

Tri-Sector Partnerships

Creating Local Employment and Managing Retrenchment

The Issue

Poor communities in a cash economy need income. From 'their' perspective, it is often the prospect of permanent employment from the presence of an oil, gas or mining project that most fuels their expectations.

Resource extraction projects can contribute to local employment in different ways:

Directly

- ▶ during the **construction** phase of a project, in the form of manual and semi-skilled labour;
- ▶ during the **operational** phase, to manage and maintain production, processing, transportation and ancillary equipment;

Indirectly

- ▶ through employment with **sub-contractors**, providing construction, components or services; or
- ▶ as providers of **associated business services**, eg hostels, horticultural and dairy produce, cleaning equipment.

Barriers to Market Entry

Despite these opportunities, the employment expectations of local populations are rarely met in practice. Common barriers to market entry, either for those seeking employment or for local businesses include:

- ▶ local populations with education levels insufficient to gain employment in an industry inherently technology-intensive, highly skilled and dependent upon quality and security of supply chains;

- ▶ trade unions that source employees on a national basis, to the detriment of local communities;
- ▶ use of 'turn-key' contracts for construction work, over which the operating company has little influence regarding the prioritizing of jobs to local sub-contractors or to those recently retrenched;
- ▶ a lack of business management skills in local small and medium scale companies (SMEs), eg how to secure finance, manage cash flows and ensure quality;
- ▶ the prohibitive loan repayment rates of local banks – frequently in excess of 50% per year;
- ▶ the high transaction costs and delays associated with business 'start-ups';
- ▶ expediency in the process of sub-contracting, with local companies unable to participate in exclusive 'call-down' lists;
- ▶ companies either sourcing worldwide based on cost and quality, or preferencing their home country

Retrenchment

There are various stages in a project when retrenchment is necessary, for example:

- ▶ at start up, privatised companies invariably shed excess capacity;
- ▶ during the transition from construction to full production, when the demand for manual/semi-skilled labour decreases;
- ▶ when changes in commodity prices require downsizing;
- ▶ in response to fluctuating operational priorities; and an inevitable feature of project closure.

Natural Resources Cluster
Business Partners for Development

A unique collaboration between:

▶ Anglo American Corporation

▶ BP plc

▶ CARE International

▶ Department for International Development (UK)

▶ Integrated Coal Mining Limited

▶ International Council for Mining and the Environment (ICME)

▶ Norsk Hydro

▶ Placer Dome

▶ Rio Tinto

▶ Royal Dutch/Shell

▶ World Bank Group

▶ WMC Resources



Role of Tri-sector Partnerships

Removing barriers to market entry and managing fluctuating levels of retrenchment over the life of the project, are two sides of the same coin. If local business can be stimulated, both in relation to servicing the project, and independent of it, local communities and retrenchees will stand the best chance of securing a lasting income.

Working alone, the operating company is limited in its capacity to achieve this goal. This limitation is magnified during the transition from construction to operations; when downsizing; and at closure – all project stages when the corporate focus is on minimising activities external to core business.

At these times, a tri-sector partnership approach to stimulating local business development can bring the strengths of the operating company alongside the complementary skills, resources and market opportunities provided by others in society. Examples of partnership innovation in local business development include:

- ▶ the company using its advocacy capacity to encourage local authorities to extend market

access for the company's suppliers to the construction and maintenance of public utilities - the aim being to broaden the base of the company's sub-contractors and create local business opportunities that last beyond the life of the natural resource project;

- ▶ working with local NGOs and international donors who have expertise in providing technical and business management training, establishing micro finance and linking local business to new market opportunities;
- ▶ companies establishing funds (eg partnership with international investors) to provide SMEs with equity financing and/or to underwrite local bank loans;
- ▶ major companies developing strategic alliances in a region to ensure a 'level-playing field' of access to opportunities for locally owned suppliers.

Figure 1 describes three different partnership arrangements being explored by Konkola Copper Mines plc to stimulate local business development on the Copperbelt in Zambia.

Fig 1 Stimulating Local Business Development on the Copperbelt, Zambia: Potential Roles for Operators, Government, Donors and NGOs*

Partnership Themes	Resources and Skills Available Locally to Manage Retrenchment and Promote Local Business				
	Working Capital	Local Business Facilitation	Technical and Vocational Training	Business Management Training	Strengthening the Enabling Environment
Partnership 1 Stimulate local business access to supply chain of operating company	<ul style="list-style-type: none"> ▶ equity ▶ loans ▶ saving schemes ▶ group-based revolving funds 	<ul style="list-style-type: none"> ▶ feasibility studies ▶ market surveys ▶ navigation of regulations ▶ company registration ▶ legal advice ▶ tendering 	<ul style="list-style-type: none"> ▶ manufacturing services ▶ construction ▶ trade ▶ agri-industries ▶ public utilities 	<ul style="list-style-type: none"> ▶ book-keeping ▶ admin skills ▶ cash flow ▶ marketing (pricing and promotion) ▶ asset management 	<ul style="list-style-type: none"> ▶ tax regime ▶ land tenure ▶ labour laws ▶ contracting and accreditation ▶ banking system
Partnership 2 Broaden access of local suppliers to other mining companies	as above	Other mine operators in region agree standard contracting 'rules' and local preferences	Procurement departments of other mine operators join capacity-building programme		Parent corporations convene national level tri-sector forum to negotiate level-playing field for market access by domestic SMEs (see Briefing Note 8)
Partnership 3. Promote market diversification of local businesses	Micro-credit facility for agricultural 'outgrowers', established by international NGO and managed by local NGO or local banks	Agri-business outgrowers feasibility study, led by bi-lateral development assistance agency	Specialist NGOs and Min of Agri provide technical assistance, credit management and business skills to 'outgrowers', and facilitate linkage to agri-businesses (latter providing quality control, marketing and distribution). Local authorities open up public utility markets (road construction, waste disposal, property maintenance) to local SMEs		Operating company influences government lands department to lengthen leases for smallholders in mine-area. Cost-sharing with agri-business to rehabilitate local airport

Where to go for Advice

The web-site of the Natural Resources Cluster of Business Partners for Development (BPD) provides case-examples of oil gas and mining operations round the world working in partnership to manage a range of social issues: see www.bpd-naturalresources.org

Alternatively, contact the person whose business card is attached to the Briefing Notes folder. He/she is tasked with providing advice to those interested in tri-sector partnerships.