



Mining Industry Transformation Progress Report for 2019

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T +27 11 498 7100 E info@mineralscouncil.org.za W www.mineralscouncil.org.za
5 Hollard Street, Johannesburg, 2001, PO Box 61809, Marshalltown 2107

Board: M Mgojo (President), N Froneman (Vice President), Z Matlala (Ms) (Vice President), S Phiri (Vice President), A Sangqu (Vice President), A Bam, R Baxter, S Bessit, P Dunne, W Duvenhage, M Fraser, J Fullard, C Griffith, M Houston, L Kgatle, M Madondo, M Mahlaole, T Mkhwanazi, N Muller, D Naidoo (Ms), J Ndlovu, B Petersen, N Pienaar, M Preece, N Pretorius, M Schmidt, E Smart, P Steenkamp, M Teke, R van Niekerk

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List of Abbreviations

Abbreviation	Meaning
ABET	Adult Basic Education and Training
BEE	Black Economic Empowerment
DMRE	Department of Mineral Resources and Energy
EE	Employment Equity
ESOP	Employee Share Ownership Plan
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDP	Historically Disadvantaged Person
HDSA	Historically Disadvantaged South African
HRD	Human Resource Development
MCD	Mine Community Development
MPRDA	Minerals and Petroleum Resources Development Act
NPAT	Net Profit After Tax
PGM	Platinum Group Metals
STEM	Science, Technology, Engineering and Mathematics

List of Definitions

Term	Definition
BEE Entity	means an entity of which a minimum of 25.0%+ 1 vote of share capital is directly owned by HDSAs (Historically Disadvantaged South Africans), as measured in accordance with a flow-through principle.
Community	means a coherent, social group of persons with interest of rights in an area of land, which the members have or exercise communally, in terms of; an agreement, custom, or law; provided that where negotiations or consultations with the community are required, community shall include members or part of the community directly affected by mining on land occupied by such members or part of the community (as per the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002)
Core & Critical Skills	refers to science, technology, engineering and mathematical skills, across organisational levels, in both production and operation of a mining company.
Effective Ownership	means the meaningful participation of HDSAs in the ownership, voting rights, economic interest, and management control of Mining Entities.
EMP	means an approved environmental management programme contemplated in Section 39 of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002).
Enterprise Development	means monetary and non-monetary support for existing or fostering of new HDSA companies in the mining sector of the economy, with the objective of contributing to their development, sustainability, as well as financial and operational independence.
Historically Disadvantaged South Africans	refers to South African citizens, category of persons or community, disadvantaged by unfair discrimination before the Constitution of the Republic of South Africa, 1993 (Act No. 200 of 1993) came into operation, which should be representative of the demographics of the country.
Meaningful Economic Participation	means the following: <ul style="list-style-type: none"> – BEE transactions shall be concluded with clearly identifiable beneficiaries in the form of BEE entrepreneurs, workers (including ESOPs), and communities.

	<ul style="list-style-type: none"> – Barring any unfavourable market conditions, some of the cash flow should flow to the BEE partner throughout the term of the investment, and for this purpose, stakeholders will engage the financing entities in order to structure BEE financing in a manner where a percentage of the cash-flow is used to service the funding of the structure, while the remaining amount is paid to BEE beneficiaries. – The BEE partner shall have full shareholder rights such as being entitled to full participation at annual general meetings and exercising of voting rights, regardless of the legal form of the instruments used. – Ownership shall vest within the timeframes agreed with the BEE entity, considering market conditions.
Mine Community	refers to communities where mining takes place and labour sending areas.
Non-Discretionary Procurement Expenditure	means expenditure that cannot be influenced by a mining company, such as procurement from the public sector and public enterprises.
Services	refers to services contracted by a mining right holder, or by a contractor on behalf of a mining right holder, which includes but is not limited to; mining production services, drilling, mineral trading, mineral marketing, legal, shipping, transportation, information technology services, security, payroll, finance, medical, consulting, cleaning, insurance, and any other services which are supplementary to the mine.
Social Fund	refers to a trust fund that provides financing for investments targeted at meeting the needs of poor and vulnerable communities, as informed by commitments made by companies in terms of their social and labour plans.
Sustainable Development	means the integration of social, economic and environmental factors into planning, implementation, and decision making to ensure that the development of mineral and petroleum resources serves both present and future generations.

1. INTRODUCTION

The South African mining industry remains a critical component of the economy, especially with regards to employment and its contribution to Gross Domestic Product (GDP). In 2018 the sector's contribution to GDP was 7.3% and directly employed 453 000¹ people.

Due to significance of the industry, the Broad-Based Black Socio-Economic Empowerment (B-BBEE) Charter for the South African Mining and Minerals Industry (Mining Charter) was formulated as a blueprint to drive the transformation of the industry.

The Department of Minerals Resources and Energy (DMRE) first introduced the Mining Charter in 2004 and since then, the Charter has been amended twice, in 2010 and 2018. After 15 years since its inception, the level of compliance and transformation remains a point of contention. There is a widely held perception that mining companies are not compliant with the Mining Charter and an anti-transformation sentiment currently exists within the industry.

The Minerals Council commissioned a research project to assess progress made by its member companies in terms of transformation as envisaged in the Charter. The assessment is based on the 2018 compliance report submissions to the DMRE by mining companies and focuses on five key transformation elements, namely Ownership, Procurement, Employment Equity, Human Resource Development and Mine Community Development. This report has four main objectives:

1. To understand how much transformative progress has been made by the mining industry on the five key transformation elements when measured against the Mining Charter 2010;
2. To provide both a consolidated industry view and a commodity-based view of transformation in the mining sector;
3. To review fundamental changes set out in Mining Charter 2018, and to highlight potential implications of those changes; and
4. To recommend a way forward.

The research report is based on Mining Charter 2010 annual compliance reports submitted to the DMRE by members of the Minerals Council. Of the seventy-eight (78) members of the Minerals Council, thirty-two (32) provided their reports for analysis. The 32 members collectively hold ninety-seven (97) mining rights (representing 93% of the employee base of members of the Minerals Council). This means that while a majority of companies did not supply their reports, those that did are generally the larger companies.

The aggregate industry-based and commodity-based analysis results are presented on the following basis:

¹Statistics South Africa

- Percentage compliance: Calculated as the proportion of the sample companies that met the minimum targets for each element
- Weighted average: Calculated as the achievement score weighted against the employee headcount (Ownership and Employment Equity) or the proportional contribution to the total industry value (Procurement, Human Resource Development and Mine Community Development)
- Simple average: Calculated as the cumulative sum divided by the number of mining rights, without giving weight to the varying sizes

1.1 OWNERSHIP

The analysis of the ownership element was based on ninety-three (93) mining right holders². The ownership data analysed represents approximately 83% of the mining industry based on total employee numbers (that is, employees from holders of mining rights assessed as a percentage of the total number of employees in the mining industry)³.

The ownership compliance section assessed the following aspects:

- The aggregate percentage of HDSA ownership in the mining industry;
- The proportion of the mining industry that has met the minimum ownership target of 26% as per the Mining Charter 2010;
- The percentage HDSA ownership based on identifiable beneficiaries;
- The weighted average HDSA ownership per commodity;
- The proportion of mining right holders that are creating Meaningful Economic Participation, as defined in the Mining Charter 2010; and
- The aggregate net asset value generated from BEE equity transactions to date.

1.2 PROCUREMENT

The analysis of the procurement element was based on eighty-seven (87) mining right holders⁴. The procurement data analysed represents approximately 80.3% of the mining industry based on total employee numbers (that is, employees from holders of mining rights assessed as a percentage of the total number of employees in the mining industry).

The procurement compliance report assessed the following aspects:

² A total of four (4) mining right holders provided insufficient data to be used in the analysis.

³ According to Statistics South Africa, the total number of employees in the industry is approximately 453 500.

⁴ 10 mining right holders provided insufficient data to be used in the analysis.

- The percentage of procurement spend on BEE entities by the mining industry on capital goods, consumables and services;
- The percentage contribution made to the social fund by multinational suppliers; and
- The percentage of procurement spend on BEE entities on capital goods, consumables and services, per commodity.

1.3 EMPLOYMENT EQUITY

The analysis of the employment equity element was based on ninety-two (92) mining right holders⁵. The employment equity data analysed represents approximately 81.3% of the mining industry based on total employee numbers (that is, employees from holders of mining rights assessed as a percentage of the total number of employees in the mining industry).

The employment equity compliance report assessed the following aspects:

- The percentage of HDSAs represented at all decision-making positions and core occupational categories in the mining industry;
- The percentage of participation of HDSA at all decision-making positions and core occupational categories per commodity; and
- The race and gender representation in the mining industry.

1.4 HUMAN RESOURCES DEVELOPMENT

The analysis of the human resource development (HRD) element was based on eighty-eight (88) mining right holders⁶. The HRD data analysed represents approximately 81,6% of the mining industry based on total employee numbers (that is, employees from holders of mining rights assessed as a percentage of the total number of employees in the mining industry).

The HRD compliance report assessed the following aspects:

- Expenditure by the mining industry on skills development as a percentage of mining right holders' annual payroll;
- Expenditure on skills development as a percentage of mining right holders' annual payroll per commodity; and
- The distribution of HRD spend into constituent skills development initiatives.

⁵ 5 mining right holders provided insufficient data to be used in the analysis.

⁶ 9 mining right holders provided insufficient data to conduct the analysis.

1.5 MINE COMMUNITY DEVELOPMENT

The analysis of the mine community development (MCD) element was based on eighty-five (85) mining right holders⁷. The MCD data analysed represents approximately 80% of the mining industry based on total employee numbers (that is, employees from holders of mining rights assessed as a percentage of the total number of employees in the mining industry).

The MCD compliance report assessed the following aspects:

- The extent of community consultation in the social and labour plan (SLP) formulation process by mining companies;
- Assessments conducted by mining companies to understand local developmental needs and the resultant alignment of funded projects with identified community needs;
- Progress achieved in the implementation of funded projects; and
- The expenditure on community development projects as a percentage of net profit after tax (NPAT).

⁷ 12 mining right holders provided insufficient data to conduct the analysis.

2. RESULTS AND FINDINGS

2.1 OWNERSHIP

2.1.1 Industry view

Based on a weighted average basis, the industry has achieved 39,2% HDSA ownership which comprises of 22,3% BEE entrepreneurs, 9,4% communities and 7,5% ESOPs (based on the number of employees).

HDSA ownership increased by 3,2% from the 2016 ownership transformation analysis⁸ results (38,0%).

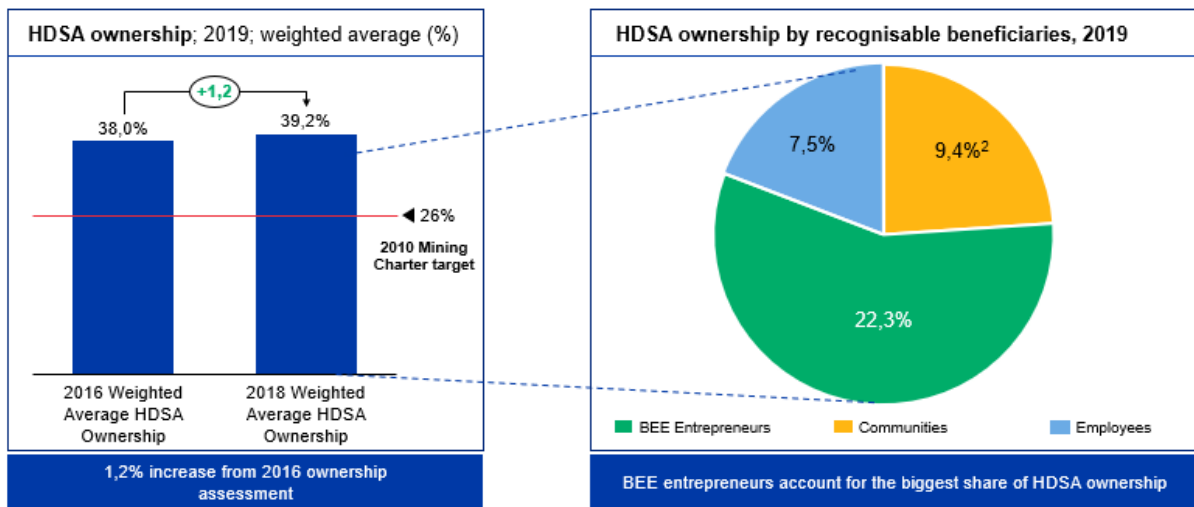


Figure 1: The overall Industry HDSA ownership

Further analysis at the level of the individual mining right holder shows that 83% of the sampled mining right holders achieved at least 26% HDSA ownership (80 out of 93) representing 1% of the overall sample based on the number of employees and the remaining thirteen (13) holders did not meet the minimum Mining Charter 2010 ownership target.

23,7% (22 out of 93) of mining right holders analysed created Meaningful Economic Participation, as defined by the Mining Charter 2010. Meaningful Economic Participation which only came into the 2010 and not the 2004 Charter is achieved when all the following requirements are met:

- a minimum of 26% BEE ownership
- Clearly identifiable BEE shareholders
- trickle cashflow (dividends)
- voting rights

⁸ Report can be accessed on the Minerals Council website www.mineralscouncil.org.za

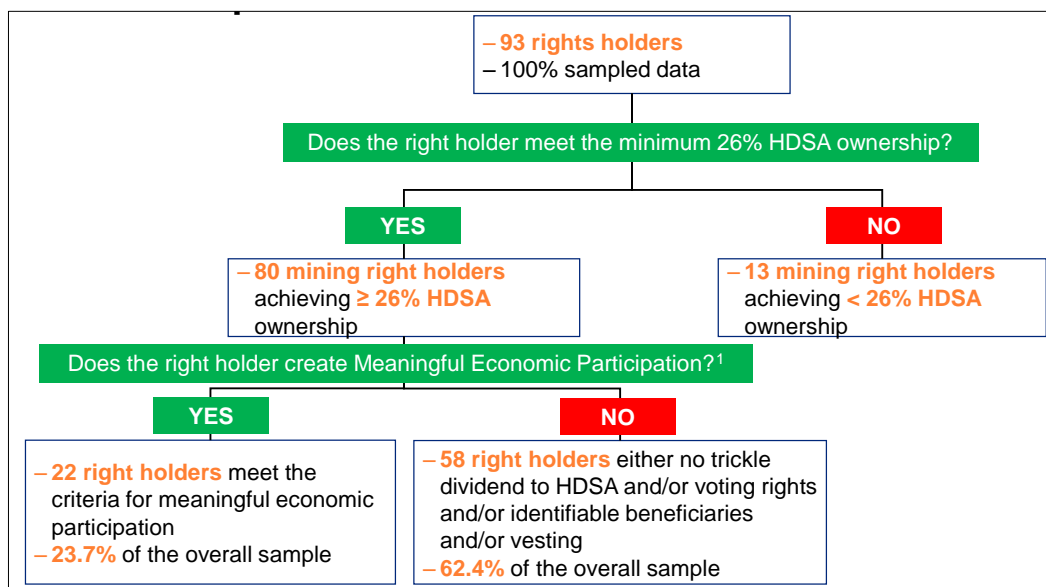


Figure 2: Mining right holders creating meaningful economic participation

The sampled companies have generated a net value of R132 billion through BEE transactions to date representing a 16.8% decline when compared to the R159 billion generated in 2016. Looking at the overall industry, for the periods commencing in 2002 and to just before the introduction of Mining Charter 2010, a total of 168 BEE transactions were executed with a value of R113 billion. After 2010, however, this number was significantly lower with 67 total BEE transactions valued at R30 billion⁹.

2.1.2 Commodity view

From a commodity point of view, manganese miners have the highest BEE shareholding followed by the PGMs with 74.8% and 52.2% HDSA ownership respectively (on the industry weighted average basis). “Other resources” are 21.4% HDSA owned, falling below the 26% Mining Charter 2010 ownership target, while all other commodity sectors meet or exceed this target. BEE entrepreneurs own a majority of shareholding compared to mining communities and employees. Only manganese, PGMs and iron ore have significant community shareholding while other commodities have limited community representation as shown in Figure 3.

⁹ Source: Rand Merchant Bank; Albert Nhasengo (Masters research titled: *Sustainability of Funding Models Used in Black Economic Empowerment Transactions in the South African Mining Sector*)

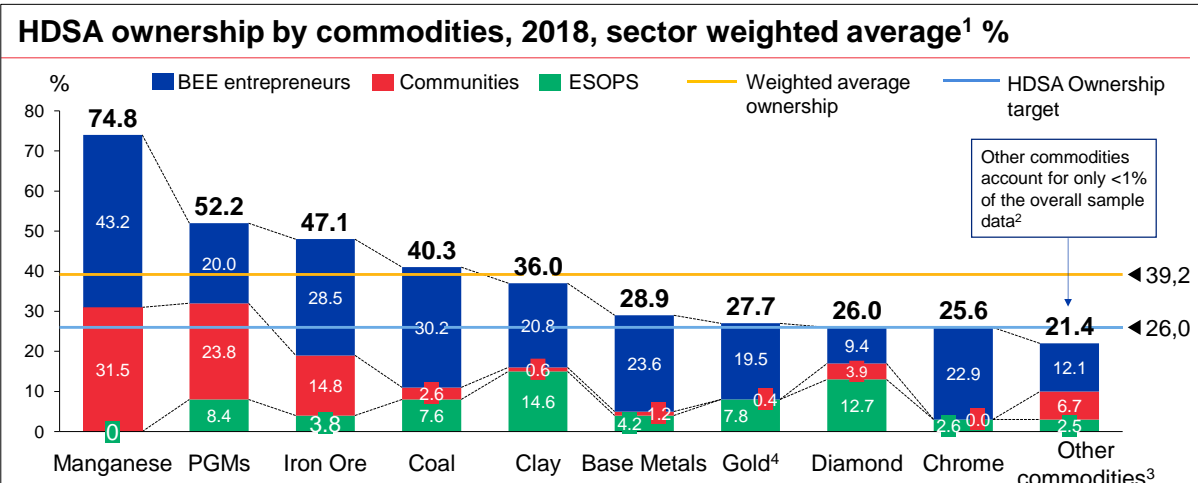


Figure 3: HDSA ownership by different commodities

2.2 PROCUREMENT

2.2.1 Industry view

The overall proportion of procurement from BEE Entities continues to exceed targets in all three reporting categories.

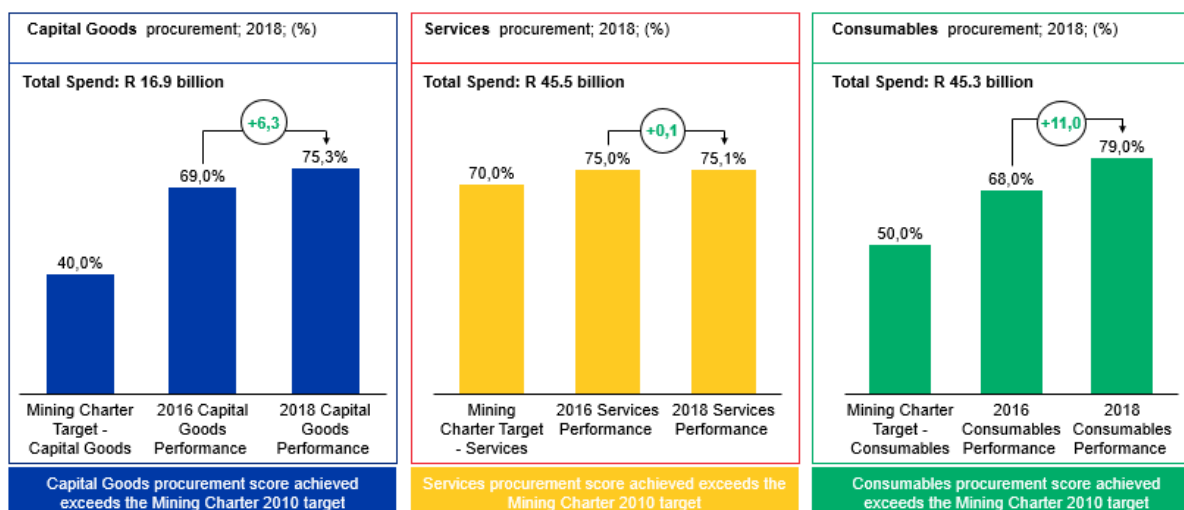


Figure 4: Procurement spend by the industry on BEE Entities

- **Capital goods:** The analysis of the sampled mining right holders shows that 75.4% of expenditure on capital goods was incurred on BEE entities against the Mining Charter 2010 target of 40%. In monetary terms, the companies spent R16.9 billion on the procurement of capital goods from BEE entities in 2018.
- **Services:** Similarly, 75.1% of expenditure on services was incurred on BEE entities, compared with the Mining Charter 2010 target of 70%. In 2018, this amounted to total expenditure of R45.5 billion

- **Consumable goods:** Finally, 79.0% of consumable goods were procured from BEE entities at a cost of R45.3 billion. The Mining Charter 2010 target was 50%.
- With regards to the contribution to the Social Fund, only 32 mining right holders reported amounts incurred from procuring capital goods from multinational suppliers. The resultant weighted average industry percentage contribution to the Social Fund is 1.36% and exceeds the Mining Charter 2010 target of 0,5%.

2.2.2 Commodity view

For the procurement of capital goods, all commodities met the 40% Mining Charter 2010 requirement apart from Clay miners who achieved 5.9%. However, it must be noted that Clay miners only represent 0,2% of the total value of goods and services procured from BEE entities (R108 million)

The top three commodities (Coal, PGMs and Gold) by rand value have a cumulative discretionary procurement spend on capital goods of R16,8 billion, of which R12,6 billion is spent on BEE companies.

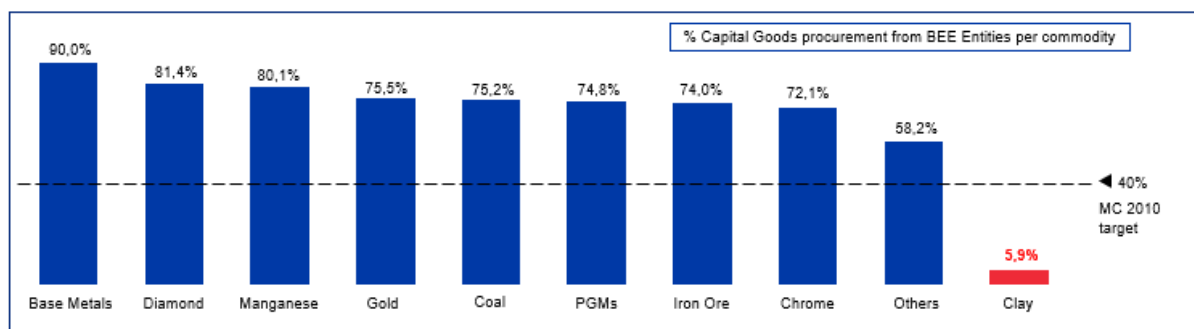


Figure 5: The percentage of procurement spend on capital goods to BEE Entities – Commodity View

For the procurement of services, 9 out of 10 commodities meet the minimum 70% requirement set in Mining Charter 2010. Again, Clay miners did not meet the set target with an achievement score of 50,6% against the Mining Charter target of 70%.

The top 3 commodities (Coal, PGMs and Gold) by rand value have a cumulative discretionary procurement spend on services of R45.6 billion of which R33.9 billion is incurred on BEE companies.

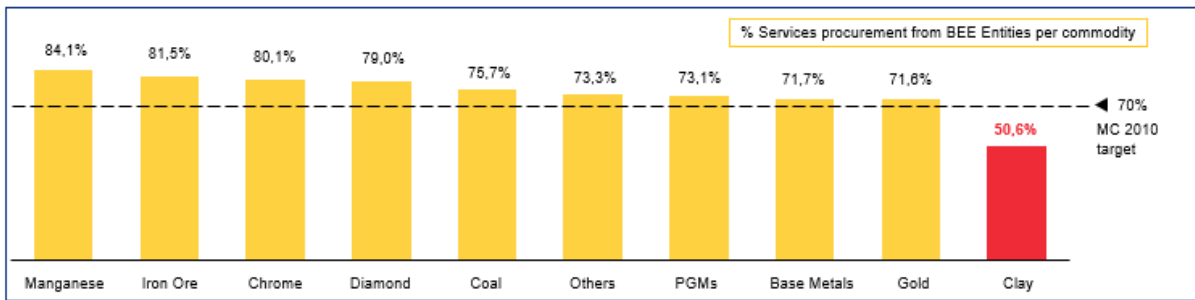


Figure 6: The percentage of procurement spend on services to BEE Entities – Commodity View

All commodities meet the minimum 50% Mining Charter 2010 requirement for the procurement of consumable goods. Base metals, Iron Ore and PGM miners incur the highest proportion of their procurement expenditure on BEE entities, with 91%, 87% and 83% of their expenditure on consumable goods, respectively. Coal miners spend the highest amount on BEE entities with expenditure of R16,7 billion out of the discretionary procurement spend on consumables of R22,4 billion.

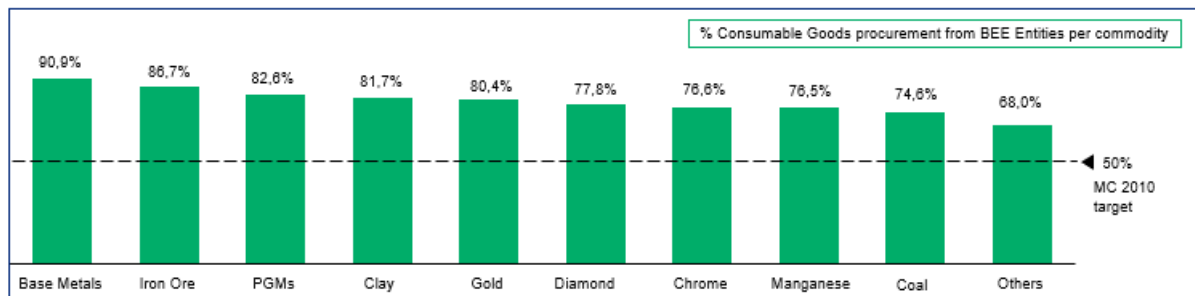


Figure 7: The percentage of procurement spend on consumable goods to BEE Entities – Commodity View

2.3 EMPLOYMENT EQUITY

2.3.1 Industry view

The mining industry met the minimum threshold of 40% HDSA target representation across all management levels. There is a significant representation of HDSA in lower management positions. HDSA representation in key decision-making positions is still relatively small.

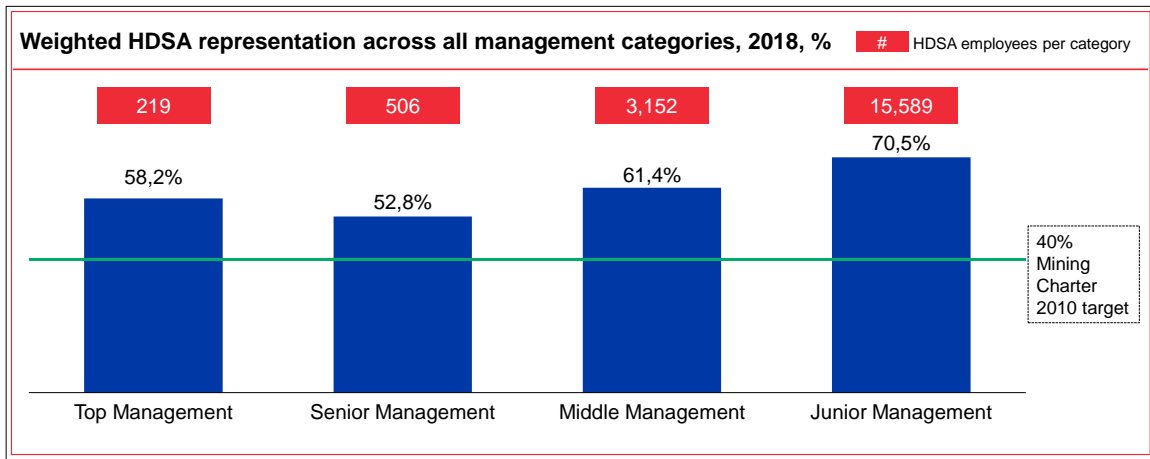


Figure 8: HDSA representation in management positions

- Top management (including boards of directors): In 2018, 58.2% of top management were HDSAs (49.3% in 2016).
- Senior management (including executives): In 2018, 52.8% of senior management were HDSAs (48.3% in 2016).
- Middle management: In 2018, HDSAs made up 61.4% of middle management (49.8% in 2016).
- Junior management: In 2018, HDSAs made up 70.5% of junior management (58.0% in 2016).

These findings demonstrate a commitment by mining companies towards transformation. The average rate of women representation is 19.8%, an increase from 13.0% observed in the 2016 analysis of employment equity.

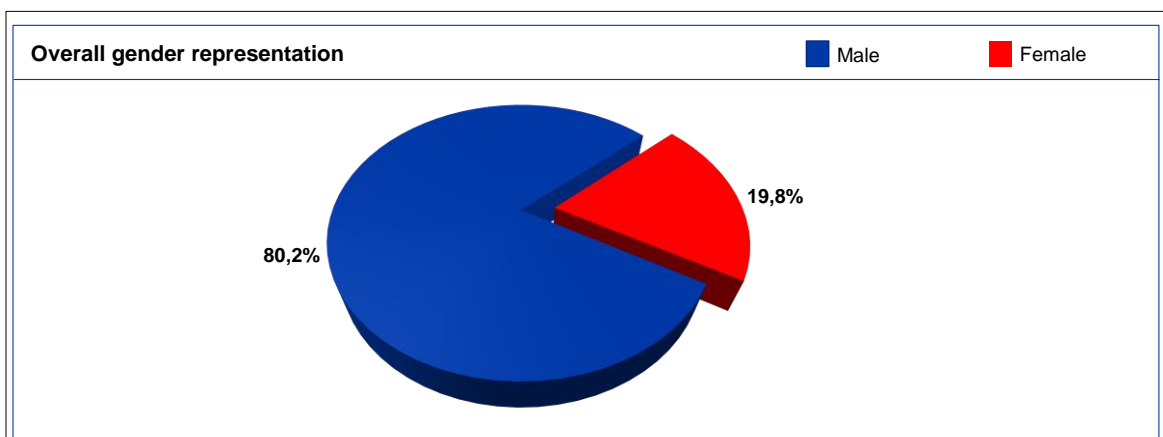


Figure 9: Overall women representation in management levels

2.4 HUMAN RESOURCE DEVELOPMENT

2.4.1 Industry view

The mining industry relies on the continuous development of the communities surrounding mining operations. It includes provision of support for South African based research and development initiatives intended to develop solutions in exploration, mining, processing, technology and rehabilitation. In addition to the Skills Development Levy (1% of payroll), the Mining Charter 2010 requires mining right holders to spend 5% of their annual payroll on HRD.

In 2018, the sampled mining right holders spent 4.8% of their annual payroll on HRD which is below the minimum Mining Charter 2010 compliance target of 5%. In 2018 HRD expenditure was R3.3 billion, plus a skills levy payment of R0.7 billion. The 2016 analysis showed that mining right holders spent 5.5% of their annual payroll on HRD, therefore there is an 13% reduction in the HRD spend between 2016 and 2018.

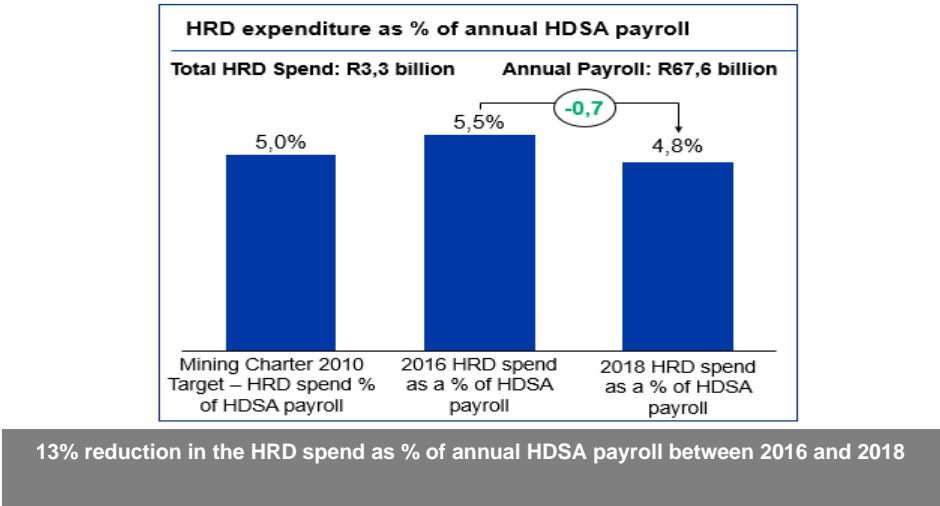


Figure 10:HRD expenditure as a percent of annual HDSA payroll

Short courses, vacation work programmes, work placement programmes and post-retirement training, collectively called other training initiatives accounted for the most significant share of HRD spend (48.9%). Other major components of the spend were learnerships (17.1%) and artisans & apprentices (11.5%).

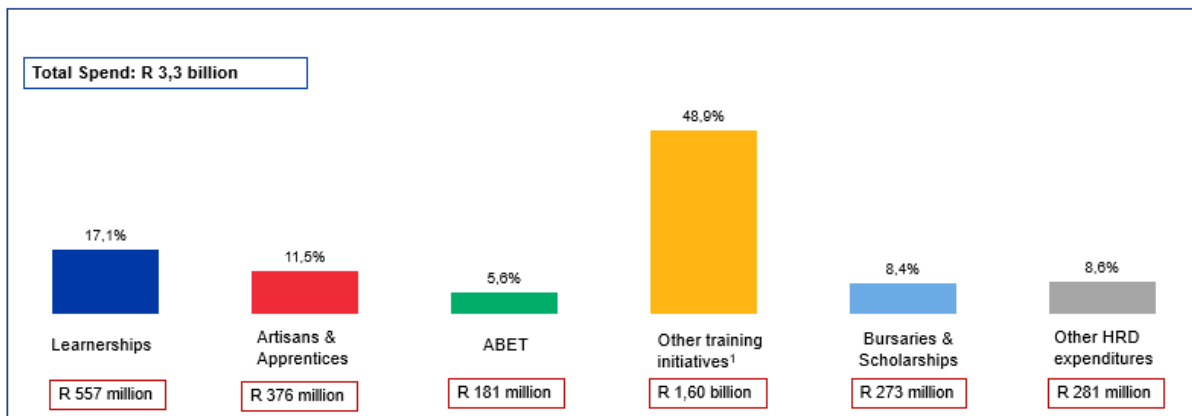


Figure 11: HRD expenditure by skills development categories

2.4.2 Commodity view

Diamond mining companies had the highest percentage HRD expenditure at 7.8%, followed by chrome (7.2%) and other commodities, comprising of silica, vanadium and limestone (6.8%). PGMs, coal and clay failed to meet the minimum requirement of 5% HRD expenditure, with clay miners achieving only 2,1%.

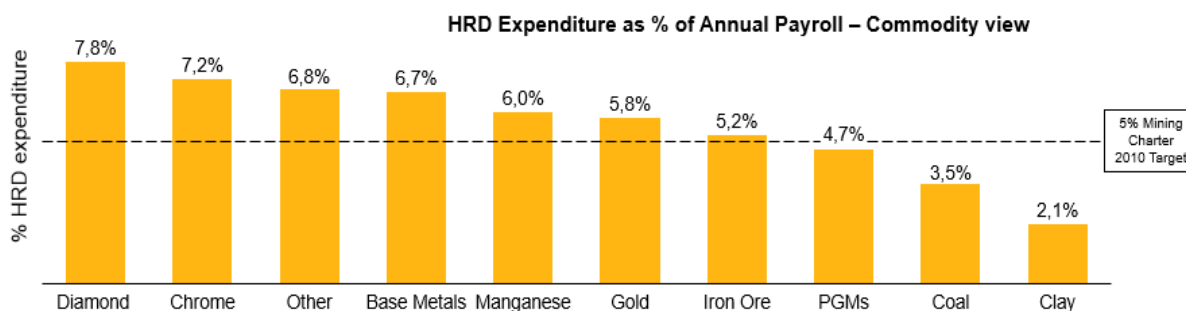


Figure 12: HRD spend as a percentage of annual HDSA payroll – commodity view

2.5 MINE COMMUNITY DEVELOPMENT

2.5.1 Industry view

One of the prominent features of the Mining Charter relates to mining community development and its regulation through social and labour plans (SLPs). This provides for strategic interventions that require planning (mostly with local authorities) and the implementation of programs that focus on the promotion of socio-economic growth and sustainable development of host communities as well as significant labour-sending areas.

Mining Charter 2010 does not set universal spending targets on mining community development (MCD). However, locally and internationally, a target of 1% NPAT is seen to be a reasonable target for corporate social investment. MCD budgets are set following engagements with the DMRE and local governments.

The assessment of MCD expenditure indicates that 89% of the programmes went through consultation processes with communities (432 out of 488 programmes). 374 out of 482 programmes were aligned with community needs (representing 73% of the total programmes).

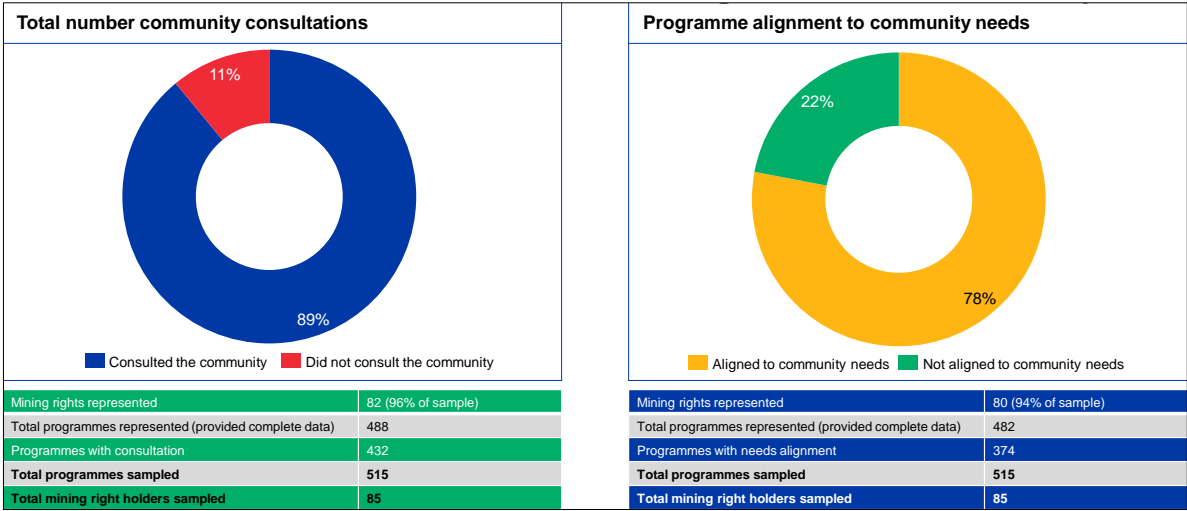


Figure 13: Programmes that went through the consultation process and programmes aligned to community needs

The assessment shows that in 2018 mining companies spent R1.32 billion on MCD programmes, representing 7.4% of NPAT (this includes companies with negative NPAT). The MCD spend was above the best practice of 1% of NPAT spend on social development programmes.

The MCD spend, excluding mining right holders with negative NPAT, is R1.16 billion, which represents 2.7% of NPAT.

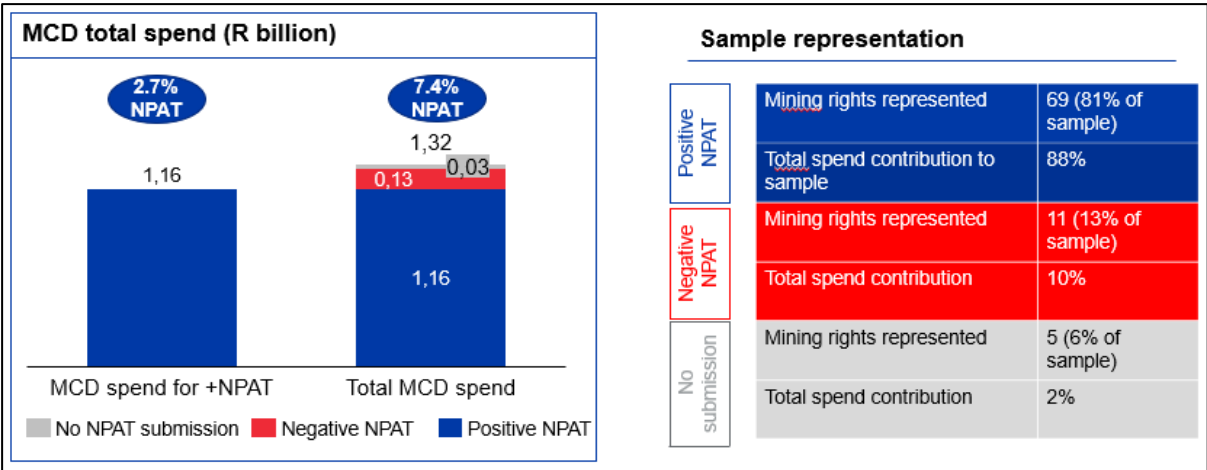


Figure 14: MCD spend as a percentage of NPAT

Mining companies spend mostly on infrastructure programmes, with a total expenditure of R576 million (43.7% of total spend). Job creation, health, environmental, and recreational programmes receive the least spending from mining companies, each representing less than 2% of total spend. MCD spend should prioritise programmes that foster long-term sustainable job opportunities, considering that the majority of community protests are due to lack of jobs and other economic opportunities within the industry value chain.

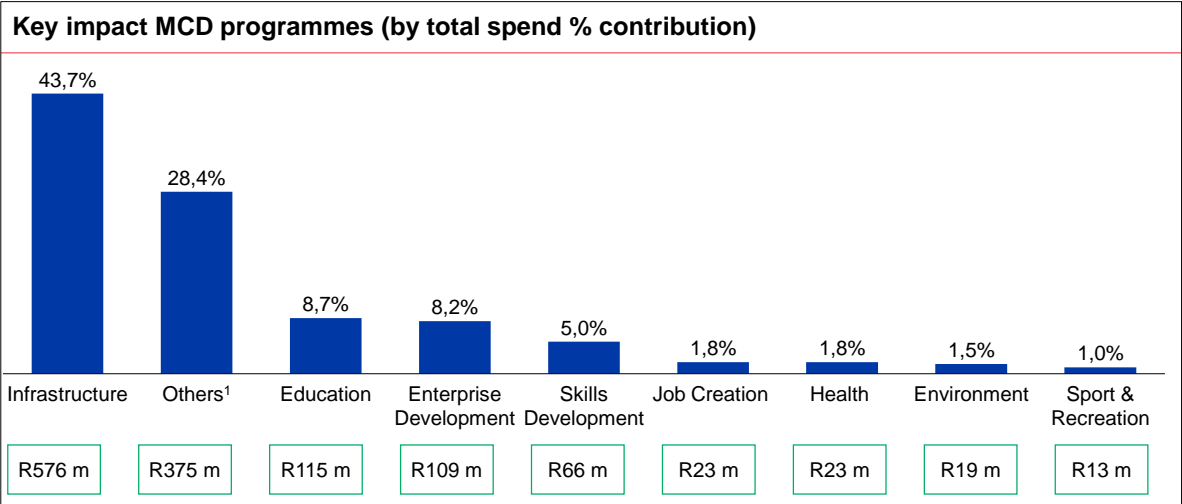


Figure 15: MCD expenditure split on various programmes

3. CONCLUSIONS

The mining industry met and exceeded the Mining Charter 2010 ownership target of 26% (the average BEE ownership is at 39.2%). However, a total of 80 out of 93 mining right holders did meet the minimum 26% HDSA ownership requirement (represents 86.0% of the sample). That said, the 13 mining companies that do not meet the target account for 1% of the sample data, based on the number of employees.

BEE entrepreneurs hold the majority of HDSA ownership. Majority of the BEE transactions do not create Meaningful Economic Participation as outlined in the Mining Charter 2010 definition. This is, however, because most of the BEE transactions of the companies analysed were executed prior to the implementation of the Mining Charter 2010. In line with the definition in the Mining Charter 2010, only 22 mining right holders, which represent 23.7% of the sample, created Meaningful Economic Participation.

The proportion of procurement from BEE entities exceeds the targets in all three reporting categories (capital goods, services and consumable goods). The sampled mining right holders reported that 75.4% (R16.9 billion) of expenditure on capital goods was procured from BEE entities against the 40% Mining Charter 2010 requirement. Similarly, for services, 75.1% (R45.5 billion) of the expenditure was incurred with BEE entities against the Charter target of 70%. And 79.0% (R45.3 billion) of the expenditure on consumable goods was procured from BEE entities against the Mining Charter 2010 target of 50%.

The sampled mining right holders meet and exceed the minimum HDSA representation thresholds set out in Mining Charter 2010 across the different management levels. HDSA representation in crucial decision-making positions, top and senior management levels, is still relatively low, and women are still underrepresented across all management levels.

The sampled mining right holders spent 4.8% of their annual payroll on HRD which does not meet the minimum Mining Charter 2010 compliance target of 5%.

Mining companies reported that they consult communities on 89% of their development programmes, which indicates a gap in consultation – the goal is to have 100% of all projects implemented go through the required community consultation processes. 100% meaningful consultation will ensure that all programmes are aligned to community needs. The sampled mining right holders spend 7.4% (2.7% excluding companies with negative NPAT) of their

profits on community development programmes, which is above the best practice spend on social development of 1% of NPAT.

