

## Preparing for a changing BEE procurement landscape

With the Broad-based Socio-economic Empowerment Charter for the Mining Industry (the Charter) scheduled for its prescribed five-year review soon, on the understanding that at least appropriate parts of it should be brought more closely into line with the recently published Department of Trade and Industry (DTI) codes of good practice, AngloGold Ashanti has been taking actions to anticipate these developments. The most prominent such example relates to Black Economic Empowerment (BEE) procurement.

The Charter provides a framework for the transformation of the mining industry in South Africa and one which needs to be complied with mining companies to attain and maintain their new order mining licences in terms of the Mineral and Petroleum Resources Development Act (MPRDA). Procurement, or more specifically BEE procurement, is one of seven core areas of activity addressed by the Charter. Companies are required to demonstrate that they have given preferential status to suppliers who meet the stipulated percentages of black ownership or management and to report on their progress on an annual basis, showing incremental improvement year-on-year.

The Charter poses the following questions in respect of procurement:

- Has the company given historically disadvantaged South Africans (HDSAs) preferred supplier status?
- Has the company identified the current level of procurement from HDSA companies in terms of capital goods, consumables and services?
- Has the company indicated a commitment to progress of such procurement over a three- to five-year timeframe?
- To what extent has this commitment been implemented?

AngloGold Ashanti has made good progress in meeting these requirements, and, based on the results of the encouraging progress made, was able to set new, increased targets from 2007 onwards, as shown in the graph below. As at the end October 2007, the percentage of total actual procurement spend with qualifying suppliers was 37.7%, exactly on target.

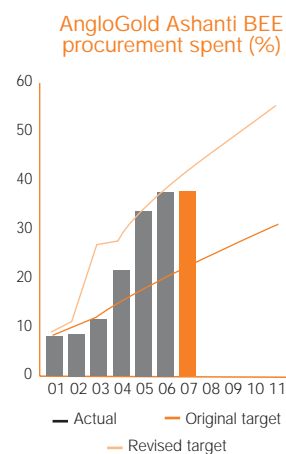
From 2008 or 2009, however, the landscape is likely to change, and the industry has had to plan extensively to adapt its policies and reporting.

“Numerous Charters have been published, which often differ substantially from industry to industry. Supplier companies have complained that the administration involved in complying with all of them is time-consuming and counter-productive,” explains AngloGold Ashanti’s Commercial Manager Johan Coetzer. “To counter these concerns, the DTI has produced a set of Codes of Good Practice, gazetted on 9 February 2007, with the objective of providing a unified strategy to guide the transformation process. Code 500 deals with procurement.”

The Department of Minerals and Energy (DME) is still in discussion with the DTI regarding the Code’s applicability to the mining industry, but at this stage Coetzer anticipates that the Code will come into effect in this sector in early 2009. So, in anticipation of this, AngloGold Ashanti has shifted its own policies and procedures.

The assessment of suppliers in terms of BEE compliance will become more complex. Instead of the present measurement of black ownership in percentage terms, suppliers will be assessed according to a basket of issues, which have been grouped into seven pillars, namely, HDSA ownership; HDSA management and control; employment equity; skills development; preferential procurement; enterprise development; and socio-economic development.

Annual turnover determines the degree of compliance expected. Companies whose annual turnover exceeds R25 million will have to comply fully with the Code: businesses with an annual turnover of less than R5 and R25 million – defined as Exempted Small and Micro Enterprises (ESMEs) and Qualifying Small Enterprises (QSEs) respectively – will enjoy a degree of exemption from the provisions of the Code.



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The final outcome of the assessment process is that businesses are defined as contributors at one of nine levels, with Level 1 rated as excellent. Procurement spend is assessed according to the contribution level of the suppliers with which it is placed: "In other words," says Coetzer, "a R1 million order placed with a Level 1 contributor will be assessed as being worth more than the same R1 million placed with a Level 7 contributor." By 2009, all suppliers have to be assessed as at least Level 6.

An accreditation agency (SANAS) has been appointed by the DTI as the official controlling body to the accreditation agencies, still to be constituted, which will be responsible for assessing suppliers' contribution levels. In the interim, supplier companies can provisionally carry out their own internal assessments.

A new, more comprehensive, definition of procurement spend (essentially excluding wage costs and any payments to Government such as taxes and levies) is also provided for in the Code.

Coetzer reports that extensive work has been carried out through 2007 to ensure that AngloGold Ashanti's systems are equipped to capture the information required by the new Code, and that by the end of November existing suppliers will be allocated provisional ratings as verification of supplier status is received. The focus in 2008 will be on information-gathering and developing a strategy to meet any shortfalls.

