

African Natural Resources Center  
African Development Bank

GENERATING ADDITIONAL  
VALUE FROM AFRICA'S  
EXTRACTIVES

# Anglo American Corporation's Zimele Enterprise Program

**A CASE STUDY**



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## Preface

The African Natural Resources Center (ANRC) has commissioned a series of case studies to bridge the knowledge gap in natural resources project-driven SME development, supply chain based domestic linkages, extractives revenue management, public-private partnerships and fiscal policy formulation:

- Anglo American Corporation's Anglo Zimele small business development initiative in South Africa,
- Angola's Partnership with Total to implement national local content policy,
- AngloGold Ashanti Malaria and public-private partnership in Ghana,
- Botswana's Mineral Revenues, Expenditure and Savings Policy,
- Chile's mining revenue fiscal policy implementation,
- Debswana's Diamond Company and Botswana's HIV and AIDS public partnership program,
- Nigeria's Local Content Board's policy and institutional arrangements.

This report illustrates ways to extract value from extractive projects using corporate initiatives to promote SMEs.

The report would not have been possible without the contribution and support of a number of partners and experts. Firstly, Anglo American Corporation plc and Anglo Zimele management shared valuable information on the initiative. Secondly, Dr James Suzman, a consultant, collected the information and documented the study. Finally, the ANRC team, through Thomas Viot, coordinated the project with Dr Hudson Mtegha, who edited the final report.

## Foreword

In the natural resources sector, national governments perform a central role by acting as stewards in resources development. This requires a balance of policy, legal and institutional considerations. It also requires governments to consider the needs of various stakeholders. In the extractives sector, the importance of protecting inter-generational benefits is a particular challenge given the finite nature of resources. This places an extra burden on policymakers to increase the value obtained from extractives while giving investors a fair return.

Additionally, to increase development outcomes, governments must make informed choices while meeting public expectations to benefit more from extractives projects. A particular challenge facing both investors and governments is to ensure that the impact of extractives projects is felt as early as possible. Another is to ensure that countries begin to enjoy the benefits despite the time lag between project commissioning, production and payment of taxes.

Equally important is the need to stabilize the project environment such that, regardless of the project life cycle, commodity market conditions and level of profitability, projects continue to have a positive effect on human development. The answer in part lies in delinking revenue from human development strategies by assisting governments with other options for delivering tangible benefits.

Other important challenges facing countries include:

- Striking a balance between the impact on local and national economies;
- Making the correct trade-off between fiscal and non-fiscal benefits;
- Integrating projects into national economies to ensure local content while capitalizing on the global outreach of multinational corporation supply chains and related economies of scale;
- Ensuring that public-private partnerships increase human impact, promote small and medium enterprises (SMEs) and deliver social welfare services directly to those affected by extractives projects;
- Securing inter-generational value by investing revenue in productive assets.

Many resource-rich countries need to generate concrete solutions and knowledge to overcome these challenges and build their own capacity. In view of this the African Natural Resources Center (ANRC) has commissioned this series of case studies to benchmark best practices. Ultimately, through these studies, we want to offer countries practical solutions and a coherent policy foundation with which to improve development outcomes through natural resources projects.

[Sheila Khama](#)

Director of the African Natural Resources Center

The African Development Bank established the African Natural Resources Center as a non-lending entity to build capacity to manage natural resources. The Center's mandate is to assist African countries to maximize development outcomes from the continent's natural resources. The Center advises governments on natural resources management, policy formulation and implementation to enable them to secure greater social and economic value from resource development. The scope of the mandate covers renewable (fishery, forestry, land and water) and non-renewable (minerals, oil and gas) resources.

The Center supports African governments in performing their custodial obligations by collaborating with regional institutions, private sector, civil society organizations and donors. The Center uses benchmarks and best practices from other countries to increase the capacity of governments.

# Anglo American Corporation's Zimele Enterprise Program



## 1. Introduction

Development driven by raw materials has proved challenging in many poor countries with rich natural resources endowments. Among the numerous issues undermining states' ability to drive sustainable long-term growth based on natural resources exploitation is the fact that extractive projects are capital-intensive. Consequently they do not generate widespread employment, and they are export oriented. In other words, despite their contribution to GDP or government revenues, these sectors typically contribute little to building social and economic capacity. Nor do they drive broad-based growth in secondary and tertiary service sectors likely to endure beyond the life of a state's non-renewable natural resources. As a result, alternative tools are needed to generate widespread employment and drive broad-based growth on the back of the extractives sector.

Typically national governments are best placed to translate resources revenue into broad-based economic growth. They do this by investing revenues generated from natural resources into education, infrastructure development, social welfare, healthcare etc. While government programs focused on revenue distribution will have by far the largest impact (if appropriately done), a number of opportunities exist for the private sector to expand the economic and social development impact of their operations – in particular in mining – on affected communities.

The Anglo American Corporation of South Africa pioneered a particularly innovative and successful model in its operations which, when it became global, was subsequently exported to several other countries. Specifically, Anglo American has developed a suite of enterprise funds, called Anglo Zimele. The funds support aspirant entrepreneurs from historically disadvantaged communities in South Africa to develop small and medium enterprises (SME) by using Anglo American's sector expertise and procurement muscle as a catalyst for achieving wider, socially responsible growth. These SMEs in turn generate employment and drive social and economic development in economically marginal social classes.

Among the many enterprise initiatives in Africa, the Anglo Zimele Program is of particular interest for two reasons:

- First, it is a private sector-led initiative run as an adjunct to Anglo American's core business of mining. As such it pioneers a non-philanthropic approach for businesses to drive social and economic development.
- Second, the Zimele model focuses on supporting SMEs to assist Anglo American to meet its substantial procurement needs. This has not only helped Anglo develop a diversified supplier base, but it has also increased the chances of the supported SMEs becoming economically sustainable.

Anglo Zimele offers a potentially replicable model for both governments and private sector operators in other resource-rich African countries seeking to broaden the social impact and employment generation capacity of their capital-intensive industries. Though applied to the mining sector, this model has resonance in other natural resources projects that are typified by extensive supply chain networks.

This approach also offers clear benefits for the private sector. It:

- Provides an innovative and relatively sustainable means of extending their economic footprint in marginal areas,
- Drives competitiveness among corporate suppliers,
- Allows them to comply with sustainable development and local content obligations.

For governments it offers a template for negotiating public-private partnerships and for developing regulation aimed at incentivizing extractive sectors (and potentially other capital-intensive sectors) to play a more meaningful role in driving diversification. This of course would only comprise part of a broader suite of activities aimed at translating natural resources wealth into a catalyst for sustainable, long-term growth.

Equally significant is the fact that this model can also capitalize on major infrastructure developments that are often associated with large-scale extractive projects. This enables the investment associated with that infrastructure to generate secondary social and economic benefits. To this extent it drives the development of human capital far more effectively than more conventional philanthropy or public expenditure at central government level.

## 2. Enterprise Development and the Extractive Sector

Africa has an abundant natural resource endowment. This includes three-quarters of the world's platinum, half of its diamonds and chromium, and up to one-fifth of its gold and uranium. The continent also has significant reserves of coal, copper, cobalt and iron ore in addition to 12% of the world's estimated oil reserves. The IMF<sup>1</sup> classifies 20 African countries as resource-rich on the grounds that their extractive sectors either generate more than one-fifth of their domestic revenues or more than one-quarter of their export earnings from natural resources. As a result of the positive commodities super-cycle that characterized the two decades preceding 2008, the economies of resource-rich African countries significantly outperformed others on the continent. Yet GDP growth in these states did not translate universally into broad-based economic development. As a result these countries have developed increasingly acute wealth and income differentials between the poor and the rich. And critically, now that commodity prices have entered a sustained negative cycle, the consequences of rapid and unevenly distributed growth have become more acute.

In part these problems have come about because the extractive sector faces structural challenges when it comes to generating localised and broad-based sustainable economic growth. This is in part because large-scale extractive operations are highly capital-intensive and tend to generate revenue through export markets. Thus, for example, while manufacturing generated 12.1% of South Africa's total GDP in 2012 and mining generated 9.6%, mining employed less than one-quarter of the number of people employed in the manufacturing sector.

Mining companies, multilateral institutions and governments together have sought to address these challenges through a range of schemes focussed on improving economic

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<sup>1</sup> IMF (2012), "Sub-Saharan Africa — Sustaining Growth amid Global Uncertainty", World Economic and Financial Surveys, IMF, Washington DC, accessed April 16, [www.imf.org/external/pubs/ft/reo/2012/afr/eng/sreo0412.pdf](http://www.imf.org/external/pubs/ft/reo/2012/afr/eng/sreo0412.pdf)



governance, establishing local content requirements for extractive companies and forging economic linkages to leverage the value created by their extractive sectors. Significantly though, due to organizational capacity and decision-making structures, the private sector has proved to be more agile and innovative than government. Investors have achieved this by exploiting opportunities arising from the management of supply chains and product pipelines to catalyse local, broad-based economic growth in cognate sectors based on commercially robust principles.

One of the most effective of these initiatives is the Anglo American Zimele Enterprise model. The Anglo American Corporation has exported the model to its operations in Chile, Botswana, Peru and Brazil where the corporation also has investments.

Anglo Zimele was developed to provide financial and hands-on technical support to entrepreneurs in mining-impacted communities and labour-sending areas in South Africa. The aim was to develop SME's ability to meet Anglo American's procurement or processing requirements. While the model has expanded over the past decade to areas historically dominated by bank financing or venture capital, it remains focused on providing financial resources and support to entrepreneurs with few opportunities to access traditional sources of start-up or expansion capital.

The Zimele model of combining financial support with mentorship has now been adopted by a number of local and global institutions. These include the World Bank, the United Nations Development Programme and the International Finance Corporation (IFC). The IFC, for example, has used the model as the prescribed best-practice approach for companies around the world seeking to support local SME development through their supply chains.

### 3. Anglo American Corporation Zimele

#### 3.1 About Anglo American Corporation

Anglo American PLC is a diversified miner founded in South Africa but now headquartered in London and jointly listed on the LSE and JSE. It has a significant operational footprint in emerging markets and remains heavily invested in South Africa where it is the single largest player in the extractives sector. Its portfolio includes diamonds, metallurgical and thermal coal, platinum, copper, phosphates, iron ore, manganese and niobium. Affected by the recent decline in commodity prices and a current market capitalization of US\$10 billion (around one-quarter of its pre-2008 value), Anglo American nevertheless remains one of the largest diversified mining companies in the world. In 2014 it generated US\$31 billion in revenue and it employed around 148,000 people worldwide.

The Anglo American Corporation's Zimele Enterprise Fund was launched in 1989 to assist entrepreneurs from historically disadvantaged communities in South Africa to establish sustainable SMEs.

#### **Inception**

For much of the 20th century Anglo American was the largest mining company in Africa.

By the 1980s its commercial ambitions were constrained by economic sanctions against South Africa, which limited opportunities for investing in extractives elsewhere. As a result it invested widely in South Africa, temporarily expanding its portfolio well beyond the extractive sector.

In anticipation of the imminent demise of apartheid in 1989, Anglo American established a dedicated unit, Anglo Zimele, to address challenges to enterprise development and empowerment in communities affected by its operations.

A significant part of the rationale for doing so was political. By 1989 South Africa had begun dismantling apartheid. It was clear that major businesses would be expected to make a greater direct contribution to socio-economic development than before. Similarly it was clear that businesses would be expected to play a direct role in redressing the economic imbalances brought about through economic restrictions on black entrepreneurs during apartheid.

There was also a clear commercial imperative. Anglo American recognised that, given its exposure in South Africa, future success was contingent on the success of the “new South Africa”. Specifically it realised that the huge economic disparities that had cleaved along social lines during apartheid needed to be urgently addressed.

The Anglo Zimele model evolved out of an existing but limited small business support unit within Anglo American. Established in 1979, it was called the Labour Intensive Industries Trust (LTIT). The LTIT was created with the sole purpose of generating greater opportunities for black workers in South Africa through investing in more labour-intensive enterprises in the Anglo American stable. The small fund continued to operate independently until 1989 when it became a key investor in Zimele.

The experiences of the LTIT similarly informed the Zimele business model, in particular the idea that new enterprises required not only investment, but also incubation and support if they were to become commercially viable. This model suggests that other corporations can apply the same principles, all be it in line with the socio-political environment of the host country.

Now, a quarter of a century later, Anglo Zimele is recognized as one of the most successful and innovative private sector-led enterprise value adding initiatives in natural resources in the world. It has around US\$150 million currently invested in small businesses and has supported 1,885 enterprises since its inception. Anglo Zimele is now also recognized as a critical component of one of the most successful local content strategies developed by major players in the extractives sector.

Anglo American developed the program over a decade before South Africa implemented any statutory local content requirements for extractive businesses. Anglo Zimele now substantially helps Anglo American's operations meet the social and economic targets outlined in South Africa's Mineral and Petroleum Resources Development Act. The act came into force in 2004, more than a decade after the introduction of the initiative. These

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<sup>2</sup> The social license to operate (SLO) refers to the level of acceptance or approval by local communities and stakeholders of mining companies and their operations. The concept has evolved fairly recently from the broader and more established notion of “corporate social responsibility” and is based on the idea that mining companies need not only government permission [or permits] but also “social permission” to conduct their business.

<sup>3</sup> The language group includes South Africa's most widely spoken first languages, Swati, Zulu and Xhosa.

requirements along with legislation dealing with Black Economic Empowerment are aimed at redressing historical economic imbalances.

Anglo Zimele's positive impact over the past two decades owes to Anglo's success in transforming potentially onerous regulations into an economic value driver as well as into a mechanism to help Anglo manage potentially complex challenges to its social license to operate.<sup>2</sup>

### 3.2 The Zimele Enterprise Model

The word "zimele" is derived from the Nguni language group<sup>3</sup> term for 'being independent' or 'standing on one's own feet'. This captures the core philosophy of the Anglo Zimele initiative, which is to empower entrepreneurs from historically disadvantaged groups in South Africa to develop sustainable businesses that generate both employment and create local value.

At its most basic, Anglo Zimele is an investment fund and SME business incubator that targets mining-affected and labour-supply areas across southern Africa. It does so with a view to facilitating the development of SMEs across a range of economic sectors that are cognate to Anglo American's core business as a diversified miner.

Having operated in various guises for over two decades, Anglo Zimele has matured significantly since its inception in 1989. It has now concluded over 2,750 transactions and invested over ZAR1.4 billion in businesses in South Africa that have a combined turnover of over ZAR6 billion. Equally significant, businesses supported by Zimele have also contributed to the creation of 38,000 jobs in mining-affected communities and labour-supply areas across South Africa. Zimele has also embraced youth and gender transformation agendas with 44% of its beneficiaries being under thirty and a further 42% being women (Table 1). Zimele now manages several specialised funds that aim to leverage Anglo American's core business and experience to ensure the success of supported enterprises.

**Table 1**  
**Anglo Zimele Key Statistics 2010-2014**  
(calculated using a ZAR/USD exchange rate of between 7 and 11 to 1 over the period 2010-2014)

	2010	2011	2012	2013	2014
Turnover (ZAR million)	3,286	4,367	6,713	8,296	8,204
Funding (ZAR million)	306	574	1,068	933	1,638
Females supported (%)	37	35	49	45	43
Youth (%)	49	49	36	39	46
Transactions	463	519	500	383	406
New Companies	302	351	318	225	270

Source: Anglo American Transformation Report 2014

The Zimele model's success in South Africa can be attributed to the fact that, while it is intended to serve a socially beneficial function, all of its investments have been made on commercial – not philanthropic – terms with a view to generating sustainable returns.

Anglo Zimele takes a “holistic” approach to enterprise development and combines access to finance at favourable rates with hands-on technical support based on knowledge of the mining industry’s service, health and safety standards. The initiative is driven wholly by commercial imperatives; loans made by Zimele are expected to be repaid. Similarly Zimele aims to sell any equity stakes it purchases in supported SMEs back to its entrepreneurs at market value, usually within three years. Any profits realised are subsequently reinvested into the fund with a view to reinvesting in new businesses. Zimele has achieved a repayment rate of between 85%-93% over its history.

Another critical element of the Zimele model is its use of Anglo American’s procurement pipeline, sector-specific expertise and procurement expenditure to assist enterprises it has invested in to generate business on competitive terms. With Anglo American currently investing around US\$3 billion annually on procurement, this has the dual benefit of increasing competitiveness among and enhancing its ties with key suppliers. Equally important, it provides fledgling businesses with access to established captive and stable markets thus significantly limiting the risk to Zimele’s investments. Zimele also only supports start-ups or the scaling of existing businesses so they are financially sustainable and have sufficient cash-flow and equity to access more traditional capital providers.

This is particularly significant as the majority of enterprises that Zimele supports would, at the outset, struggle to secure investment capital. This is because small-scale entrepreneurs in urban and peri-urban mining communities, and in rural areas are generally considered too high-risk for banks owing to their lack of collateral and market access.

### 3.3 Evolution of the Anglo Zimele Model

Having launched with a single fund focussed on initiatives able to contribute to its supply chain, Zimele now operates six specialised funds. It has also pioneered the development of “small business hubs” across South Africa, which serve as support nodes to entrepreneurs.

#### **Expansion**

Anglo Zimele’s first fund, the Supply Chain Fund, was seeded in 1989. It subsequently formed the sole focus of the program for one decade during which the core methodological principles of Zimele support were developed and refined. Afterwards, in 2003, the Anglo American Khula Mining Fund (later renamed the Small Enterprise Finance Agency (SEFA) fund) was established to promote start-up mining companies that had been awarded prospecting licenses within South Africa to finance exploration and early-stage resource development. As with the original SME-focused initiative, Anglo American stays within areas of its expertise, which is the initiative’s comparative strength.

In order to drive sustainable economic activities within communities beyond their supply chains and to ensure continued compliance with government license requirements, Zimele launched its Community Fund in 2007. This fund was established to provide black entrepreneurs in mining communities and labour supply areas with seed or working capital of up to ZAR2 million (US\$285,310) as loan financing at preferential interest rates.

As environmental concerns and questions around the sustainability of existing energy infrastructure grew more prominent, the Zimele Green Fund was launched. This fund was established to seek out investment opportunities that mitigate greenhouse gas emissions, reduce energy and water consumption, and improve waste and emission management. The Fund's current investment portfolio covers waste recycling, the manufacture and sale of organic fertilisers by disabled workers and vegetable cultivation in impoverished communities. From a corporate strategy perspective, both the Community Fund and Zimele Green Fund dovetail two important sustainable development challenges: relations with communities and managing the mining industry carbon footprint.

The success of Zimele's various initiatives attracted government interest. As a result, the Sebenza Fund was established in partnership with the Development Bank of Southern Africa to extend the Community Fund model beyond Anglo's immediate social footprint. This increased the number of hubs to 49. These hubs work on the same principles as those in Anglo American's operations and provide entrepreneurs throughout South Africa with access to affordable finance, on-going business support, and structure and mentorship programmes.

#### **Zimele Small Business Hubs**

To provide better hands-on support to initiatives within individual communities, the Zimele Fund developed small business hubs. In part the hub concept was meant to give Zimele a tangible presence in operations-affected communities and at the same time to create a space where new enterprises could be more efficiently supported during incubation. The hub concept enjoyed immediate success and community support with the result that 24 community-based centres for business development have been established to date across South Africa. There are plans to establish a further 30 hubs by the end of 2016.

With the expansion of activities has come a commensurate expansion in funding and impact. Since 2008 Zimele has created 19,575 jobs in 1,085 companies in addition to establishing 31 small business hubs in mining communities and impoverished labour-sending areas. An interesting lesson has been that, to be sustainable, such initiatives must contribute meaningfully to the local community as well as to the brand position of the corporate body among major stakeholders such as regulators and development partners.

### **3.4 Anglo Zimele Structure**

The Anglo Zimele Program is comprised of six distinct funds each dedicated to a specialized area of enterprise investment. Each fund has a separate executive team with expertise appropriate to its focus. Likewise each fund has the flexibility to enter partnerships with external institutions or government bodies. However each operates under the stewardship of the Zimele Board and executive leadership. Figure 1 shows the various Zimele funds.

Figure 1

## Anglo Zimele Program Funds



Source: ZIMELE Presentation to: SME's and Technology Transfer, Alugumi Dzebu - Senior Investment Manager Anglo American Partnership Funds, 20 May 2015

Each fund operates under the same general principles. The funds have a particular focus on utilizing Anglo's existing industry footprint and expertise to drive structural changes in the South African economy with a focus on SME development and job creation.

Table 2  
Anglo Zimele Fund Structure

The Anglo American  
Sefa Mining Fund

The Anglo American SEFA Mining Fund is a joint initiative between Anglo's South African operations and SEFA, the Small Enterprise Finance Agency SOC Limited, formerly known as Khula Enterprise Finance Limited, a government-owned entity that promotes SME development. The fund helps grow emerging black-empowered<sup>4</sup> mining companies into commercially viable enterprises. The fund provides equity and loan finance of up to ZAR30 million per project. It also provides technical support during exploration and pre-feasibility phases.

<sup>4</sup> This refers to companies that are part of South Africa's Black Economic Empowerment program.



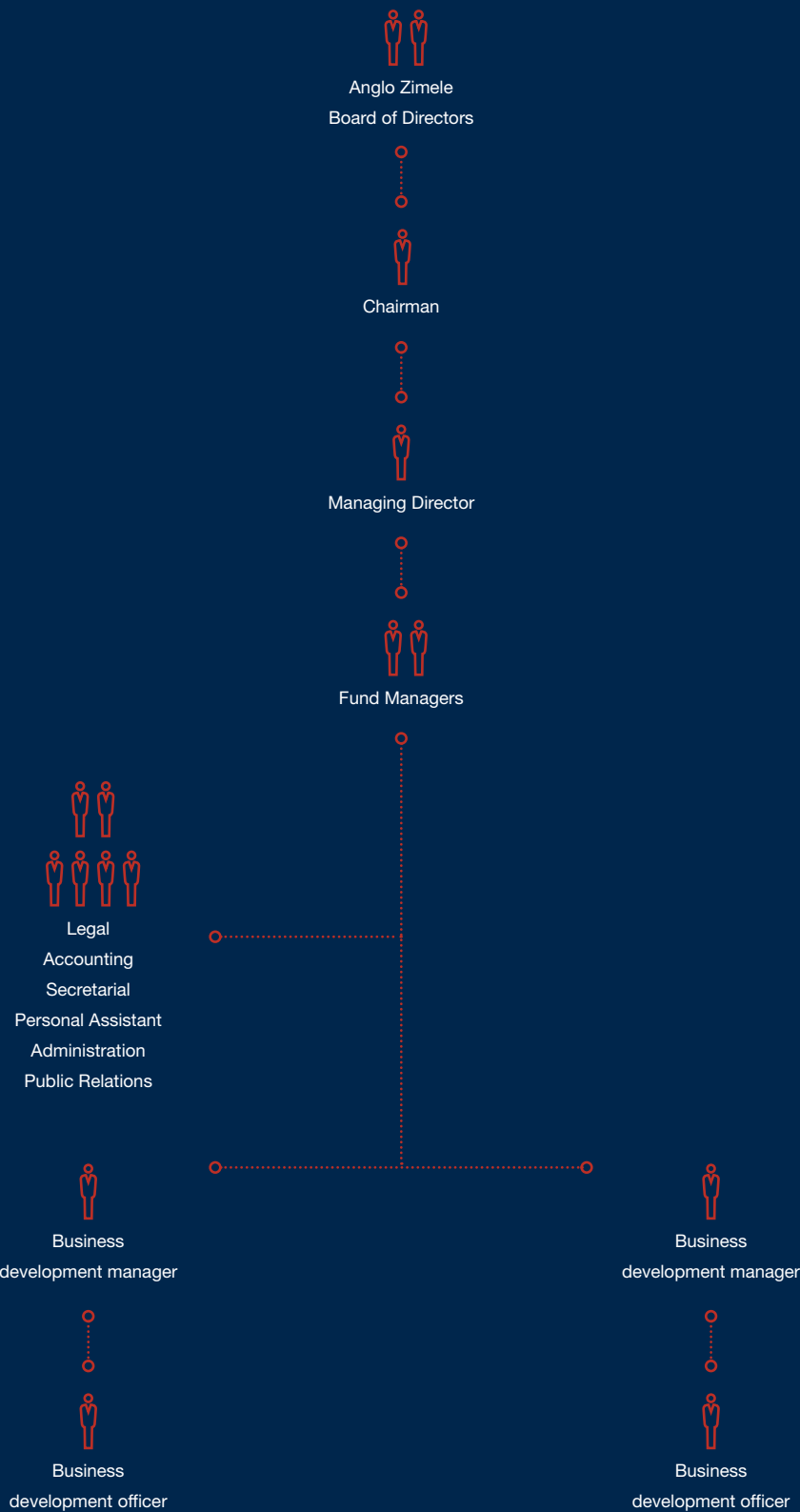
The Supply Chain Fund	The Supply Chain Fund helps Anglo's procurement departments to identify appropriate SMEs and link them with the appropriate commodity teams within the Group. The fund provides equity and loan financing of up to ZAR5 million per project. It also supplies hands-on support, business guidance and training.
The Community Fund	The Community Fund is managed through a network of 26 small business hubs that are based both within the communities where Anglo operates as well as in important labour-sending areas. It provides funding, training and skills development for entrepreneurs and SME owners. The Fund provides SMEs with loan financing of up to ZAR2 million per project at preferential interest rates. It operates through a network of small business hubs, which ensure that funding and training is accessible within communities.
The Green Fund	The Green Fund targets investment opportunities that offset carbon, reduce energy and water consumption, and improve waste and emissions management. Anglo American established the fund with an initial investment of ZAR100 million. The Green Fund provides funding of up to ZAR10 million per project or business.
The Sebenza Fund	Anglo American and the National Treasury each contributed ZAR250 million to the Sebenza Fund. The fund operates with an infrastructure of 20 business development hubs across South Africa. As a result, Zimele has more than 40 hubs nationwide, providing entrepreneurs with access to affordable finance and on-going business development support and mentorship. The majority of these hubs are already in place with a few still to come.
The Godisa Fund	The Godisa Fund represents a tripartite agreement between Transnet, South Africa's national transport authority, the Small Enterprise Finance Agency and Anglo American. It supports the development of black-owned SMEs primarily in Transnet's procurement value chain, with a focus on the company's rail and port businesses. Each partner in the Fund contributed ZAR55 million, providing it with a total capital of ZAR165 million.

### 3.5 Management and Governance

A board comprising senior staff from Anglo American and Zimele executive leadership has overall accountability for Anglo Zimele. The board is required to sign off on all major investments. However, technical staff with appropriate sector expertise independently manage each fund within Zimele. From the perspective of applicants and beneficiaries, Zimele's business development managers and officers play a key front-line role, guiding them through the application process and serving as mentors for successful applicants.

With the development of the 31 small business hubs across South Africa and their use for front-line engagement with entrepreneurs, Zimele has established a distributed management model with a focus on accessibility for applicants and practical engagement with investees.

Figure 2  
Anglo Zimele Management Structure



Source: Anglo American and IFC *The Anglo Zimele Model: A Corporate Risk Capital Facility*, 2008

### 3.6 Applicant Eligibility

Each fund within Zimele has slightly different eligibility requirements. These reflect the scale and complexity of the investments likely to be made and the scope of the fund.

Nevertheless, the conditions for all Anglo Zimele funds' enterprise support reflect the principals that make the program successful both as an enterprise model and as a corporate program aimed at managing social risks pertinent to their core business. Thus to qualify for funding under the Zimele programme, the following broad criteria must be met:

- The business must have a large black shareholding and management structure.
- Owners of the business must be involved daily in the company's management or operation.
- Owners of the business must be part of the local community where the business operates.
- Owners of the business need to contribute to the business from their own financial resources.
- Loans must be repaid in good time.
- The business must have scope to grow and be sustainable.
- The business should care for the environment and be safety conscious.

### 3.7 Developing Capacity and Minimizing Risk

The Zimele model provides far greater technical and management support than mainstream providers of enterprise capital. This "hands-on" approach has been critical to Zimele's long-term success given its focus on historically disadvantaged communities where the greatest risk to potential investors is the human capital deficit left by apartheid.

Zimele ensures direct support for potential entrepreneurs underserved by mainstream sources of investment capital. Beyond that, its focus on mentoring ensures a significantly higher success and hence loan repayment rate (around 90% with interest resulting in an overall 7% return on equity). Each Zimele fund is therefore self-sustaining and able to cover key administrative management costs without recapitalisation by Anglo-American.

### 3.8 Investment Cycle

Following approval of support for an SME, individual investments are managed over a three-phase process spanning implementation, supervision and exit. This process has evolved over the fund's existence to a relatively polished incubation and supervision model with a high success rate.

Table 3

## Management Approach



Once an investment or loan is approved in principle, the enterprise is assessed for training and capacity needs. The business is also assisted in developing and implementing management and governance structures. Funds are disbursed only once this process is complete.

The second phase of managing the investment is supervisory. During this phase enterprises are given hands-on support. This extended period involves providing technical assistance and commercial mentoring in addition to ensuring that specialised training requirements are identified and met on a continuous basis. To ensure this happens, a Zimele Business Development Officer (BDO) is usually appointed to the board in a non-technical capacity for the entire phase. Often the BDO will assume an expanded role at the outset with a focus on governance. In this case, the BDO will typically assume the role of company secretary as a non-executive director with an oversight role providing financial and commercial advice as well as ensuring regulatory compliance.

In addition to support from the BDO, Zimele reviews the performance of beneficiary businesses focussing on the enterprises' profitability, liquidity, operational performance and growth targets vis-à-vis turnover, margins, profits and cash generation.

Anglo Zimele launched an Entrepreneur Internship Programme (EIP), which was piloted in 2013. This programme was developed to provide entrepreneurs with business development support, training and mentorship, with a focus on achieving growth and job creation. EIP 2 was launched in August 2014 with 30 start-up and early-stage growth entrepreneurs selected from 845 applications from across South Africa. Three out of the thirty entrepreneurs were unable to complete the programme; six start-up entrepreneurs graduated in March 2015; and twenty-one early-stage growth entrepreneurs completed the programme in July 2015.

While Zimele seeks to make reasonable returns on its capital (for re-investment in other initiatives), as a rule it invests with a view to exit an enterprise after three to five years. The exit strategy is written into shareholder agreements and serves as a motivator for enterprise owners to exercise complete control over their business' equity.

#### 4. Benefits

Affecting the transition from a primary resources-based economy to a more diversified economy with a strong human resources base requires leveraging existing sources of growth to expand the services and manufacturing sectors. SMEs are a particularly effective mechanism for achieving this shift, but doing so in Africa has proved challenging.

However, as much as Anglo Zimele's success has generated benefits for mining-affected and historically disadvantaged communities, it has also generated benefits for Anglo-American itself. Successful schemes, such as Zimele, are able to generate tangible value for extractive companies by:

- Helping to co-ordinate and integrate often-complex supply chains in a cost effective and sustainable manner.

- Driving competition among suppliers, often creating advantages for local suppliers of key products.
- Assisting in the management of long-term social risks to operations and maintaining a local license to operate.
- Assisting in meeting social and local content compliance requirements.

## 5. Challenges

With enterprise funding having become a well-developed method of social and economic development, enterprise schemes like Zimele are unlikely to encounter severe challenges provided they are properly resourced, have sufficient institutional backing and that human resources and expertise are adequate.

Unfortunately the ability of African states to support the development of SMEs capable of catalysing growth has often been impeded by bureaucratically cumbersome business environments, rent seeking behaviour, lack of infrastructure and inadequate capacity. Yet the potential role of SMEs in driving economic growth in Africa is often reflected by the dynamism and energy routinely demonstrated in the continent's informal sectors. Anglo Zimele has proved a successful model for supporting SME growth and extending South Africa's formal sector to historically disadvantaged communities. In doing so it has created sustainable employment opportunities in a capital-intensive sector and supported skills development and capacity building in historically marginal areas whilst growing the formal economy.

The Zimele Fund's growth and subsequent expansion was, in part, a product of steady growth across the extractives sector in southern Africa and beyond. This was driven by rapid growth in demand for key commodities in emerging markets led by the BRICS states<sup>5</sup>. The fund was also developed in anticipation of the need for large-scale businesses in South Africa to transform the social economy after apartheid. In developing Zimele during the 1990s, Anglo American both anticipated and helped define the statutory and regulatory framework governing the social and economic contributions to be made by operators to secure new rights under which mining and exploration would be permitted in South Africa.

## 6. Replicating the Anglo Zimele Model

Over its 26 years of operation, Zimele has evolved into a sustainable and well-oiled vehicle for enterprise development – one that could be emulated by other large-scale capital-intensive businesses with similar procurement footprints. Leveraging Anglo American's procurement and product pipelines, sector expertise and role as a business incubator, Zimele has generated acceptable returns from high-risk investments. It has thus also significantly extended its social and economic development footprint.

Enterprise funding is also now a well-developed model operating in various guises across Africa. In addition to a range of national enterprise investment vehicles, there are now several international funds. The African Development Bank, for example, launched in 2011 its African Guarantee Fund to support SME development across the continent and the African Enterprise Challenge Fund, supported by Australia, Denmark, Netherlands, Sweden, United Kingdom and the International Fund for Agricultural Development. The latter fund is now a mature initiative with a significant footprint.

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<sup>5</sup> The emerging economies Brazil, Russia, India, China and South Africa.



What is significant however about the Anglo Zimele model is that it provides a blueprint for private sector-led enterprise development in the natural resources sector as well as in other capital-intensive industries. It also provides an incremental blueprint that adjusts based on lessons learnt, corporate proprietary knowledge, changing regulatory requirements and stakeholder expectations.

## 6.1 Success Factors

Any institutions seeking to develop similar models will inevitably need to produce bespoke frameworks. Interventions of this sort must be sensitive to local social, political and economic conditions and constraints. However, there are a number of broad principles identified through Zimele's experience that are likely to ensure success. These relate both to how any enterprise fund is set up and managed, and to what government does to establish a statutory and regulatory environment that encourage success.

Anyone seeking to develop a scheme like Zimele's to should take particular note of:

**Expertise.** Similar enterprises must invest in the appropriate capacity and expertise to manage an enterprise fund. This is not an activity that can be run as an adjunct to other activities or as part of a broader social affairs function.

**Scale.** While Zimele now has investments exceeding US\$100 million, it started as a small, focused scheme. Similar initiatives can and should start relatively small and scale up with appropriate experience.

**Commerciality.** While the Zimele program is explicitly philanthropic, a key to its success has been the focus on commerciality. Where some philanthropic enterprise schemes have tolerated lower rates of return and invested in high-risk enterprises, Zimele has actively sought a 100% loan repayment rate and a positive return on all equity investments. This has been achieved less by being overly prescriptive in terms of applicants meeting minimum standards for investment and more by assisting local entrepreneurs to make a success of their businesses.

**Synergies with core business.** Another crucial success factor for Zimele has been to ensure that in delivering social and economic value, it actively supports Anglo American's commercial goals. It achieves this by ensuring that Zimele's impact helps Anglo meet "local content"<sup>6</sup> and operating license requirements as well as by managing social and economic risks in areas where it operates and from which the majority of its employees hail. Similarly beneficial is its focus on extending the direct positive impact of Anglo's otherwise capital-intensive operations to the welfare of communities. Mines typically have a multi-generational life span, based on considerable upfront investment. It therefore makes sense for companies like Anglo American Corporation to invest in the long-term economic and social stability of operating countries.

**Building on supply chains.** Zimele's initial focus on supply chains is at the root of its success. Doing so meant that it invested in businesses closely aligned to Anglo's core operations and in which Anglo American had specific expertise. Similarly it serves the purpose of providing fledgling businesses with a local market. This in turn has the benefit

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<sup>6</sup> Ensuring that materials and services used are locally procured and provide stimulus to the local economy.

of driving competitiveness among suppliers and creating opportunity in sometimes-crowded marketplaces for suppliers located far from commercial centres.

**Investing for exit.** As much as Zimele is run on commercial terms, its focus is on establishing sustainable SMEs, not on maximizing the value of its investments. As such, all investments are made with a clear view to exiting a business once sustainability thresholds are met. This happens regardless of whether they wish to retain a stake in a growing business from a purely commercial perspective.

**Business incubation and training.** Zimele's model provides hands-on support to businesses it invests in through training and direct representation through its BDOs and managers. This is particularly important where funds are investing in communities and areas where capacity is an impediment to success. Zimele similarly ensures that training needs are identified and met in beneficiary SMEs.

**Enterprise hubs.** Zimele's enterprise hubs have proved hugely successful. Not only have they improved accessibility to the funds among targeted communities, but they also have an effective organisation model for delivery of hands-on support.

**Partnerships.** While strategic partnerships with government and other non-government institutions have not been intrinsic to Zimele's success, their engagement with external partners in key projects has helped to extend their reach, increase expertise and build capacity.

## 6.2 Role of Governments

Governments in resources-rich states seeking to encourage major extractives and other capital-intensive businesses to engage in enterprise funding must balance regulation and incentives. States must establish a framework for either incentivizing or requiring extractives to undertake such ventures, as in South Africa. Anglo Zimele demonstrates that enabling enterprise development to contribute to a business' efforts to meet statutory social and economic license conditions is a forward-thinking and broadly beneficial approach.

A second issue for governments is to develop a legislative environment that supports entrepreneurs. This requires investment in physical infrastructure – in particular communications and transport. Equally critical, it ensures an effective and accessible banking sector as well as prevents red tape associated with registering, establishing and running businesses.

Similarly it requires governance to both incentivize SME development and, similarly, collect and effectively utilize revenues generated through taxation.

A third and most important consideration for governments is the need to weigh the benefits of initiatives that impact directly on human development in relation to revenue. In some cases leveraging the capability of large extractives corporations to deliver benefits to those in need is a worthy alternative to having corporations pay tax to the national revenue agency.



Small and medium enterprises can generate employment and drive social and economic development in economically marginal social classes.





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