They can implement strategies to support small business by setting up: promotion centres providing information, training and access to microcredit facilities; accessible information regarding tender opportunities from EI; encouraging SMEs to pool their technical and human resources to submit joint tenders; unbundling contracts into smaller quantities to be provided by local SMEs; simplifying tender procedures and adopting locally accredited performance standards where possible; arranging for prompt and direct methods of payment; promoting social protection mechanisms, skills development, etc.

Finally, both government and MNEs have to address the gender inequalities for enterprise development and participation in the EI value chains that arise from the existing legislation and programmes, as different stages offer different constraints and opportunities for value chain development for women and men-owned enterprises.

Training and skills development

Whether for direct or indirect employment, low levels of education and lack of a skilled labour force are major obstacles to local employment, particularly for women, in the extractive industries.

The high cost of hiring expatriates compared to local workers provides an incentive for foreign companies to participate in training and skills development schemes in the host country.

Through private-public dialogue, government and industry can collaborate on planning for the short term and long term skills requirements needed by MNEs operating in crucial sectors of the economy. Governments, employers' and workers' organizations should participate in the design of programmes with the proper syllabus to meet the skills requirements of the industry, as well as in the development of on-the-job training programmes, internships and mentoring programmes. Skills service providers should also be trained to analyse and address gender gaps and segregation in skills sets.

The financing for such programmes can be realized through the development of multi-stakeholder partnership mechanisms to fund vocational skills development, such as a skills development levy or voluntary private sector co-contribution towards training programmes relevant to EI supply chains.

Minimize livelihood losses and linking Green Jobs to extractive industries

The opportunities derived from extractive industries and their business linkages must be weighed against the possible detrimental effects on net employment gains and sustainable development. In this regard, MNEs in collaboration with governments, are encouraged to apply due diligence of social and environmental impacts; conduct early and regular consultation with local communities and especially with vulnerable groups (such as ethnic minorities, youth, elderly or disabled people); and establish grievance mechanisms with provisions to redress issues such as loss of livelihoods. Furthermore, given that the environmental and social impact of extractive industries have a differentiated impact on men and women because they use natural resources in different ways, mechanisms to redress need to account for these differences.

Green jobs should be integrated into the responsible operation of extractive projects, as well as along the supply chain through procurement and social investment projects. The examples below also offer opportunities for women in the community to participate in the value chain through sectors that they may have skills and knowledge in already: participatory monitoring of environmental impacts by community-based organisations; local provision of environmental services; alternative energy projects linked to extractive industries; linking extractive industries to green jobs; construction using sustainable building materials for housing resettled communities and workers, for mining and gas infrastructure, and community development projects; and enterprise development 'green' funds providing access to credit to SMEs for the creation of green jobs, ensuring the equal participation and access of women and men to such funds.

Conclusion and recommendations

The policy brief has identified some of the factors for promoting more inclusive extractive industries in Africa, in order to create and sustain decent work in mining, oil and gas supply chains and related sectors. It has considered the types of economic linkages to local communities and national economies that contribute towards employment, enterprise development, and ultimately to the economic transformation required for sustainable development.

The following strategies are some of the key instruments for promoting inclusive extractive industries in Africa (see original document for more recommendations and further details).

To governments:

- Set targets for local employment that are aligned with well-planned and resourced skills development programmes appropriate to industry requirements.
- Uphold the freedom of association and right to collective bargaining of mine, oil and gas workers
- Engage in dialogue regularly about changes in demand for labour during each phase of the life of extractive projects and commodity price cycles.
- Define local content to promote inclusive benefits by setting broad objectives, rather than mandatory requirements, and to avoid elite capture of resource rents and opportunities as well as ensure appropriate monitoring over time.
- Plan business linkages programmes as early as possible, preferably before implementing an investment project.
- Ensure gender sensitive participation in defining and implementing local content strategies.
- Create an enabling environment for SMEs by removing bottlenecks in bureaucracy (simplify business registration, streamlining tax policies, improve land titling, simplify access to courts and dispute mechanisms, etc.).
- Develop policies to support the formalization of SMEs and their access to financial and non-financial business development, challenging existing gender stereotypes and putting in place policies to overcome existing barriers.
- Audit skills gaps regularly in close consultation with extractive industries and suppliers. Ensure that all collected data is desegregated by sex, in order to tailor skills development programmes according to the needs of both women and men

Inclusive business practices in Africa's extractive industries

- Develop multi-stakeholder partnership mechanisms to fund and/or strengthen vocational skills development, such as a skills development levy or voluntary private sector co-contribution towards training programmes relevant to extractive industries supply chains.
- Set up enterprise development funds to provide access to credit to SMEs, including a 'green' fund for business plans that create green jobs.
- Exercise due diligence of environmental and social risks of extractive projects, such as resettlement of communities or pollution or degradation of land or water, which may impact negatively on local livelihoods.
- Link extractive industries to green jobs wherever possible.

To companies:

- Engage in dialogue to uphold the freedom of association and rights to collective bargaining of mine, oil and gas workers and avoid the casualization of jobs in the extractives sector.
- Challenge gender stereotypes in hiring and procurement practises.
- Streamline procurement practices and support the entrance of small enterprises (unbundle contracts, prompt direct payments to suppliers, improving flow of information about tender opportunities, etc.), with a focus on women-owned enterprises.
- Encourage SMEs to pool technical and human resources to jointly tender for contracts.

To employers' and workers' organizations:

- Engage in dialogue to uphold the freedom of association and rights to collective bargaining of mine, oil and gas workers and avoid the casualization of jobs in the extractives sector.
- Promote and strengthen tripartite dialogue to address decent work deficits in the EI.
- Promote women's participation in social dialogue and encourage dialogue around gender issues in the EI between men and women.
- Participate in the design of programmes with the proper syllabus to meet the skills requirements of the EI industry, taking into account the different needs of women and men.

List of sources:

- International Labour Office (ILO). 2014. Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration, 4th edition (Geneva)).
- . 2015. Small and medium-sized enterprises and decent and productive employment creation, Report IV, International Labour Conference, 104th Session, Geneva, 2015 (Geneva).
- Kotsadam, A.; Tolonen, A. 2014. African mining, gender and local employment. OxCarre Research Paper 114, Oxford Centre for the Analysis of Resource Rich Economies (Oxford).
- Östensson, O.; Roe, A. Forthcoming. Sustainable Mining: How good practices in the mining sector contribute to more and better jobs. Draft report, December 2013 (Geneva, ILO).

This is a summary of the policy note "Inclusive Business Practices in Africa's Extractive Industries", which has the objective of contributing to the debate on how inclusive business practices can be strengthened and promoted in Africa's extractive industries, to ensure broad-based development. The development of this policy note has been coordinated by the Multinational Enterprises and Enterprise Engagement Unit of the International Labour Organization (ILO) and the Enabling Environment for Sustainable Enterprises Programme of the Small and Medium Enterprises Unit (SME), and has benefited from the contribution of several colleagues both in its headquarters in Geneva and in its offices in the field. The note has been authored by Dr Kathryn Sturman, Senior Research Fellow of the Centre for Social Responsibility in Mining, Sustainable Minerals Institute, at the University of Queensland, Australia. Prior to publication, it was presented and discussed in a workshop on social dialogue in the mining sector, in Lusaka, Zambia (October 2015) and in a training organized by ILO's International Training Center course on women in the extractive industries in Nacala, Mozambique (December 2015).