SA's mining sector regulation and charting the way on local content targets in 2021

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The crucial regulatory question currently asked in the South African mining industry is if mining rights holders can realistically - in only five years - progress toward spending 70% of their mining goods budget on locally manufactured goods from BEE compliant and historically disadvantaged persons, youth and women-owned businesses?

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The South African Department of Mineral Resources and Energy (DMRE) published the third version of its *Mining Charter* in 2018. High local content procurement targets are a vital component of the new regulations. It is one of the strategies the *Mining Charter III* employs to drive broad-based black economic empowerment (B-BBEE) transformation in the industry.

It's a tough ask for several reasons, not least because industry stakeholders have not developed a standardised product identification system or a verification process for local content. The task is demanding, and the potential impact of compliance failure is significant.

For mining rights holders, 2021 will be their third year of reporting this element. Mining rights holders need to respond to the call for local industry development and industrialisation to protect future businesses, strengthen their value chain, achieve sustainability, and empower the communities around them.

The aim is to increase manufacturing capability in the country for mining goods. Achieving this aim will combine technology, automation, engagement with suppliers, and a strategy that aligns the current and future business needs with the *Mining Charter* procurement targets.

The 'why' of local content targets

The charter is the primary instrument of the Minerals and Petroleum Resources Development Act (MPRDA) for driving transformation in the industry. By encouraging mining rights holders to source and procure goods and services from local suppliers, it aims to address imbalances in the social and economic landscape of South Africa. This step will also improve economic growth, create employment opportunities, develop local skills, grow manufacturing activity, and reduce inequality. The charter also aims to bolster industrialisation activity within the sector by increasing the manufacturing capability of the country to produce mining goods ordinarily imported by the mining sector.

Yashwin Bhoola, managing director for supply chain and operations, Accenture in Africa

To illustrate the potential value of this strategy, consider the following; a baseline study done by Accenture for a local coal miner showed a local content level of 28% for mining goods procured, suggesting that 72% of the miner's goods spent left the South African economy through imports. If these percentages are applied to the mining industry's collective annual procurement/purchase spend, currently at R291,91bn, that's R210,18bn leaving our shores. If the industry meets the Mining Charter's target and a minimum of 70% of total mining goods procurement spend is on locally manufactured goods, only R87.5bn of this spend will leave the economy via imports.

While these numbers are merely illustrative, the impact of an additional approximately R200bn on the local economy can be significant. For example, Eskom's Kusile power plant, the fourth-largest coal-fired power station globally, has an R118bn price tag; and the KwaZulu-Natal government's 2018 R200bn investment in projects targeting economic hubs across the province aims to create 400,000 jobs.

While the local content procurement reporting requirements are complex, getting this right is vital for mining rights holders — the stakes are high. Failure to meet these targets negatively impacts compliance, operational and sustainability perspectives, while meeting them presents several benefits, including improved long-term competitiveness.

Why is the industry struggling?

Some of the most significant challenges are ecosystem complexity, lack of awareness around local content requirements and verification (within the mining organisation supply chain and management, as well as among suppliers), and a lack of standardisation across the sector in terms of describing goods and services, and capturing data for local content reporting.

Goitseona Raseroka, senior manager for strategy and consulting, Accenture in Africa

Supplier ecosystem complexity: Mining rights holders' supplier ecosystems consist of hundreds of service and mining goods suppliers. The same mining client may own multiple mining rights with unique and shared suppliers, and some of these suppliers may provide both services and mining goods. The reporting requirement for mining subcontractors further exacerbates complexity.

Supplier contracting and categorisation: Supplier contracts often do not differentiate between pure services and mining goods elements. Supplier categorisation (if present) provides limited visibility of the various mining goods groupings, such as capital assets, consumables, materials, etc. While some mining clients have started to develop an in-house categorisation (taxonomy) of mining goods to help them obtain a view of mining goods procured, not all have. The need for a standardised taxonomy for the industry is therefore urgent.

Spend data capturing for local content: ERP systems are not optimised for tracking mining goods spending. This leads to onerous manual manipulations during the local content assessment process. And, as there is no product naming standardisation, mining rights holders capture data using free text. The Department of Trade and Industry (DTI) has determined that "free text" purchases make up approximately 70% of total procurement value. These discrepancies hamper standardisation or control, the stymying opportunity for industry localisation of high volume mining goods.

Local content requirements awareness: While supply chain and management teams are aware of empowerment requirements from an enterprise supplier development (ESD) perspective, they are not fully aware of localisation requirements for mining goods, DMRE local content reporting requirements and the implications of non-compliance. The expectation of mining rights holders regarding local content procurement thus needs to be made clear, and they must, in turn, make their teams and supplier base aware of these expectations.

Definition of service providers classified as contract miners by mining rights holders: The *Mining Charter* describes contract miners as service providers involved in the extraction and processing of minerals on behalf of mining rights holders. This definition presents vagueness as some service providers are engaged in preparation rather than pure extraction and processing of ore —e.g., removing various layers such as topsoil and overburden.

Maturity levels of contract miners: Contract miners vary in maturity from a supply chain management perspective—some have the capacity and capability to meet local content procurement reporting requirements, others don't. For the suppliers in the latter category, the exact provisions for their capitation are unclear.

Treatment of contract miner procurement spend: The same treatment of contract miners procurement spend, in the instance where they provide the same service to multiple mining houses, is yet to be articulated. Mining houses are opting to treat these suppliers as mining services suppliers in the interim. Given the typical high spending linked to these suppliers, the local content levels of mining goods associated with them remain unaccounted for.

Development of a standardised coding and product identification system by the DTI: The DTI collaborates with the DMRE in the five-year strategy to encourage more local mining goods procurement. Its creation of a standardised identification system for mining goods for mining rights holders will provide the industry with a catalogue of all components, products and services, making it easier to track local and imported purchases.

Duplication of mining goods verification: As mining rights holders procure the same mining goods from the same service providers, duplication of verification is inevitable. With no standard industry taxonomy in place, the issue is exacerbated. Regulatory bodies that verify local content need strategies to prevent the recurrence of verification efforts.

Start now and be strategic in mapping the future


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The intended positive impact of local content compliance on the mining sector is clear regarding enhancing local participation in the mining value chain and encouraging greater involvement of companies owned by previously disadvantaged persons. However, this impact is moderated by the prevailing capability and capacity for local content manufacturing in the country.

Mining houses that start engaging with their suppliers early on to understand issues and opportunities, supporting them in strengthening their capabilities, will lead the way in local content compliance.

Technology will play a critical role in achieving successful local content procurement requirements. In the mining supply chain, digital supply chains, intelligent operations and digital supplier development platforms are themes that are gaining traction. Smart data hubs to categorise, track, and report local content levels will become vital to dynamically track local content movements at a mining goods level and track suppliers' local content levels.

For mining rights holders, the time to get started is now. Investigating intelligent solutions that can create solid foundations for and accelerate reporting progress will position mining rights holders well to lead the way, achieving compliance and related benefits and improved competitiveness.

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