

## **Anglo Khula JUNIOR MINING INITIATIVE, South Africa**

Despite the fact that junior mining companies can and do play an important economic role in operating smaller mines more profitably than large companies, in South Africa a great potential is left undeveloped with huge opportunities costs for both local communities and the economy. A key reason is that due to the perceived and real risks associated with mining and the isolated locations of marginal mines, banks invariably offer loans on disadvantageous terms. As mining requires significant capital investment upfront in technical inputs for licensing, surveying, environmental and safety issues, skilled labour and equipment, it is too costly for small and medium size enterprises to do without access to reasonably prices commercial borrowing mechanisms. Therefore, measures to catalyse the entry of small and medium sized black-owned companies into the mining sector provide unprecedented growth and welfare opportunities for remote and impoverished communities and for the economy.

The Anglo Khula Mining Fund, a joint initiative between Anglo American Corporation of South Africa Ltd and Khula Enterprise Finance, a development finance institution established by the South African Department of Trade and Industry, was formed in March 2003 in recognition of the difficulties facing junior mining companies to raise funding for drilling and exploration activities. The fund provides loans at prime interest rates to enterprises that have the potential to become commercially sustainable. The fund management also recognised that providing initial support with technical expertise is crucial and complemented the funds available by approaching the Department for International Development's Business Linkages Challenge Fund (BLCF) that provided funding for technical assistance.

As part of the fund work, Anglo American set about trying to come up with a working and replicable business model to support the South African government in unleashing the pent up entrepreneurial spirit to operate profitable marginal mines. A pilot project, Vaalkrantz Colliery, managed by a black owned enterprise-Leeuw Mining and Exploration, was selected on the basis that, without the financial and technical support, the operation would have shut down due to the delayed transfer of funds by a creditor bank. This would have been a huge loss for the local community, living in an isolated area with higher than the average unemployment rate and no real alternative for income generation.

Since the loan was made in 2004, the mine progress has been impressive. In two years (2005-07), the mine has almost doubled its staff and contractors, 85% of which are local people. Production has been steadily increasing and moving closer to the target while revenues have more than doubled January to December 2006. Payments to creditor banks and employees have been made on time since operations started and the cash-flow issues resolved. Most of the product is currently pre-sold in 3 and 5 year contracts (60% for export).

Within a short period the mine has become financially stable and the forecasts are good. The bridging loans granted by Anglo have now been fully repaid within less than two years. Investors have showed interest in acquiring shares. At current price and production, the mine will become profitable in 4 years. The prospects and strong relationship build has resulted in Anglo Coal providing a guarantee for a commercial loan required by the mine to build a processing plant.

This is cause for optimism among the 269 permanent employees and 207 contractors. All employees have received technical training, safety training and other skills upgrades, including 5 leadership courses. There are also 5 apprenticeships for local people every year. In addition, the mine supports a health clinic on site that attends to the needs of staff and their families, provides information and testing for TB, malaria and HIV/AIDS and employs two nurses.

Of course, challenges remain. Maintaining the highest health, social and environmental (HSE) standards is the company's highest priority following a period of rapid growth.

In terms of broader impact, a recent independent evaluation done by Emerging Markets Group (EMG) Ltd, shows that the mine has had a profound direct and indirect effect. Beyond employment, it has become the source of steady business for local enterprises – including some specifically created to service the mine as Security and Logistics Companies. The mine also contributes to the local school and municipality projects. The mine is in an area of high unemployment where the only other major sources of income are timber and agriculture. Mining salaries are on average higher than in both the agricultural and timber sectors while benefits are more extensive (transport, health care, housing allowances, etc.). The increased purchasing power of the population and the regularity and predictability of incomes contributes to local vendors, traders and leisure business development.

And while 'bridge' funding has been key, it is the partnership between small and big business has highlighted the importance of technical and marketing assistance in helping a fledgling business navigate risks and grow towards sustainability. The model also shows how within a short-period of time and a limited amount of investment, a small new business can become profitable and contribute to the growth of an area. Based on this success, the fund is now supporting new applications.