

# Charter puts pressure on procurement

So far, the furore surrounding the new Mining Charter has highlighted the changes that increase compliance thresholds for ownership, management and control of the holders of mining and prospecting rights as well as the 'once empowered, always empowered' principle. But the 2017 version will also have a significant impact on mining sector service providers.



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Mining rights holders must now ensure that at least 80% of their total spend on services is sourced from South African companies, of which a minimum of 65% of total spend must be sourced from black owned companies with a minimum of 50% + 1 vote being held by black persons, 10% from black owned companies with a minimum of 50% + 1 vote of its share capital being owned and controlled by black women, and 5% from black-owned companies with a minimum of 50% + 1 vote of its share capital being held by youth.

## Higher compliance

“Despite mining rights holders only reporting compliance of 63% with the procurement requirements under the 2010 Charter in 2016, the latest amendments under the 2017 Charter increase the procurement compliance target by 10% – from 70% to 80% – with mining companies obliged to increase their procurement from black-owned companies from the date that the 2017 Charter takes effect,” says Chimae Goncalves, director of Supply Chain Partner.

“At the same time, industry measurement of procurement, including data on vendors, is not always accurate and detailed enough to fulfil reporting requirements. Industry wide procurement transformation is needed to facilitate this process.”

There are other systemic problems which require strategic supplier development. “Firstly, it’s unclear whether there are sufficient service providers in the market who would satisfy the detailed procurement requirements. Secondly, the level of detail on suppliers is not always available in the system to indicate ownership percentages of black women and youths. This makes supplier tracking and enterprise development even more important,” she says.

## Transitional arrangements

However, the 2017 Charter does contain transitional arrangements, which give mining companies three years to align procurement spend with requirements. “Whether the charter is ultimately implemented in its present form or not, the pressure is certainly on for compliance – and this requires a proper strategic review of procurement systems and practice

with procurement taking a seat in the executive front row as part of the cost saving and critical compliance functions of the business.”

Beyond the push for compliance, value-generating procurement solutions are underrated among big businesses in the industry. “Procurement departments often lack resources, technology and leadership, yet they have to deliver such a vital function that is core to everything. When it comes to mining, getting ore out of the ground gets all the budget. Production is the focus. However, saving costs is also a key way to make money. There is a need to look at back office efficiencies and systems and to streamline processes across the whole system of suppliers, buyers and users to harness the value in procurement.”

## **Behind in the procurement space**

Goncalves believes South Africa is behind in the procurement space. “Cloud procurement is still foreign to most South African companies. Collaborating with suppliers is unheard of; they aren’t treated like valuable partners. This needs to change for companies in the sector to comply.”

With the requirements of the Mining Charter becoming more intense, it’s key to raise the profile of the platform and get senior executives to understand the value and opportunities inherent in efficient procurement throughout the organisation.”

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