

FDI in Mining and Sustainable Development in Africa

Foreign direct investment (FDI) in extractives holds enormous potential to finance infrastructure development and projects needed for sustainable economic growth and poverty reduction. Since the 1980s, mining regulations have mainly been directed towards attracting greater foreign investment through amended labour and social policies and more private sector-friendly ownership and taxation schemes. However, these policies have not brought development benefits or redressed development challenges as much as hoped, despite rising mineral prices in recent years. Consequently, governments are renegotiating contracts and revising mining codes, seeking more inclusive FDI which fosters various types of linkages with the host economy to generate job creation not only upgrading upstream and downstream in value chains, but also to spur broader spill-overs on the host economy.

Types of linkages

Backward/upstream linkages with suppliers: includes contributing to exploration or supply equipment or provide services supporting extraction or production.

Forward/downstream linkages with customers: includes processing and refining of ore into primary metal and/or the fabrication of primary metal into semi-fabricated products. These linkages can provide the opportunity to develop manufacturing activities around the extractive sector, but such linkages are often weak in Africa because mineral products are typically exported in raw or partly processed form.

Horizontal/sidestream linkages: includes activities that may not be directly linked to the extractive sector, but might have the potential of unlocking indirect business and employment opportunities in other sectors. Mining may create synergies in services sectors such as financial services, logistics provision, distribution services, skills and technology development.

This shift grows out of recent developments in MNEs' strategies and capabilities that open new opportunities for linkage formation in African extractives:

- The rise of new players (China, South Africa, India, Brazil), as well as from within Africa, creates growing competition for extractives concessions, strengthening the bargaining power of host governments to encourage investors to create more local linkages.
- MNEs are restructuring their value chains by "outsourcing" non-core activities in order to reduce costs, spread risks, benefit from specialization and tap into the resources of other firms. This reconfiguration provides new opportunities for local firms to break into the value chains of extractive MNEs and build linkages with the host economy.
- MNEs increasingly view linkage development programmes as a strategic tool to enhance their competitiveness and/or as part of their CSR programmes. These programmes typically include local procurement policies, training and education activities, or programmes involving local companies in building infrastructure.



Host country policies

Host countries have adopted a wide range of new policies seeking to promote linkage in extractives and harmonize mining activities with national development priorities, such as the Africa Mining Vision (AMV) that was adopted by Heads of State at the African Union summit in 2009 which focuses on concrete actions to better integrate mining into development policies at local, national and regional levels. Policy recommendations generally include:

- **Attracting strategic FDI:** Governments are encouraged to seek out longer-term investors which are more likely to expand their ties to local enterprises and communities, and to fine-tune any tax or regulatory exemptions to this end.
 - **Creating a conducive investment climate:** Investors are increasingly concerned about social stability and want to preserve their reputations as responsible businesses which contribute to sustainable development. A balanced regulatory approach encourages enterprises to operate in the formal economy and creates a more level playing field between foreign and domestic operators while also promoting industrial peace and stability through better protection of workers' rights and the environment.
 - **Incentives to link with local firms:** The two most common measures include requirements for joint ventures and for local content to foster backward linkages to suppliers and input providers. Such policies can help close information gaps, defray costs of technology upgrading and facilitate linkage building between MNEs and local enterprises.
 - **Investing in skills development:** Skills development is critical for attracting longer-term investment with greater linkage potential. Furthermore, mandating linkages does not work if potential foreign investors don't have adequate local business partners or a skilled workforce. Government must provide adequate education and vocational training and is encouraged to collaborate with MNEs to ensure that these programmes are demand-driven.
 - **Absorptive capacity in local industry:** Linked to skills development, policies should also strengthen the ability of local enterprises to learn and use the skills, knowledge and technology made available by direct MNE linkages. Such policies can stimulate the emergence of innovative local entrepreneurs.
 - **Beneficiation and value addition:** Beneficiation can contribute to growth and economic diversification when it generates upstream and side-stream linkages. Policies to encourage greater local value addition foster down-stream economic development, including building manufacturing capacity.
 - **Strengthening support to foreign investors:** Investment agencies play an important role in attracting FDI with greater development potential. They are the one-stop shop for marketing the country as an investment destination, identifying and targeting foreign investment, creating and managing databanks of potential foreign investors and local suppliers, providing matchmaking services to partners, organizing skills training for domestic entrepreneurs and providing post-investment services to investors.
 - **Revising International Trade and Investment frameworks:** policy shifts at the regional and international level can foster greater flexibility in the use of tariffs, non-tariff barriers, export taxes and investment treaties to promote industrial development, economic diversification and value addition.
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Inclusive growth in mining communities: the case of Zambia


The ILO in Zambia is engaging with the Ministry of Mines, Ministry of Labour, the Chamber of Mines and many other stakeholders to facilitate dialogue between the mining sector and the Government, support small enterprises development and business linkages in mining communities and encourage skills development. At the community level, the ILO focuses on the following objectives:

- Enhancing business linkages between mining companies and local SMEs through upgrading of their management practices and value chain development while also improving the quality of jobs;
- Developing the capacity of member-based organizations and business development service providers to facilitate local small and medium enterprise (SME) development through skills training;
- Facilitating improved access to capital—a serious current constraint to SME development in Zambia;
- Strengthening an additional value chain in each province which is outside the mining sector and has high growth and job creation potential, to help diversify the local economies.

On-going activities include the conduction of a value chain assessment in the Copperbelt and North Western provinces to identify procurement practices of mining companies as well as the constraints faced by small and medium enterprises, capacity building activities for partners, and regular sectoral dialogue meetings involving key stakeholders.

Home country policies

Recently, donors have started taking a greater interest in the broader socio-economic impacts and spill-overs from extractives, with a particular focus on enhancing linkages between MNEs and local industries. The key elements of donor support to extractive industries include:

- Governance, with an emphasis on revenue and expenditure transparency
 - Technical assistance, capacity building and institutional support
 - Exchanging knowledge and expertise
 - Advocacy, including strengthening political will in host countries
 - Mainstreaming international standards into national policies
 - Engaging in partnership
 - Ensuring that extractive industry benefits poor people
 - Protecting the rights of people affected by extractive industry investments
 - Environmental protection
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The Dutch Good Growth Fund (DGGF)

A Dutch Growth Fund (DGGF) of in total 750 million Euros has been set up to provide funding to entrepreneurs in low and middle-income countries and in the Netherlands for activities in developing countries which are relevant to socially responsible and sustainable development. The goal is to help small and medium-sized enterprises (SMEs) that wish to invest in and export to low- and middle-income countries by giving them the opportunity to achieve their ambition. The Dutch Good Growth Fund has 3 parts:


- **Enhance financing opportunities for Dutch entrepreneurs:** Dutch SMEs that wish to invest in low- and middle-income countries are often unable to get finance from commercial financiers who tend to be unfamiliar with the local markets. For this reason, the DGGF offers guarantees to Dutch or local banks to encourage them to provide financing for a Dutch SME willing to invest with a sound investment plan. The Netherlands Enterprise Agency (RVO) will be responsible for assessing the plans in terms of development relevance, corporate social responsibility and the likelihood that the investment will become profitable.
- **Promote the financing of local SMEs:** there is a lack of financing opportunities for SMEs in low- and middle-income countries. Many SMEs are too large to be eligible for microfinance but too small for financing from regular banks. The size of this SME segment is therefore limited and hinders employment and inclusive growth. Funding will be made available from the DGGF in order to develop this SME segment.
- **Increase financing opportunities for SMEs:** SMEs in low- and middle-income countries often have to pay cash for the goods they buy from Dutch entrepreneurs because of a lack of confidence. So paying in advance is the only alternative – but one that is difficult, if not impossible, for many entrepreneurs. This may result in missed opportunities for both these countries and the Dutch exporters. The fund offers facilities over and above the regular export credit insurance scheme for selling development-relevant export goods to low- and middle- income countries.

A wide range of policies exist to promote developmental linkages between MNEs and local firms in African extractives. However, there are no “silver bullet” policies that either host governments or donors can implement to translate activities in extractives into sustainable economic growth and poverty alleviation. Successful implementation depends on a wide range factors, including a comprehensive study of the specific local context in its economic, cultural and social dimensions, the involvement of key public and private stakeholders, effective public-private partnerships and well-defined roles and responsibilities between public authorities and private actors.

ILO's approach to global business

The MNE Declaration

The ILO recognizes the important role played by multinational enterprises in the economies of most countries and in international economic relations. To encourage their positive contribution, the ILO promotes the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) and the ILO Declaration of Fundamental Principles and Rights at Work. The Fundamental Principles and Rights at Work are considered to be human rights and thus need to be respected by all actors in society, including business. The MNE Declaration is the ILO's global policy framework that contains guidelines on employment and labour-related issues for both governments and companies in five areas: general policies, employment, training, conditions of work and life and industrial relations. It is the only global instrument negotiated at the international level between governments, employers' and workers' representatives.





Providing guidance for business on international labour standards

The ILO collaborates with other multilateral institutions to ensure that business receives a consistent message on labour and employment issues regardless of which instrument or reference framework it is using to guide its operations. The ILO Helpdesk for Business on International Labour Standards assists enterprises that want to align their operations with the principles contained in international labour standards and the MNE Declaration. A free and confidential service responds to specific questions (assistance@ilo.org) and the website (www.ilo.org/business) allows users to easily navigate the ILO's knowledge base, Q&A library, tools and resources that relate to the needs of companies of all sizes. The ILO also provides companies with training on a range of issues and hosts web-based information sessions (webinars) on specific topics.

Providing guidance on implementing the MNE Declaration

To support efforts to implement the recommendations of the MNE Declaration the ILO has developed a self-guided E-learning module "Business and Decent Work: an introduction to the MNE Declaration" (www.ilo.org/mnelearning). The 40-minute, interactive self-guided module provides an introduction to the MNE Declaration and uses actual country case studies that highlight how the recommendations can be put into practice by governments and enterprises. It also describes how the MNE Declaration relates to other international instruments which can also guide business behaviour.

Promoting social dialogue

A unique feature of the MNE Declaration is its strong emphasis on the promotion of dialogue. It promotes good industrial relations at all levels: within the enterprise, sectoral, national and global. It also encourages dialogue at national and regional levels between governments, social partners and global business; and between home and host countries of multinational enterprises. As part of delivering technical support to its member States, the ILO facilitates public-private dialogues at the country-level, based on the principles of the MNE Declaration. Such dialogues lead to joint action plans on national development priorities, outlining distinct roles and responsibilities of government and the private sector.

The ILO Sustainable Enterprise Programme

The ILO Sustainable Enterprise Programme helps create more and better jobs through enterprise development. It connects business growth and competitiveness with the needs of people to make a decent living in a healthy environment. Anchored in the ILO's mission to create decent work for all women and men, this programme is centred on three pillars: an enabling environment for enterprises; entrepreneurship and business development; sustainable and responsible workplaces. The programme combines evidence-based policy development with capacity building and enterprise support services, delivered at the international and country levels, through advisory services and a large portfolio of technical cooperation.

