

ECONOMIC PERFORMANCE

Case study



SMEDI continues to grow small businesses

– the Stone and Allied example

AngloGold Ashanti's Small and Medium Enterprises Development Initiative (SMEDI) was started in 1999 with the aim of identifying and helping small businesses with potential to grow. SMEDI assists with business opportunities in the communities in and around the company's South African mines, including Merafong and Matlosana and those in the Klerksdorp, Orkney, Stilfontein and Hartebeesfontein (KOSH) area. To date, over 180 projects employing 3,800 people have been established.

The aim of the initiative is to stimulate economic growth, mainly in the areas in which AngloGold Ashanti operates and to provide business opportunities to disadvantaged people and communities. The initiative uses its R10 million development and equity fund, Masakhisane Investments Limited, to invest in companies that provide services to AngloGold Ashanti. Masakhisane buys an equity stake of between 10% and 20% in a business to help it grow and after a period of three years or when the business is self-sufficient, an exit strategy is put in place so that the new company can grow on its own. Masakhisane also assists small enterprises to draw up business plans, negotiate contracts and raise loans from financial institutions.

The story of Stone and Allied serves to illustrate the way in which SMEDI operates.

Stone and Allied

Stone and Allied was established by Anglo American Corporation in 1949 as a vehicle for capitalising on crushing stones in waste rock dumps. It became a wholly-owned subsidiary of AngloGold when the company was formed in 1998.

In the early 2000s, Stone and Allied was struggling and reliant on a R4 million overdraft to stay in business. In 2002 AngloGold Ashanti was approached by a black empowerment group, which proposed purchasing the company, turning it around and making it profitable.

An agreement was reached whereby the empowerment group and Stone and Allied management each obtained 45% of the company's equity, with Masakhisane holding the remaining 10%. The plan was for Masakhisane to sell its equity when the business was up and running so that the empowerment group would be majority shareholders with a 55% stake.

The new owners faced initial difficulties as the overdraft was withdrawn once the transaction was completed. The head of SMEDI, Johan Coetzer, says: "We sold a loss-making business only because we believed that with the right focus, the right-sizing and with access to additional markets it could be successful."

His confidence was not misplaced. Restructured and refinanced, Stone and Allied's fortunes changed within two years. Eddie Williams, who has been with the company since its early days, says: "We saw the opportunity in the company and AngloGold Ashanti gave us the chance to make this work. The business today has grown significantly."

In 2006, Stone and Allied had a turnover of R44 million – a R10 million improvement on 2005 – and the most profitable year thus far for the revamped company. It also recorded its highest capital expenditure to date at R8 million. This figure is expected to more than double in 2007 with further expenditure of some R20 million planned.



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Employing around 100 people, Stone and Allied owns the three stone crushing plants – in Welkom, Stilfontein and outside Carletonville – it acquired from AngloGold Ashanti and is planning to establish a fourth in 2007. This will be situated nearer to Johannesburg to make greater inroads into the booming building industry in Gauteng Province.

The bulk of Stone and Allied's output of crushed stone is bought by the road construction industry with the manufacturers of concrete bricks and concrete paving taking most of the balance.

Seeking to diversify the business, the company started extracting gold-bearing material from one of its waste rock dumps in Welkom in the first quarter of 2005, and this is being sold to President Steyn Mine. Other projects are being investigated and Stone and Allied expects to diversify further in the coming years.

Satisfied that the company was well on its way to success, Masakhisane sold its 10% stake at the end of July 2006. Coetzer comments: "We are pleased that we helped to establish an empowerment company with a promising future."

He points out that not all the projects that Masakhisane has assisted have been successful. In the coming financial year the plan is to review SMEDI's strategy with the idea of supporting bigger projects with greater employment opportunities. "There will be stricter criteria in place and more resources available to help people to make a success of their ventures," Coetzer says. One of the stipulations will be that those involved have the appropriate technical knowledge for the business concerned and that appropriately experienced representatives are appointed to the board.

