

The Resources Sector in Developing Countries: *Strategies to Improve Community Livelihoods*

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Summary

Resource sector companies in developing countries operate in a complex environment. They face a range of challenges which require innovative solutions. One such challenge is the need to help secure sustainable livelihoods for communities in areas/regions in which they operate.

This FDC Briefing Note outlines current thinking in this field. Resource sector companies should consider more innovative strategies including investing further in local economic development (LED) through forging multi-stakeholder partnerships.

Introduction

Resource sector companies in developing countries are increasingly called upon to do more to help communities secure sustainable livelihoods in the areas/regions in which they operate. For instance, at the international level, there is a plethora of tools, policies and standards to which resource sector companies are required to adhere. These include the Extractive Industries Transparency Initiative (EITI) and the International Council of Mining and Metals (ICMM) toolkit on community development. At the national and local levels, resource sector companies are also obliged to comply with various codes and practices.

Resource sector companies face a complex task in trying to tackle these issues. This complexity is associated with the prevailing socio-economic situations in many communities in developing countries. For instance the diversity of communities (ethnicity, language, religion, ethnicity), low indicators of health (eg. prevalence of HIV/AIDS), low literacy levels and high incidence of poverty and unemployment. In addition, there is often a lack of significant government services and facilities provided for the communities.

Community Livelihoods Strategies

Strategies adopted by resource sector companies in response have varied in scale and nature. Typically, resource sector companies have adopted either financial and non-financial strategies and, lately, combinations of these strategies as part of their efforts.

Innovations in Financial Strategies

Resource sector companies have provided different forms of financial strategies to help communities in developing countries; these include taxes, royalties and compensation. Over the years, these financial strategies have had positive impacts on community livelihoods. However, there have also been cases of financial mismanagement where funds been squandered. Hence, companies need to think of further innovations in financial management.

Presently, there are a number of initiatives to ensure the proper management of financial contributions. For instance, the Extractive Industries Transparency Initiative (EITI) aims to achieve better accountability and transparency and urges companies to publicly report what they pay to governments. The international NGO, Transparency International, is also leading efforts to combat corruption in the resources sector.

More innovative mechanisms to channel and oversee the flow of finances need to be investigated. One such mechanism which is gaining currency is 'community foundations' - a non-profit corporation that donates funds to support communities. Further investigation is needed to document best practice case studies and identify its working operations.

Partnering with key stakeholders provides yet another strategy to better channel and manage financial assistance to improve community livelihoods. This issue is detailed further in Page 3 in the section on partnerships.

Past experience indicates that financial strategies alone will not be able to fully address the complexity of community livelihoods. Resource sector companies need to think about complementary non-financial strategies.

Innovations in Non-financial Contributions

Resource sector companies have an array of non-financial strategies to address community livelihoods. For instance, companies have organised and delivered training programs; employed communities in mine-related activities; linked with small and medium-sized enterprises (SMEs) to procure services and products to the mining operation; provided basic infrastructure services such as housing, electricity, roads and water/sanitation.

Training of local communities provide a ready employment base for the company and its mine-related operations. Further, training also provides livelihood options and employment skills for the community.

The organisation 'Engineers Without Poverty' has highlighted that there is enormous potential to maximise the contribution of local SMEs. For example, their contribution could be in the provision of general services (eg. catering), construction and trades (eg. earthworks) and goods (eg. food supplies). In order to embrace greater involvement of SMEs, there is a need for a number of changes. These include adopting modified procurement policies and processes, modifying contract documentation and supporting supplier development.

More innovative instruments for non-financial contributions could include embracing the emerging carbon economy. Such a strategy could make communities leverage additional resources for livelihood opportunities.

Beyond Corporate Social Responsibility

Many resource sector companies now aim to help community livelihoods through their Corporate Social Responsibility (CSR) strategies.

Various stakeholders have been supportive of this strategy including the UN Global Compact, NGOs and governments. In 2007, the Government of Canada held a series of roundtable discussions to review the CSR strategies of Canadian resource sector companies operating in developing countries. A number of case study illustrations have shown that CSR strategies have been successful in bringing about change and positive development in communities.

However, future CSR strategies need to evolve beyond philanthropic and reputational objectives. CSR strategies need to embrace core-business and core-competency objectives in its strategies.

Embrace Local Economic Development

Local economic development (LED) refers to the process of achieving vibrant and sustainable community economies in developing countries. The World Bank has identified key initiatives to help implement LED strategy, and these include: improving the local business climate; investments in hard and soft infrastructure; investment in sites for businesses; encouraging local business growth; encouraging new business enterprises; promoting inward investment; sector/cluster development; area targeting/regeneration and integrating low-income or hard to employ workers.

By being part of an LED strategy, resource sector companies can greatly contribute to securing sustainable community livelihoods in developing countries. At the same time, LED strategies can also help the resources sector's bottom-line and to shore up its social license to operate. Some of the possible benefits are discussed below.

Using LED tools such as value-chain analysis can help provide resource sector companies with key strategic information related to various points in the supplier chain. This will help companies optimise their investments, and also embrace local population and local businesses in the process. An excellent example of this strategy is BHP Billiton's 'Black Empowerment Policy in South Africa'.

An LED strategy also helps to identify economic opportunities in the non-resource sectors. For instance, surrounding regional conservation, agriculture and tourism sectors can help communities explore alternative livelihood options. This is particularly beneficial to communities who extensively rely on the resources sector only. Further, where they have no alternative livelihoods, this could lead to illegal mining as evidenced in the Porgera Valley in Papua New Guinea.

The development of SMEs is a key ingredient of an LED strategy. The resources sector has the potential to encourage the links to both upstream and downstream suppliers and producers for procurement, distribution and sales.

Through innovative town planning techniques, resource sector companies can target mine areas for regeneration. This could involve the establishment of buildings and infrastructure for local SMEs.

There is potential for the resource sector companies to partner with the banking industry. This would help the community to get access to financial services which in turn would help them with their employment and livelihood prospects. This would also provide a facility for migrant workers employed in the mines to send their remittances back to the villages.

Adopt A Partnerships Approach

Whilst there have been successful unilateral initiatives by resource sector companies, there are proven benefits of adopting a partnership approach as has been evident in other sectors.

For the resources sector, adopting a partnership approach necessitates a comprehensive assessment of potential partners, and the partnership process itself. This includes the initial stages of partnership exploration through to partnership building, and finally to partnership maintenance. Some possible areas for partnership approaches are outlined below.

Partnerships with Communities - these could be based on formal arrangements like community based organisations (CBOs). While companies aim to seek trust and support for their operations, partnerships can provide communities with financial or other benefits that enhance their livelihood opportunities. Partnerships with communities also provide a mechanism to channel and oversee the royalties and other financial community benefits.

Partnerships with local Private Sector - there are significant advantages for resources sector companies to partner with local SMEs. For instance, this would help companies increase value addition, generate local employment and procure various goods and services.

Partnerships with Local Governments - the provision of infrastructure facilities are generally considered the purview of local governments. However, given the frequent lack of government action in this regard, partnerships pave the way for the provision of infrastructure services to both the communities and the mining operation. In doing so, it is important to avoid long-term dependency of the community on the resources sector for the provision of such services.

Partnerships with Non-Governmental Organisations (NGOs) - NGOs are a key and active stakeholder in most local communities. Partnerships with them allows LED strategies to be implemented more effectively. For example, Newmont Ghana Gold Ltd recently successfully partnered with a local NGO to launch the Ahafo Agribusiness Growth Initiative, which aims to increase the capacity of the farmers which is independent of the mining operation.

Partnerships with Donor Agencies - Community livelihoods and poverty alleviation are generally central themes of most donor agencies. Partnering with the resources sector provides an avenue to donors to design and implement poverty alleviation projects in areas where local communities interact with resource sector companies.

Conclusion

Earlier unilateral strategies to address community livelihood issues have been less than successful in optimising benefits to both communities and the resource sector companies. As a result, resource sector companies in developing countries need to embrace more wide-ranging and innovative solutions.

Resource sector companies need to go beyond the sole provision of financial and other associated benefits to identifying effective delivery channels. In this regard, the establishment of community-based foundations requires special attention and further investigation. Forging long-term partnerships with key stakeholders such as local governments and NGOs is yet another effective vehicle for resource sector companies to deliver benefits to communities.

Community livelihoods are best pursued as part of a wider LED strategy. Such a strategy could involve the use of tools such as value chain analysis to identify and encourage links to both upstream and downstream suppliers and producers for procurement, distribution and sale. Further, being part of a LED strategy provides a framework for exploring alternative livelihood opportunities which are independent of the mining operation. For instance, this would involve exploring livelihood options in the surrounding conservation, tourism, fishing and agriculture sectors.

One of the ways to operationalise the LED strategies would be to establish partnerships with key stakeholders such as community organisations, local governments, NGOs and donors agencies. This requires a concerted effort to understand and document the processes of a partnership approach in the context of the resources sector.

Resource sector companies are strategically placed to help community livelihood issues in developing countries. In order to do so, it needs to adopt more innovative solutions (beyond mere financial instruments) to being part of a LED strategy through to establishing deep and broad partnerships with key stakeholders.