100414 PC MINING

Vote 31: Minerals Resources

Introduction: Policy Priorities for 2010/11

The mandate of the Department of Mineral Resources is to ensure transformation, economic growth, health, safety and sustainability of the Minerals and Mining sector.[1] In accordance with this mandate, the Department has identified the policy priorities for 2010/11.

The Medium Term Strategic Framework for the period 2009 to 2014 identified the following priorities that are relevant to the Mineral Resources Sector[2]:

- To speed up economic growth and transform the economy to create decent work and sustainable livelihoods
- To strengthen the skills and human resource base.
- To improve the health profile of society.
- To ensure sustainable resource management and use.

The framework noted that the Industrial Policy must recognise that for the foreseeable future, extraction and processing of minerals and related sectors will remain critical for exports, making support for its continued expansion and diversification critical for development across the economy.[3]

The main objective of government with regard to sustainable resources management was identified as enforcing a zero tolerance approach to illegal and unsustainable exploitation of resources and improving air and atmospheric quality for health and well being of citizens.[4]

In line with the above-mentioned broad framework, the Department has established the following sector specific key priorities for the medium term:

- The minerals beneficiation strategy
- Promotion of sustainable development in the mineral and mining sector
- Reduction of the impact of mining on the environment
- Community upliftment
- Management of energy commodities
- Health and Safety
- Review of the legislative framework

Performance and Service Delivery Information

The structure of Cabinet and National Departments was re-organised in 2009 to achieve better alignment between the structure, electoral mandate as per the election Manifesto of the ruling party, and the developmental challenges that needed to receive immediate attention from government.[5]

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[1] Department of Mineral Resources (2010).
[2] Minister in the Presidency (2009).
[3] Ibid.
[4] Ibid.
[5] Zuma, JG. (2009).

Pursuant to this, the Department of Minerals and Energy was split into two separate departments namely Mineral Resources and of Energy, each with a Minister. The complete split of the former Department of Minerals and Energy into two separate and independent departments is expected to be finalised by 01 April 2010. The greater part of the performance information therefore focuses on the mining and mineral resources aspect of the former Department of Minerals and Energy.

The current mandate of the Department is to ensure transformation, economic growth, health, safety and sustainability of the Minerals and Mining sector. The difference between the current and the previous mandate is that, except for the exclusion of the energy sector, the current mandate is based on outcomes. The previous mandate had an impact aspect, which was improving the quality of life. This aspect is missing from the current mandate. However that aspect of the Department's mandate is captured in the Mining Charter.

The Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry (Mining Charter) was developed through consultation between the Mining and Minerals industry (including labour) and Government to provide a framework for the empowerment of historically disadvantaged South Africans (HDSA) in the industry.[6] In accordance with the undertakings of the Charter, the mining companies agreed to achieve 26 per cent HDSA ownership of the mining industry assets in 10 years by each mining company. The Government developed a scorecard to measure progress of mining companies towards the achievement of goals set in the Charter. In respect of ownership, the scorecard measures whether the company has achieved HDSA participation in terms of ownership for equity or attributable units of production reaching 15 percent in HDSA participation within 5 years and increasing to 26 percent in 10 years.

The other elements of the scorecard that assesses transformation in the industry are Human Resources Development, Employment Equity, Migrant Labour, Mine Community and Rural Development, Housing and Living Conditions, Procurement, Beneficiation and Reporting. The Department completed the review of the Mining Charter last year and the Report on the Review is still pending. However, in her address to the Chamber of Mines, the Minister of Mineral Resources indicated that most companies are not complying with the Charter[7]. Some of the issues she raised are:

- Mining companies not implementing their Social and Labour Plans, which compel them to contribute to the sustainable development of mining communities and labour sending areas as a condition for being granted a mining license.
- Companies procuring from outside the local municipality and little being done to capacitate locals so that in the near future they could also participate and improve their quality of life.
- Although most companies have committed to the set employment equity targets, most of them have not met them citing challenges including lack of skilled HDSA to fill vacancies.

However, as pointed out by the Department in its strategic plan presentation to Parliament, it is important not to confuse the responsibilities of the municipalities with those of the mining companies.[8] Be that as it may, it is also important to note that the mines contribute to the degradation of infrastructure and the environment. In some reported cases the houses that are located adjacent to

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[6] Department of Minerals and Energy (2002).
[7] Shabangu, S. (2009).
[8] Nogxina, S. (2010).

the mines are cracking as a result of blasting that causes earth tremors.[9] The roads are also degraded as a result of heavy duty trucks going to and from the mines and the air is polluted in the process of mining.[10] This makes it the responsibility of the mining companies to ensure that these communities are relocated to safer areas, roads are reconstructed and maintained and measures are taken to minimise environmental degradation.

The Mining Charter stipulates that the mining companies should give HDSAs a preferred supplier status, where possible in all three levels of procurement, namely capital goods, services and consumables. In this regard it was envisaged that a list of all HDSA suppliers would be compiled and made accessible on the internet. It is not clear whether this has been accomplished. However, it is reasonable to expect the mining companies to capacitate the local communities for participation in tender processes. The practice of issuing tenders to the already empowered HDSAs has to be avoided.

The lack of skilled HDSAs should not be used as an excuse by the mining companies for failure to meet the employment equity targets. This is an indication of a lack of human resource development plans, which they are supposed to have in their SLPs as per the Mining Charter.

It appears that the mining companies have been slow in the implementation of their SLPs, as pointed out by the Minister. The Department conceded that it has been busy with the conversion of old order mining licenses and therefore could not do the inspections to ensure that the mining companies are implementing their SLPs.[11] It is therefore expected that the Department will do more inspections to ensure compliance with the Mining Charter in 2010/11 financial year. In this regard, it is important for the Department to ensure that it has adequate human resource capacity to do the inspections.

Nevertheless, the Department performed well in weathering the storm of the global economic crisis that also affected the South African economy in general and the mining industry in particular. The mining industry contracted by approximately 8 per cent during this period. The Mining Industry Growth, Development and Employment Task Team (MIGDETT) minimised job losses to less than what was initially forecasted. About 25 000 jobs were lost against a forecast of approximately 100 000.[12]

The number of new or existing small or medium term mining enterprises supported by the Department increased to 49 from 45 in 2008/09 financial year.[13] The Department was able to maintain the number of occupational health and safety inspections and mine audits conducted per year at 12 700 despite the human resources constraints.[14] There was a slight decrease in the number of mining rights granted to HDSA per year from 152 to 147.[15] However, the Department has no control over the number of applications for mining rights.

Budget Analysis

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[9] Research Unit (2010).
[10] Ibid.
[11] Ibid.
[12] Statistics South Africa (2010).
[13] National Treasury (2010).
[14] Ibid.
[15] Ibid.

The Department received approximately R1.0 billion in the 2010/11 financial year, representing 0.22 per cent of the total appropriation by vote.[16] It received an additional allocation of R20.3 million to its baseline budget, resulting in a budget increase of R40.1 million or 4.34 per cent in real terms compared to the previous year.[17] The Departmental expenditure comprises four economic classifications, namely, Current Payments, Transfers and Subsidies, Payments for capital assets and Payments for financial assets. During the period under review, Current Payments category was allocated R607.3 million or 59.0 per cent of the Budget Vote, Transfers and Subsidies received R408.7 million or 39.7 percent, while Payments for capital assets received R14.1million or 1.4 per cent of the Budget Vote.[18] No budget was allocated for the payments for financial assets in 2010/11. The budget for Current Payments increased by R99.3 million in nominal terms, while Transfers and Subsidies received an insignificant increase of R200 000 in nominal terms.[19] The increase in current payment is due to an additional funding under compensation of employees for increased staff capacity and salary related adjustments. The restructuring of the Department resulted in an increased staff complement, particularly in support functions. The Department further provides learnership and internship programmes to complement its skills shortage in the fields of mining and environmental management. Payments for Capital Assets received an increase of R5.4 million in nominal terms.[20] The Departmental budget comprises four programmes, as reflected in the table below.

Table 1: Programme Budget

Programme	Budget				Nominal Rand change	Real Rand change	Nominal % change	Real % change
R million	2009/10	2010/11	2011/12	2012/13	2009/10 - 2010/11		2009/10 - 2010/11	
Administration	183.2	239.0	265.3	271.8	55.8	40.8	30.46 per cent	22.27 per cent
Promotion of Mine Safety and Health	133.0	145.9	159.6	168.9	12.9	3.7	9.70 per cent	2.81 per cent
Mineral Regulation	202.5	215.9	233.1	245.9	13.4	- 0.2	6.62 per cent	-0.08 per cent
Mineral Policy and Promotion	406.5	429.2	454.2	481.4	22.7	- 4.3	5.58 per cent	-1.05 per cent
TOTAL	**925.2**	**1 030.0**	1 112.2	1 168.0	**104.8**	40.1	**11.33 per cent**	**4.34 per cent**

Source: National Treasury (2010)-Vote 31 Minerals Resources

Programme Analysis

The four programmes that comprise the departmental budget are Administration, Promotion of Mine Safety and Health, Mineral Regulation and Mineral Policy and Promotion.

The Administration programme aims to provide strategic support and management services to the Ministry and the Department. The allocated funds for this programme constitute 23.20 per cent of the budget vote in 2010/11. This programme received the second highest share of the budget, amounting to R239.0 million. The programme budget has increased in both nominal and real terms. It has increased by R55.8 million or 30.46 per cent in nominal terms, which translates to R40.8 million or 22.27 per cent in real terms. This programme comprises four sub-programmes, namely, Minister,

[16] National Treasury (2010).
[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Ibid.

Management, Corporate Services and Office Accommodation. Corporate Services received the largest share of the programme budget at R188.7 million or 79.0 per cent. The increase in the allocation for this programme can be attributed mainly to an increase in compensation of employees, which falls under Corporate Services. Compensation of employees constitutes 45.7 per cent of the programme budget in 2010/11, which is an increase of 5.4 per cent from 40.3 per cent in 2009/10. The increase in the budget allocation for compensation of employees is in anticipation of increased staffing as a result of the restructuring of the former Department of Minerals and Energy.

The Promotion of Mine Safety and Health programme ensures the safe mining of minerals under healthy working conditions.[21] It is responsible for the reduction of mining related deaths, injuries and ill health by reviewing the Mine Health and Safety Act (1996) and aligning it with changes in the mining sector each year, and monitoring compliance with mining safety and health standards by conducting mine inspections and yearly audits.[22] The programme has been allocated R145.9 million in 2010/11, slightly increasing by R3.7 million or 2.81 per cent in real terms compared to the pervious year.[23] The programme budget constitutes 14.17 per cent of the budget vote. This programme consists of two sub-programmes, namely, Governance Policy and Oversight; and Mine Health and Safety. Mine Health and Safety received a greater share of the programme budget at R99.0 million or 67.90 per cent.[24] This reflects the policy shift towards prioritisation of Health and Safety in mining, as the sub-programme's budget has increased from 58.72 per cent in the previous financial year. This is in line with the identification of Health and Safety as one of the sector specific key priorities for the medium term.

The Mineral Regulation programme regulates the minerals and mining sector to promote economic development, employment and ensure transformation and environmental compliance.[25] This programme received the third highest share of the budget vote. It has been allocated R215.9 million in the 2010/11 financial year. Even though the budget has increased by R13.4 million or 6.62 per cent, this translates to a budget decrease of R200 000 or 0.08 per cent in real terms. A decrease in the allocation for Mineral Regulation programme might be as a result of a shift in emphasis since the conversion of old order mining rights licenses is due for finalisation. This programme comprises three sub-programmes, namely, Management, Mineral Regulation and Administration and the South African Diamond and Precious Metals Regulator. Mineral regulation and Administration sub-programme received the highest allocation of the programme budget at R169.5 million. This sub-programme is responsible for the administration of prospecting and mining rights licensing, and compliance with the Mineral and Petroleum Resource Development Act (2002), including mine compliance with environmental protection requirements. The South African Diamond and Precious Metals Regulator sub-programme received R40.6 million, which was transferred to the Regulator to perform its mandated functions.[26]

The Mineral Policy and Promotion programme aims to develop relevant mineral policies that promote South Africa's mining and minerals industries to attract investments.[27] This programme received the

[21] Ibid.
[22] Ibid.
[23] Ibid.
[24] Ibid.
[25] Ibid.
[26] Ibid.
[27] Ibid.

highest share of the budget in 2010/11 at R429.2 million. While the programme's budget has increased by R22.7 million or 5.58 per cent in nominal terms, it has actually decreased by R4.3 million or 1.05 per cent in real terms compared to the previous year.[28] This programme aims to focus spending on, among other things, implementing the beneficiation strategy, continuing to fund and support small scale mining projects and rehabilitating ownerless and derelict mines in the MTEF period.[29] Given this focus of the programme in the medium term and the identification of mineral beneficiation as a key priority area of the Department, a decrease in real terms in the allocation for this programme might negatively impact in the execution of its mandate and programmes.

This programme comprises three sub-programmes, including Management, Mineral Policy and Mineral Promotion. Management provides overall management of the programme, while Mineral Policy develops new policies, reviews existing policies and amends legislation to transform the minerals and mining industry. The Mineral Promotion sub-programme aims to promote mineral development and give advice on trends in the mining industry to attract investment.[30] Mineral Promotion sub-programme received the highest sub-programme allocation at R55.9 million, representing a nominal increase of R7.4 million from the 2009/10 budget allocation. Mineral Policy sub-programme received a budget allocation of R9.1 million, which is a nominal decrease of R4.3 million compared to the 2009/10 budget of R13.4 million. The decrease in budget for this sub-programme indicates the shift of departmental focus from policy formulation to policy implementation.

Key Issues for Consideration by Parliament

The following implications for Parliament arising from the 2010/11 Budget Vote of the Minerals Resources Sector are derived from the objectives and measures of the three programmes of the Vote, namely Promotion of Mine Safety and Health, Mineral Regulation and Mineral Policy and Promotion.

- The objective of the Promotion of Mine Safety and Health for 2010/11 is to contribute to the reduction of mining related deaths, injuries and ill health by:
    - Reviewing the Mine Health and Safety Act (1996) along with supporting regulations and aligning it with changes in the mining sector each year; and
    - Monitoring compliance with mining safety and health standards by conducting 12 700 mine inspections and 700 audits each year.

It is expected that the Mine Health and Safety Amendment Bill will be tabled in Parliament in the course of 2010/11 financial year.[31] Parliament must therefore prepare itself for consideration of this Bill.

The target of conducting 12 700 mine inspections in 2010/11 is similar to that of the 2009/10 and 2008/09.[32] The Department reported, in its last annual report, a vacancy rate of 31 per cent in the Mine Health and Safety Inspectorate.[33] Even with the vacancy rate of 31 percent, the Department was

[28] Ibid.
[29] Ibid.
[30] Ibid.
[31] Department of Mineral Resources (2010).
[32] National Treasury (2009).
[33] Department of Minerals and Energy (2009).

able to do 12 700 inspections. It is therefore important to find out why this target has not been increased and to ascertain whether the Department was able to fill the vacancies in order to enable it to do more inspections.

- The measurable objectives of the Mineral Regulation programme are:
  - To contribute to broad based black economic empowerment and transformation in the minerals and mining sector by issuing 27 new mining rights a year to HDSA.
  - To contribute to sustainable development in the minerals and mining sector by conducting 1 380 environmental inspections and 140 charter inspections a year.
  - To promote investment and job creation in the minerals and mining sector by processing mining and prospecting rights applications within the specific time frames according to the Minerals and Petroleum Resources Development Act (2002).

It is worth noting that the target of 27 new mining rights a year to HDSA has not changed over the past two financial years. The Department (then Minerals and Energy) reported in 2009 that the target of new mining rights for 2008/09 was 27 and the actual licenses granted were 152.[34] It is therefore incomprehensible why the Department has maintained a target that it had far exceeded in the past. The target of 1 380 environmental inspections was also exceeded in the 2008/09 financial year by conducting 1 742 inspections.[35]

Parliament should closely monitor the compliance inspections in respect of the Mining Charter since the target was not reached in the past; reportedly as a result of a focus on conversion of old order mining licenses. The Performance and Service Delivery Information (see above) also raises issues on non-compliance with the Mining Charter. Parliament should also prepare for the tabling of the Minerals and Petroleum Resources Development Amendment Bill.

- The Mineral Policy and Promotion measurable objective is to promote the country's mining and minerals industry to attract investment across the commodities value chain by, *inter alia*, establishing and supporting small scale mining and minerals beneficiation projects in line with the new small scale mining strategy.
- Another objective is to increase the mineral value added by adopting the beneficiation strategy as policy in 2009/10 and completing the implementation plan for prioritized value chains in 2010/11.

To this end, Parliament should monitor the implementation of the small scale mining strategy. It can do this by keeping track of the number of small scale mining projects established and supported by the Department. Parliament should also monitor progress made with regard to the development of the beneficiation strategy implementation plan. Regular feedback on the number of jobs created through mineral beneficiation must be obtained from the Department.

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[34] Ibid.
[35] Ibid.

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