

## CASE STUDY

# SOUTH AFRICA: UPSTREAM LINKAGES

## FIGHTING INEQUALITY BY PROMOTING LOCAL PROCUREMENT

### OVERVIEW

#### LEVEL OF OPERATION:

National

#### GOVERNMENT ROLE:

Regulator, program facilitator

#### FOR MORE INFORMATION:

See the [Small Enterprise Development Agency](#)

#### KEY COMMODITIES:

Gold, chromium, antimony, coal, iron ore<sup>1</sup>

#### TOTAL NATURAL RESOURCE RENTS (AS % OF GDP) (2015):

4.2 per cent<sup>2</sup>

#### NATIONAL EXTRACTIVES COMPANY:

Alexkor SOC Ltd

#### UNDP HUMAN DEVELOPMENT INDEX VALUE (2016):

0.666 (Global Rank 119)<sup>3</sup>

South Africa has implemented a combination of demand-side options, including mandated percentages for goods and services, the development of a local procurement plan and annual submissions of compliance levels related to these policy provisions (Mining Charter, Art. 2.2 and 2.9). Recent revisions to the Mining Charter have been hotly contested by many industry stakeholders who have argued that there has been a lack of consultation related to the revisions and that achieving the proposed targets will be so difficult as to be unlikely.

<sup>1</sup> Central Intelligence Agency (CIA). (2017). *The world factbook*. Washington, DC: CIA. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/fields/2111.html>

<sup>2</sup> World Bank Group. (2017). *Total natural resource rents (% of GDP)*. Washington, DC. Retrieved from <https://data.worldbank.org/indicator/NY.GDPTOTL.RT.ZS>

<sup>3</sup> United Nations Development Programme. (2016). *Human Development Reports: South Africa*. Geneva, Switzerland. Retrieved from <http://hdr.undp.org/en/countries/profiles/ZAF>



## SUMMARY OF POLICY OPTIONS IN SOUTH AFRICA

### DEMAND-SIDE POLICY OPTIONS

- Mandated percentage
- Requirement to provide a local procurement plan

### SUPPLY-SIDE POLICY OPTIONS

- Supplier development programs

## DEFINING “LOCAL” PROCUREMENT

In South Africa, the definition of “local” procurement focuses on ownership by historically disadvantaged South Africans (HDSAs), as identified under the Broad Based Black Economic Empowerment (B-BBEE) Act. HDSA ownership for a given business is calculated using the B-BBEE scorecard. Beyond national, there is not a specified definition for value addition or geography.

## DEMAND-SIDE POLICY OPTIONS

### MANDATED PERCENTAGE

While the B-BBEE scorecard applies to all businesses, the Mining Charter Scorecard is specific to the mining sector. Mining companies are incentivized to procure from businesses with high B-BBEE scores, since their score is affected by the score of their suppliers; for example, procuring from a low-score supplier will lower a mining company’s score.<sup>4</sup> In addition to stigmatizing noncompliant companies, by reducing their score, B-BBEE non-compliance is penalized by fines. As well, since the Department of Mineral Resources issues mining

and exploration licences, it has the power to revoke licences of noncompliant companies.

Table 1 summarizes the current and proposed mandated percentages of capital goods, consumables and services outlined in the Mining Charter.

**Table 1. Current and proposed Mining Charter B-BBEE procurement requirements (as of December 2017)**

Spend category	Percent required to be procured from B-BBEEs by 2014	Under consideration: Percent required to be procured from locally based B-BBEEs by 2019
Capital Goods	40	60
Consumable Goods	50	70
Services	70	80

As highlighted above, the focus of the local procurement mandated percentages is on local participation, rather than value addition or geography. Annual reporting of both scorecards is required.

### REQUIREMENT TO PROVIDE A LOCAL PROCUREMENT PLAN

In addition to the mandated percentages, mining companies are required to publish a Social and Labour Plan (SLP) for each mine site. It must detail the company’s commitments, including those pertaining to local procurement and social investment.<sup>5</sup> Specifically, the mining company must include the following related to mine community economic development: social and economic baseline information, including economic profile and employment profile; key economic activities of the community; negative impacts of the mining operation; infrastructure and income-generating projects that the mine would undertake; and

<sup>4</sup> Mining Shared Value, EWB Canada and CIRDI (2017). *The relationship between local procurement strategies of mining companies & their regulatory environments*. Retrieved from <https://static1.squarespace.com/static/54d667e5e4b05b179814c788/t/58b6f689d1758ecaad9ab5cc/1488385740461/MSV-EWB-CIRDI-Local-Procurement-Regulation-SA-Namibia-Feb17-FINAL.pdf>

<sup>5</sup> Ibid.



measures to address housing and living conditions.<sup>6, 7</sup> These plans are largely developed over two years of consultation with project stakeholders, particularly communities in proximity to the mine site, which drive the specifics of the plan. However, it must also meet the minimum requirements of the Mining Charter, detailed above.<sup>8</sup> The plan must be approved by the Minister of Mineral Resources for a mining licence to be issued, and monthly status reports are required to monitor implementation, in addition to an annual report.

## SUPPLY-SIDE POLICY OPTIONS

### SUPPLIER DEVELOPMENT PROGRAMS

The Small Enterprise Development Agency (Seda) was created as an agency of the Department of Small Business Development in 2004.<sup>9</sup> Its purpose is to promote entrepreneurship in South Africa and develop small and medium-sized enterprises through non-financial support. Seda “is mandated to implement government’s small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government.”<sup>10</sup> Focus is placed on mentorship, coaching, improving access to markets from the supplier development program and export development.<sup>11</sup> Specific training and

guidance is provided related to: basic entrepreneurial skills development, business advisory services, supplier development, quality and standards training and implementation, export readiness and facilitation, and technology transfer.<sup>12</sup> Recent strategic programming includes the FinFind online tool to provide small enterprises the information they need to be ready to access finance and the South Africa Incubation Conference.<sup>13</sup> Mining suppliers are

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assisted by Seda, although Seda is not restricted to the mining industry.

In 2008, a Mining Industry Growth, Development and Employment Task Team (MIGDETT) was created to address the downturn that the mining industry was facing at the time.<sup>14</sup> Its purpose was to limit job losses and prepare the industry for future growth. The working groups consisted of representatives from the Department of Mineral Resources, Chamber of Mines, and Unions (National Union of Mineworkers and Construction Union).<sup>15</sup>

<sup>6</sup> Full details and guidance can be downloaded on the South African Government’s website here: <https://cer.org.za/wp-content/uploads/2013/03/SLP-guidelines-2010.pdf>

<sup>7</sup> Republic of South Africa: Department of Mineral Resources (2010). Revised Social and Labour Guidelines, pps. 18–22. Retrieved from <https://cer.org.za/wp-content/uploads/2013/03/SLP-guidelines-2010.pdf>

<sup>8</sup> Mining Shared Value, EWB Canada and CIRDI (2017), Id. note 4.

<sup>9</sup> Republic of South Africa, National Small Business Amendment Act, 2004.

<sup>10</sup> Government of South Africa. *Small Enterprise Development Agency (Seda)*. Retrieved from <http://www.seda.org.za/Pages/Home.aspx>

<sup>11</sup> Seda. (2016). *Annual Report 2015/16*, p. 17. Retrieved from <http://www.seda.org.za/Publications/Publications/Seda%20Annual%20Report%202015-16.pdf>

<sup>12</sup> Ibid., p. 36.

<sup>13</sup> Ibid., pps. 17–18.

<sup>14</sup> The Department of Mineral Resources, The Mining Industry Growth, Development and Employment Task Team (MIGDETT). (2010). *Origins, achievements and challenges*,

<sup>15</sup> Mining Shared Value, EWB Canada and CIRDI (2017), Id. note 4.



## KEY LESSONS

- The scorecard approach, which is leading to scoring of businesses based on their “local” procurement, with low scores passed along from suppliers to mining companies that purchase from them, is an interesting approach. It allows flexibility for companies to choose which products to prioritize for purchase locally as opposed to a more black-and-white approach that companies must purchase all products of a set category locally.
- Current policy provisions on supplier development programs focus on training but lack a connection to finance as well as targeted investment in specific products.
- The Social and Labour Plan is creating a gap in mining industry intentions to build industrial capacity, as it largely pushes companies to focus on community development. Coupled with the need for more investment in supply-side policy options to build up supplier capacity, this is further increasing the gap between small-scale and large-scale business development, with the latter suffering.



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