

Micro-lending has become a buzz-word and many claim that it has the power to single-handedly defeat poverty. Microloans are frequently very effective but can also perpetuate poverty – it depends on the spirit of the micro-lending organisation. Recently, a readers’ forum published the following letter: *“I want to express my concern about people being exploited by microlenders in South Africa. I realise they brag about their good books, while our people are deeply in debt. For example, Mr. X earns a salary but 75 % goes to microlenders. The Z Bank deducts R 900, the R Finance deducts another R 1,500, and the M Bank deducts R 800. Mr. X applies for (and receives) a loan again from the Z Bank. How will this client maintain other commitments like educating his children and other household needs? Repayments should not exceed 30% of a person’s net salary and the microlenders must start educating the people to save and not to borrow”.*

Such opinions make one think! Often, it seems so easy to give money to solve a problem and later we realise that we only created a new dependency. During 2009, ESM provided 23 new loans totaling R 960,572 (\$ 128 K). The average loan was R 41,764 or \$ 5,568. This is significantly higher than usual micro-lending and the reason is that we come to understand that it is very difficult to create wealth with small loans. While we lent close to 1 million Rand in 2009, our clients collectively also paid back 0.5 million. In many cases, clients are not repaying the loan as agreed. They hold on to the money and use it for improvements on their house or infrastructure. It’s not positive for ESM but by doing so, they create wealth for themselves and their families. Note: 1 US \$ = 7.5 Rand.

Khangelani Mqungwana – creating wealth

Khangelani was 25 years old when we met him in 2005. He was living with his girlfriend Pumla and operated a small Shebeen (informal restaurant). Over the last five years Khangelani borrowed R 70,000 from ESM and repaid every single Rand including interest – sometimes up to 18 %. Today, Khangelani has no debt with ESM. He improved his Shebeen, bought himself a car; built a new home where he set-up a business for his wife Pumla, bought a new fridge and assisted his sister in law to start a fish business. On top of this, he finally managed to negotiate “Lobola” with his wife’s family. “Lobola” is the price for marrying Pumla with whom he has a three year old boy.



Khangelani’s car in front of his Shebeen



Khangelani congratulates Pumla for her business drive.

Today, Khangelani is a much respected person in the community, a role model for the youngsters – and only 30-years old. It will be interesting to follow him and see where he is in 2015!

Lulekwa and the Women Group Project

In 2008, 46 women participated in this project; together they received R 267,138. A year later the number grew to 63 women and the loan amount increased to R 407,221. Of this amount, the women have paid back R 137,389 (33%). These women overcame huge challenges and business never

on the following pages	
More on Lulekwa and the Women Group.....	p. 2
Joseph Diliza of Thando Paper.....	p. 3
Claude and Dorca Mavu.....	p. 4
Florence Mvuli & 2010	p. 4

goes as planned. A good example is Nosipho Tuku; she applied for a R 5,000 loan to start a shop, but the money went to her husband, Julius' business. All was fine until the car broke down and his business collapsed. We evaluated whether we could help repair the car with a loan but had to abandon the idea. There were too many parts missing, which Julius had sold to generate some cash. He finally decided to sell the car and with that money Nosipho and he started the shop that she had planned to begin with. Initially they sold potatoes on a street corner. Within two months they built an annex to their home and installed shelves.



Where is the engine?



Nosipho's husband, Julius



Nosipho in her well-stocked new shop and her third child

African mothers often have to raise children on their own but Nosipho and Julius prove that there are exceptions. They seem to have a good relationship and help each other. While Nosipho looks after the three children and operates the shop, Julius runs around to buy supplies at the lowest price. The fact that he does not use a car is key to the success. Finally, they did not need a new loan and have already paid back R 900.

The cited letter from a concerned reader at the beginning of this report mentions: **"...micro-lenders must start educating the people to**

save and not to borrow". This is exactly what Christina Kuhn is doing since she started the women's group lending project. Together with the help of her three TSiBA students (TSiBA is a university like institution) Christina organised financial literacy workshops throughout the year, which are very much appreciated by the women.



Noloyiso Filo (left) proudly presents the certificate confirming her participation in the workshops. In the middle Pumla, one of the TSiBA Students, and Christina Kuhn.

.... and how is Lulekwa?

Lulekwa is working as a photojournalist for the Cape Town Daily Sun newspaper and generates a nice monthly income. Khangelani has started "township tours" for tourists looking for this special experience. He charges a fee for the tour and makes a point to stop at Lulekwa's shack (informal house), where she sells her beautiful cards to complement her income.



Khangelani with Swiss visitors at Lulekwa's shack.

In April we asked Lulekwa: "Can you organize 600 drawings from children (from families that have received a loan from ESM) between 8 and 13 to use for New Year's cards? We agree to pay each child R 20 (\$ 2.70) for the drawing." She responded: "Yes, I can!"



Children in the community “producing” drawings.

Once Lulekwa had collected all cards, the 60 children (and their mothers) came to town to meet us at the ESM office – and, of course get their money: R 12,000 for the families and R 1,500 for Lulekwa’s services.



Smiles on the faces: In addition to the money, each family received a box of Zarina’s biscuits.

These drawings were given to **Joseph Diliza**, an ESM client since 2001, who put the drawings on his distinctive handmade paper.



The final product – New Year’s cards with original children drawings.

A few days after Joseph delivered the cards, his workshop at the Monte Bello Design Studios in Newlands burnt down. He lost all his stock and some of the equipment was damaged beyond re-

pair. Joseph, who has repaid two loans in the past and has been the supplier of our New Year’s cards since 2002, approached us for a new loan of R 40,000. Instead of paying R 1,500 rent at the Monte Bello Studio, he wanted to buy a house, rent it out for R 1,000 and build a shack in the backyard where he would set-up his paper production. ESM agreed and he moved in!



Early October 2009 Joseph took possession of the house



Joseph already built a shack behind the house where he produces the handmade paper.

Joseph is married to Cecilia and they have 4 children, the youngest is only a few months old. Cecilia is working as an administrative assistant and they have saved their money over many years to build a comfortable house. Joseph’s next goal is to buy a car.



Cecilia and Joseph in the kitchen of their home.

Claude and Dorca Mavu

Claude, his wife Dorca and their four children came to South Africa in 2003 as a result of the difficult economic environment in Zimbabwe. Claude, who held a good position in a bank, found it impossible to get a job in Cape Town. We met at the African Art Factory where he assisted family members with their wire craft business. In 2007 he approached ESM for a loan of R 27,000 to buy two



Dorca Mavu with her new electronic sewing machine.

sewing machines, as Dorca was quite gifted at producing textile items. Claude secured himself a job as a security guard and later as a sales clerk.



Together they managed to repay over R 25,000 towards the loan and bought a used notebook computer for their son, an electrical engineering student at the University of Cape Town. Earlier this year, Claude and Dorca had saved enough to buy a small car. It is exciting to watch the Mavu family rebuild their life.

Florence Mvuli – new ESM Loan Officer

With the growing number of clients in the women project, many of them not able to speak English, we are happy to have Florence Mvuli working with Christina since July 2009. As a Loan Officer she provides advice to all ESM clients and calls them every month reminding them of the importance to make the repayments. This intervention proved to be very successful in increasing the repayment rate. Florence is a domestic worker and acts as an officer in several “burial societies”. While we are used to the concept of “life insurance”, in South Africa most black individuals have one or several “burial insurances”. Their popularity



Florence Mvuli (right)

is due to the importance of a decent burial. The “burial societies” have a very strict way of dealing with non-payments -missing a monthly payment to the “burial society” usually makes clients lose their insurance cover. This experience, the first hand knowledge of life in a township and her Xhosa language skills are very valuable.

Looking forward

2010 marks the 10th anniversary of ESM. During the initial years we made many mistakes and lost money because we were moving too fast. Today, our approach is much more balanced. Currently, ESM is working with 165 clients with a total of R 5 million (\$ 670 K) in loans outstanding. Since 2001, clients have paid back R 3.8 million (\$ 506 K) - full repayment in 43 cases and total write-offs with 17 clients.

Among the ESM clients in Cape Town is a group of 14 Zimbabweans. They all operate a business and have established a self-help group called Kubatana. As there are many more Zimbabweans who apply for a loan from ESM we suggested that Kubatana is “screening” the applications. Loans to new Zimbabweans will be made available depending on the repayments of existing Kubatana members. We shall report any progress next year.



Kubatana members: Professor Pedro, Dennis Garikai, Joe Mapfuno and Martin Martini (from left).

Khangelani and Pumla, Joseph and Cecilia, Claude and Dorca are just three couples who demonstrate how flexible, entrepreneurial and hardworking African families can be.

The FIFA World Cup in South Africa in June 2010 will create tremendous awareness for this beautiful country. Why don't you plan a visit? Khangelani (see page 1) will be more than pleased to show you his place.

Sincerely,

Eric Meier-Ruegg
Founder/CEO