



BNP PARIBAS

**SOCIAL AUDIT
THE SMALL ENTERPRISE FOUNDATION
JUNE 19-23, 2017, TZANEEN**

**CERISE – SPI 4 ASSESSMENT TOOL
PERFORMED BY BNP PARIBAS
Auditors: Sébastien Cretier & Wim Beckers**

Executive Summary

SEF is the biggest provider of microfinance loans in South Africa, serving approximately 140.000 clients using a group lending approach. The organization, with over 700 employees, has a clear mission to provide financial services to the poor and very poor. Strongly promoted internally, the mission has been well translated in the daily operations, resulting in a successful client outreach. Both board members and management members do benefit from extensive experience in the social sector, leading to adequate governance and follow up on SEF's social goals.

SEF manages to successfully target the poor and the very poor. Social indicators, such as exit rates and savings accumulation, are being produced and reported on a monthly basis. Further building on its efficient reporting, SEF could benefit from further differentiating its client base between the poor and the very poor in a systematic way. The company is also looking into further diversifying the range of social indicators being monitored.

Products, services and delivery channels are very well adapted to the clients targeted: women operating businesses in rural areas. On top of providing loans, SEF also offers non-financial services, such as trainings on how to run a business, and sensitization training on AIDS and gender equity. A possible downside of the current lending approach could be that clients tend to refinance their loans without clear business needs. The current pilot project on the introduction of a resting period could bring a solution. SEF has conducted a survey in 2013 on the correct utilization of loans. Follow-up on this item is advisable.

SEF treats its clients in a very responsible way, providing transparent, fair and respectful services, protecting the customers' interests at all times. Any over-indebtedness is being prevented by a business valuation and through the client meetings, where the community takes the role of a 'credit committee'. Procedures and credit documents are very transparent, and customers benefit from a strong client protection (e.g. in case of arrears or illness). SEF tracks customer satisfaction by conducting surveys on a yearly basis. Joint analysis of these surveys with complaints trends could help SEF in further optimizing its operations in the future.

SEF also strives to be an excellent employer, and succeeds in treating its employees responsibly. HR procedures are very precise and well formalized. SEF staff enjoys many benefits, such as regular trainings, health checks and roadshows where essential information is communicated. Salaries and incentive schemes have been set in line with the company's social goals. The introduction of an employee satisfaction survey could possibly lead to an even better understanding and servicing of the staff's needs.

There is a very sound balance between SEF's financial and social performance. As a non-profit organisation, SEF clearly keeps focus on social aspects at all times when taking decisions. At the same time, the company safeguards its financial viability, amongst others by maintaining well diversified sources of funding and a rigorous control of important financial parameters. SEF has managed to reach financial self-sufficiency over consecutive years.

In conclusion, SEF gives strong evidences of successful social performance management. In order to further pursue its social mission, SEF could liaise even more with other large international social players to benchmark its own processes and share its best practices.

Social Dashboard

SPi4 SOCIAL DASHBOARD



SEF	South Africa	Since 1992
NGO	Non profit	As of date: 30-Jun-16
Type of assessment: Accompanied Self-Assessment (ASA)		Organization of auditor: BNP Paribas

MISSION STATEMENT

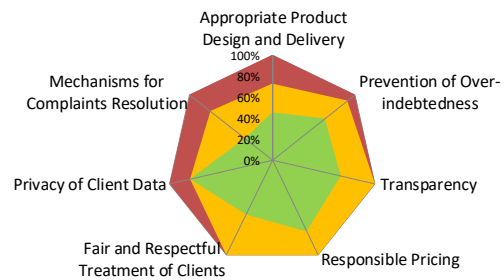
To work aggressively towards the elimination of poverty by reaching the poor and very poor with a range of financial services to enable them to realise their potential

UNIVERSAL STANDARDS

76%



CLIENT PROTECTION STANDARDS (LIGHT ASSESSMENT)



This graph represents scores which does not include the compliance criteria required for a complete Client Protection Certification.

Comments on your adherence to Universal Standards

Comments on your adherence to Smart Campaign Principles

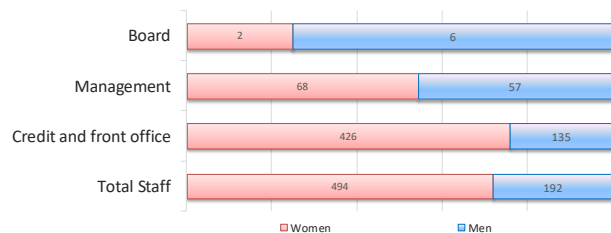
CONTEXT & FINANCIAL INFORMATION

Financial data on the date of: 30-Jun-16

Total number of clients	138.827	Total Assets, volume, ZAR	292.617.494
Number of branches	77	Return on Assets	0.4%
Number of branches in rural areas	77	Return on Equity	3%
Number of active borrowers	138.827	Financial Expense Ratio (as a % of average GLP)	92%
Number of outstanding loans	28.800	Operating Expense Ratio (as a % of average GLP)	82%
Amount of Gross Loan Portfolio in ZAR	287.433.246	Operational Self-Sufficiency	102%
Number of voluntary savers	138.827	Nominal Portfolio Yield	99%
Number of women voluntary savers	138.667	PAR >30 + rescheduled	1%
Amount of voluntary deposit in ZAR	0	Write-offs (during the period)	1%
Amount of total deposits in ZAR	65.206.228	Loan Loss Expense Ratio	1.5%

BOARD AND STAFF COMPOSITION




Number of staff	686
Staff turnover rate	16,1%
Staff productivity (outstanding loans / field staff)	51
Social performance criteria in employee appraisals	Yes



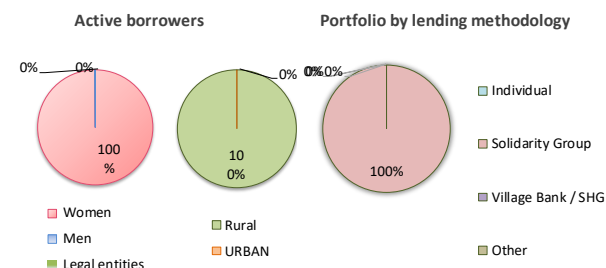
KEY CHARACTERISTICS OF LOANS

Lending Methodology	Solidarity Group	
Outstanding loan balance per borrower	14,0%	of GNI/capita
Interest rate method	Flat interest method	
Average APR	62%	per year
Borrowers retention rate	75%	per year

RESPONSIBLE FINANCE INITIATIVES

	Endorser?	YES
	Certified?	
	Reporting of social data?	Irregular reporting

SEGMENTATION OF LOAN PORTFOLIO



MOST RECENT SOCIAL RATING

Agency	Date	Result
M-CRIL	1-sept.-12	Σα

CLIENT SATISFACTION

Number of complaints received in the last 3 months?	Client satisfaction rate in recent satisfaction survey	90%
---	--	-----

FINANCIAL SERVICES

Loans	Yes
Microenterprise loans	Yes
SME loans	Yes
Loans for agriculture	No
Express loans	----

Loans for education	----
Housing loans	----
Emergency loans	Yes
Other microcredit for consumption	----

Deposits	No
Checking accounts	No
Voluntary savings accounts	Yes
Compulsory savings	No

Demand deposit accounts	----
Fixed term deposits	----
Special purpose savings account	----

Compulsory Insurance	----
Voluntary Insurance	----
Credit Life insurance	----
Life/accident insurance	----
Agriculture insurance	No
Health insurance	----

Other financial services	----
Debit / credit card	----
Scholarships/educational grants	No
Mobile banking services	----
Savings facilitation services	----
Remittance/money transfer services	----

NON FINANCIAL SERVICES

Enterprise services	All clients	Health services	No
Education services	No	Women's empowerment services	All clients

Detailed Social Audit Findings

1 - Define and monitor social goals



- ✓ Strong mission statement, translated into clear strategy and well established operational processes
- ✓ Extensive experience at Board and Management level on MFI's
- ✓ Promotion by the management of the social goals and results throughout all layers of the organisation (roadshows / newsletters)
- ✓ Effective client targeting by use of PWR and PPI indicators
- ✓ Social indicators such as exit rates and number of clients are deeply embedded within the daily operations. Strong data collection, controlled by the Quality Management Department, enables regular management and board reporting
- ✓ Strong efforts by dedicated department (R&D) to analyse and understand the social impact of the organization
- ? No full alignment between mission statement and daily operations:
 - no mentioning of non-financial services (educational programs)
 - disaggregated data between the poor and the very poor present at Board level, in line with mission statement; could be used more systematically in regular operational reporting

Historically embedded in the organisation, the SEF Social Mission and Strategy are strongly promoted internally, resulting in successful client outreach

2 - Commitment to social goals



- ✓ The Board is close to operations and well informed on social results through regular solid and detailed reportings produced by operations
- ✓ Appraisal mechanism is based on social targets at every level of the organisation (Board, Management, employees)
- ✓ Incentives are being based on social performance indicators
- ? Social Performance Committee has been dormant for a while. It has been reactivated recently
- ? SEF could apply a systematic client segmentation in all its social indicators, to be able to differentiate even more between evolution of the poor and very poor
- ? SEF could further diversify its range of social performance indicators (e.g. % of loans used for businesses)
- ? SEF could investigate ways to further systematically track progress out of poverty, as a parameter in the daily reporting (e.g. by using PPI)

Board, Management, and Employees are fully committed to social performance, which can be further optimized in terms of social indicators

3 - Design products that meet clients' needs



- ✓ Product is well adapted to the target population (easy to understand, simple terms & conditions, no collateral, no arrears punishment, progressive loan size, possibility to create or support businesses)
- ✓ Women from rural areas benefit from additional non-financial services offered (TLC, AIDS program, gender-equality, savings program)
- ✓ Huge on-the-field presence, resulting in low-barrier entry for clients
- ✓ Partnership with post office leads to securing money transfers
- ✓ Powerful lending model, based on group lending, with acceptance by the community center, leading to marginal write-offs for SEF
- ? Embedded in a strong social community, clients could feel the urge to renew loans, without clear business needs, and in the absence of a resting period possibility (attention point: assess impact on the financials)
- ? Conducted survey and discussions on the field lead to question marks on the real utilization of the loans (68% correct loan usage)
- ? Towards the future, SEF could question its basic product offering and investigate other products, repayment periods, ... always bearing in mind the target population's needs.

Products, services and delivery channels match very well with SEF's client base. Loan utilization remains an attention point for the organization

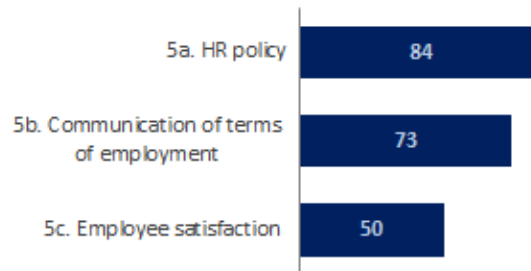
4 - Treat clients responsibly



- ✓ Good prevention from over-indebtedness through multiple client meetings and centralised decision making process
- ✓ Very transparent procedures and documentation (green cards visualizing very well repayment and savings schedules)
- ✓ Adequate and regular training of the clients to educate them on financial products and sharing of best practices on business creation
- ✓ Strict procedures applied in the center meetings, in order to create trust and respect in the community
- ✓ Strong client protection in case of arrears (no extra fees) or serious illness
- ✓ SEF is conducting customer surveys annually, helping them to better understand client needs
- ? Consecutive client satisfaction surveys reveal similar attention points
- ? Even though SEF offers multiple tracks to address complaints, there is little evidence of a direct link between complaints analysis and changes in operations.

Close to its clients, SEF is providing transparent, fair and respectful services, protecting the customer's interests at all times

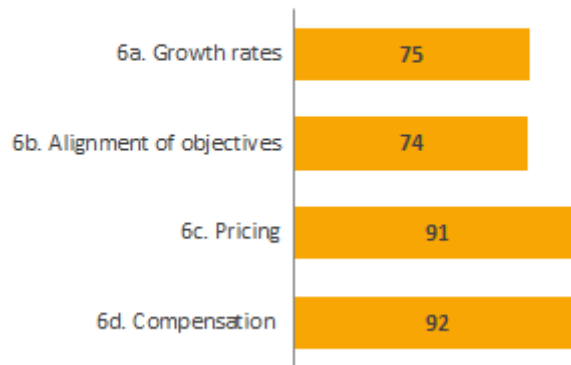
5 - Treat employees responsibly



- ✓ Very precise, formalized HR procedures and employment contracts
- ✓ SEF gives clear proof of caring well of its employees (e.g. through regular trainings, health checks, roadshows)
- ✓ Adequate application of all HR policies concerning compliance issues, such as misconduct and irregularities
- ✓ 2017 target to initiate a training on giving and receiving feedbacks (from employee to manager and the other way around)
- ✓ Incentive schemes triggering employees to perform above budgets, without conflicting with SEF's social goals
- ✓ Precise measuring and monitoring on employee turnover rates
- ? Although HR policies and management treat employees respectfully, the absence of a formal employee satisfaction survey limits potential further improvements

SEF treats employees in a very respectful, responsible way and could gain further from installing a regular employee satisfaction survey to go the extra mile

6 - Balance social and financial performance



- ✓ Realistic differentiated budgets, matching each zone's potential
- ✓ Clear and direct link between budget growth targets and operational capacity
- ✓ Well diversified sources of funding, resulting in a broad offer of existing and potential funding providers
- ✓ Portfolio at risk is well monitored, controlled and duly reported
- ✓ Adequate pricing towards customers, excluding any hidden or additional fees for ad hoc services
- ✓ Financial self-sufficiency reached and sustainable over time (consecutive years)
- ✓ Shareholder structure without any profit interests. Profits are reinvested within the company
- ✓ Financial ratios are consistent with SEF's social mission (ROA, ROE, APR, LLER)
- ✓ Sound salary benchmarking for the entire company

SEF has managed to become self-sufficient and create a solid financial base, while still safeguarding its social goals

Transversal Findings

- ✓ Rigorous routine audits on the operational field, to perform compliance checks. Frequent reporting on these topics towards branch managers and MD if necessary.
- ✓ Creation of an internal audit team will strengthen SEF's capacity to continuously challenge status quo in all departments and create a change culture. Internal audit could also look at integrating social performance related criteria in their activities

- ✓ Very strong IT environment, including performance capacity monitoring, safety measures, alerting mechanisms
- ? Necessary alignment between IT capacity and growth of business in terms of security and performance (e.g. transfer of key applications to a third party data server)

- ? Identified business continuity plan on the IT side; lack of formalized plan on the operational side
- ? Crisis management communication could be established

- ✓ SEF has drawn up a strategic plan for the coming years with quite a few projects moving forwards
- ? Prioritization and risk assessment are keys in this institutional change process. Total Quality Management approach will help SEF on this matter (already identified by the organisation)

- ? SEF is the biggest provider of micro-credits in South Africa. If possible, the company could further investigate international benchmarking possibilities. More concretely, SEF could connect more internationally to receive updates on relevant Social Performance Management initiatives, such as SPTF, Smart Campaign, and Social Performance related regulation.

- ✓ The current pilot of moving (part of the) head office to Gauteng could result in attracting and retaining different talented profiles

- ✓ SEF's brand has become well recognized over time by general public
- ? A strong brand creates expectations around high level of service, timely delivery, stability and operational excellence
- ? SEF's brand has become its major asset and it creates de facto an increasingly reputational risk that needs to be managed (crisis management protocols)

Action Plan

ACTION	PRIORITY (high / medium / low)	IMPACT (high / medium / low)	TIMING (deadline)	RESPONSIBLE (who?)
Introduction of an employee satisfaction survey				
Systematic client segmentation (poor and very poor)				
Further diversification of social performance indicators if applicable				
Implementation of the resting period possibility				
Activation of a regular loan utilizations survey				
Joint analysis of the customer survey results and the complaints trends leading to changes in the operational processes				
Reactivation of a regular Social Performance Committee				
Signature of the code of conduct by the board members				