Harnessing the Potential of Extractive Industries

DECENT WORK IN THE RURAL ECONOMY
POLICY GUIDANCE NOTES
The contribution of the extractive industries to promoting decent work in the rural economy seems to be fairly limited. Whether natural resource wealth can be harnessed for sustainable development and inclusive growth depends crucially on the policy choices that guide the generation and distribution of its revenues. In addition, extractive industries present a number of decent work challenges, including occupational safety and health, and the limited exercise of freedom of association. The International Labour Organization (ILO) plays a significant role in addressing these challenges towards decent work for all, thereby assisting rural development strategies. Instruments, tools and methodologies with increased decent work multipliers for the rural economy can be offered to ILO constituents.
Harnessing the Potential of Extractive Industries

1. Rationale and justification

As the world’s population is increasing, the demand for minerals and fossil fuels such as coal, oil and gas is expected to grow. Extractive industries provide opportunities to developing countries for raising much-needed resources that can be invested in human development. Countries such as Chile and Norway demonstrate that revenues from extractive industries clearly have the potential to bring about economic growth and structural transformation.

Paradoxically, in the rural economy, where most of the world’s natural resources are located, communities generally benefit little from their extraction. The formal part of the extractive industries creates only a limited numbers of jobs, often with specific skill requirements, and the potential to generate decent jobs for the country or region as a whole is limited. Even though spillover effects in terms of indirect jobs can be significant, the International Council on Mining and Metals reports – in accordance with ILO data where available – that the share of employment in mining is rarely more than 1 to 2 per cent of total national employment. The energy-related industries make up 5.9 per cent of business sector GDP, but only 1.2 per cent of the total share of business sector employment. Other challenges often related to natural resources wealth include, inter alia, environmental degradation, volatile economic growth, corruption, gender inequality, armed conflict and the spread of HIV and AIDS. Involuntary resettlement of populations and safety and health concerns – due to the exposure of workers and populations to substances, such as dust or chemicals – directly affect the well-being and livelihoods of rural households.

The asymmetric distribution of wealth created by the extractive industries seems to suggest that the industries often operate as enclaves, with limited linkages to the rural economies in host countries. For example, non-renewable mineral resources play a dominant role in 81 countries, collectively accounting for 25 per cent of the world’s GDP and 50 per cent of the world’s population, of which the majority lives in extreme poverty. Oil and gas resources generated a quarter of GDP growth in Sub-Saharan Africa. Much has been debated about the so-called ‘resource curse’, a situation wherein countries with large endowments of natural resources perform worse in terms of economic development and good governance than countries with fewer resources. The evidence suggesting that there is a resource curse is, however, far from clear-cut.

Extractive industries offer many developing countries opportunities to prosper if they extend their reach into rural areas as an employer, an investor and as a purchaser of goods and services. For this reason the industries take an increasingly central place in development models. Extractive industries provide the main source of foreign direct investment (FDI) in some countries, and in many countries represent a substantial part of public revenues and national exports, providing important contributions to member States’ budgets. They are often the engine of infrastructure development (typically in relation to transport, but also housing and public services) and can play an important role in creating employment opportunities, if the industry draws on local services and products. Employment multiplier effects can be significant, especially in the rural economy.

The purpose of this paper is to offer policy guidance regarding the promotion of decent work in the extractive industries and, in addition, the creation of linkages and interactions with other sectors. The challenge is to decrease the gap between companies’ profits and local socioeconomic benefits through effective strategies, legal frameworks and policies that translate the created value into decent employment opportunities. Fiscal revenues could be used to support the development of new economic activities and essential human needs such as education, health and infrastructure. The ILO supports its constituents in the promotion of decent work in the extractive industries and the creation of linkages with the broader economy, with respect for the environment and well-being of rural populations.

2. Scope and definitions

According to the United Nations Conference on Trade and Development (UNCTAD), the extractive industries are defined as primary activities involved in the extraction of non-renewable resources. They thus do not include such sectors as agriculture, forestry and fisheries. When dealing with the extractives, the ILO distinguishes between mining and the oil and gas sector. This section covers sector-specific issues and target groups, as well as overall challenges for extractive industries within the broader rural economy.

The mining industry

An important distinction should be made between large-scale and small-scale mining, due to the two subsectors’ different specificities and resulting challenges. Large-scale mining commonly refers to formal and regulated activities under large public or private companies. It requires substantial investments, makes use of heavy equipment and technology, and is capital- rather than labour-intensive. Small-scale mining (also referred to as artisanal mining) on the other hand is labour-intensive, with mechanization being at a low level and basic. For this reason, it has different implications for policy-makers. It is typically dangerous, and sometimes linked to human rights violations such as child labour and forced labour, as well as violence and prostitution. At the same time, small-scale mining may be productive and profitable. In some areas, small-scale mining is the only means of earning an income without moving to the nearest city, and can therefore help to reduce rural-urban migration. Policies should not only focus on large-scale formal mining, but also incorporate assistance specific to small-scale miners.

The importance of occupational safety and health (OSH) in relation to both large-scale and small-scale mining cannot be overemphasized. The most negative forms of work are often found in mineral-rich countries that lack effective governance. Given the great presence of transnational companies in the industry, these stakeholders can often have a huge impact. Elements of responsible extraction should, inter alia, include respect for fundamental rights at work, including fair treatment, promotion of equal opportunities, and health and safety.

Social dialogue is another challenge in relation to mining. Small-scale miners operate informally and are often self-employed. They thus typically do not tend to form or join unions. Especially in cases where cooperatives and associations of small-scale or artisanal miners are absent, governments find it hard to find interlocutors for these miners. A large number of national trade unions as well as two global union federations are active in the large-scale mining sector, but freedom of association and collective bargaining have often been contested by mining companies, leading to severe clashes between labour and management. This underlines the importance of governments fostering community empowerment and setting clear frameworks.

Women are in many countries largely underrepresented in the large-scale mining industry. In small-scale mining, female workers provide up to 50 per cent of the workforce, but their pay typically lags behind that of male workers. There are significant gender disparities in male and female access to – and types of – jobs, and women are often left out of community decision-making processes. Child workers are another focus group in small-scale mining. The ILO estimates that nearly 1 million children from 5 to 17 years of age work in mines and quarries, which is considered to be one of the worst forms of child labour because of the extent and severity of the hazards and risks of injury and disease. The legalization of small-scale mining and its integration into rural development strategies is a key step on the road to sustainability.

The oil and gas industry

The ILO’s work on the oil and gas industry relates to the extraction of crude petroleum and natural gas and the manufacture of coke and refined petroleum products as defined by the United Nations’ International Standard Industrial Classification of All Economic Activities.

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11 Ibid.
Rights at work in reference to the ILO’s fundamental Conventions, particularly on freedom of association and the right to bargain collectively, are a matter of grave concern in the oil and gas industry. According to reports released by the ILO Committee on Freedom of Association, cases from the oil and gas sector often involve the denial of civil liberties; undue restrictions on the right to strike; interference by governments in the functioning of workers’ organizations; and restrictive legislation.

In addition, the global shortage of skills is a challenge to the oil and gas industry. Hiring more local workers could be a solution to the skills shortage – along with attracting more women to the sector. Efforts to decrease reliance on skilled expatriate workers are difficult to implement, particularly in situations where local skilled workers are simply not available. Overcoming the challenges of poor infrastructure and lack of funding – and organizing the expansion of education and training – should be envisaged in rural economies that have many people eager to access new job opportunities. Local content laws and schemes could benefit business sustainability, improve relations with workers’ organizations and other stakeholders, and extend the benefits of oil and gas production to the wider population.18

Extractive industries within the context of the rural economy

Extractive industries can have significant social and environmental impacts on rural economies. Investments can for example result in the displacement of indigenous and tribal peoples. Alongside human and labour rights, their ownership rights over lands, which these groups traditionally occupy, should be respected.19 Important decisions affecting these peoples are in many cases made by ministries responsible for mining or finance, without coordinating with the agency responsible for indigenous or tribal peoples’ rights. These peoples should however have a real voice in the policies likely to affect them.20

At the macro level, extractive industries generally make a limited contribution to employment. The ILO estimates that worldwide nearly 6 million people are directly employed by the oil and gas industry, but over ten times that number of jobs is indirectly created by the industry (e.g. in the transport and construction sectors). The mining industry has expanded considerably and provided for new job opportunities due to a boom in commodity prices for nearly a decade, but is now clearly showing signs of a slowdown, possibly leading to mine closures and reduction or possibly halt of new FDI. Also in this sector, direct employment is limited as a consequence of high mechanization. A majority of job-seekers in the rural economy do not have realistic chances of finding decent employment in extractive industries due to the specific sets of skills required.

Harnessing the full potential of extractive industries requires linkages with other sectors to trigger the process of productive transformation, job creation and development. If enough consideration is given to the surrounding economic context, extractive industries can provide a way for the workforce in rural regions to plug into the global economy. In this way, significant employment effects at the local level are feasible.

Role of constituents

Given the challenges outlined, ILO constituents all have unique roles to play in improving decent work deficits in extractive industries. Strong social partners are important to ensure that social dialogue and collective bargaining are used to address shortcomings in the extractive industries. Governments are central in ensuring that institutions and legislative frameworks are in place, enabling the industry to operate sustainably. Whereas global organizations of employers and workers can help in the exchange of information and best practices within their organizations as well as with the ILO, trade unions and employers’ organizations can be particularly instrumental in not just shaping working conditions for the formal part of the industries, but also in reaching out to small-scale artisanal miners. They could for example help organizing them, or provide targeted OSH training, directly or through corporate social responsibility (CSR) projects. CSR projects, such as the creation of schools and hospitals, can provide an important contribution to local infrastructure and rural communities’ wellbeing.

3. The ILO’s approach

A holistic approach is crucial to understanding the opportunities for harnessing the potential of extractive industries. The ILO’s comparative advantage comes from its capacity as a standard-setting and knowledge agency, and through its unique tripartite structure. Building on these strengths, the ILO can assist the development agenda by building the capacity of its constituents through technical advisory services on the promotion of the Decent Work agenda at various levels. However, it cannot achieve success without close collaboration with other international, national and local actors. Therefore partnerships are vital in working towards decent work for all.

At the sectoral level, the ILO has been dealing with labour and social issues of the extractive industries, making considerable efforts to improve the work and life of workers and communities in rural economies. To this end the ILO deploys a sectoral approach which crosscuts the decent work agenda and comprises all four pillars: creating jobs, guaranteeing rights at work, extending social protection and promoting social dialogue, with gender equality cutting across all four aspects. Efficient and effective social dialogue is at the heart of decent work strategies in the industries – to improve transparency, assist in collective bargaining and create cohesive initiatives involving social partners and other relevant stakeholders.

The mining industry

ILO tools and methodologies that are relevant include facilitation of dialogue at regional, national and local levels for harmonized requirements to investors, with increased decent work multipliers for the local rural economy. Capacity-building is carried out through policy advice training and advisory services to governments, employers’ and workers’ organizations. Sectoral meetings and a wide range of tools assist in the implementation of sector-specific activities and interventions.

The oil and gas industry

The focus of developmental efforts within the mining industry should be on promoting working conditions, OSH, and environmental protection for the benefit of all workers and adjacent communities. In pursuing this approach, efforts should be put into encouraging and assisting member States to apply central instruments outlined in the last section. The ILO furthermore promotes the formation of cooperatives in the small-scale mining subsector in order to improve working conditions and facilitate legalization. In addition, the ILO’s International Programme on the Elimination of Child Labour (IPEC) was created with the overall goal of the progressive elimination of child labour, to be achieved through strengthening the capacity of countries to deal with the problem and promoting a worldwide movement to combat child labour.

21 See for example C. 176, C. 169 and other instruments listed in the last section.

22 ILO: Tripartite Meeting on Promoting Social Dialogue and Good Industrial Relations from Oil and Gas Exploration and Production to Oil and Gas Distribution: Note on the proceedings, Sectoral Activities Programme, Geneva, 2009.
In December 2012, governments, employers’ and workers’ representatives participated in the Global Dialogue Forum on Future Needs for Skills and Training in the Oil and Gas Industry. The Forum examined strategies and policies to help ILO constituents ensure the required levels of qualified workers in the industry, as well as to promote a preventive safety and health culture. It noted that there had been positive experiences with policies and programmes such as the promotion of studies in sciences and engineering, distance learning programmes for the industry, facilitation of dialogue between workers, enterprises and training institutions, training funds and apprenticeship programmes.

Extractive industries within the context of the rural economy

Even though the extraction and export of non-renewable natural resources are an opportunity for economic growth, extraction and export alone do not necessarily engender sustainable development. Further efforts among development stakeholders are necessary for harnessing the potential of extractive industries and investing revenues equitably, sustainably and productively. Extractive industries can be a catalyst for promoting decent work outside the sector through investment in new economic activities in the rural economy. Policies, regulations and contracts for resource exploitation that are in the best interests of the country as a whole are crucial in this respect. This includes, for example, respecting indigenous peoples’ rights, avoiding negative impacts through environmental contamination and addressing the risk of corruption.

Secondly, the extraction and export of oil, gas and minerals can create forward and backward linkages with the rest of the rural economy, thus becoming an engine of broader-based growth and employment in the long run. Facilitating stronger linkages between large investors and local businesses requires an understanding of the respective supply chains. It typically involves the stimulation of employment and entrepreneurship, facilitating dialogue and transfer of knowledge and technological, managerial and production capabilities from multinational to domestic companies. Thirdly, the ways used to invest the income from non-renewable natural resources are crucial. In developing countries with surplus labour, it is essential to invest in a broad-based productive foundation and productive capabilities.


25 Ibid.
4. The ILO’s experience to date

This section provides an overview of some successful ILO interventions in the extractive industries. More information on the ILO’s integrated strategies for investment, education and training policies for productive transformation can be found in the policy guidance notes on (i) providing access to quality services in the rural economy; and (ii) economic diversification of the rural economy. Examples of ILO interventions enhancing business linkages between small and medium enterprises and large companies are provided in the policy guidance note on the role of multinational enterprises in the promotion of decent work in rural areas.

The mining industry

In the mining sector, the ILO’s work has been focussed in particular on the promotion of the Safety and Health in Mines Convention, 1995 (No. 176) and its accompanying Recommendation No. 183. This sector-specific Convention provides a framework for the development of a coherent and comprehensive policy on OSH in mines, supporting laws and regulations, inspection and follow-up. In order to promote its ratification, the ILO has organized numerous national,26 regional27 and sub-regional tripartite workshops28 that aim at assisting countries to assess the differences between their law and practice and the provisions of the Convention. Where appropriate, these workshops have been followed up by country-specific work, in particular the development of in-depth gap analyses, or the provision of direct assistance to countries to review legislation or to introduce new practices, such as risk assessment, in the sector.

In Zambia for example, technical assistance was provided for drafting a national Occupational Safety and Health policy and for revising mining regulations. Current mining regulations have been reviewed by a tripartite group and a new draft is being/has been prepared by the government. A similar process has been concluded in Uruguay, which ratified Convention No. 176 in 2014 after technical advice was provided to constituents on its main provisions; ratification efforts are also underway in Mongolia. To further assist constituents with the practical implementation of the Convention and the development of safe working procedures, codes of practice have been developed by ILO to guide constituents in their efforts to improving OSH in mines.

The ILO’s International Programme on the Elimination of Child Labour (IPEC) has undertaken a number of technical cooperation projects to demonstrate how child labour in small-scale mining can be stopped. Through its demonstration programmes on child labour in small-scale mining, IPEC has learned a great deal about the nature of the problem and possible solutions.29

The oil and gas industry

At a sub-regional workshop in 2013, a seven-point plan of action to promote good industrial relations in the oil and gas sector in Azerbaijan, Kazakhstan and the Russian Federation was unanimously approved. First, the ILO and the International Training Centre (ITC) of the ILO work with social partners on training and capacity-building in social dialogue, occupational safety and health, labour inspection and gender equality. Secondly, the ILO assists in analysing mismatches between the labour market and available skills. A third component is to reinforce youth employment promotion programmes in the Commonwealth of Independent States by establishing a network on decent work for youth, strengthening capacities of labour market institutions, and designing and implementing active labour market policies and programmes targeted on youth. Among the other points, innovative regional initiatives will be fostered, and the regional element will serve as a pilot example for future cooperation in other regions.30

Besides sectoral meetings and workshops, the ILO’s public–private partnerships (PPPs) can assist its constituents in improving local workforce capabilities to create decent jobs within the framework of national development. The ILO and the oil company BP Berau Ltd. signed a PPP agreement in 2011 to promote employability and entrepreneurship among Papuan youth in Bintuni Bay Area, West Papua in Indonesia.31 The project focuses on youth entrepreneurship development in Teluk Bintuni, as part of education and skills training for youth employment. The project has supported out-of-school youth in West Papua through livelihood promotion. Through the use of Start Your Business (SYB) and Gender and Entrepreneurship Together (GET Ahead) modules, the disadvantaged out-of-school youth have received participatory training on life skills and core work competencies, and were taught basic skills to start a business.

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26 Since 2009: Botswana, Chile, China, Dominican Republic, Georgia, India, Indonesia, Mongolia, Russian Federation, Turkey, Uruguay, Viet Nam and Zambia, among others.


28 Sub-Saharan countries, 2012.


5. Practical guidance and resources

The introduction of extractive industries into rural economies can create decent work challenges and inequality within these economies, but, at the same time, offer opportunities for productive transformation and the realization of decent work.

Policies and technical interventions should (i) promote decent work in the extractive industries, and (ii) be focused on turning the resource curse into a blessing, so that revenues from natural resources can be used to finance education, health and rural development. It goes without saying that specific country contexts strongly influence the approach and required set of tools. In the initial phase, it is important to set out the rural context in which extractive companies operate. A gap analysis is useful for reviewing the adequacy and completeness of existing assessments of the decent work challenges in the extractive industries, and for revealing the opportunities in terms of productive transformation. This mapping should include relevant policies, legal frameworks, prevailing gender inequalities, and the representation and priorities of the social partners and other stakeholders, among other things.

Transparency and dialogue are essential in ensuring that corruption is tackled, and that indigenous and tribal peoples’ rights are respected. Rural development is not a single event, but a continuous process of planning and implementation that requires monitoring and evaluation to assess progress in supporting national priorities. Depending on the national priorities and needs, the right mix of instruments and tools that are listed below provide further guidance to harness the potential of extractive industries.

**Instruments**
- Minimum Age Convention, 1973 (No. 138).
- Occupational Health Services Convention, 1985 (No. 161).
- Indigenous and Tribal Populations Convention, 1989 (No. 169).
- Safety and Health in Mines Convention, 1995 (No. 176) and its accompanying Recommendation (No.183).
- Worst Forms of Child Labour Convention, 1999 (No. 182) and its accompanying Recommendation (No. 190).

**Tools**
Publications


—. 2009. Social dialogue and industrial relations issues in the oil industry: Report for discussion at the Tripartite Meeting on Promoting Social Dialogue and Good Industrial Relations from Oil and Gas Exploration and Production to Oil and Gas Distribution, TMOGE/2009, Sectoral Activities Programme (Geneva).


Reynoso Castillo, C. 2006. Industrial Relations in the Oil Industry in Mexico, working paper 239, Sectoral Activities Programme (Geneva, ILO).


Twebaze, J. 2013. The oil and gas industry in Uganda: Employment trends, Vocational education and training and skills needed, working paper 300, Sectoral Activities Department (Geneva, ILO).
Overview of Policy Guidance Notes on the Promotion of Decent Work in the Rural Economy

Supporting inclusive agricultural growth for improved livelihoods and food security
- Decent Work for Food Security and Resilient Rural Livelihoods
- Decent and Productive Work in Agriculture

Promoting economic diversification and triggering productive transformation for rural employment
- Economic Diversification of the Rural Economy
- Promoting Decent Work for Rural Workers at the Base of the Supply Chain
- The Role of Multinational Enterprises in the Promotion of Decent Work in Rural Areas
- Transitioning to Formality in the Rural Informal Economy
- Sustainable Tourism – A Catalyst for Inclusive Socio-economic Development and Poverty Reduction in Rural Areas

Promoting access to services, protection and employment-intensive investment
- Providing Access to Quality Services in the Rural Economy to Promote Growth and Social Development
- Extending Social Protection to the Rural Economy
- Developing the Rural Economy through Financial Inclusion: The Role of Access to Finance
- Employment-Intensive Investment in Rural Infrastructure for Economic Development, Social and Environmental Protection and Inclusive Growth

Ensuring sustainability and harnessing the benefits of natural resources
- Greening Rural Economies and Green Jobs
- Decent Work in Forestry
- Harnessing the Potential of Extractive Industries

Increasing the voice of rural people through organization and the promotion of rights, standards and social dialogue
- Rights at Work in the Rural Economy
- Promoting Social Dialogue in the Rural Economy
- Building Local Development in Rural Areas through Cooperatives and other Social and Solidarity Economy Enterprises and Organizations
- Decent Work for Indigenous and Tribal Peoples in the Rural Economy
- Empowering Women in the Rural Economy

Improving the knowledge base on decent work in the rural economy
- Enhancing the Knowledge Base to Support the Promotion of Decent Work in Rural Areas

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