

“Are you with me?”

This is a question our clients often ask when we discuss their situation. After many years of interacting with people in the townships of South Africa, I have to admit that often we can't follow their thinking. There is such a huge difference in lifestyles. The average annual black household income in South Africa amounts to €6,000 (or €16 per day) and life expectancy is 50 years. In contrast, the average Swiss household generates close to €100,000 (or €274 per day) and life expectancy is 80 years. It goes without saying that one can't just compare these figures, but it helps to explain why we are living in different worlds. Are you with me?

After studying Muhammad Yunus' book "Banker to the Poor" (he was awarded the Nobel Peace Prize for pioneering the concept of microcredit) we started "Lulekwa's Women Project" in 2007. Yunus' model looked so easy and convincing: Give the money to women, they will use it to improve the livelihood of their family and repay the loan, while men are unreliable and just buy alcohol! Seven years later we have come to the conclusion that it's much more complex. 75 women have received an average loan of R 7,000. Half of these women had good intentions and high hopes but the challenges they had to overcome were too demanding and they failed. Some ladies took advantage of the opportunity and managed to leave poverty behind. A good example is **Vuyokazi Mbana** who received a loan in 2009 to buy stock for her hair salon. When we met Vuyokazi she was 27 years with a five year old girl. She was very shy and barely spoke English. To our surprise, Vuyokazi managed to repay her loan within 14 months.



Vuyokazi Mbana

Christina Kuhn recognized the potential buried in this young woman and asked her what plans she had for her future. Vuyokazi responded that her dream was beyond reach. She told Christina that she would like to become an ambulance rescue driver but it would be impossible for her to attend all the required courses and pay for them. She explained that she would have to pass special driving tests while she did not even

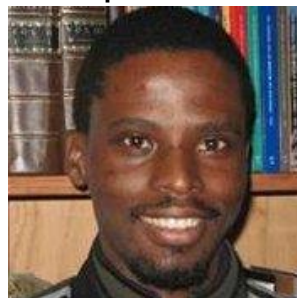
have a driver's license. Then there would be a series of expensive para-medical courses. Christina encouraged Vuyokazi to go after her dream. In 2013 Vuyokazi graduated as "Ambulance Emergency Assistant" and today works in her dream occupation. She earns an excellent salary and in her spare time still works in the hair salon, which made it all possible.



Vuyokazi with "her" ambulance!

Yunus' idea to work with groups of women did not work in our case and we stopped financing new groups in 2010. Out of the original 75 ladies there are 26 still in the program. On average, they repaid 45% of their loans, which puts them on par with the average for men!

What a pleasure to know Nathi Tshabalala



Consultant, Trainer, Writer
born, 23.12.1977

We met Nathi in 2001. Back then he was just 24, starting his career in accounting and working for ESM at the African Art Factory. His job was to assist our clients with their book-keeping issues. In 2002, Nathi started a business called Paper.Com. His idea was to sell newspapers and magazines from a container in the townships. The business had nothing to do with the .com industry, Nathi just liked the name! Similar to the .com bubble, Nathi's business failed and we had to write off our R 30,000 investment. In 2008, Nathi approached us for another loan. He had just landed a consulting job in the Fair Trade Industry for which he needed a car. He had one but it was not roadworthy. We helped and this time he repaid the loan in full.

On the following pages:	
Alcohol means good business	p. 2
At the end of the tunnel there is light	p. 3
Malcolm and Fikele Mrali - another epic story	p. 3



Nathi's Paper.Com business.

Today, Nathi stands firmly on his own two feet. He operates his consultancy and was just recently involved in a research project entitled: "HOW DO SHEBEENS CONTRIBUTE TO SAFETY OR VIOLENCE IN THE TOWNSHIP". Shebeens are informal (illegal) taverns in the townships. Not all shebeens are places where people go to get stone drunk... there are very few of those. Often they are places where people go to meet friends and have a chat. Some go to play pool and darts, and some go to watch sports on satellite television (that they do not have at home). Nathi also works with the Liquor Board, the authority that grants liquor licenses. If a shebeen has a liquor license the owner can really make a lot of money. As ESM has at least two clients operating a shebeen, his work is of interest to us. Usually we invite Nathi once a year for dinner and discuss current affairs. Besides running his consultancy, Nathi manages a church choir, is a playwright and engages in the community.



Nathi has become a valuable member of society we are happy to know.

Alcohol means good business

As long as one does not have a liquor license the police can confiscate the stock at will or close the shebeen. This happened to **William Mtwisha** a number of times but in 2007 he finally qualified for a license. At that point he requested a loan of R 30,000 to buy stock. As we were well aware that alcohol was a main cause of misery in the townships we were very much torn between a yes and a no. Having grown up in a restaurant myself I also saw the "Innkeeper" as a kind of social worker and agreed. William did not let us down and repaid his loan with interest as agreed. William sells alcohol not only to guests drinking in his ta-

vern, he also sells whole crates of beer for take-out. However, the laws changed in 2012, making it illegal to drink on-site and sell for take-out. This new regulation threatened Williams's business and he planned to build a second floor on a house he owned nearby the tavern. At that time he did not have enough savings and his construction permit was about to expire. That's when he approached ESM again for a loan of R 80,000. We could not assist with such an amount and offered R 20,000 to which he agreed. William started building and everybody was happy! What we did not realize: William also knew about "salami tactics". Thus, when our R 20,000 and his savings were spent, he called and asked for an increase. We could have said "no" but this would leave an unfinished house and, most likely, damage to the business.



Construction for the first floor has begun.

As the building work progresses we get calls: "I need R 20,000 to buy windows", then "I need R 30,000 for plumbing and electricity", and "I need R 25,000 to pay the workers" and so on. William's loan unintentionally grew to R 120,000! While we get nervous – William smiles like a cat that ate the canary.



William 2014



The new home and wholesale business.

Thanks to William's clever "salami tactics", the building project is almost completed and thanks to alcohol being good business, he has already repaid R 40,000.

At the end of the tunnel there is light!

Born in 1975, **Thulisile Captain** grew up with her grandmother. After she finished school she studied "Fashion Design and Management" and found her first job as an admin clerk in Johannesburg at Morkels, a large furniture retailer. In the late 90's, Thulisile decided to move to Cape Town. There she worked in a boutique for three months and then joined the CSIR entrepreneurial program, which identifies gifted designers and trains them in entrepreneurship. During this time, Thulisile registered her own company, "Thulisile Clothing Investment" and rented a studio at the African Art Factory and met ESM. She received the first loan allowing her to buy a container. It happened to be the Paper.Com container which originally belonged to Nathi! Repainted purple, it became a Fish & Chips business operated by Yola, Thulisile's husband, who was unemployed at that time.



Yola and Thulisile with the purple Fish & Chips container

During the day, Thulisile worked for her clothing company, in the evenings she assisted Yola with the Fish & Chips business. Then there were problems and loan repayments stopped: the container was robbed several times, Thulisile suffered a miscarriage of triplets. In 2005, she gave birth to a son and 2007 her father passed away. At the same time, living conditions around the "Fish & Chips" container became more and more dangerous as Thulisile and Yola were seen as foreigners. For a couple of years Thulisile and Yola moved around between Johannesburg and Fort Beaufort in the Eastern Cape where Yola grew up. It's a beautiful area but unemployment is well over 70%. Now Thulisile really felt the stress and got sick! In 2010 Yola's sister in Cape Town passed away, leaving behind a 21-year old disabled son and a two-year old daughter. Yola and Thulisile had to move back to Cape Town and take care of the two children. Financially, they survived with Thulisile's income and luckily Yola, after many years of unemployment, found a job at the local hospital with a weekly salary of R 200. In 2012 Yola was promoted to the position of a porter at the same hospital at a salary of R 5,000 per month. Now things started to change for the better. Thulisile continued with entrepreneurial trainings and then found work at the airport with a salary of R 700 per

week. This got her back into the job market and finally, in 2013, Thulisile and Yola reached the end of the tunnel. Suffering was over! Thanks to her qualifications, Thulisile found employment with a government training agency and landed a well-paying management position. The monthly income allowed her to buy a nice car and improve her family's lifestyle. She also started to repay her ESM loan which (after some write-offs) stood at R 15,000. Both her own children, the 14-year old daughter and the 8-year old son, are going to good schools. Thulisile was accepted to study "general management" at the University of Stellenbosch and her employer agreed to support her. Her goal is to get a doctorate in four or five years and she knows, it's achievable!

Malcolm and Fikele Mrali - another epic story

Malcolm owned a license to operate a long distance taxi to take clients from Johannesburg to Queenstown in the Eastern Cape – a 700 km distance. He was a sick man with a dysfunctional kidney, his only hope was a kidney transplant. An apparently suitable kidney donor was identified early 2005 and given money. Besides being illegal, it was a hoax and the "donor" walked away with the money. I met Malcolm and Fikele Mrali for the first time in Johannesburg in 2006, shortly after the kidney hoax happened. At that point, their taxi was stranded in Queenstown and they did not have the money for the necessary repairs. With the taxi out of order there was no income for Malcolm, Fikele and their 4 children. At the meeting, Malcolm requested a loan of R 30,000 to buy a new taxi. Our R 30,000 would have been the down payment to allow Malcolm to borrow another R 270,000 with an interest of over 20%! When Malcolm was still in good health,



Fikele and Malcolm Mrali with 2 of the 4 children.

he drove the taxi himself. Now he had to hire a driver and his salary was a drain on the profit. Taxi drivers are often paid so little that they don't care for the vehicle, drive recklessly and create accidents. Some also use the taxi for "private drives" and thus cheat the owner. The taxi market is very competitive in South Africa and we did not see how Malcolm could make a reasonable profit with such high financial and operational cost. Our alternative suggestion was: fix the stranded taxi in Queenstown and keep it on the road as long as possible. This would allow Malcolm to repay

the ESM loan and save enough to make the deposit for a new taxi. Everybody thought this was a good plan and we agreed to a loan of R 10,000 for a new engine and a gearbox.

The plan did not work out. In September 2006, the taxi broke down again in Queenstown. ESM assisted with another R 5,000 and Malcolm sent the spare parts to Queenstown. Apparently the mechanics there always needed something else and after a while there was no money left to have it repaired. The taxi and the driver were stranded in Queenstown for over 6 months! In February 2007 I went to Queenstown myself to have a look at the situation. The car was in really bad condition, actually beyond repair. In the meantime, the government announced a "taxi-recapitalization" program that would improve safety on the roads by scrapping unsafe vehicles. For every scrapped taxi, the owner would receive R 50,000. The only condition was that the taxi could drive on its own to the scrap yard in the city where it was licensed - in Malcolm's case this was Johannesburg, 700 km away! It took another 6 months and R 2,000 to get the taxi "home" where Malcolm registered it for recapitalization immediately. Unfortunately, Malcolm did not live long enough to see the results; his kidney gave up and he passed away.



Fikele Mrali at the taxi scrapping site in 2013

From 2008 to 2014 I met with Fikele every year. Together we visited the authorities and inquired about the process of getting the taxi scrapped. There was always another problem. Either the Government had no money, the program was suspended due to high corruption or a necessary document had expired. During all these years, Fikele struggled to make ends meet and we assisted her with small loans from time to time to keep her from going under. Fikele proved to be a strong, persistent woman and did not give up. Finally, in August 2014, her taxi was called up for scrapping. After repaying ESM's loan of R 34,740 Fikele was left with some money which she will use to start a new business selling perfumes and health products. It might be interesting to know that Malcolm and Fikele Mrali are Thulisile Captain's parents; see page 3.

This was 2014

At the end of every year I try to summarize the activities in South Africa on four pages to share our experiences with friends and people who take an interest in

what we are doing. The stories of the individuals portrayed in this report are not unique. I think they are quite representative for the challenges that have to be overcome in less sophisticated countries. During 2014, all current 139 ESM clients repaid R 415,832. This allowed us to grant 21 new loans (8 women and 13 men), which, with a few exceptions, went to people we have been working with for many years.

I spent end of February to end of May in South Africa and for seven weeks, two young people were my travel companions: Lisa Mansfeld, a student from Germany, and Matti Singeisen from Switzerland. Together we covered thousands of km on the road and visited many clients. While Lisa was especially interested in learning more about Microfinance and conditions in the townships, Matti wanted to explore the country beyond the usual sightseeing route.



Lisa Mansfeld with Willard Musarurwa who explains why he is not in a position to repay his loan!



Matti Singeisen with Mloni Kosi – talking about business and life.

2015 marks the 15th year of ESM and I will be checking the progress down at the Cape of Good Hope from mid-February to mid-May again.

Sincerely,

Eric Meier-Ruegg
Founder/CEO

PS: Themba Makubela, one of the ESM clients asks: Is it co-incidence that HATE has 4 letters and LOVE too? RICH & POOR, RIGHT & WRONG, ENMIES & FRIENDS, NEGATIVE & POSITIVE - all pairs have the same amount of letters! Are you with me?