

# The Micro Finance Revolution



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## The story of a micro entrepreneur.

*Nomsa Baloyi is a 38 year old mother of four who runs a tavern called Nomsa's Place. She lives in Olievenhoutbosch north of Johannesburg. Nomsa has run the Tavern for the past five years. It is located in the garage of her brother's house in Diepsloot, a neighbouring suburb. Nomsa has two boys aged 8 and 10 and two girls aged 13 and 14. All four are still at school. Nomsa also supports two of her younger sister's children aged 3 and 6. Their mother, Thembi, died of HIV/AIDS two years after her sister's husband died of Tuberculosis (TB). He was a mineworker who had spent the past 15 years working in the coal mines. Thembi has been looking after the children for the past three years.*

Nomsa's husband, Phineas, was retrenched in January 2009 as the economy sank into recession. For the first few months he tried daily to find work, desperate to keep his children at school and to provide at least one meal a day for them. By the end of the first year he began to give up hope and spent more and more time in Nomsa's Tavern. At first he seemed prepared to help, but as time wore on he began drinking excessively and became abusive.

After a very tough few weeks in November of 2009 Nomsa could not face the beatings and abuse any longer, and moved out of her house and erected a shack at the back of her brother's house where her Tavern is located. She built the shack using money she borrowed from a local micro enterprise finance organisation that supports small businesses such as Nomsa's Tavern. The money was supposed to re-stock the Tavern for the Christmas period and put in some improvements. Her brother made some space in his four roomed RDP house for Thembi's two children. They share a bedroom with Kghotso's own two children. Nomsa and her four children share the one-roomed shack.

Five years ago things were a lot better for Nomsa. She had worked as a domestic worker for the MacPhails in their Sandringham home. She earned around R2 500 pm and was able to put away money for a rainy day. The day came in February 2006 when the MacPhails decided to move to Australia to escape what they saw as a bleak future for their two sons aged 14 and 15. Thembi had managed to save around R3 000 herself, and together with the R6 000 'pension' given to her by the Macphails she set up 'Nomsa's Place' in Diepsloot in May 2006. Thembi spent R3 000 on upgrading her brother's garage. She put in ceilings, a fan, windows, doors, re-plastered the walls, paved the entrance and painted. Another R1 000 was spent on tables and chairs. She managed to get some second-hand fridges for R2 000 and was left with R3 000 for stock.

At first Nomsa operated as an unlicensed shebeen. She bought stock from township based distributors who were more expensive than SAB but did not ask about licences. At the end of her first year in business in June 2007, impressed by his wife's ability to buy all the food for the household out of business profits, Phineas took out a personal loan for R5 000 from a micro lender to buy a stove, a chip fryer and some plates, knives, forks etc. for the shebeen. The provision of food gave the shebeen a real boost and by August 2007 Nomsa was able to apply for and pay for a liquor license out of business profits. Phineas struggled to repay the R5 000 loan, which, when interest and fees were added, cost Phineas R1 589 out of his after tax monthly salary of R4 500. Instead of repaying the loan over the original 4 months Phineas repaid it over 8 months and also paid additional interest of R800.

The third year in business started well for Nomsa's Place. Nomsa qualified for a micro business loan from GrowYourBusiness.Inc (GYB) in May 2008. Rebecca, the local loan officer, had already visited Nomsa some six months earlier, and had given Nomsa a pamphlet outlining the services that they provided. Unlike the commercial banks that required business plans and financial statements, GYB only needed two years' business experience and a household income that exceeded expenditure by a certain margin. On her earlier visit Rebecca had left a pamphlet with Nomsa, outlining the conditions for applying for a loan: besides the two years business experience, GYB would need proof of income and expenditure for the past three months, a South African ID, and a clean credit record. Nomsa had never borrowed money before and was initially very nervous about the prospect of being in debt to anyone. Phineas had already been listed as a bad payer after having to extend his loan by four months, and the family had received two lawyers' letters during that period. But Nomsa still had 6 children to feed every month, which even with her brother's help, still cost her over R2 000 every month. School fees were another few hundred, then there were the uniforms, transport, medical costs, etc., and Nomsa had promised herself that, as soon as she could, she would extend the house in Olievenhout by building an extra room for her sister's children, giving her and Phineas some privacy. So Nomsa applied for her first loan from GYB.Inc.

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On her follow-up visit to Nomsa, Rebecca spent a lot of time ensuring that Nomsa understood that they were entering into a long-term relationship. GYB clients would typically apply for a first loan of around R4 000, repayable over a 6 month term. Clients were expected to repay on a set day each month, chosen by the client. Clients are encouraged to open a savings account with the bank that GYB is affiliated with, and to deposit their daily or weekly takings into that account. By monitoring the deposits into the savings account Rebecca is able to monitor her clients' business growth and ability to repay the loan. Shortly before the repayment is due, Rebecca phones her clients to remind them what is due and when. Rebecca also checks the balance on her clients' savings accounts to ensure that they have enough money to meet the debit order.

The discussion between Rebecca and Nomsa on the first loan assessment visit is still fresh in Nomsa's mind. Rebecca emphasised that GYB selects its clients very carefully. Rebecca had already visited three of Nomsa's neighbours to get character

references on Nomsa. She then spent an hour in the house with Nomsa, meeting the children, speaking to her brother, and asking questions about the business. What struck Nomsa is that Rebecca talked about other small businesses in Diepsloot that were now on their 5th and 6th loan cycles. Every 6 to 8 months these clients would repay their loans and get another, often larger, loan. Mr Khumalo, the carpenter who installed the ceilings in Nomsa's Tavern, and who had recommended Nomsa for a loan, had already repaid four 6 month stock loans, and was now applying for a loan to purchase a delivery van which he would pay off over the next 24 months. As a Gold Status client Mr Khumalo could now apply for a stock loan at the same time as paying off his vehicle loan. This status was only awarded to clients who were in their 4th or subsequent loan cycle and who had a perfect repayment record. Rebecca explained how Mr Khumalo's repeat loans now only took 24 hours to approve and were completed entirely at Mr Khumalo's premises.

Rebecca had also told the story of Ma Ntuli's Dressmaking shop. Nomsa, like most micro entrepreneurs operating in Diepsloot, had heard about Ma Ntuli's business problems. Ma Ntuli had missed her very first installment despite the two reminders before repayment day and one on the day after the repayment date. Rebecca had then visited Ma Ntuli at her house where she lived and operated the business, and delivered a letter of demand. This was delivered three days after repayment date. At this visit, clients are encouraged to make a commitment to repay within 15 days. Ma Ntuli had again defaulted. At this point Ma Ntuli began to avoid meeting Rebecca. Rebecca had to leave a final demand letter with Ma Ntuli's daughter, which was again ignored. Once the second installment had also been missed, Rebecca handed the matter over to GYB's collections department. The para-legal staff that run this department had also failed to secure Ma Ntuli's co-operation, so ten days after having delivered the final demand, the GYB repossession truck had driven up to Ma Ntuli's home and had parked outside and waited for her to return home. The truck is bright red, and has 'Repossession Truck' painted in large black letters on both sides of the truck. The truck arrived at 4pm and waited until 8pm when Ma Ntuli finally had to come home. By this time the whole neighbourhood was aware of her predicament. The collection officers met with the family at dinner time and explained that the family had two options: Either repay the loan immediately or legal action would be taken. GYB would apply for summary judgment, would have Ma

Ntuli' listed at the Credit Bureau, and would apply for a court order to sell all the assets in the household in order to recover the outstanding balance of the loan, plus costs. Together with legal costs incurred, Ma Ntuli owed about R8 500. Ntate Ntuli was furious. He felt that he had been embarrassed in the community where he had grown up and was respected. He prided himself as being a man of principle and an elder in the Church. He arranged to pay the balance of the loan in two equal installments himself in order to settle the matter quickly and avoid further action. The loan was settled, but Ma Ntuli would never get any further loans from GYB. Although the matter did not go to court, she was still listed as having defaulted on two consecutive repayments by the Credit Bureau which would make it difficult for her to get finance from any credit provider. She was also removed from GYB's books and had lost any future access to credit from them. Her business began to struggle as a result of the incident. Clients were reluctant to pay over deposits for dresses that they ordered, as they felt that Ma Ntuli could not be trusted. Although her business still operates, she is clearly struggling without any access to credit.

Nomsa tells this story to all people asking her advice about taking a loan from GYB. She tells people that on first hearing this story she had decided to withdraw her loan application, fearing that she too might struggle to repay it and would face this kind of embarrassment. It was only through Mr Khumalo's encouragement and her respect for Rebecca that she decided to go through with the loan application, and that was three years ago.

Nomsa used that first loan to re-stock the business. She had wanted to expand the house but Rebecca had advised against this. "Put the money into stock" was her advice. Rebecca had shown Nomsa that she was currently turning her stock over only three times per month. Most other taverns in Diepsloot were able to turn their stock over four or five times per month. Nomsa's problem was that too much money was leaking out of the business and into household expenses. This reduced her ability to re-stock more than three times per month and depressed her turnover. Putting the loan money into stock would ensure that the business always had stock and would allow her to trade throughout the month. Nomsa typically spent R5 000 every time she bought from SAB – which had been three times per month. If she could buy four times per month, instead of three, she could potentially increase

her purchases from R15 000 to R20 000 and correspondingly increase her monthly sales from R21 000 to R28 000.

Nomsa's first loan of R5 000 was approved in May 2008, which she was due to repay over 6 months, at a cost of R1 100 pm. With an increase in turnover of R7 000 pm this would still leave enough money to pay the school fees, buy new uniforms, and start buying the materials needed to extend the house.

Between May 2008 and November 2009 Nomsa borrowed four times from GYB. Each loan was for between R5 000 and R7 500. Each loan was repaid in less than the prescribed 6 months. By September 2009, when Nomsa was preparing to make the last repayment on her 4th loan, she was awarded Gold Status, which would mean lower interest rates, faster turn-around times for new loans, larger loan increments (if required) and service at her home by Rebecca rather than at GYB's offices in Midrand.

Nomsa was under pressure to increase the size of her business, as Phineas had by now been unemployed for almost a year and was not showing any signs of finding a new job soon. Nomsa applied for R10 000 to be used to expand the size of the tavern by setting up tables outside. A music system was planned and more stock was required for the Christmas season. Rebecca was happy to recommend the loan increase as Nomsa was rapidly becoming one of Rebecca's best clients and had just been awarded Gold Client Status. She always paid on time, she took good care of her customers, and the shop was always neat and tidy.

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November 2009 was however a very difficult time for Nomsa. With the tensions in the household increasing, Nomsa struggled to focus on her business. With her move out of the house and the need to spend the R5 000 on the building of the shack for her and the four children, there was only R5 000 left to buy the stock needed for Christmas and to upgrade the tavern.

The next few months were very difficult ones. The children were unhappy in the new surroundings, Phineas kept visiting and threatening violence, despite the efforts of the police, and the business was struggling due to insufficient stock.

Unlike Ma Ntuli, Nomsa went to Rebecca for help. Rebecca had visited the business a few days after the traumatic relocation of the family and was aware of the risks of non-payment of the loan. She had seen the declining stock levels and understood that the loan money had been diverted into personal expenditure. The initial loan had been a 6 month loan with repayments of just over R2 000 per month. Rebecca motivated a rescheduling of the loan to 12 months with a repayment of R1 100. Within four months Nomsa was back on her feet and able to start putting some of her own money aside to buy the music system and additional tables that the business needed. Although Nomsa lost her Gold Client Status when the loan had to be re-scheduled, by September 2010 Rebecca was already motivating that this should be re-instated, due to the way in which Nomsa had dealt with the crisis.

By October 2010 Nomsa paid off the R10 000 loan and was in negotiations for a repeat loan of another R10 000.

Unlike Ma Ntuli, who had tried to avoid Rebecca when she was unable to repay the loan, Nomsa had asked for help, remembering Rebecca's explanation that they were building a long-term relationship. Rebecca's intimate knowledge of the situation left her in no doubt that helping Nomsa through this difficult period would cement their long-term relationship and strengthen client loyalty. Non-payment was never an option for Nomsa. She realised far more acutely than Phineas that her children's future was in no small way related to her ongoing relationship with GYB.

Although Nomsa and Phineas remain estranged, he has developed a new respect for his wife, as her business has managed to survive the ravages of the recession and she has managed to provide for their children in a way that he could not.

The story of Nomsa and GYB Inc Financial Services is one that is repeated thousands of times each day around the world. Micro Enterprise Finance organisations such as Grameen Bank and BRI in Indonesia now have clients numbering in the millions. Organisations such as BancoSol in Bolivia and ABA (Alexander Business Association) in Egypt are highly profitable organisations which have built their client bases and portfolio sizes with the assistance of social capital are now providing positive returns on equity invested.

**Table 1: Performance Indicators for ABA (Egypt): BancoSol (Bolivia); and Grameen Bank (Bangladesh)**

	<b>ABA (2009)</b>	<b>BancoSol (2010)</b>	<b>Grameen (2009)</b>
Number of clients	164 000 (2010)	140 723	6 430 000
Total Assets	\$65.8M	\$579.4m	\$1.4 bn
Average loan size	\$276	\$2 915	\$127
ROA	7%	2.33%	0.43%
ROE	9.75%	32.3%	5.66%
Operational Self-sufficiency	171%	123%	102.7%
Profit Margin	41.6%	18.72%	2.62%
Cost per loan disbursed	\$34	\$287	\$13
Loans per Loan Officer	268	126	485
Portfolio at Risk > 30 days	1.24%	0.82%	6.57%
Write-off ratio	0.57%	0.4%	0%

The main role players in the South African Micro finance industry, Small Enterprise Foundation, Women's Development Business and Marang Financial services have close to 160 000 clients between them. While none has managed to break even over the past 17 years of their existence, they have shown that it is possible to extend micro loans to the poor in South Africa, and to get, on average, over 90% of the money back. The next major challenge facing Micro Finance in South Africa is to prove that Micro Finance is not only viable, but can pay its own way. The time is ripe for an ABA, or a BancoSol to emerge in South Africa.