

## Shared Interest Hosts H.E. Nelson Mandela and Graça Machel



PHOTO: JENNY WARBURG

*Nelson Mandela and Graça Machel at Shared Interest dinner, May 6, 2002.*

"We particularly appreciate the efforts of Shared Interest, whose work since 1994 has helped us consolidate our achievement of political democracy through socio-economic development that makes a difference in the life of ordinary people," Nelson Mandela began. "We congratulate you on your contribution to making available credit, creating jobs, encouraging small businesses and providing affordable homes and viable communities for economically disadvantaged South Africans. Your unflagging partnership – as necessary now as it was in 1994 – has helped us develop new strategies and tools to give substance and shape to the vision and energies of our people. We wish your organization and its supporters, investors and colleagues every success, and look forward to continuing that work, which is based on our shared interest."

Mr. Mandela was addressing the private dinner that Shared Interest hosted on May 6 to honor him and his wife, Graça Machel. The event was held at the Stanhope Hotel in New York City, and was attended by friends of Shared Interest, the Nelson Mandela Foundation and the Fundação Para o Desenvolvimento da Comunidade — the Community Development

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## New Lessons for a Maturing Market

No one anticipated the strength and size of the market. When Shared Interest (through Them bani International Guarantee Fund), and the National Urban Reconstruction and Housing Agency (NURCHA) issued their guarantees to King Finance totaling 12 million South African Rand nearly three years ago, they celebrated the fact that the lender (a member of the African Bank family) had agreed to extend 20 million Rand. This credit was to go for start-up bridge loans to emerging contractors awaiting pay-outs on government contracts to build low-cost housing. The arrangement was designed to introduce King Finance to the untested market of emerging black contractors who had building skills but who, due to previous apartheid laws and the legacy of apartheid economics, had never had the opportunity to start their own businesses.

King Finance soon discovered that the new builders were also good borrowers — rapidly completing the houses and repaying their loans. In less than three years, the lenders expanded their program from the Free State to eight of South Africa's nine provinces, and extended more than 365 million Rand in credit to contractors to construct 298 new communities. Upon completion, these projects will supply residents of shacks and over-crowded houses as well as street dwellers with more than 70,000 low-cost houses across South Africa. The leverage is striking. Every \$6.43 that Shared Interest has supplied in guarantees on Them bani's behalf for this project will have unlocked sufficient capital to build a new house.

In a country still burdened by a housing backlog of more than 2 million units — despite its government's provision of more than 1 million low-cost houses since 1994 — this guarantee provides a colossal learning experience. New contractors of color are the heart and soul of a thriving and profitable market.

Shared Interest, Them bani and NURCHA also learned important lessons. They concluded that it was critical to develop the market for emerging contractor finance further by providing encouragement and support to other lenders. While assisting more new contractors, this would also reduce their cost of funds, since some

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of the newer credit institutions' lower administrative costs enable them to lend at lower rates. The guarantors also recognized the need to build in the controls to insure that contractors received maximum support and that their risks were properly managed.

With this strategy in mind, Shared Interest and NURCHA are processing a R10,500,000 (roughly \$1 million) guarantee to a new housing finance institution called SEBRA (Support Empower Bridge Reconstruct Account (Pty) Limited). SEBRA was established by two former King managers, who applied their experiences in new ways by setting up their own new business specializing in emerging contractor finance and "paymaster" services. Whereas the King guarantee was the combined effort of Shared Interest, working through Them bani to supply R4.5 million, the Swedish International Development Agency, putting up a



*Them bekile Zwane in her new home.*

**Them bekile Zwane** has just moved into her home in a new development in Stanger (KwaZulu-Natal) built by an emerging contractor who received a bridge loan from ACFC guaranteed by Shared Interest and Them bani. "I am so grateful," explained the 35-year old mother of two. "I would never have been able to afford a house of my own." Them bekile had been living with

two children and her two sisters in a single room, half the size of her current house. She explained that the arrangement made her claustrophobic and interfered with her ability to make a go of her struggling sewing business. Today she is able to support her family more comfortably by producing more curtains and bedspreads for black and Indian families in the surrounding area. Them bekile has also taken the initiative of plastering her house herself, and is planning further improvements once her youngest child, Ngululeku, begins school.

PHOTO: D. KATZIN

matching R4.5 million, and NURCHA, providing R3 million, the new R14 million SEBRA guarantee will be borne 75 percent by Shared Interest and 25 percent by the Open Society Institute.

The new guarantee will build on successful components of the formula created for King Finance, which has changed its name to African Contractors Finance Company (ACFC). These improvements include services such as project oversight by NURCHA, and SEBRA's financial management, technical assistance and capacity building for emerging contractors before and during the life of the loan. NURCHA and SEBRA will also assist the contractors in assessing the feasibility and financial viability of each project before it is undertaken, as they incorporate other important lessons from the ACFC experience.

The facility focuses on newer and smaller contractors, who have received contracts to build a maximum of 250 low cost houses per project.

The new guarantee sets a cap on the funds that can be lent, enabling guarantors to limit their exposure.

NURCHA is enhancing accountability and controls by serving as the lender, forwarding credit to SEBRA to cover contractors' labor and supply costs only after commissioned activities have been completed.

SEBRA will plan and monitor the construction and cash flows, manage the subsidy administration, and handle contractors' loan repayments.

SEBRA and NURCHA are putting up a reserve fund totaling 12% of the value of the guarantee to take the first losses should any contractors fail to service or repay their loans. The provision creates a further incentive for stringent management of the contractors' credit program, while also reducing the risk borne by Shared Interest investors.

Should losses absorb this reserve provision, or should the lenders or guarantors raise concerns, Shared Interest or NURCHA can put a halt to new loans.

This new guarantee is setting the stage for emerging black builders to supply thousands more low-cost homes to waiting families by establishing their own businesses and creating jobs in their communities. But Shared Interest and NURCHA are also playing a strategic role well beyond that of guarantors. They are helping to strengthen new institutions and equip South Africa's maturing low-cost housing finance market to be a catalyst for the development of safe, healthy and increasingly sustainable communities.

**INVESTOR SPOTLIGHT**

**Remembering Gertrude Connolly**

The Chapel of the Holy Innocents has found a way to give new meaning to the life of Gertrude Connolly, and to do life-enhancing work long after her passing by making a loan to Shared Interest in her memory.

For more than 50 years, Gertrude lived and worked as a resident of Fernald Developmental Center, a Massachusetts residential and training facility and work setting for developmentally disabled adults. During that time she remained devoted to the Chapel of the Holy Innocents, a Roman Catholic Chapel built by the Archdiocese on the grounds of the Center, but used ecumenically with interfaith services and participation. Gertrude was the chapel's first female alter-server.

"Her spirit and brightness of personality never changed. She always had a smile and presence about her that warmed your heart," recalled Father Bill Leonard of the Chapel of the Holy Innocents. "Gertrude lived through the worst and best of times at the Center as residents won the right to be treated with respect and dignity. Gertrude demonstrated the power of overcoming odds and living through things that can be and are changed."

Never able to learn to read, Gertrude worked faithfully doing low-paying sewing and cleaning work at the facility for more than half a century. When the state

gave her an award for her work during her later years, Gertrude said she did not see what the big fuss was about. When she died, she left a portion of the money she had earned and saved at the facility to the Chapel. In memory of Gertrude, Father Leonard made a loan on behalf of the Chapel to Shared Interest for its guarantee fund.



*Chapel of the Holy Innocents*

Explaining why the Chapel chose Shared Interest, Fr. Leonard noted, "We are so often humbled by the sacrifices others have made before us. What I see in South Africa's people is the recognition that nothing changes overnight after such a period as apartheid. People who have gone before us have weathered the worst

of storms. Some have reaped the rewards, but the poverty still prevails. Others will still have to live with that and continue the work."

Gertrude Connolly would have understood.

*Shared Interest is a not-for-profit social investment fund guaranteeing South African bank loans to community development financial institutions engaged in South Africa's reconstruction process. Shared Interest and its Swiss associate RAFAD have established the Them bani International Guarantee Fund (TIGF) in South Africa. Through the TIGF, Shared Interest strengthens grassroots organizations and enables them to provide increasing amounts of affordable credit for small businesses and social housing in South Africa's lowest income communities.*

PHOTO: CHAPEL OF THE HOLY INNOCENTS

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for a tax deductible contribution of \$\_\_\_\_\_.

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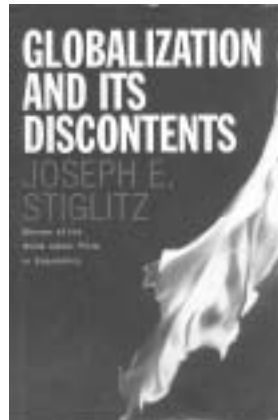
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## BOOK REVIEW

Globalization and its Discontents, by Joseph E. Stiglitz, W. W. Norton & Company, Inc. (New York: 2002).

In this intimate walk through the inner corridors of the International Monetary Fund (IMF) and the World Bank, Joseph Stiglitz brings to our doorstep the debates raging across the developing world. Winner of the 2001 Nobel Prize in economics, Stiglitz served as chief economist and senior vice president from 1997 to 1999, where his experience radically reshaped his understanding of globalization and development. As he reviews the impact of IMF policy and practice, he sounds a wake-up call to the analysts and architects of globalization – and to all who benefit or suffer from it.



Despite globalization's promise to unlock the potential of the world economy for the majority of its population, Stiglitz notes that during the last ten years of the 20th century, the number of people eking out an existence on less than \$1 a day has risen by nearly 100 million to 1.2 billion, with 2.8 billion – 45 percent of the world's people — subsisting on less than \$2 a day. During the same period, total world income increased by an average rate of 2.5 percent a year.

In the Keynesian tradition, Stiglitz challenges the myth that markets work perfectly. Drawing on his experiences with IMF and World Bank programs in Latin America, East Asia and Russia, he questions the Washington Consensus that the dogmatic imposition of fiscal austerity, commercial and financial market liberalization and rapid privatization will stabilize the world's economy, much less assist countries in their own processes of development or transition. Instead, he argues that these prescribed policies have inhibited growth, exacerbated debt, and imposed a high-risk recipe for instability and misery on the world's most vulnerable economies and its most impoverished people.

Stiglitz further challenges the IMF's pursuit of its original mission of promoting global stability and helping countries in crisis achieve equilibrium and growth, and its more recent stated agenda of reducing poverty. Instead he posits that ideology has played a greater role than inductive analysis in shaping IMF decisions, and that the IMF has served the interests of Western bankers better than the countries it has purportedly assisted.

Although Stiglitz scarcely mentions South Africa – or Africa – he provides a useful framework for understanding the international context of South Africa's resounding development debates during its first eight years as a democracy. These arguments reverberate today in South Africa's legislatures and non-governmental fora, its universities and unions, and also in its streets.

Like many other disparities documented in the book, South Africa's economy in 1994 was riven by the tremendous inequities inherited from the colonial and apartheid eras. (That year it has the dubious distinction of the most unequal documented distribution of wealth in the world). It was also beginning a transition from a centralized economy traditionally supported by commodities exports, and (due to its own special circumstances and international reaction) it enjoyed only partial access to the world's economy.

As South Africa's new democracy has reentered the world's commercial and financial markets, debates about the Reconstruction and Development Program, GEAR, and the New Partnership for African Development (NEPAD) reflect the global as well as national and regional contexts in which they are taking place. South Africa has sought to manage both the prescriptions and the process on what remains highly contested terrain.

Stiglitz argues that it is necessary to tame market forces, reshape the world's financial institutions and achieve a globalization with a more human face. If this is possible, South Africa is one of the countries most capable of leading a peaceful transition to a more just and sustainable society. Although Stiglitz stops short of suggesting actions required to effect change, he emphasizes globalization's truth that all of us are responsible and need be accountable for what is happening across our planet. This insight is based on the recognition of a shared interest.

### In Memory of Charles P. Stetson Sr.

Shared Interest mourns the passing of Charles Stetson, whose leadership, commitment, and philanthropy were an inspiration to Shared Interest. Long before working with Shared Interest, he was the founding partner of Outward Bound South Africa, and remained devoted to protecting and improving the lives of South Africa's most marginalized people. His loss will be deeply felt by our colleagues and friends here, and by the many South Africans whose lives he touched.

## FROM THE EXECUTIVE DIRECTOR

This fall, thousands of development workers, corporate and government leaders, activists and analysts are taking a hard look at our shrinking world and exploring options for addressing the twin challenges of environmental and economic sustainability. Both the World Summit for Sustainable Development in Johannesburg (ten years after the historic Rio summit) and the November Micro-Credit Summit +5 (five years after the first such gathering) in New York represent years of planning and a major allocation of government and philanthropic resources – not to mention the time, energy and input of tens of thousands of civil society participants across the globe. Together they are examining those outcomes – intended or unintended — of the environmental and economic exploitation that, if left unchecked, threaten to consume our planet's natural resources and further impoverish the vast majority of its people.

Both summits seek to focus global attention and advance international collaboration on preserving our natural resources and providing opportunities for millions of people to climb out of extreme poverty. They are designed to create awareness and tool kits to craft new strategies for change.

Recognizing that our work provides one effective approach, and eager to learn from others, Shared

Interest is moderating a panel at the Micro-Credit Summit +5 on "Developing Effective Linkages between Micro-Finance Institutions and the Formal Banking Sector." Moreover, we are aware that during the first eight years since the demise of apartheid, South Africa is encountering many of the issues other countries have faced for decades as they work to expand fledgling micro-credit programs to serve their impoverished millions.

While the two summits continue to underscore the critical issues of environmental and economic sustainability, their policies and products may be no more significant than their process of building civil society collaboration on a global scale. The success of both summits will be determined less by their pronouncements than by their ability to galvanize sufficient political will to address the causes as well as the consequences of environmental degradation and poverty — and to mobilize the resources required to build an equitable, sustainable and secure world for all of our children.

Sincerely,



Donna Katzin  
Executive Director

## Advancing a Progressive Partnership

Ambassador Sheila Sisulu joined Shared Interest's Vice Chair, Darchelle Garner and Outreach Director, Imani Countess, at the 41st Annual Meeting of the Progressive National Baptist Convention (PNBC). The Ambassador was a featured speaker, addressing both the full convention during its Mission Night as well as the Women's Department during their annual Africa Day celebration.

The Ambassador spoke highly of Shared Interest's work, identifying it as organization that "has measurable outcomes" and plays an impor-

tant role in South Africa's economic development. She also used the opportunity to update the group on the challenges facing the region, including the devastating drought, the new African Union as well as the New Economic Partnership for African Development (NEPAD).

The Convention amplified PNBC's partnership with Shared Interest, launched last year, by approving the denomination's second loan for the amount of \$6,000 to Shared Interest. PNBC has pledged additional loans over the next five years.



Ambassador Sheila Sisulu with Shared Interest Vice Chair Darchelle Garner at the PNBC's 41st Annual Meeting in August.

## South Africa Updates in Three Cities

From May 16 to 21, Shared Interest organized events hosted by Walden Asset Management/United States Trust Company in Boston, Carol Tolan in New York and Elaine Klemen in Chicago to update supporters and colleagues on its activities in South Africa. Buzwe Yafele, CEO of the Themban International Guarantee Fund, reported on South Africa's micro-credit, housing and rural development markets, and presented an analysis of these sectors to Shared Interest's board. In Detroit he conferred with representatives of the Adrian Dominican Sisters and with Dr. Charles Adams and Rev. Mangedwa Nyathi of Hartford Memorial Baptist Church. Shared Interest is extremely grateful to all who made these events possible.

### With appreciation...

It is with appreciation and regret that Shared Interest bids farewell to Imani Countess, the organization's first Outreach Director. Imani has accepted a job as Africa Program Coordinator of the American Friends Service Committee Peace-Building Unit. There she will build on the advocacy and constituency-building work to which she has dedicated so much of her career. We look forward to working with Imani in her new capacity, and wish her every success.

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Foundation of Mozambique (FDC), headed by Nelson Mandela's wife, and Mozambique's former first lady Graça Machel.

Guests included Alan Altschuler, George and Carol Bello, Stanley and Marion Bergman, Kephra Burns, Leslie and Beth Daniels, Ian Duncan, Miranda Kaiser, Kim Samuel-Johnson, Bert and Letty Cottin Pogrebin, Charles Stetson, Susan L. Taylor, Sukey Wagner, and Carl and Mary Ware. Other supporters who could not attend the event were Peggy Dulany, Vincent Mai, and Nicholas and Susan Pritzker and David Rockefeller.

Proceeds from the evening were donated to the Nelson Mandela Foundation and the FDC. The Nelson Mandela Foundation supports HIV/AIDS initiatives, worldwide peace-making efforts, and secondary school educational programs. The FDC supports grassroots education, health and community development programs, which are primarily directed by and benefit women in Mozambique.

Ambassador Sheila Sisulu, honorary chair of Shared Interest's board of directors, introduced Mr. Mandela and Ms. Machel, who offered remarks and then engaged in a discussion with the guests. The evening provided a unique opportunity to meet and affirm support for these two leaders and their historic work.



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*Address Correction Requested*

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**[www.sharedinterest.org](http://www.sharedinterest.org)**

Let us know what you think of it!