The Small Enterprise Foundation

NGO, {1st Update}

Tzaneen, Limpopo, South Africa

Social Rating

(Standard Comprehensive[1])

September 2012

Vision: "a world free of poverty"

Mission: "to work aggressively towards the elimination of poverty by reaching the poor and very poor with a range of financial and non-financial services to enable them to realize their potential."

Values:

- respect for all
- having a positive impact on the lives of our stakeholders
- striving for operational efficiency and self-sufficiency.

	2008	2012
SOCIAL RATING	$^{\Sigma}\alpha$	$^{\Sigma}\alpha$
RATING OUTLOOK*	-	Positive

Rating dimensions	2008	2012
Process/organisational systems		
Governance and strategy	$^{\Sigma}\alpha+$	$^{\Sigma}\alpha+$
Monitoring social goals		$^{\Sigma}\alpha$
HR & responsibility to staff		$^{\Sigma}\alpha-$
Client protection	$^{\Sigma}\alpha-$	$^{\Sigma}\beta+$
Results/outputs – client level information[1]		
Depth of outreach	$^{\Sigma}\alpha+$	$^{\Sigma}\alpha+$
Quality of services	$^{\Sigma}\beta+$	$^{\Sigma}\alpha-$

[1] Analysis based on client data available with the MFI
Definition of M-CRIL grades in annex

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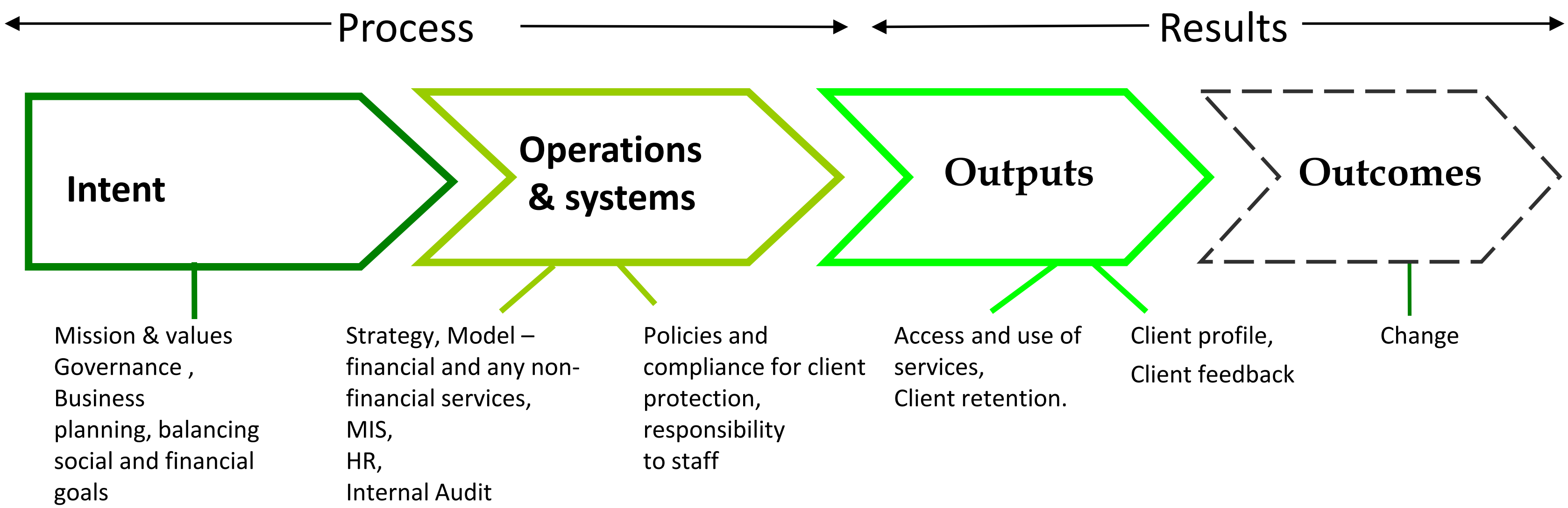
Structure

Introduction, synopsis and rating rationale	3
Intent: Mission, Governance and Strategy	9
Alignment of systems	13
Client protection	25
Results: outputs and outcomes	32
Annexes	44

Key for bullets:
- ✓ Positive
- ❑ Issue
- o Description

Social performance pathway



- Social performance is: the ***effective translation of an institution's mission into practice in line with accepted social values***
- This definition is reflected in the new Universal Standards of Social Performance Management (USSPM www.sptf.info).
- This comprehensive social rating covers all steps of the pathway, including indicators that are part of the USSPM and drawing on MFI data for results. This report is linked to a beta test for the Seal of Excellence in Poverty Outreach and Transformation.

Synopsis

- The Small Enterprise Foundation (SEF), an NGO Microfinance institution, started operations in 1992.
- Microfinance model: Grameen, Joint liability groups of 5 women, Centres of 6-10 groups
- Financial Services: Credit; linked savings in local banks
- Non-financial services: Learning conversations (debt management, business skills); linkage to NGO gender and AIDS training.

Organizational overview (Jun 2012)	
Number of provinces [total provinces in SA]	5 [9]
Number of branches	46
Active borrowers	87,273
APR(Excl. VAT; providing for repayment holidays*)	61-83%
Total number of staff	412
Women staff	73%
Clients: staff	215
Clients provided non-financial services	35,980

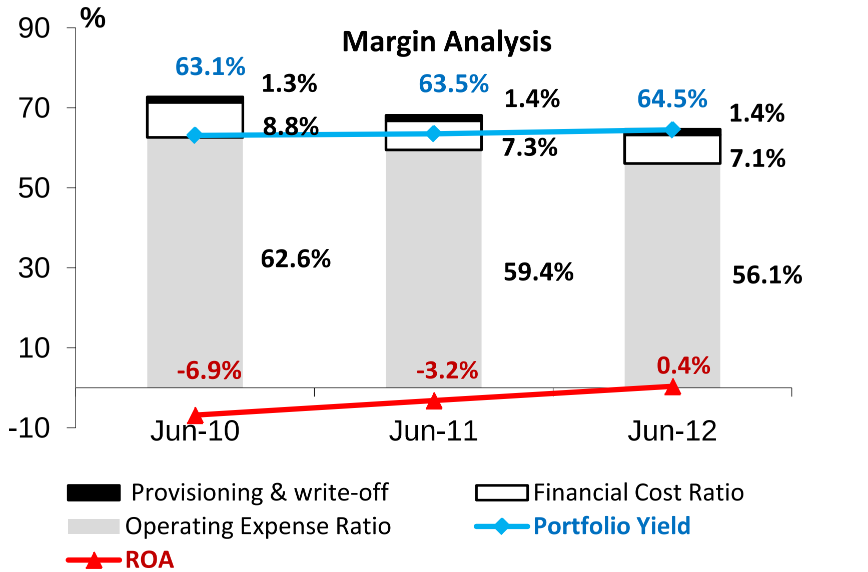
Transparency:	MFI efforts	Client awareness^
Interest rate on loan	Moderate	Low
Product tenure	High	High
Rescheduling policy	Moderate	Moderate
Grievance mechanism	Moderate	Low

Depth of Outreach (Jun 2012)	
Women clients	~99%
Rural (and peri-urban) clients	100%
Clients in poorer provinces	87%
Black/coloured	100%
New clients < NPL [SA rural, 2005]	57% [61%]
New clients < Food line [SA rural, 2005]	41% [39%]
Average loan outstanding	R1780
Average loan disbursed to 1st cycle clients	R960
Average loan outstanding per client/GNI	3.1%
Average loan size per new client/GNI	1.7%
Loans < $250	71%
Average savings per new client	R170
Average savings per new client/GNI	0.3%

* For fortnightly loans – 3rd fortnight of a month, if there, is a repayment holiday
^ Based on M-CRIL's FGDs with clients in 4 centres, 2 branches

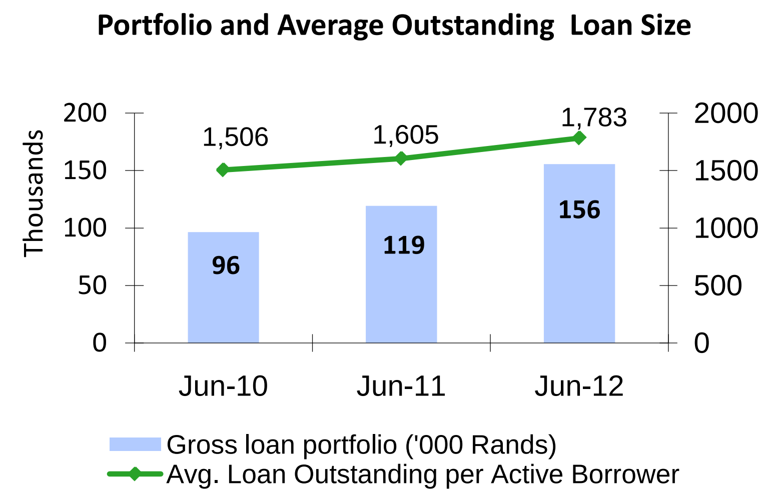
Rand 8.30: US $1

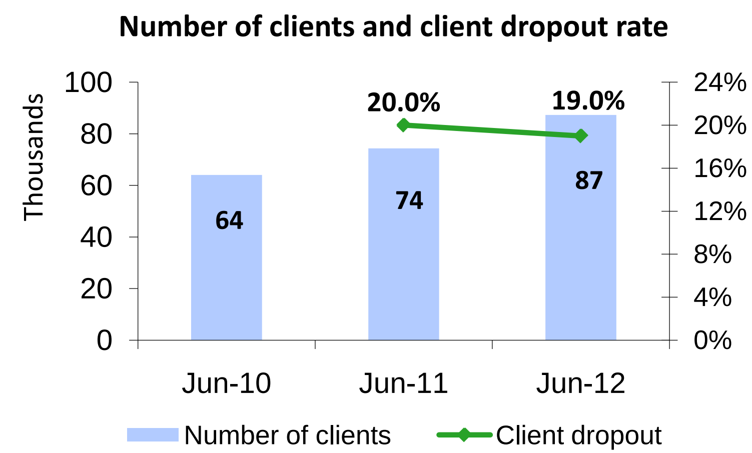
Synopsis: trends data



Note: All ratios (except RoA) calculated on average gross loan portfolio

	Jun-10	Jun-11	Jun-12
Total number of staff	374	392	406
Clients/ loan officer	245	268	307
Staff turnover	21%	7%	10%
PAR (30 days)	0.2%	0.2%	0.2%





Dropout rate – staff , clients – presented here using MIX formula

Country context

- **South Africa** has a population of 50.6 million, which is predominantly urban (~62%). 79.5% of the population consist of Africans, followed by 9% coloured, 9% white and 2.5% Asians. (Statistics SA,2011)
- Out of 187 countries, S Africa ranks 123 on the Human Development Index (HDI, which reflects life expectancy, literacy/education and per capita GDP) – higher than the average for sub-Saharan Africa, below the average for all developing countries.
- One of the continent's largest economies, S Africa has a strong formal financial and manufacturing sector. It is a leading exporter of minerals and tourism is a key source of foreign exchange.
- It is a middle income country, with per capita GNI of US$6,960 in 2011. The history of apartheid is reflected in high inequality, with a GINI coefficient of 63.1% (World Bank, 2009), one of the highest in the world (higher the inequality, higher the GINI score). Unemployment is a high 25% and is linked to a high crime rate. HIV/AIDS (~20% of the population) is a critical issue.
- SA's national poverty line is between the $2 and $4 a day international lines. Overall 42% of households live below this line, with higher poverty (~60%) in rural areas. This data is from 2005 and does not reflect any developments in the past 7 years.
- Nearly 1 in 3 people are provided monthly government welfare payments for child support, old age or disability.

Microfinance in South Africa:

- Microfinance in SA usually refers to the entire subprime lending sector, covering around 2,000 banks and private firms, with consumer lending mainly to salaried people in urban areas and in the mining sector.
- 37% of the population is reported to be unbanked (FinScope,2010). Traditional forms of savings (ROSCAS) are widespread, known locally as *Stokvels*, often linked to specific needs such as saving for Christmas. Saving as a member of a burial society is also common.
- Relatively few MFI/NGOs (9) are registered with the National Credit Regulator that regulates all money lending transactions in the country.

Rating rationale

Governance

- ✓ Strong and involved Board; 50% women members
- ✓ Minutes reflect focus on double bottom line; reports on social performance presented to the Board.
- ✓ Reasonable salary parity. MD's salary is 15 times the entry staff's

Mission and Strategy

- ✓ Well defined objectives – integrated approach
- ✓ Spirit of mission stressed in policy documents and in trainings
- ✓ Reasonable client growth projected at CAGR 14.5% from 2012-2017

Client Targeting and Outreach

- ✓ Main outreach: 3 provinces with high poverty rates.
- ✓ Strong emphasis on poverty targeting using own participatory wealth ranking tool.
- ✓ Monitoring poverty outreach through PPI adapted for rural South Africa
- ✓ PPI data for entry level clients (23 branches): comparable to national rural poverty rate [SA rural – 61%] and national food line rate [SA rural -39%]

Social reporting/MIS

- ✓ Regular reports on client exit rate, poverty outreach and client wellbeing. Efforts to ensure data quality.
- ✓ New software will integrate social data
- ❑ Reasons for client exit collected but not collated.
- ❑ Client feedback mechanisms and survey design need strengthening.

HR and Responsibility to Staff

- ✓ HR systems well aligned to social goals.
- ✓ 73% women staff
- ✓ Staff friendly policies
- ✓ Staff turnover reasonable at 10% for 2011-12
- ❑ Potential issues with level of remuneration.

Internal Audit (Quality Assurance)

- ✓ Audit covers operational & social performance issues.
- ✓ Well-developed monitoring framework with spot checks defined for each level.
- ❑ Audit Manager reports to the COO and audit findings are not collated or reported to the Board.
- ❑ Low frequency of audits – once in a year, or less

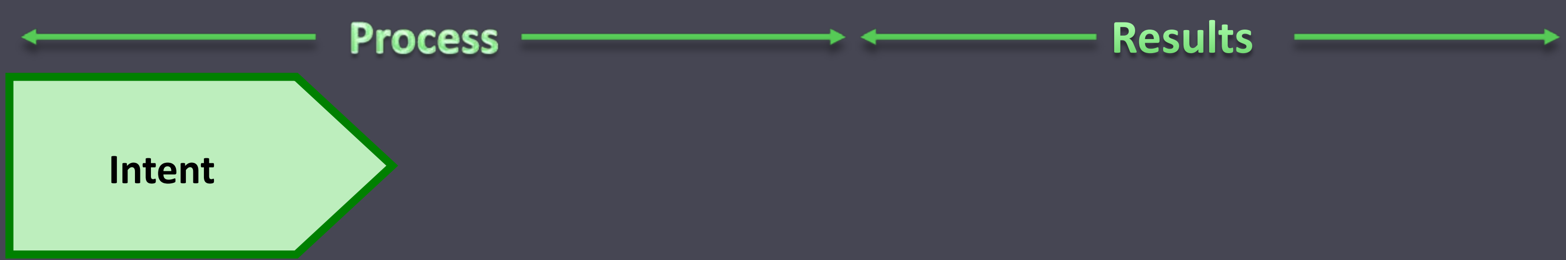
Client Protection

- ✓ Range of credit terms.
- ✓ Clear Do's & Don'ts for field staff – Code of Ethics drafted for Board approval
- o Loan costs within regulation, High EIR (70-89% depending on loan type) reflects high operating costs in SA;
- o Good approach to loan appraisal; except that current indebtedness is not checked
- ❑ Different costs of different loans not communicated.
- ❑ Close to 100% repayment incentivised
- ❑ Need for a systematic complaints mechanism

Client Awareness and Feedback

- ✓ Clients were generally satisfied with the loan product and behaviour of the MFI staff.
- ✓ High awareness on joint liability and loan tenure
- ❑ Low awareness on complaint process.
- o Client exit at 19% is high, but around the average reported in the industry.

Intent: Mission, Governance & Strategy



Mission: clarity and communication
Governance
Strategic planning

Mission: clarity and communication

- Mission and Vision formulated at the time of inception, in 1992; revised in 2002 in a participative manner, inviting ideas from the entire organisation – from the Board to all the staff.
- ✓ Key terms are defined in strategic review and policy documents.

Social goals	Definition and monitoring
Target Area: Not in mission; but, defined in general.	➢ Poorest provinces in S Africa, rural and peri-urban areas ❑ Areas not classified as rural or peri-urban for reporting outreach
Target clients: *Poor and Very Poor*	➢ Women from poor (below national poverty line) and very poor households (below half the poverty line) are targeted through systematic Participatory Wealth Ranking (PWR) in new areas. ➢ Focus on women for more effective inclusion of the poor. ➢ PPI tool redesigned and data collected for new clients to verify the outreach.
Services: *Financial and non-financial services.*	➢ Credit, with linked compulsory savings in group bank account ➢ Monitors client exit as key social performance indicator, aiming for lower than average exit for very poor clients. ➢ Learning conversations (direct), gender and AIDS training (linked). ➢ Current outreach partial, plans to roll out the programmes to all clients.
Outcomes: *elimination of poverty….enabling clients to realize their potential*	➢ Monitoring system tracks key indicators up to first 4 years (8 cycles) ➢ PPI planned to help in tracking progress out of poverty

- ✓ Outstanding commitment to monitoring mission parameters as part of routine reporting.
- ✓ Spirit of mission and vision is stressed through trainings and manuals. Staff at all levels displayed good awareness on the Mission and objectives of the company.
- ✓ The participatory processes followed for formulating the mission, and recently the code of conduct, contribute to reinforcing the spirit of mission among staff.

Governance

- ✓ Strong and involved Board of 8 members – Five independent, one nominee and one executive member (MD, Mr John de Wit); 50% women (Annex, slide 45). Board reflects rich experience in microfinance, development, and finance.
- o No fixed term for Board members; most of the members (6/8) have been on board of the MFI for over a decade.
- ✓ The members share the commitment to SEF's mission under the guiding influence of founder members – Mr John de Wit, the MD and Mr Matome Malatji.
- ✓ Board meetings are held every quarter - well attended and documented. Board discussions reflect double bottom line focus. Senior management is invited to attend the Board meetings.
- o Three Board level committees – Board Audit Committee (2 members) meets half-yearly to plan external audit, HR committee (2 members) and new Social Performance Committee (SPC) – 3 members.
- ✓ The SPC started in November 2011 with the aim to protect SEF's social mission and scrutinise performance and decisions for social performance implications.
- ✓ Good communication with the Board: reports to the Board include social performance – client retention, impact monitoring, PPI results, outreach and strategy for non-financial services - along with operational and financial performance.
- ❑ However, internal audit reports or risk profile of the branches are not reported to the Board.
- ✓ SEF achieved operational sustainability for the first time in 2012.
- ✓ Comprehensive approach to evaluating performance of MD and COO, includes targets related to SPM and client retention.
- ✓ The MD's salary (salary + medical & retirement contribution) was 15 times the entry level staff's salary (salary + av. incentive), which is reasonable.

Strategic Planning

- ✓ SEF started microfinance programme with MCP loans for which clients self select. TCP was introduced as the core programme to ensure outreach to very poor women.
- ✓ Focus on poorer provinces, rural and peri-urban areas. SEF may enter urban areas in future.
- ✓ The strategic plan, formulated by the Senior Management and approved by the Board in June 2012, critically reviewed SEF's performance with regard to its social goals and theory of change. The document reaffirmed SEF's intention to give priority to the very poor for poverty alleviation, while recognising more diverse needs and vulnerabilities of their target group.
- ✓ The client base is projected to grow at CAGR 14.5% from 2012 to 2017, which seems reasonable, given SEF's earlier experience with growth.
- ❑ New PPI data suggests a need to review poverty outreach targets linked to the SA poverty line.
- o SEF achieved operational sustainability for the first time in 2011-12. With expansion and attention to operational efficiency, the business plan forecasts an RoA of 5.9% by 2017. The senior management considers an RoA of 6% to be appropriate to support operations and growth. In future the Board needs to consider an appropriate range for RoA.
- ✓ The business plan maintains the clients to staff ratio at around 200 for the next 5 years. No specific analysis on the clients to loan officers ratio. Currently, at around 320, this is a good ratio which allows high service quality to clients. (Effective average: 1 centre of 8 groups per day per loan officer).
- ✓ SEF is attracting funds from both commercial and social investors – local and global. In addition to borrowings, SEF attracts grants (both capital and operational) from various sources – corporates and charity funds. FCR is low at 7.1% for 2011-12 (financial expenses on average gross loan portfolio).
- ✓ SEF's current thinking is that poverty alleviation requires more than loans for women's micro-enterprise. in line with this, SEF has introduced systematic modules on financial education and business skills development as part of centre meetings. And, in the context of the HIV/AIDs crisis in S Africa, there is a decade long linkage with the NGO IMAGE programme, linking training and counseling on gender and HIV AIDS to microfinance.

Alignment of systems

Process | **Results**

Operations & systems

Model, market strategy
Products & services, Nonfinancial
Services, Information and reporting on social performance, HR systems, Internal Audit

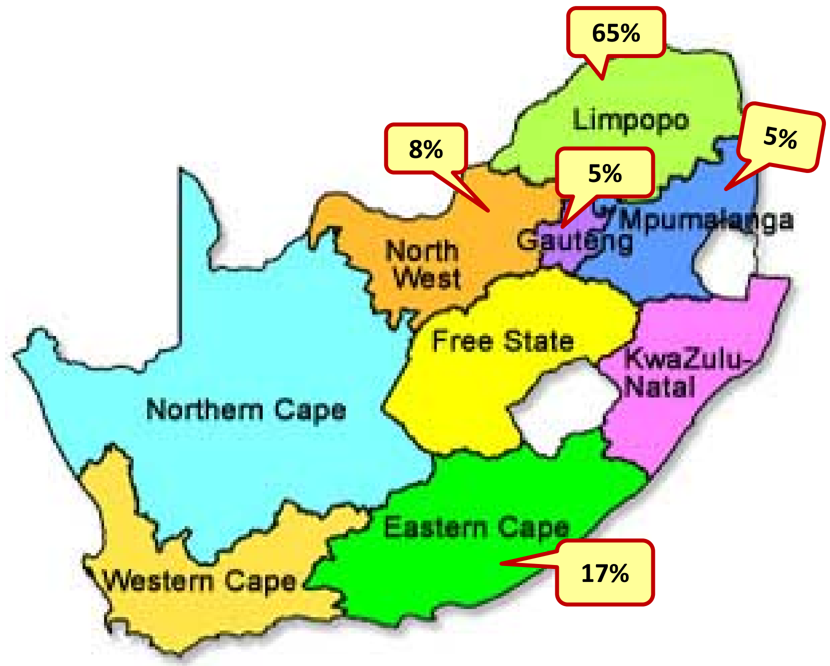
Microfinance model

- Group based lending - SEF has adapted the Grameen model. Up to 10 groups of 5 members combine to form a centre for both MCP and TCP. Field staff are designated as Development Facilitators (DFs)
- SEF lends only to women in TCP; one man in a group is allowed in MCP. Though SEF's mission does not mention lending to women, it is based on the belief that presence of men in the groups may crowd out the poor and very poor from joining, affect group solidarity and restrict the voice of women participants.
- Operations and processes (targeting, product offer, monitoring and centre meetings) are structured around its core aim to serve the poor effectively.
- ✓ SEF has adopted an integrated approach to support its clients – centre meetings are seen as opportunities for training alongside financial transactions.
- There is a 'one day, one village' strategy, with one centre meeting (8am) and sometimes a second meeting (12pm) Centre meetings can go up to 1.5 hours. In case of IMAGE/TLC programme, the meeting extends for an additional hour.
- SEF facilitates opening a group savings account at a nearby bank branch for all new groups.
- Disbursements are directly to the group' savings account, and collections are deposited at the banks – by cash box method (amount collected at the centres and taken to banks in locked boxes with 2 keys, one with the centre and other with the bank), or by direct payment method (groups deposit at the banks before the meeting).
- Every year, the centres choose a new centre committee – the Chair Person, Secretary and Treasurer. Branch Manager (BM) gives one day training on centre management to the centre committees at a common venue.
- ✓ Loan utilisation checks are conducted by the centre leaders, and the DF – 100% for the first 2 cycles.
- ✓ SEF applies criteria of vulnerability (irregular attendance, irregular savings, repayment arrears) to centres and to clients to identify focus of follow up visits, by DF and by BMS. Clients in first 2 cycles also identified as 'vulnerable' for follow up. Effective follow up may vary in practice, depending on the supervision by BM.

Market Strategy - Areas

- SEF exclusively targets rural and peri-urban areas and is currently working in 5 out of 9 provinces in South Africa.
- Expansion has been to contiguous areas around Limpopo, apart from grant supported expansion to Eastern Cape.
- Further expansion planned around Eastern Cape, while consolidating operations around Limpopo.
- ✓ Area selection for opening branches is done by the senior management based on incidence of poverty and the number of households within a reasonable distance from the proposed branch location.

  - Analysis of area outreach on slide34.



Market Strategy - Clients

- ✓ Target households are identified through a detailed Participatory Wealth Ranking (PWR) exercise (glossary) undertaken by specially trained field staff: members of the community classify households into categories (piles of cards) based on their perception of how poor the households are.
- o Each category is scored (from 1-100; very poor are those with PWR scores over 90) and the cut-off score for eligibility for each village is decided by the Zonal Manager based on the socio-economic profile of the piles. The involvement of senior management is to ensure quality of client selection.
- o For the first two years of a branch' operations, only eligible households as per the PWR scores are allowed to join. After 2 years, SEF opens up the branch to anyone. The philosophy is that the poor need special encouragement. PPI data is now being collected for every new client to monitor poverty outreach.
- o Groups are approved by the Branch Manager who verifies the members' eligibility, as detailed in the operations manual. (businesses must be of similar size, maximum age difference of +/-20 years, clients' houses within 15-60 minutes walking distance).
- ✓ There is no upper age limit, nor is there a requirement to have an existing business. This is part of the strategy to include very poor women.

- Analysis of client outreach - slide 36

Financial products and processes

Credit

- ✓ SEF offers loans with multiple tenure (4/6/10 months, 8/12 fortnights) and repayment frequencies (fortnightly or monthly) to suit client preferences.
- o Loan size ranges from R1,000 to R15,000.
- ✓ The loans are intended mostly for short term investment in business; loan sizes are adapted to the business type and value.
- ✓ Members of the same group can have different repayment frequencies as long as the loan tenures of all the members match with each other.
- ✓ Monthly repayment on an entry level loan of R1,000 is equivalent to 11% or 17% of estimated household income at the national poverty line (NPL), or 17% or 25% at the national food line, depending on the loan tenure, which is appropriate to SEF's poverty targeting.
- ✓ Processes to support business investment include: loan utilisation check, group progress meeting (to discuss members' progress prior to a new loan), problem solving meetings facilitated by DF where issues arise during centre meetings; vulnerable client visit for clients identified as struggling.

Savings (linked)

- o It is compulsory for all groups to open a collective savings account at a nearby formal bank branch.
- ✓ SEF encourages its clients to save every fortnight, a minimum of R20. The idea is to develop savings discipline in the clients, while preparing them for repaying a higher loan in the next cycle.
- ✓ The mandatory savings amount of R20/fortnight in monthly terms is currently equivalent to around 2-3% estimated monthly household income (NPL/food line) which is appropriate.
- o Clients are eligible for an increase in loan size if they maintain regular savings in the previous loan cycle.
- o At least 2 out of the 3 signatories of the group should authorise and be present to withdraw money from the group account. Savings may under normal circumstances be withdrawn at the end of a loan cycle.
- o DFs are supposed to monitor the savings balance as well as individual savings amounts.

- Analysis of use of products and client feedback - slides 37-40

Non-financial services

Integration: Centres meet every fortnight. The first fortnightly meeting is used for repayments. The second is used for training and learning sessions, which last around 30 minutes. The methodologies are interactive and encourage clients to participate in the discussions.

IMAGE - Intervention with Microfinance for AIDS and Gender Equity (linked)

- **Outreach:** 16, 135 clients trained, 6645 clients undergoing training. SEF centre meetings provide a platform.
- **Programme:** Local NGO linking microfinance (economic empowerment) with training and mobilisation strategies on HIV/AIDS, gender issues and domestic violence.
- Aims to address poverty and gender inequality, seen as the key drivers of the HIV epidemic.
- **Implementation:** by NGO staff.
- **Monitoring:** by IMAGE - quarterly
- **Funding:** IMAGE is fully grant funded.
- **Evaluations:** A number of independent impact studies (randomised control trials).

TLC - Technical Learning Conversations - TLC (direct)

- **Outreach:** 13,200 clients
- **Programme:** SEF has drawn on group training modules developed by Freedom From Hunger. FFH adapted the modules to S African context, trained selected DFs and provided supervision training.
- Pilot of first module (managing debt) in 2 branches in 2011: 8 monthly TLCs over 8 months.
- **Systematic monitoring** done by R&D team; BMs, ZMs and Quality Audit conduct quality checks.
- TLC is now expanded to 4 more branches, and a second module '4 Steps to Better Business' is being piloted in the initial 2 branches.
- Two more modules (Savings, Business Skills) expected to be introduced in the next 2 years.
- **Funding:** Initial grant support from GiveWell in 2011. Now integrated as part of operating costs.

- Impact study results: slides 44, 50,51

- Evaluation results: slide 41

Information and reporting on social performance

- ✓ Strong effort and focus on gathering and reporting social performance data.
- o **Research and development (R&D) team**, headed by a senior manager with experience in operations, supported by a number of active interns. Undertakes a range of monitoring, testing, design and reporting activities
- o Emphasis on regular data collection by DFs, though with some quality issues. The Quality Audit department also collects survey data as part of Branch audits.
- o **Client profiling**: Interesting scoring system for PWR. These scores are collated for all TCP clients. Data disaggregation for the poorest clients (with scores > 90%) on some indicators.
- ✓ **'Impact' monitoring system** – indicators of business value, and food and housing scores based on client perception are collected through conversations of DFs with TCP clients at every loan cycle (up to the 8th loan , ~2-4 years).

- ✓ SEF has undertaken (and paid for) the development and testing of an appropriate PPI for their rural client base. The intention is to have a more objective tool to profile poverty outreach, as well as to capture changes in poverty level over time.
- o The latest (11th) version of the PPI has been piloted. And is now being rolled out, to cover all entry level clients in 2013

Profiling	Indicators	Reports	Use
Client PWR score	Food, housing, assets, etc	New branches	Targeting for TCP
Client profile – each cycle	Food & housing scores, BV, PPI	Quarterly	Baseline & progress
Vulnerable Centres	Irregular savings, arrears, low attendance	Monthly	Special monitoring

[Business value, BV) is calculated as the sum of value of stock, savings from business, debtors (50% of the amount) and available cash with clients at the time of the DF visit]

- Data from SEF's monitoring systems used in results section

Information and reporting contd.

Market intelligence:

- ✓ Client dropout rates systematically analysed, including for new and for poorer clients. Part of routine reporting for operations (linked to incentives) and to the Board.
- ❑ Exit reasons are noted at the field level but not collated and analysed.
- ❑ This year attempted a client satisfaction survey, by QA. Issues with the questionnaire design.
- o Penetration reports routinely used for each area; could also include the community PWR data.

Market intelligence	Method	Reports
Client exit: - Rate	Part of MIS, own formula	Routine monthly reports
- Reasons	Noted by DFs and reviewed by BMs	Not collated
Client feedback/ Satisfaction study	Sample survey by QA team done this year	Work in progress – content under review
Monitoring of NFS	Operations forms to assess delivery and quality	6 monthly reports
Market penetration	% of SEF clients/total households in target areas	Annual reports

Technology:

- o **C**urrently all data is on MS Excel. Unique client IDs are assigned.
- ✓ Using in-house skills to oversee the design of new software developed by SEG Data (Pty) Ltd, (based on Microsoft dot net framework). The new software will integrate social and operational data in the same platform – including PPI information, supporting more analysis, including longitudinal data.
- o Presently, the **new software is being run in parallel** to the existing MIS and data issues are being sorted out; it's expected to be fully functional from November 2012.

HR systems – Alignment with mission & values

- ✓ Adequately staffed HR department based at HO - 4 staff in core team and 6 staff in training team – all with operational experience, led by an HR Manager. Detailed HR manual, updated regularly.
- ✓ The HR team visits 6-7 branches a year to interact with staff and understand the issues.

Recruitment: Thorough process with checks for suitability to SEF's mission and goals

- o Applications are invited mainly through internal references – staff or clients.
- ✓ Selection as Trainee DF is dependent on performance in a basic math test and several rounds of group discussions. Final selection of candidates depends on suitability of attitude, assessed with the help of a personality test. Subsequent posts are usually filled through internal promotions.
- o The staff are on contract for the first year, including a 6 months' probation. On recommendation by the supervisor, contract staff are absorbed as permanent staff.

Training: Rigorous process, mix of classroom sessions and field exposure, regular checks on understanding.

- ✓ 6 months induction – Trainee DFs shadow the DFs while at work. Lessons are reinforced through frequent classroom sessions on mission, vision, operational policies, service quality and behaviour. Regular written assignments based on field observation to build understanding.
- ✓ Trainee BMs also get trained for 6 months – shadowing a BM + classroom training
- ✓ Refresher trainings – based on training need assessments by the supervisors. All staff get trained at least once in 2-3 years.

HR systems – Alignment with mission & values... continued

Staff appraisal/incentives: balance programme growth and quality

- Staff sign performance contracts every year which describe their performance targets.
- The DFs performance are assessed every quarter for achievement of number of groups, client retention and arrears against targets. Management staff are appraised annually.
- The targets are set for every branch based on the age of the branch, penetration level in the area and the projected annual growth rate.
- ✓ The branch audit score is a parameter for BM's appraisal, along with the performance of the DFs reporting to him/her. The Top Management's performances are also judged on operational and social parameters.

- Monthly incentives for field staff; also based on the same parameters.
- ❑ If a DF is managing less than 43 groups (mostly new DFs), all the groups must have repaid on time to be eligible for the entire commission. A similar close to 100% is required for DFs managing more number of groups. This requirement of 100% repayment, especially from new DFs, might encourage them to put undue pressure on the clients for repayments.

- The staff are assigned grades based on their experience and position at SEF. Movement up the grades is based on minimum experience at a level and performance.
- ✓ In case of misconduct or misappropriation of money, staff are dismissed. 15 staff were dismissed last year.

Responsibility to staff

Personal development/Growth Opportunities:

- SEF believes in filling vacancies internally and gives opportunities for field staff to apply to higher posts. Promotions are based on their performance and recommendations by supervisors.
- SEF encourages inter-departmental movements based on the staff's aptitude and orientation.
- The MFI conducts yearly once medical check-up and organises trainings on issues like preventing HIV infection and managing personal finance.

Staff satisfaction/motivation:

- Best performing DFs are identified and given cash awards every quarter. Consistent performance makes them eligible for the best DF of the year award.
- Annual gatherings of all the staff of the zones are organised at the Zonal Head quarters in December. Best DFs and the best BM are recognized in this gathering.
- ✓ A staff satisfaction survey was conducted once, in 2010 – not a regular feature. The results suggested that staff have high job satisfaction and are motivated by SEF's mission and values.
- ❑ It also suggested some remuneration issues (though increases this year have been kept in line with comparable SA organisations); and that staff were looking for more fairness and transparency in the promotion system. SEF has not made major changes in the system, since the study.

Grievance mechanism:

- HR Manual has a detailed process to register grievances. Staff are expected to follow the reporting hierarchy.
- An external complaints cell has been set-up to report sexual harassments. No cases have been reported hitherto.

Staff turnover:

- SEF registered an acceptable rate of staff dropout -10% in 2011-12.
- Exit interviews are conducted; however, results are not analysed. Major reasons for exit according to the management are terminations due to disciplinary actions and better paying jobs.
- 15 staff were terminated in 2011-12 for disciplinary issues.

a	No of staff at the beginning of the year (end of June 2011)	392
b	No. of new recruits (2011-12)	53
c	No. of staff at the end of the year (June 2012)	406
	Turnover [(a+b-c)/ (a+b)]	**10%**

Responsibility to staff

✓ Conditions and benefits for staff are aligned with legal requirements.

Working condition – good	SEF has maintained decent working conditions at the Head Office and the branches visited. The staff seem satisfied with the office infrastructure and the working hours.
Remuneration – reasonable. Increments in line with inflation	Entry level salary is just over the per capita GNI. Annual increments comparable to the lower quartile of companies in SA (industry survey). Incentives+ commission: ~15% of salary. Some of the field staff interviewed were dissatisfied with the compensation package – one complaint is that incentives are not adjusted for inflation.
Leaves – adequate	Staff are eligible for 20 casual leaves a year, and 36 sick leaves every 3 years.
Insurance/medi-claim	All staff are insured under Group life insurance. Three times annual salary to the nominee in case of death, and up to 75% salary every month, in case of disability. Staff are enrolled in a medi-claim policy; SEF contributes 2/3 of what a staff contributes.
Other benefits	Permanent staff are eligible for PF. Staff can take salary advance. BMs are eligible for vehicle loans and staff who were with SEF for more than 10 years are eligible for Housing loan.

Gender:

- ✓ High ratio of women staff across all levels; one woman in the top management.
- ✓ Detailed policy on Sexual Harassment – part of HR manual, and covered in training. Strict action against offenders.
- ✓ Women staff are eligible for 4 months maternity leave and male staff get 3 days paternity leave.
- ✓ Reflecting a general concern in SA, SEF recently conducted a sexual harassment survey among their staff.
  - o Almost one third of staff (men and women equally) reported some experience. The MFI is reviewing the findings.

Management levels	No. of women (total staff)	% women
Top management	1 (9)	11%
Middle management	24 (50)	48%
Field staff	218 (274)	80%
Admin & support	56 (79)	71%
Total	**299 (412)**	**73%**

Internal audit

- **Quality Assurance (QA) team** audits the branches; it also provides coaching to problem branches (high PAR/dropout) on requests from the operations team. The team has 8 Auditors and 2 Coaches.
- ❑ Low frequency - yearly audit or less, by a team of 3 auditors. Only 27 out of 46 branches were audited in 2011-12.
- While 2 auditors are involved in process and documentary checks against operational policies, the third member acts as Social Surveyor (SS). The auditors visit centre meetings, at least one centre per DF.
- ✓ **Scope:** SS was introduced recently to address the quality concerns in social data reported from the branches. SS collects PPI, Business Value and client feedback from a sample of 20-26 clients per branch.
- The focus is presently on collection of quality social data, rather than on verification of the existing data. The R&D team base their analyses on the social data collected by the QA team as it is more reliable. They often check the results with that reported by the DFs; however, individual data points are not verified.
- Client protection aspects like integrity and behaviour of DFs, and timely availability of credit are checked through interviews with clients. They verify if LUCs and adequate spot checks have been conducted.
- ✓ HR issues like performance contracts and availability of HR policy documents are included in the branch score. (Maintenance of branch office is part of audit, but not part of the scoring).
- ✓ Quality of directly implemented non-financial service – TLC – is verified and reported.
- Client feedback and BV data collected during audit is passed to the R&D team for their research. It is not part of audit report.
- **Reporting:** Branches are scored on a scale of 100, and the BMs are eligible for an incentive on this basis (with min. score of 60). Branches are classified based on their performance
- The audit report is presented to the branch for compliance at the end of the process. A copy of the report is also sent to the supervisors (ZMs) to ensure compliance.
- ❑ The internal audit team is not independent from Operations. The QA Manager reports to the COO. The findings are not collated, and are not reported to the Board.

Client Protection

This section follows the seven principles of client protection evolved through the global SMART campaign (www.smartcampaign.org) to ensure that providers of financial services to low-income populations follow transparent and ethical practices in their interactions with clients.

Client Protection: Principle 1

- Client protection issues are fairly documented in manuals and policy documents.
- Reasonable checks have been built in the monitoring and audit systems to ensure compliance.

1 Appropriate product design and delivery:

- SEF offers different options for loan tenure – 4/6 months - and repayment frequency - fortnightly/ monthly. Though all group members must opt for the same terms and frequency, which may limit client choice.
- New clients compulsorily have fortnightly repayments for the first two loan cycles. This is intended to ease repayment discipline. In practice, when new clients join older groups it was observed that they usually get shifted to monthly, and may end up paying an additional fortnightly instalment.
- ✓ Disbursement and collection processes are suitable to the region - safety concerns are addressed. [slide14]
- Levels of credit and savings seem appropriate for the target group. [slide 17]
- ✓ SEF expects clients to use credit for business investments in the first two cycles. Loan utilisation checks are made for this purpose. In response to obvious diverse needs, it was decided in the June Strategic Review to recognise credit uses for other purposes after the 2nd cycle.
- ✓ Introduction of new products/services (recently, TLC) or loan policy changes (savings as a criteria for loan increment) are usually piloted and tested by the R&D team before mainstreaming.
- As per policy, withdrawal from the group account requires SEF's letter of approval to the Bank. However, this depends on the cooperation of the local branch staff. Cases are reported where members withdrew their savings without SEF's consent.

Client Protection: Principle 2

2 Prevention of over indebtedness

- ✓ Limited loan size for first cycle, to ensure affordability. Subsequent increments in loan sizes based on minimum savings, and value and type of client business. Clients cannot increase their size of loan if their business has not grown (as measured by business value).
- ✓ SEF has classified common client businesses to different types and has defined loan limit for each type. This helps in ensuring that the clients are given loan amounts suitable for their business.
- o Small mandatory fortnightly savings supports repayment discipline in clients. SEF believes that regular savings demonstrates clients' ability to take a higher loan in the subsequent cycle.
- o Presently, SEF is thinking of replacing business assessment with savings as a criteria for loan increment. The idea is being piloted in 2 branches, presently [Annex slide 47].
- ❑ Current indebtedness of clients is not checked.
- ❑ SEF does not seek/share client indebtedness data from/with other MFIs operating in its operational area .
- ✓ Staff incentives balance achievement of client numbers along with portfolio quality and client retention.
- ✓ The first module of SEF's financial literacy programme - Technical Learning Conversations (TLC) – is focused on managing debt.
- ✓ SEF allows clients to return loans at no cost after the loan amounts are disbursed/transferred to the groups' bank accounts. Common reasons for return are client's migration to cities, illness or sudden death and family issues (based on analysis of 24 cases by the operations team).

Client Protection: Principle 3

3 Transparency

- Complicated cost components due to regulation; stated in the loan agreement.
- ✓ SEF adjusts pricing terms to comply with regulation on the interest rate (discussed in CPP 4, slide 30). It takes care that total cost to clients and instalments remain the same to avoid confusion for clients.

Stages	Measures
Before group formation	- New group members are trained for 1.5 hours over 2 days on the policies of the MFI
During loan application	- DFs expected to pin a copy of the loan agreement, with terms and conditions of the loans including cost break-up and prepayment conditions, to the group loan cards.
Disbursement	- Loan terms and conditions are explained to the group members before disbursement.
Collection	- A matrix on instalment amounts for different loans is printed on the group loan card, as ready reference for the clients. - DFs expected to paste the receipts for each instalment in the space provided in the group loan card. This is a visible confirmation of payment for the group, and enables clients to count the number of instalments left.

- NCR requires clients be given 5 days to reconsider the terms proposed; stated in loan application form
- ❑ Interactions with clients and field staff suggested that not enough attention is given to ensuring that clients understand varying cost of different loans.
- ❑ Loan amortization schedule is not disclosed to clients. Some of the visited groups did not have the receipts pasted on group cards, neither did they have the copy of loan agreement pinned to their cards.
- ❑ Though SEF only facilitates collection of savings, it needs to give more importance to reconcile the savings as per group card with the bank book. Clients can end up with lower savings than expected. Banks' lack of transparency on costs is one factor. Another may also be lack of accountability within the group, even misappropriations by the group signatories (issues on savings reflected in client feedback – slide 39).

Client Protection: Principle 4

4 Responsible Pricing

- Regulation in 2007 introduced service fee, initiation fee and VAT, and capped the interest rate in relation to the repo rate set by the South African Reserve Bank . SEF accommodated these changes at that time and has not increased the overall pricing of the loan products, since then.
- Cost to clients (EIR), including interest rate (31%), service fee, initiation fee and VAT on the fees (no insurance charge), ranges from 65-89% depending on the loan tenure and frequency of repayments . An average client with 4 monthly or 6 monthly loan is paying an EIR of 84%.
- The return to the MFI is ~75% (weighted APR, excluding VAT, which goes to the government), with a reported yield on portfolio of 64.5%. SEF reports good portfolio quality at 0.2% of its portfolio at risk (over 30 days), and write off of 0.9%. According to the MFI, one reason for the yield-APR gap is the apparent lengthening of loan tenure.
- SEF's cost to clients looks high compared to global averages. However cost of living in South Africa are high, including the staff costs, transport in remote rural areas and bank charges on transactions. The operating expense ratio is 57.5% for 2011-12, of which ~60% is contributed by personnel expenses.
- ✓ SEF attained marginal operational self-sufficiency for the first time in 2012. RoA was 0.4%. SEF expects to remain in profits and increase its RoA to around 6% in the next five years.
- ❑ Clients also incur transaction costs on their savings in the banks (unavoidable) and membership costs including centre savings and fines .

*(EIR and APR calculated by providing for one repayment holiday (3rd fortnight of any month) for fortnightly loans)

NCA Regulations - Developmental credit for small business	
Maximum interest rate*	(Repo rate x 2.2)+20%
Maximum Initiation fee	R250 + 10% of the amount in excess of R1,000; should not exceed R2,500
Maximum Service fee	R50/month, collected monthly or annually
VAT	14% of fees collected

*Repo rate is 5% since July 2012 (reduced from 8.5% in 2009)

Client Protection: Principles 5 and 6

5 Fair and respectful treatment of clients

- ✓ Soft skills for service quality and client interactions are part of all trainings for field staff.
- ✓ QA conducts separate meetings with clients in the absence of DFs to assess staff conduct.
- ✓ Reward for client retention aligns staff interest with respectful treatment of clients.
- ✓ Appropriate and inappropriate behaviours are clearly communicated during trainings; messages are reinforced through the staff pledge, recited before every centre meeting . New cards have been designed and printed, to be pinned on the group cards – stating that SEF does not take away client assets, staff do not handle cash and clients should not bribe SEF staff.
- ❑ Need for appropriate guidelines in case of default. Incentivising 100% repayment can mean that staff put undue pressure on clients.
- ✓ To formalise current practice, there is a new Code of Ethics for staff which specifies rules of conduct and behaviour in interactions with clients. The Code is comprehensive – including penalties, reporting violations, and provision for updating. It is expected to be approved in the next Board meeting.
- ❑ Need to work on better monitoring of client savings.
- ✓ Reasonable systems to guard against frauds. Management asks QA for special audits as necessary.

6 Privacy of client data

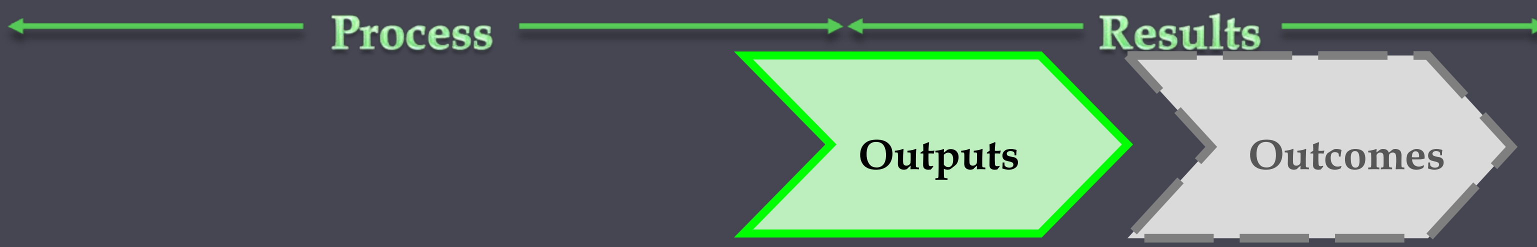
- o The loan application form seeks group's approval to share the data with National Loans Register. It mentions that clients' personal information will not be shared with any other organisations.
- ❑ However, clients we interviewed were not aware of this clause. They did not know the privacy policy - how the information collected by SEF will be used.
- ✓ Confidentiality of clients' personal information is included in the new draft code of conduct.
- ✓ No evidence for misuse of data. The staff with whom the rating team interacted seemed aware of importance of confidentiality of clients' personal details.

Client Protection: principle 7

7 Mechanism for complaint resolution

- According to policy, in case of any queries or issues, clients are expected to contact their DF, or ring BM’s number provided in the Centre Register/ HO number given in the loan application form.
- The National Credit Regulator’s (NCR) number is also given in the application form to comply with the regulations.
- ❑ However, client awareness is low and the process needs to be emphasised in client trainings before disbursement.
- ✓ The new information card (as noted under CPP 5) will include the contact number to report any unacceptable practices.
- ✓ Clients do contact the HO to raise complaints. The receptionist attends the calls and forwards them to the relevant BM/ZM.
- ❑ The complaints are not documented or tracked systematically.
- ❑ SEF is yet to have a policy on timeliness for redressing clients’ complaints. The complaints are not categorised, and time taken for resolution is not tracked or documented.

Results: outputs and outcomes



Outreach – area, Client household profile,

Products – analysis, client awareness, feedback

client dropout

Outcomes

Outreach – Areas

- ✓ SEF works in 5 provinces out of 9 in S Africa. All provinces have high rural poverty. 87% of clients are in Limpopo, Eastern Cape and Mpumalanga, provinces with very high rural poverty rates.
- o No outreach in poorest province.
- o South Africa has high percentage of women-headed households, and incidence of HIV/AIDS across all provinces. Limpopo particularly has a high percentage of women headed households.
- o SEF works in rural and peri-urban areas; it has defined peri-urban as areas in the outskirts of a town/city, but less developed compared to urban areas, and rural areas as villages farther from cities. However, rural/peri-urban data is not reported.
- ❑ SEF reports relatively low penetration in local communities – up to 6% of households (likely to be a higher percentage of targeted PWR households)

Clients by province, by level of development, June 2012

Provinces	Rural poverty (2005-6)[1]	Women headed households[2]	HIV incidence[3] (15-49 years)	SEF branches	SEF clients
S Africa	**61%**	**52%**	**17%**	**46 (100%)**	**87,273 (100%)**
Kwa-Zulu Natal	74%	53%	26%		
Mpumalanga	63%	51%	23%	11%	5%
Eastern Cape	**62%**	**52%**	**15%**	**15%**	**17%**
Limpopo	**60%**	**54%**	**14%**	**54%**	**65%**
Western Cape	55%	51%	5%		
Northern Cape	51%	54%	9%		
North West	47%	51%	18%	13%	8%
Gauteng	36%	50%	15%	7%	5%
Free State	34%	53%	19%		

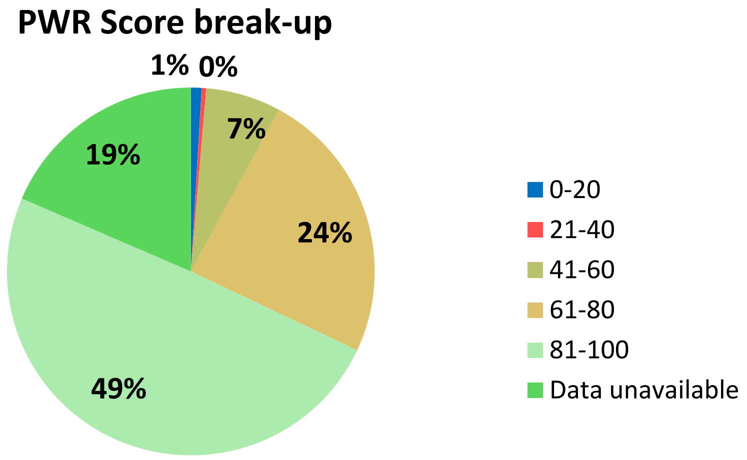
[1]Poverty rate = % rural households < national poverty line [Impact and Expenditure Survey, 2005/6, analysed in PPI design document, 2009, South Africa

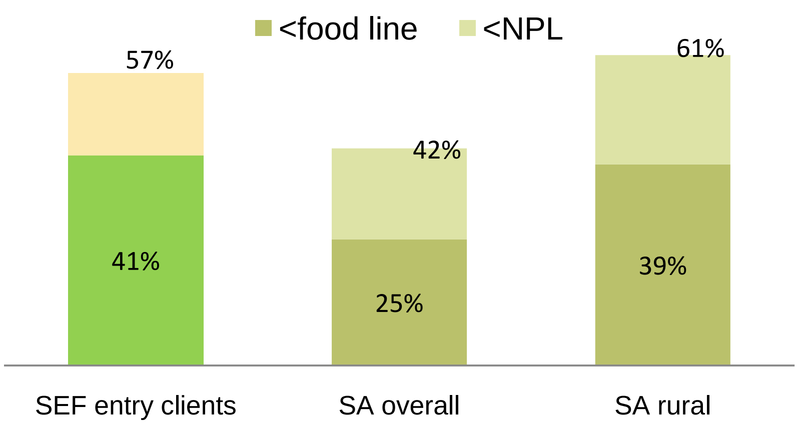
[2]Representative Population Survey, 2007; statistics South Africa

[3]HIV prevalence in 15–49 age group, South African National HIV Prevalence, incidence, Behaviour and communication survey, 2008, Human Sciences Research Council

Poverty outreach

- SEF serves black/coloured population.
- The MFI reports that 89.4% of clients did not have a business at the time of joining (FY2011-12). This reflects zero business value data collected by DFs in the first loan appraisal.
- 23% of SEF's clients receive government old age grants (pension of R1,200 per month).
- No data on women headed households or number of clients with child grant from government.
- 42% of SEF's clients have more than 90 PWR score, the level regarded by SEF as very poor.
- ✓ PPI analysis for a sample of entry level TCP clients in 23 branches shows 57% below the national poverty line (NPL), 41% below the food line. (Data shows not much difference to MCP clients).
- ✓ SEF data indicates 15% of clients are in the first cycle. This works out to ~19,000 new clients below NPL in 2011-12.

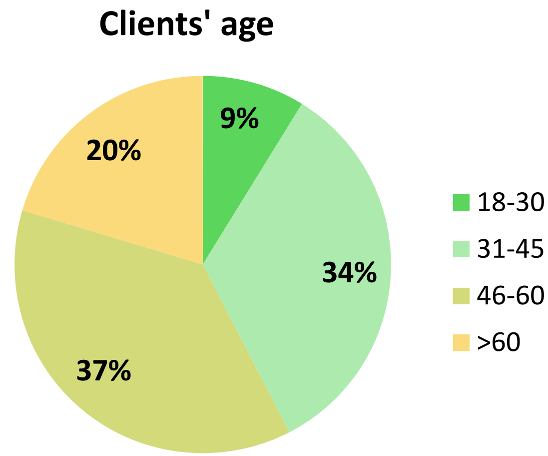




*Sample of 735 new TCP clients, since 2011

Client profile

- The majority of SEF's clients are over 45 years: 37% 46-60 years, 20% > 60 years.
- 28% have more than 6 members in their household (country average is 4.2)
- Around one third have over 5 years business experience.
- 25% of clients received income from *stockvel*s last year. (*Stockvel*s are informal ROSCAs of 10-12 members.)



- Household indicators from the PPI reflect the range of quality of life indicators: 85% live in basic mud or concrete houses, around one quarter have no TV and no fridge, one third use wood or dung for cooking. The majority use a pit latrine typical of the region.
- By contrast, 61% use gas or electricity for cooking; 16% own a car, 26% use a microwave.

PPI indicators		
House walls	- mud/concrete/others	85%
	- asbestos/bricks	15%
No TV		22%
No fridge		26%
Cooking Fuel	- wood/dung etc	35%
	- paraffin/coal	3%
	- gas/electric	61%
Toilet	- pit latrine/bucket/others	77%
	- flush/chemical	23%

[PPI survey of 519 TCP clients in Mpumalanga province, R&D].
The data has been collected on a rolling basis since October 2011.

Financial services

Credit

- 62% clients have 6-monthly loans, 38% have 4-monthly loans
- The majority (82%) opt for monthly payments. Fortnightly payments are mandatory for the first two cycles, though when new clients join existing groups, in practice, these fortnightly payments are adjusted to monthly.

Loan type

Loan tenure	Repayment frequency	% clients
4 month	Monthly	28%
	Fortnightly	10%
6 month	Monthly	55%
	Fortnightly	7%
10 month	Monthly	0.3%

Savings

- The majority of clients are saving regularly.   12% of centres do not meet the mandatory savings requirement - which SEF tracks as part of vulnerable centre tracking.
- ✓ Clients may withdraw their savings after the loan cycle, or in case of emergency and to help recapitalise in case of default.

Credit amounts and use

- SEF offers new clients R1,000 in their first cycle, and a maximum 40% increase in each subsequent loan. This implies that a client can get a loan of >= R2,000 after the first 3 cycles.
- However, while SEF has only 15% first cycle clients, 35% of the loans disbursed are </= R1,000. Similarly, though 59% of the clients are in cycle 4+, only 30% took loans above R2,000. With a maximum loan size offer of R15,000, only 2% of loans are above R9,000.
- Clients use credit to invest in their small businesses (mainly trading), or for other purposes like house repair and children's education.
- SEF's data comparing loan amounts to business value (collected independently by QA) may reflect limited market potential (clients may sell from home, or go to the government grant point on days when the village receives grants) and clients' inability to grow their businesses.

Clients by loan cycle

Loan cycle	% clients
Cycle 1	15%
Cycle 2-3	26%
Cycle 4-6	24%
Cycle 7-10	17%
Cycle 11+	18%

Loan sizes [FY 2011-12]

Loan size (R)	No of loans	%
</= 1,000	33,727	35%
1,001 - 2,000	33,834	36%
2,001 - 3,000	15,296	16%
3,001 - 6,000	9,074	10%
6,000 - 9,000	1,693	2%
> 9,000	1,491	2%

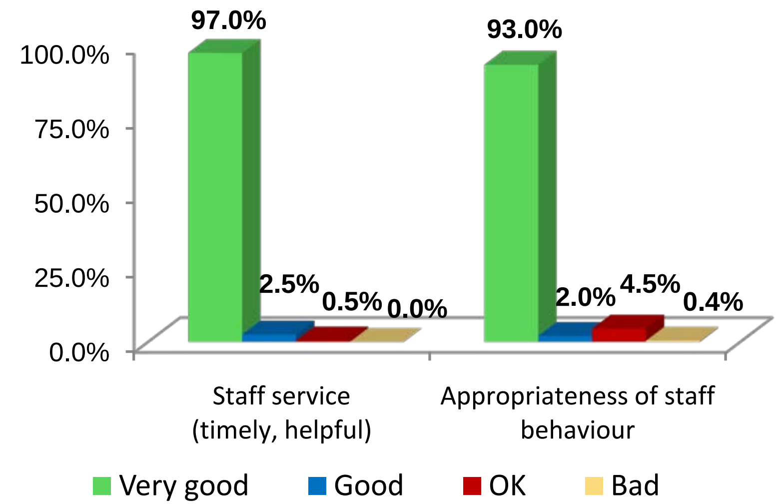
Business value by loan size[FY 2011-12]

Loan amount (R)	Av. business value (R)
<1,000	338
1,001-2,000	732
2,001-3,000	932
3,001-4,000	1,017
4,001-5,000	1,073
>5,000	4,966

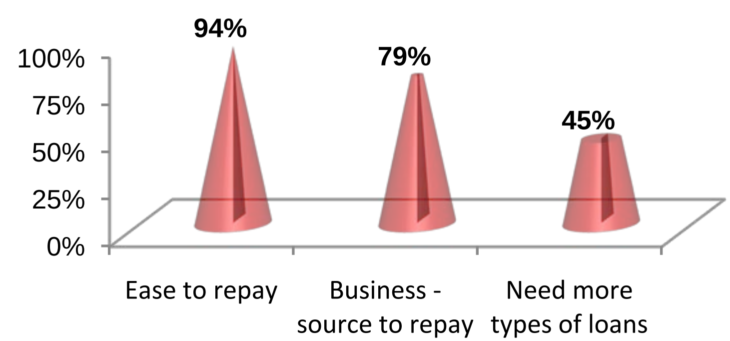
Client feedback – SEF data

- Vulnerability centre tracking indicates that 61% of centres have lower than 80% attendance. This suggests some issues in terms of programme expectations.
  - M-CRIL's analysis of some of the client feedback data collected by QA for 446 clients across 25 branches (since January 2012) suggests that clients are mostly satisfied with SEF's services.
  - ✓ 98.5% clients were happy with staff service, 95% with staff behaviour.
  - ✓ 95% found groups supportive/very supportive
- 6% faced difficulties to repay their loan.
  - 79% use earnings from business to repay their loans, 21% depend on other sources (grants, pensions, own savings and borrowings from other sources).
  - 45% of the clients felt the need for more types of loans (for other purposes than business) from SEF.
- One in four say that savings are used for patching in case of default, or are withdrawn by other members – contrary to policy.
  - No difference in responses for poor clients (PWR>=90) .

Client feedback on staff performance



Client feedback on loan types & repayment



Client feedback: Financial services [M-CRIL FGDs, 3 centres, 2 branches]

- Clients are mostly aware of joint liability, repayment tenure and death write-off policies of SEF, and partially aware of rescheduling policy.
- Clients remember the total instalment amount, but do not know the interest principle break-up of the instalments. Clients are also not aware of a grievance mechanism.
- ✓ The clients visited are satisfied with SEF's credit service. They gave positive feedback on staff behaviour and on loan terms and conditions.
- Clients end up with lower savings than they expect
- Clients can face difficulties in their interactions with the local banks – they may face delays, and communication on costs is not transparent.
- ✓ SEF invests considerable time, particularly at BM level, in trying to ease the banking interactions of their clients.

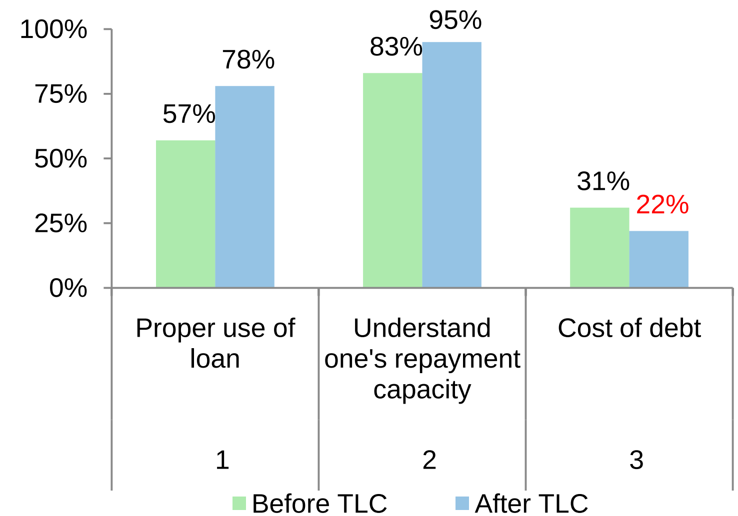
Client Awareness on	Level of awareness
Group liability	High
Interest rate (EIR)	Low
Repayment tenure	High
Rescheduling	Moderate
Death write-off	High
Grievance process	Low

Client protection	
Groups possess updated loan cards	Yes
Receipts issued to the groups for all repayments	Mostly
Clients explained all the terms and conditions before taking the loan	Mostly
Abusive behaviour to group members, or threats to their families	No
MFI staff asking gifts, bribes etc.	No

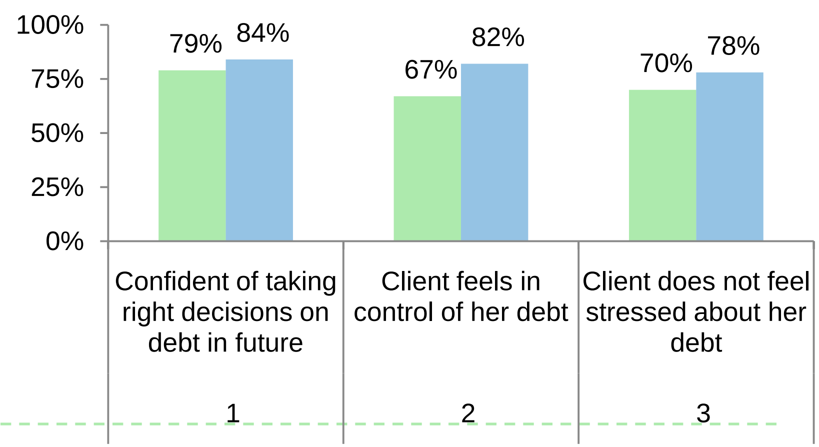
Client response: non financial services – SEF monitoring

- The R&D conducts a mini-survey of clients' awareness before and after the 7 month TLC training.
- Analysis of the survey for the first module (pilot) (debt management) suggests quite high levels of client awareness and confidence, even before the training, with some improvements on most parameters after the training.
- Understanding on cost of debt, anyway low, seems to have reduced after the training.
- 84% clients were confident of taking right decisions on debt in future, a 5% increase from the baseline. 82% feel in control of their debt, a 15% rise from the pre-programme level. 78% of the clients do not feel stressed about their debt after the training.
- ✓ 62% of the clients said that they shared their learning from the programme with other women.

Client awareness – before and after TLC



Client confidence – before and after TLC



Mini survey of 65 sample clients .

Client retention

- ✓ SEF considers client retention as an important proxy of client satisfaction and client retention is a performance criteria for staff at all levels. However, the MFI does not differentiate client exit by dropouts or graduates.
- ❑ A certain level of dropout is expected, of around 20%, based on experience. The MFI does not want to force clients to reborrow, however the group based model lacks the flexibility to allow differences within groups, and for clients to rest for a few months after repaying a previous loan.
- ✓ Client dropout is at a similar rate for the very poor (PWR>=90), slightly higher for clients in cycle 1-4.
- ✓ Overall, client exit is reducing (whether calculated by SEF's or the MIX formula).
- o Reasons for dropout are noted on the group card which is maintained by DFs and kept at the branches. This information is not collated or analysed across the MFI. Field discussions indicate that 'resting' between loans or 'forced removal by other group members due to disciplinary issues' are the main reasons for dropout. Other reasons are relocation to other areas, getting a full time job, or health issues.
- ✓ BMs follow up with dropouts to encourage them to rejoin.

Client dropout rate: 6 month rolling basis, as calculated by SEF

	June'10	June'11	June'12
Client dropout	22%	18%	18%
Clients with PWR score >=90	22%	18%	17%
Clients in 1-4 cycles	25%	20%	20%

SEF's formula: (# clients who have not taken a repeat loan during the 6 months plus 1 month)/ (# clients who have completed a loan in the 6 months)

Client retention rate, MIX formula

	Clients:	FY 2010-11	FY 2011-12
a	At the beginning of the year	64,030	74,345
b	New joiners during the year	28,985	33,424
c	At the end of the year	74,345	87,273
	Client retention [c)/(a+b)]	80%	81%

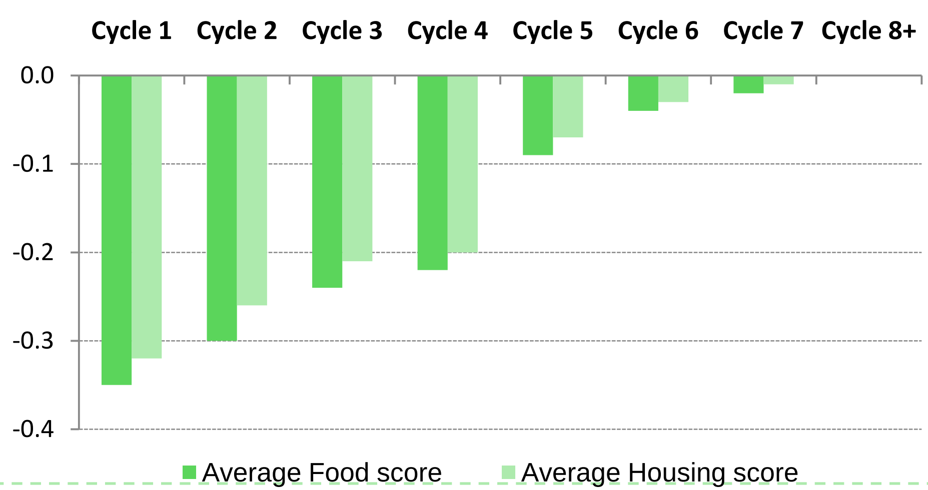
Outcomes

[SEF's MIS, June 2012]

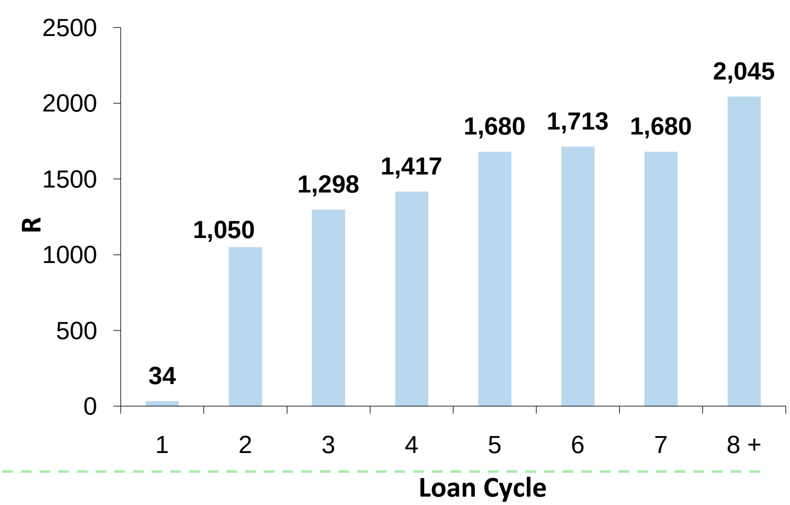
- **Portfolio data** There are small increases in average loan size and savings by cycle.
- **Business value data** collected independently through QA gives ambiguous findings, with loan amounts apparently higher than the estimated business value.
- **Housing and food scores** indicate a positive trend: clients in later cycles (up to 8) score themselves higher than do clients in earlier cycles. Though, the average score remains just negative for both the parameters on a scale of -2 to 2.
- Note: the data does not cover progress over time for the same client, nor is there analysis of distribution around the averages.

Loan cycle	Av. loan size (R)	Av. savings (R)
Cycle 1	962	171
Cycle 2-4	1,638	288
Cycle 5-7	2,196	337
Cycle 8-10	2,653	369
Cycle 11+	3,714	483

Average food and housing scores by cycle (June 2012)



Average of Business Value (June 2012)



Impact: IMAGE programme data

- ✓ The NGO IMAGE programme represents a core initiative in a country that has the world's worst HIV epidemic. IMAGE has received research attention with randomised control trial design supervised by the University of Witwatersrand (SA) and the London School of Health and Tropical Hygiene (UK). Data was collected in Limpopo in 2001/2 and 2004, covering 4 IMAGE treatment villages, and 4 control villages without IMAGE, and ~400 households in each.
- ✓ A number of reports using this data and published in established international journals, indicate statistically robust and positive results, with economic improvements accompanied by greater autonomy (61% challenged established gender roles compared to 43% in control group); less domestic violence for women (reduced from 11% to 6%); and greater awareness, communication on HIV and sexuality. [Details of sample and results published in the Lancet, 2006, Annex, slide 49].
- o The IMAGE data did not survey clients with only microfinance. In 2006, an additional survey was conducted in 4 villages with SEF microfinance, average 3 loans (range 1-8), mean loan size R1,322 ($160, range R200-4,000). This data was used by a Board member, Marie Kirsten, for her PhD research, comparing with the 2004 control sample. Whilst recognising issues with the data, (limited time of 2 years, self-selection bias, not a longitudinal survey) her recent presentation to the Board highlighted the following:
  - Mixed findings on empowerment results (more positive for control group)
  - Positive results from microfinance for livelihood security (food security, basic needs) and well-being (perception of own wealth and well-being)
  - Municipal services and government grants (old age, child support) have increased since 2004, and clearly contribute to welfare and security of the poor; controlling for these factors, microfinance can serve to improve livelihood security.

Data table, Annex, slides 50-51

Annexes

List of Board members
Loan products
Pilot test - Alternate model to decide loan size
Audit scoring and commonly reported findings
Abbreviations
Glossary
M-CRIL social rating grades

Board members

Name	Position on Board	Area of specialisation	Board member since:
Ms. Sizeka Rensburg	Chairman	Economic Development	2002
Mr. John de Wit (Founding Member)	Executive	Microfinance	1991
Mr. Matome Malatji (Founding Member)	Non-executive	Community Development	1991
Ms. Marie Kirsten	Non-executive	Economic Development	1996
Mr. Mutle Mogase	Non-executive	Investment & Finance	1998
Mr. Sanjay Doshi	Non-executive	Business Operations	2001
Ms. Olivia van Rooyen	Non-executive	Development Sector, including Micro Finance	2006
Ms. Charmaine Groves	Non-executive (investor nominee)	Financial Services	2008

Loan Product

Product	Loan type 1	Loan type 2	Loan type 3	Loan type 5	Loan type 9
Loan term (months)	10	4	6	4	6
Repayment frequency	Monthly	Fortnightly	Fortnightly	Monthly	Monthly
% clients	0.3%	10%	7%	28%	55%
Latest modification	Introduction of various fees and VAT, in 2007, to comply with new regulation in that year; VAT = increase over previous interest rate charged				
Method of lending	Group				
Loan size (Rs)	R500-15,000				
Guarantor	Joint Liability				
EIR*	89%	74%	65%	84%	84%
Mandatory savings	R20 per fortnight				
Insurance charge	Nil				

* EIR calculated for R2000 for each of the loan, by providing for one repayment holiday (3 fortnights in a month scenario) for fortnight loans.

Pilot test - Alternate model to decide loan size

- SEF takes decision on size of loans based on DF's evaluation of clients' businesses
- However, the evaluation involved subjectivity at the DF level, and issues with quality of business data collected have been reported.
- SEF plans to introduce a more systematic continuous assessment, which will reduce the workload of field staff, thus allocating more time to visit vulnerable clients and support collection of social data like PPI.

BV Pilot

Areas: Jane Furse and Ga-Chuene branches

Concept: Clients can save 2% of loan amount every fortnight, maintaining 10% (of loan amt) as minimum balance during the loan tenure to qualify for a 40% increase. Business evaluations need be done only for clients who are not eligible by savings alone.

Mainstreaming: Pilot will be extended to two more branches this year. Will be mainstreamed after the results are analysed.

Internal audit scoring, commonly reported findings

Branch Score	Classification	No of branches#
96% – 100%	No Problem	1
76% – 95%	Isolated	20
51% – 75%	Pattern	6
0 – 50%	Wide-spread	0

Only 27 branches were audited in 2011-12

BMs are not eligible for audit incentives if their branches score less than 60%

Findings commonly reported:

- LUC not conducted
- Debtors card not updated (Branch office's copy of the group loan card with observations about the members)
- Centre meeting books not updated
- Deviations from loan size policy
- Discrepancies in savings as per the group card and savings book
- BMs not making required number of spot checks
- Issues with centre discipline and leadership

Results of RCTs of IMAGE

	Baseline (2001/02)		Follow-up (2004)	
1) Programme participants	**Intervention**	**Control**	**Intervention**	**Control**
Sample size	426	417	387	363
Membership in savings group (stokvel)	24%	12%	36%	15%
Greater food security	56%	45%	87%	84%
More self confidence*	-	-	73%	63%
Greater challenge of established gender roles	37%	48%	61%	43%
Communication with intimate partner about sexual matters in past 12 months	-	-	90%	80%
Communication with household members about sexual matters in past 12 months	-	-	86%	55%
Controlling behaviour by intimate partner - past 12 months	35%	22%	34%	42%
Experience of intimate-partner violence - past 12 month	11%	9%	6%	12%
2) 14–35yr old household co-residents (sample size)	**725**	**730**	**542**	**517**
Communication with household members about sexual matters in past 12 months	47%	46%	66%	50%
Comfortable discussing sex/sexuality issues at home	49%	48%	62%	48%
Knowledge that a healthy looking person can be HIV positive	61%	57%	84%	75%
3) Similar results for randomly selected community members in both intervention and treatment villages – for both baseline and follow-up				

[Lancet, 2006, 368: 1973-83]

Comparing with and without microfinance

Selected indicators	Without mf	With SEF
Year of data	2004	2006
Sample (matched by PWR)	343	366
Has child support	6%	44%
Has pension	11%	27%
With current debt	27%	69%
Borrowing from MFI/NGO	0.3%	37%
Feel better off than 2 years before	37%	44%
Those with Child Support Grant, feel better off	46%	54%
In last month, only ate pap or bread - never	42%	80%
In past year, never : had to ask neighbours for food or money	33%	72%
went without new clothes	26%	66%
without basic household items for cleaning, cooking	42%	71%
In past year, things went well, normally	51%	74%
Those with grant (child support or pension)	59%	81%
Able to get small emergency loan when needed	7%	46%
Own > 4 cows	3%	7%

Data analysed in PhD Thesis, Improving the well-being of the poor through microfinance: Evidence from SEF, SA, Maria Kirsten, 2011

Abbreviations

APR	Annualised Percentage Rate
BM	Branch Manager
BV	Business Value
CAGR	Compounded Annual Growth Rate
COO	Chief Operations Officer
DF	Development Facilitator
GNI	Gross National Income
IMAGE	Intervention with Microfinance for AIDS and Gender Equity
MCP	Micro-Credit Programme
M-CRIL	Micro-Credit ratings International Limited
MD	Managing Director
MFI	Micro-Finance Institution
MIS	Management Information System
NGO	Non-Government Organisation
NPL	National Poverty Line
PAR	Portfolio at Risk
PPI	Progress out of Poverty Index
PWR	Participatory Wealth Ranking
RoA	Return on Assets
SEF	The Small Enterprise Foundation
TCP	Tšhomisano Credit Programme
TLC	Technical Learning Conversations
ZM	Zonal Manager

Glossary

APR: The annual rate that includes all fees, expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan.

CAGR: Smoothed annualized change over a given time period. CAGR = [(final value/beginning value) ^(1/# of years)] - 1

Client retention: #clients at end of the year /(# clients at beginning of the year + # new clients joined during the year)

GNI: Gross National Income comprises the total value of goods and services produced within a country, together with its income received from other countries (interest, dividends, etc.), less similar payments made to other countries.

HDI: Human Development Index is a composite statistic of life expectancy, education, and income indices.

National poverty line: R13.89/person/day (R1,750/household/m) in 2005; updated for inflation (CPI) to R2,573 for 2011

National food line: R9.10/person/day (i.e.R1,147/household/m) in 2005; updated for inflation (CPI) to R1,685 for 2011

OER: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio

FCR: Ratio of financial expenses to the average loan portfolio (This should differentiated form the cost of funds calculated on long term borrowing)

PAR: Ratio of the principal balance outstanding on all loans with overdue greater than or equal to 60 days to the total loans outstanding on a given date.

PPI:A set of proxy indicators that are used to score the likelihood that clients fall below a particular poverty line. Statistically derived from the National Income and Expenditure survey(2005/06)

PWR: A participatory process involving the community to rank the households in a village based on their perception of relative poverty (higher the score, poorer the household)

RoA: Annual profits before grant upon average assets

Staff turnover: # staff who left or were dismissed/(# staff at beginning of the year + # new staff joined during the year)

Yield on portfolio: Annual income from portfolio upon average loan portfolio

M-CRIL social rating grades

M-CRIL Grade	Description
$^{\Sigma}\alpha+$	Strong social commitment, excellent systems, evidence for strong and comprehensive adherence to social mission and values.
$^{\Sigma}\alpha$	Strong social commitment, very good systems, evidence for good adherence to social mission and values.
$^{\Sigma}\alpha-$	Strong social commitment, good systems, evidence for good adherence to social mission and values.
$^{\Sigma}\beta+$	Good social commitment, reasonable systems, evidence for reasonable adherence to social mission and values.
$^{\Sigma}\beta$	Good social commitment, moderate systems, evidence of partial adherence to social mission and values. Many aspects of social performance need to be institutionalized.
$^{\Sigma}\beta-$	Weak social commitment, weak systems, evidence of partial adherence to social mission and values.
$^{\Sigma}\gamma+$	Weak social commitment, weak systems, no evidence reflecting social mission or values.
$^{\Sigma}\gamma$	Very weak social commitment, very weak systems, no evidence reflecting social mission or values.

***Grade $\Sigma\alpha+$ also requires significant poverty outreach, in addition to performance in other aspects.**

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution may lower its rating performance by one notch in one year period.