SHARED INTEREST : IN FOCUS

FALL 2009 VOLUME XV, NUMBER 2

Banking for Recovery

In 1994, Shared Interest set out with a "modest proposal": To begin to change the way South African bankers bank. Beyond providing access to credit for impoverished black South Africans and support for burgeoning community development lenders, Shared Interest's loan guarantees have bolstered the new nation's efforts to move its mainstream financial institutions to issue business and housing loans to majority borrowers.

credit: Yolanda Human

TIGF's Evans Maphenduka trains ABSA loan officers.

During the past year, this objective has been tested as never before. Although South Africa's financial institutions were more protected than most from the worldwide economic crisis, international seismic shifts have also impacted South Africa's banks, communities of color and their small and growing businesses. These reversals have required full-time technical support to assist enterprises and communities, and insure that both banks and guarantee beneficiaries uphold their terms. They have also created longer term opportunities for Shared Interest and its partner Thembani to strengthen their collaboration with South Africa's financial institutions to benefit the country's majority.

Thembani and Shared Interest are now on the front lines of the campaign to prevent the country's banks from passing their troubles on to struggling communities, and supporting emerging enterprises' efforts to address challenges of their own.

Recession Delayed

While South Africa was slower than many countries to feel the impact of the global recession, it now lags behind nations on the road to recovery. South Africa's businesses have been weakened by the depressed global demand for its manufactured and mining exports. The appreciating rand made its products even more expensive in international markets. Today a 14 percent decline in wholesale and retail sales is rippling through its economy.

The South African government reports a loss of 724,000 jobs during the year ending June 30, 2009, despite significant employment creation by national infrastructure projects. While the official unemployment rate has only risen from

(Continued on page 2...)

Ningi Lethoba

Ningi Lethoba in her home with photos of her daughters, who plan to become a chemical analyst and a pilot.

Ningi and her husband live in home #9313 in Setlopo Village in North West Province in what was a two-car garage with their children ages 18, 11 and two. Despite Mr. Lethoba's government job, the couple could not secure a bank loan because they live on communally owned land where, by law, houses cannot be put up as collateral without the chief's consent.

They borrowed from Norufin, a microfinance rural housing lender, to plaster their home and add a secure roof; purchase building materials, a water tank, burglar bars and a wire fence; and construct three more rooms. The builder they recruited hired two additional workers – creating three jobs in the community.

"Before I was sleeping with the children," recalled Ningi. 'Now we are comfortable!"

Join Us for Upcoming Shared Interest Events

For information, please contact Alicia Kingue, at 646-442-0186 or alicia@sharedinterest.org

1. "Conversation with Father Lapsley from the Institute for Healing of Memories" Reception and discussion of healing and the economics of reconstruction between Father Lapsley, founder of the Cape Town-based Institute for the Healing of Memories and Shared Interest Executive Director Donna Katzin.	Pittsburgh, PA New York, NY	Sunday, October 4, 2009 Thursday, November 12, 2009
2. "Annual Awards Dinner" Awards gala honoring world renowned photo journalist Dr. Peter Magubane, lifelong advocate for corporate responsibility and responsible investing leader Tim Smith, and the Nielsen Company.	Gotham Hall, New York, NY	Monday, March 22, 2010

Note: R7.36 = US$1 on September 18, 2009.

INVESTOR SPOTLIGHT : SETON ENABLEMENT FUND

"The Sisters of Charity of Cincinnati have invested in Shared Interest since 1996, two years after Nelson Mandela's election," explained Sister Martha Walsh, Administrative Director of the Seton Enablement Fund. "We continue investing in Shared Interest because we see the positive results you have achieved by collaborating with people on the ground in South Africa to assist the economically disenfranchised communities to sustain themselves and build an equitable nation. We look forward to your planned expansion into other countries in the region of Southern Africa."

The Sisters of Charity of Cincinatti date back 150 years, to Emittsburg, MD., where Elizabeth Seton, the first canonized American-born saint, founded the first community of women religious native to the United States. Members of the community educated children, cared for orphans, the poor and the sick, and in 1852 formed the diocesan community of the Sisters of Charity of Cincinnati March 25, 1852. A century later, they began to establish international missions in China, Europe, Latin America and Africa. They also used their voice as investors to support the anti-apartheid movement by engaging in dialogues with companies.

Today, the 500-member community also sponsors the Seton Enablement Fund, which awards low-interest loans to organizations that would have difficulty securing commercial credit. In the U.S. and abroad, they assist community development banks, loan funds and credit unions; cooperatives and land trusts; organizations prioritizing low-income housing development; worker-owned and minority enterprises; as well as business ventures that directly benefit low-income communities.

Sister Martha noted, "This year we celebrate the 30th anniversary of our decision to invest a portion of our funds for enablement of the oppressed in developing themselves. As our resources of womanpower were decreasing, we saw an opportunity to use our financial resources in a constructive way to further the cause of justice in the world."

A Gift for the Future

As Shared Interest celebrates its 15th anniversary, we are building our capacity to accompany South Africa in its continuing transformation. Because we know that enduring social and economic change takes time, we must be committed to this work for the long haul. We hope that you will join us in supporting South Africa's legacy by including Shared Interest in your will, or making a planned gift in honor of our 15th anniversary. Help us lay the foundations South Africans need to make a reality of their hard-won rights for generations to come.

For information, please contact Alicia Kingue at (646) 442-0186 or alicia@sharedinterest.org

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Yes, I support South Africa's democratic development!

☐ Please send me information about how to invest in Shared Interest.
☐ I am enclosing a tax-deductible contribution of $__________ to support Shared Interest's work.
Or, please bill my: ☐ VISA ☐ MASTERCARD ☐ AMERICAN EXPRESS
for a tax-deductible contribution of $__________

Account Number ______ Exp. Date ______ Signature ______

☐ Please send me information about including Shared Interest in my will.

☐ Please add me to your mailing list.

Name ______

Address ______

City ______ State ______ Zip ______

☐ Please send Newsletter by e-mail only.

E-mail address ______

Please return this form to:
Shared Interest
121 West 27th Street, Suite 805
New York, NY 10001

Or fax it to **(212) 337-8548**
For further information please call: **(212) 337-8547**
Or e-mail: **info@sharedinterest.org**
Website: **www.shared interest.org**

(...Continued from page 1)
23.5 to 23.6 percent, counting "discouraged workers" raises the total to nearly 30 percent.

Passing on the pinch

Despite their basic soundness, South Africa's banks are feeling the pinch. Staff reductions resulting from cost-cutting, pressured profit margins and looming losses threaten to undermine community lending initiatives banks have launched for more than a decade with Shared Interest's support. Banks like ABSA, acquired by the British giant Barclay's, are vulnerable to both their own financial constraints and those of their parents.

During the past year, Thembani has intervened to prevent banks from "passing on the pinch" to our beneficiaries. While the following banking practices are not new, they have risen to a new level during the past year.

1. Lending Late

Thembani has advocated on behalf of beneficiaries and restructured several loans that banks issued late. In one case credit for two sugar cane cooperatives arrived nine months after the guarantee, delaying the planned growing cycle. This doubled preparation costs, since the land had to be weeded and plowed a second time. When the projects were unable to make payments on time, the bank continued to charge and compound interest, putting them into arrears.

In another, a bank delayed its disbursement to a microfinance institution (MFI) that issues housing loans. The guarantee agreement was signed to finance home improvements in December (when many South Africans refurbish their homes by hiring builders who do odd jobs during the holidays). But the bank delayed the facility and caused the MFI to miss most of its December loans. This prevented the institution


credit: Yolanda Human

ABSA loan officer participates in Thembani training.

from serving a large number of clients and slowed its progress toward self-sufficiency. In both cases, Thembani intervened to unblock credit and extend repayment plans.

2. Reckless Lending

In the U.S., critics decry "predatory lending." In South Africa, they call it "reckless." A small black-owned grain mill is a case in point. The guarantee agreement stipulated a single loan payable upon maturity. The bank issued a more costly revolving facility with no controls – allowing the client to chalk up unaffordable debts and interest. Thembani restructured the business to restore it to profitability.

In one agricultural cooperative in Mpumalanga, the bank structured the loan to require repayments to begin after the first month – despite the fact that the community's harvest—its only income—was months away.

In another case, a chicken business came under pressure as a result of management challenges and a lightning storm that killed 13,000 birds days before they were to be sold. The bank, knowing that the business' insurance payments were deducted directly from a given account, closed it, leaving the struggling business uninsured. Rather than restructure the owner's obligations, the bank required him to take out a personal loan (at a higher interest rate than that of his existing business loan). This dug him deeper in debt. Thembani interceded to adjust the repayment plan and buy time for the borrower to secure additional finance.

3. Restitution in Reverse

Worse yet, the banks have forwarded challenged loans to their liquidation departments rather than exploring work-out strategies. They have even turned over some struggling enterprises to liquidators after agreed-on work-outs have begun to succeed, and the businesses are profitable and repaying their loans.

Whether this reflects an attempt to reduce work load, or an eagerness to extract whatever value remains in the business, the result remains: dismantling the enterprise and selling off its assets – most probably to white competitors. These liquidations would reverse the gains of national empowerment initiatives.

Business Development Services

This is not to say that bankers have intentionally sought to take back small and growing black-owned businesses' hard-won gains. Nonetheless, Shared Interest and Thembani have resisted

(Continued on page 4...)

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this trend and developed alternatives to assist emerging entrepreneurs, and prevent the sale of their assets on the cheap to white competitors.

Thembani is broadening its services for small businesses, including back-office support, assistance with certification, pricing, and collections. In the process it is bolstering new enterprises' profitability and capacity to assume more risk—thereby reducing reliance on lenders.

A Partnership for Training

During this challenging period, Thembani has engaged the financial institutions in strategies to assist beneficiaries, bankers and guarantors. One significant outcome has been ABSA Bank's contracting Thembani to train 150 of its loan officers in community lending. The three-week course provided instruction in lending to emerging small, medium and micro-enterprises. It covered the use of non-traditional collateral, and appropriate tools to analyze risk and assess applicants' integrity. The program was taught by Thembani's General Manager, Evans Maphenduka, and CEO, Norman Buckham.

The training opens doors to strengthen communities and enterprises that are the foundation of South Africa's economy – and building the banks' capacity to serve them.

Left to right: David Wildman, Alicia Kingue, Mark Gevisser, Sheila Sisulu, Bill Keller, Donna Katzin, Sandra Zikalala

A Legacy of Liberation...

On June 1, Shared Interest welcomed 100 guests to a book signing and discussion between *New York Times* Executive Editor Bill Keller and award-winning journalist Mark Gevisser, who presented his latest book, *A Legacy of Liberation: Thabo Mbeki and the Future of the South African Dream.*

Gevisser offered new perspectives on iconic leaders including Joe Slovo, Steve Biko and Nelson Mandela, and presented insights into crises that have confronted the African National Congress and shaped South Africa.

SHARED INTEREST

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