SEF	**South Africa**
NGO	2008

PERFORMANCE RATING

SOCIAL RATING (Proposed)	$^{\Sigma}\alpha$
CREDIT RATING	**n/a**

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

Values:

- Respect for all
- Having a positive impact on the lives of its stakeholders
- Striving for operational efficiency and self-sufficiency

Social Rating dimensions	**Rating**
Process/organisational systems	
Mission and Systems	$^{\Sigma}\alpha+$
Responsibility to clients	$^{\Sigma}\alpha-$
Other Social Responsibility	$^{\Sigma}\alpha-$
Results/outputs – client level information*	
Depth of outreach	$^{\Sigma}\alpha{++}$
Appropriate services	$^{\Sigma}\beta+$

* Information collected by SEF research staff.

Envisioning a world free from poverty

Model:	Grameen-type group lending
Services:	
Financial	Micro-credit for enterprise Encourages client savings in formal Bank
Non-financial	Integrated: facilitating business experience exchange amongst clients Linkage: IMAGE = Intervention with Microfinance for AIDS and Gender Equity

Exchange rate: US$ = Rand 7.7 (2007/2008)

Organisational data as of June 2008

SYNOPSIS

The Small Enterprise Foundation (SEF) began microfinance operations in 1992, located in the northern province of Limpopo, a region with the highest poverty rate in S Africa. In a 'middle-income country' which has substantial consumer lending to salaried workers, SEF is the leading example of poverty focused microfinance, emphasising micro-credit for enterprise and women's self-employment. SEF demonstrates strong commitment to the double bottom line, and in a difficult economic environment is quite effectively balancing financial performance and excellent portfolio quality with targeted poverty outreach and innovative social monitoring mechanisms.

As of June 2008, SEF has 50,319 women clients with portfolio outstanding of R70.8million (US$9.2million). As an NGO, SEF does not collect deposits but it actively encourages clients to save in group accounts within the formal Banking system. Total savings in group accounts is R9.5million (US$1.3 million).

Strengths

- ⇨ Leadership commitment (Board and Management) to balancing financial and social goals, clear strategic focus and effective management of high operational costs (typical for S Africa)
- ⇨ Targeting (area and client) and solidarity group methodology strongly aligned with mission
- ⇨ Encouragement to clients to save in formal banking system
- ⇨ A unique and systematic approach to monitoring social objectives; part of MIS and a dedicated R&D Department
- ⇨ Deep outreach to an estimated 77% of clients below $2/day at PPP, 52% below $1/day (compared to national incidence ~30% below $2, 11% below $1.
- ⇨ Linkage for AIDS/HIV education and gender issues
- ⇨ Advocacy for pro-poor microfinance in S Africa.

Issues

- ➲ Staff capacity and turnover in the context of a skill short economy
- ➲ Quality of client level data collected by field staff and targeting (involve internal audit for this); strengthening scope and analysis; SEF has prioritized addressing this issue within this and the next financial year.
- ➲ Tracking exclusion of the very poor from TCP
- ➲ Livelihood options in a limited informal sector

SEF is strongly on track in putting mission into practice in line with accepted social values – with quite robust and innovative systems for Social Performance Management, and a good balance with financial systems. SEF is in a fairly strong position to overcome challenges in maintaining and extending these systems as it expands into other regions, with a target to reach 101,000 clients by June 2012.

Small Enterprise Foundation | **SOUTH AFRICA** | **2008**

Organisational data as of 30 June 2008

SOCIAL PROFILE	
Systems and MIS	
Mission orientation: rural focus, serving the poor and poorest; supporting women's enterprises and self-employment; contributing to poverty reduction	
Clients (active borrowers)	50,319
Rural	100%
Women - clients	99%
Women - staff	64%
Client protection: Guidelines as part of operations: mainly staff behaviour, checking over-indebtedness and client complaints	
Average size of loan	$213
Average size of 1st loan	$95
Loans < $300	63%
EIR (av cost to clients, incl VAT + centre contrib., excl savings effect)	81.4%
EIR allowed by National Credit Act	>150%
Dropout rate (M-CRIL formula p15)	20.8%

Client information (2007) Indicative sample data [a]	In percent	[comparative South Africa data]
Depth of outreach: [b]		
Below $1/day at PPP	52	[11]
Below $2/day at PPP	77	[34]
Net primary enrolment - girls	79	[66]
- boys	100	[72]
Secondary enrolment - girls	31	[63]
- boys	33	[62]
Clients completed primary schooling+	65	[81]
Client awareness		
Products and transactions	41	
- Group norms	56	
Borrowed from moneylender (prev yr)	13	
Household – client of another MFI	0	
Women headed households	74	
No adult earning member	54	

[a] The sample is small and indicative only; apart from the poverty assessment sample (see note below) the findings reflect results from a quick survey of 30 TCP clients

[b] Estimated from survey, undertaken by SEF staff, of the PPI with a sample of 312 entry level clients with 'TCP' (poverty targeted programme) in Apr/Jun 2007; and quick application of the PPI to 40 MCP clients (not poverty targeted) in 2008.

Financial performance	Jun 08
Operational Self Sufficiency[c]	93%
Borrowers/field staff	230
Operating Expense Ratio	60.8%
Portfolio at Risk (30 days)	0.2%
Annualised Percentage Rate	76.2%
Portfolio yield	62.1%
Average cost of funds	12.5%
Return on Assets	-0.6%

[c] In line with M-CRIL's standard methods, this calculation of OSS reflects operating incomes and expenses; it does not include interest on investments.

Rating Rationale

Governance: SEF has strong governance with double bottom line commitment reflected in a high level of financial and development experience at the Board level. There is active engagement of all Board members, with reporting covering both financial and social indicators.

Mission and strategy: Social goals are clearly articulated and broadly understood across the organisation, though may need more reinforcement amongst field staff. SEF emphasises role of field staff as 'Development Facilitators'.

Effective and focussed targeting – both of area and the very poor. Reflected in very deep outreach results- bearing in mind that the potential national poverty line for S Africa is likely to be above $2/day.

Credit product substantially adapted to varying client needs and cash flows. Strong promotion of savings in formal banking system. Policies largely responsive to client issues. Model depends on effective group systems.

Information System: Unique development of integrated information to track financial and social information: strong regular monitoring of 'vulnerable centres' and client exit across operations. Information used for corrective action. Regular monitoring of carefully selected indicators among TCP clients, with data collected by the field staff. Active R&D department supports pilots (products, poverty assessment tool - the PPI, changes to staff incentives scheme); intermittent research into reasons for exit. Needs quality check on data collected by field staff (presently absent). Also need sense of reference to interpret the meaning of the data collected. Scope to develop data further, track change over more than '8 cycles' and account for dropouts in the analysis of change.

Client protection: Strong values of social responsibility, reflecting principle of 'respect for all'. These values are integrated into operations; and partially monitored as part of Quality Assurance. EIR in line with regulation – high level reflects staff and operational costs.

HR: strong attention to training, established HR team. Interesting and focused experimentation with incentive system to include dropout as a factor – under further development. Areas for further strengthening are the buy-in of field level staff and orientation to business options and issues. Tough working conditions are part of the poverty focus. Scope for enhancing communication across all levels of the MFI and management type skills in some branches.

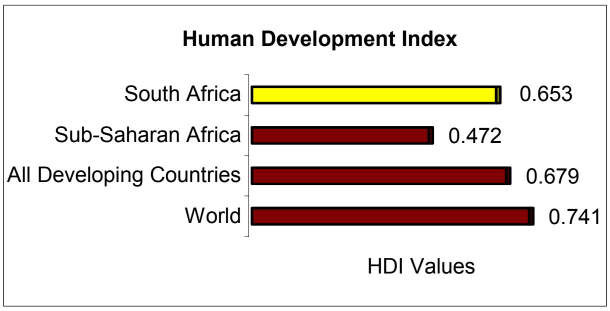
Other social responsibility: Effective linkage with NGO programme, adding training to address domestic violence and HIV/AIDS into Centre meetings. Funds for expansion. SEF relies on internal group networking to support business development – works to some extent but issues around guidance of clients in starting new enterprises, and limited market opportunities.

CONTEXT

South Africa – development indicators

South Africa has a population of 47.6 million (2007), which is predominantly urban (62%). Economically it is a middle income country, with per capita GNI of US$5,760 in 2007. The history of apartheid is reflected in significant inequalities.

Out of 177 countries, S Africa ranks 121 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.



UN Human Development Report, 2008

One of the continent's largest economies, S Africa has a strong formal financial and manufacturing sector. It is a leading exporter of minerals (mining provides substantial formal employment) and tourism is a key source of foreign exchange. Government policy aims to encourage black economic empowerment. But unemployment remains very high (27%) and is linked to a high crime rate. And HIV/AIDS has emerged as an ever-present problem. Nearly 1 in 5 (18.8%) of people aged 15-49 years have been infected, with the result that life expectancy has declined.

The country does not have a national poverty line – but there has been debate around different measures. Currently cited figures (from the 2000 National Income and Expenditure Survey) estimates 27% of the population below $2 at purchasing power parity, 8% below $1. The debate on national poverty suggests a cut-off at about twice the $2 level (R430/person/month), to meet minimum calories (2,261 kcals) and non-food requirements. By any measure, poverty is higher amongst the rural population and amongst women headed households (who account for 38% of households).

Millennium Development Goals: indicators		
Poverty	Population < $2/day at PPP (2000)	27%
	Population < $1/day at PPP (2000)	8%
Education	Adult literacy (15 yrs +)	82%
	Net primary enrolment	89%
	Net secondary enrolment	62%
Gender equality	Female ratio – adult literacy	0.96
	Female ratio – primary enrolment	1.01
	Female ratio – secondary enrolment	1.12
	Women in Govt: Seats in parliament ['07]	33%
	Ministerial level ['05]	41%
Health	Life expectancy (years)	51
	Population with access to:	
	- improved water source	88%
	- improved sanitation	65%

Statistics for S Africa, 2007. Human Development Report, 2008

Almost 6 million South Africans (12.7% of the population) are covered by government social assistance grants: a grant of R190/month for each child up till the age of 14 for families with income of less than R600/month; and a pension of R800/month for all over 65 years. This represents a substantial cash inflow for low income families.

South Africa – microfinance

Microfinance in South Africa usually refers to the entire sub-prime lending sector, covering around 2,000 banks and private firms, with substantial consumer lending mainly to salaried people in urban areas and in the mining sector. In 2006, 42% of the population was reported to be unbanked (FinScope). Traditional forms of savings (ROSCAS) are widespread, in both rural and urban areas. They are known locally as *Stokvels*, are very diverse, often linked to specific issues – such as funeral societies or saving for Christmas.

Around 20 MFI/NGOs are registered with the National Credit Regulator (NCR – in 2007 this replaced the Micro Finance Regulatory Council) that regulates all money lending transactions in the country. The new National Credit Act (June 2007) removed the ceiling on loans for MFIs, previously set at R10,000 (USD 1,292). Bank loans start at an average of R 50,000 (USD 6,460). MFIs serve a total of around 100,000 borrowers. SEF is the largest MFI in the country.

MFI/NGOs in South Africa (mid 2008)

Name of MFI	Active Clients	Portfolio (USD mn.)	Av. Loan o/s (USD)	% of p. c. GNI
SEF	50,319	9.2	183	3.2%
Marang	21,513	3.0	139	2.4%
WDB	14,997	1.7	113	2.0%
Tiisha	2,348	0.3	128	2.2%

AMFISA, May 2008. (SEF as of June) Per capita GNI USD 5,760 (2007)

INTENT & DESIGN

MISSION

Clarity

Clear, balanced and broadly guiding strategy – partially translated into specific social objectives

SEF's mission is stated with a clear focus on outreach to the poor and very poor, balanced with the value of working towards operational efficiency and sustainability. Formulated by the promoters when SEF began in 1991, the mission has guided the organisation in its strategic approach and monitoring system – including deliberate targeting and identifying locally relevant indicators linked to poverty reduction:

- quality of housing
- food adequacy
- value of business assets
- savings in a *Stokvel* (community based).

The strategic vision is to enable the poor to increase their income through micro-credit for self-employment, and by assisting in the accumulation of savings (even though as an NGO, SEF cannot directly attract deposits).

Social objectives are defined in terms of outreach and client retention, targeted at 82% (a realistic rate, which is intended not to put pressure on clients to reborrow). SEF has not stated specific (SMART) objectives in terms of its two main programmes: the Micro-Credit Programme (MCP) and the *Tshomisano* Credit Programme (TCP) – of which the latter is poverty targeted, the former is not, though MCP is gradually being phased out (all new branches are TCP). And, as the organisation begins to apply the Progress out of Poverty Index (PPI), this tool can serve to define objectives for poverty outreach.

The spirit of mission is moderately high throughout all levels of the organisation. It is reflected in the designation of field staff as *Development Facilitators (*who are expected to play a key role in providing advice to an being supportive of clients) and seems particularly reinforced amongst staff of the TCP.

Governance

SEF has an eight-member board, seven of whom are non-executive directors; two are founding members, including the CEO John de Wit. Board members represent a mix of skills and experience, primarily financial but with a strong developmental orientation. One new member joined the Board in 2007 to represent Old Mutual. The Board is active, with 4-6 meetings a year, good attendance and engagement. Reporting to the Board includes both financial and social management reports.

SEF has chosen to remain an NGO so as to maintain its poverty focussed mission. Portfolio funding is currently from 10 different social investors, both S African and international, at broadly commercial rates (average cost of funds is 12.5%). SEF also receives grant funding, including substantially this year from Old Mutual which has provided funds to support SEF's expansion into the Eastern Cape province.

ALIGNMENT OF SYSTEMS

Model for service delivery

Strong emphasis on group based process – differentiated programme

SEF's model for financial intermediation is the solidarity group, adapted from the Grameen group structure with small groups of five members, and 5-10 groups are combined to form a Centre. This structure is central to SEF's approach which is not only to deliver a financial service, but (primarily) to facilitate the poor to develop skills, confidence and social capital that can come through group interaction and responsibilities.

Centre meetings take place fortnightly. Policies and procedures are designed so that group members network with each other and take responsibility for various activities: checking groups' repayment and savings, vetting new loan applications, sharing business advice, imposing small fines on late or absent members – for which SEF staff play a role initially training the group (in four half-hour sessions spread over two weeks) and subsequently facilitating.

Financial transactions are through branches of the banking system – mainly the Post Savings Bank which has a wide network, or Nedbank. Groups open an account in the Bank. SEF disburses loans directly into the group account, and repayments are made in one of two ways. The majority of Centres follow SEF's original repayment methodology where repayments are presented in cash at Centre meetings and then the total for the Centre is deposited into SEF's account at the Post Office or Nedbank. Two members of the Centre are delegated to make this deposit. In the second repayment method, known in SEF as "Direct deposit", each group collects its repayments prior to the Centre meeting and then deposits these directly into the SEF account.

SEF does not collect savings deposits but encourages clients to save in their Bank group account. Deposits again are either collected in cash at the Centre meeting or are made in advance of the Centre meeting by the group members. The savings are not entirely voluntary, since SEF loan sizes are linked to group savings . In order for a client to advance to a larger loan size in the next loan cycle, they must have saved at least 10% of the current loan size during the current cycle.

SEF has two separate credit programmes: *Tshomisano* Credit Programme (TCP) and the Micro-Credit Programme (MCP). Group structure and products are the same in each. The difference is that the TCP specifically targets the poorest women (see below) and the MCP does not. The initiation of TCP followed an evaluation in 1996 that found that the very poor were under represented in the MCP. TCP was the response, introducing participatory targeting, motivating the very poor to start an enterprise, and groups serving the very poor exclusively so as to support their specific circumstances and needs. The current strategy is to expand only with TCP, and no new MCP branches have been established for a number of years.

Market strategy

Strong poverty focus – area and clients

Areas: SEF started and continues its main operations in the poorest province of South Africa, Limpopo, to the north of Johannesburg – and is now extending to other provinces. The organisation targets rural areas, and peri-urban areas around the main towns, in the former 'homeland' areas, which served under the apartheid regime as reserves of black labour for the industrial and mining centres.

Clients: SEF aims to target the poor. It does so primarily through the *Tshomisano* Credit Programme (TCP) for which selection is based on an intensive (3-day) process of participatory wealth ranking in the village, and focuses on the 'bottom 40%" identified through this process. Development facilitators for TCP then prioritise to seek out the poorest to motivate them to form a group and join SEF – and borrow to start an enterprise. The 'upper 60%' are excluded for three years. Thereafter the poverty criterion is removed and no restrictions are applied.

MCP is not a specifically poverty targeted programme, but still located in poor areas and with small loan size on offer to women (and a few men) with an existing (at least 6 months) enterprise.

Products: *Adapted loan product for enterprise use; considerable experimentation*

SEF offers a basic group loan product with five variations differentiated by loan term, frequency of repayments and costs to clients. New clients have two options, fortnightly repayments over either 4 or 6 months. After the first loan, clients have the option of monthly repayments over 4, 6 or 10 months. Loan size starts at R500 ($65) up to a maximum of R1,200 for a first loan. Loan costs are discussed on page 7.

SEF Loan Product

Clientele	Groups
Loan guarantee	Social guarantee
Min. Size	R500 ($65)
Max 1st loan size	R1,200 ($155)
Max loan ceiling	R12,000 ($1,560)
Term	4, 6, 10 months
Instalments	Fortnightly or monthly
Loan linked savings	In order to be eligible for <u>a larger loan</u> in the next loan cycle an amount equal to 10% of the current loan must be saved.

Six-monthly loans are the most common, accounting for around 72% of loans disbursed. TCP loans account for 68.3% of clients, with slightly lower average loan sizes compared to MCP. Credit is specifically intended for enterprise investment and there are strict procedures for checking loan use.

SEF Loans - TCP and MCP

	Total	TCP	MCP
Loans outstanding	50,319	68%	32%
Portfolio ($mill)	9.2	64%	36%
Average 1st loan ($)	95	93	99
Average loan ($)	213	201	241

(An education loan product was piloted and discontinued since it was not identified as a priority for the R&D department to work on improving the product design).

Savings – It is compulsory for every client to save at every fortnightly meeting but clients may withdraw whenever they wish. The minimum amount that must be saved is set at a low R10 per person per fortnight. After the first loan, 10% of the subsequent loan is required as up-front savings.

There is a 'Centre special savings fund' to which clients contribute R1 per fortnight. This is used to pay for centre activities (e.g. stationery, furniture).

SEF has tried testing a life insurance product, with a pilot during 2006-7 but uptake was very low and the product was not continued.

HR

Well aligned induction and training – incentives under review; detailed systematic approach using social data

SEF presents itself to potential staff as a microfinance NGO, dedicated to the eradication of poverty, principally in rural areas. This strong statement serves to distinguish SEF from other non-profit and for profit organisations. Field staff are designated as *Development Facilitators* (DFs) to reflect their intended role. Recruitment for development facilitators attracts young people from its rural areas of operation, usually secondary school leavers. For operations management, SEF recruits from national universities.

Training is the responsibility of the HR Department .As at June2008 there were 5 training staff, the Acting Training Manager a Training Coordinator and three Trainers. All of these, except for the Training Manager, were previously DFs. The Training Manager was first a Branch Manager and then a Zonal Manager before taking over as Acting Training Manager. Induction training of new staff appears comprehensive and well designed, involving a 3-month process based largely on experiential learning. The first three weeks are spent in the field, observing every stage of the DF's job and in the following nine weeks they work with DFs, are given case studies to work on, and begin to apply SEF's policies and work independently. Newly recruited support and head office staff are also required to spend a week with DFs to give them a grounding in SEF's operations. There is additional training provided to poor performing staff in every Zone, in every quarter.

Training seems largely appropriate – though it may vary with the skills and priorities of the mentoring DFs. A possible gap is the absence of an orientation to business issues, related to typical client businesses, especially new businesses that may be started in the TCP programme. Although SEF believes strongly in peer learning among clients, particularly on business, a practical grounding in key issues would enhance potential facilitation by the DFs.

The responsibilities of DFs, branch and zone managers in the creation and development of client groups and centres are well defined in the operations manual.

Performance appraisals for DFs and BMs are based on arrears, active groups vs budget, retention and 'vulnerable centres' (see next section on vulnerable centres. Other staff have components relative to their own responsibilities.

SEF has a detailed <u>incentive system</u> in place which has been adapted over time and is still evolving. It applies primarily to DFs and to BMs. The incentive can contribute up to 70% of the basic monthly salary – and is assessed for DFs every month. Branch Managers have one component that is paid monthly and another which is paid fortnightly. The system is based primarily on growth (number of groups, deliberately not portfolio) and maintaining portfolio quality (low number of groups with arrears). During 2007/8 SEF has piloted a revised system to include a weighting for dropouts. SEF is able to do this because of its close monitoring of the dropout rate (see below) and is concerned to include this alongside growth and quality parameters, so as to support client retention. .

SEF has a systematic approach to recognising strong staff performance. There is an annual recognition of best performing branch manager (1) and DFs (8) and runners up. This is based on a quarterly scoring process for every DF and Branch Manager based on their (1) arrears, (2) growth vs budget and (3) retention. The four quarterly scores are added to give an annual score. The highest scorers get these awards. Also, since 2007, there is an innovation budget for staff projects in each branch, for ideas to improve efficiency or impact – though with uptake only in one branch.

Information and reporting

Well integrated, innovative and systematic approach

SEF has a well integrated system for tracking its achievement of social objectives, reporting the results and using the results to inform decisions and strategy. Key indicators are part of the MIS. The organisation has a Research & Development Department (one manager, two other permanent and up to 4 paid interns.) which focuses on pilot testing and periodic research.

The main indicators tracked as part of the MIS are the following:

- **vulnerable centres**: Centre savings, attendance and repayment rates are monitored every quarter. Any centre which falls below a certain "trigger" value on even one of these indicators is defined as 'vulnerable' and targeted for corrective actions at the branch level.
- **dropout rate**: SEF defines drop-outs as clients who successfully complete a loan cycle but do not take another loan within six months of completion. The dropout rate is monitored each month, but on a <u>rolling 6 month basis</u> to take account of clients who reborrow. This is an important element of tracking exit effectively. Those who rejoin within 2 years retain their client ID.

These indicators are also an integral part of SEF's quality control process, as SEF's audit team ensures that they are accurately captured. SEF can track trends in vulnerable centres and dropout rate to compare the TCP and MCP programme. Information is analysed by branch and by DF – and shared at the branch level for follow up action. Analysis includes dropout rate by cycle, which helps in making growth and financial projections.

- **'impact monitoring'**: though not really impact (in the technical sense of attributing change to microfinance); intended as a participatory approach to quantifying change for TCP clients based on: data collected at each loan cycle on perceptions (scored) of change in food adequacy and housing, DF estimate of business value and amount of monthly savings in Stokvel/burial society. This is an interesting and quite unique approach aiming to encourage the DF and client to have an in-depth conversation about the client's progress. The results of this conversation are tabulated in quarterly reports to HO, 6 monthly reports to the Board and are part of a presentation to field staff at the annual meeting.

Monitoring of change represents a substantial investment of time by the DFs. The robustness and utility of the information could perhaps be further enhanced by:

- sorting out the fact that not all cycles are the same duration
- looking at the distribution not just the averages
- including other information from the client monitoring format as part of the regular reporting (age, women heads of household, business type, business diversification, people employed)
- establishing mechanisms to ensure quality – both methodology and data (attention to training of the DFs, systematic review by DF supervisors, including this as part of the mandate of the internal audit), and
- accounting for dropouts.

The R&D department supports SEF's strategic development through pilot projects (including: insurance, applying the newly developed Progress out of Poverty Index for S Africa so as to benchmark poverty levels of clients to the international poverty lines, monitoring changes in the staff incentive system in 2008). Periodic research has included a small exit survey carried out about once every two or three years. This seems adequate, but the reporting could be developed further by analysis of segmentation (e.g. loan cycle, context, livelihood).

This information is summarised in the later sections on client outreach and exit (pages 10 and 13).

SOCIAL RESPONSIBILITY

SEF has strong values of social responsibility, reflecting its stated principle of 'respect for all'. These values are part of operations. A code of conduct (for client protection) and HR manual would help to formalise these values as a reference point for staff at all levels.

CLIENT PROTECTION

SEF's policies and procedures broadly cover all elements of client protection, as described below. Some aspects could be strengthened by adding specifically to the mandate of the Quality Assurance Department, or through sample research by the R&D.

The Quality Assurance Department (5 staff) is responsible for internal audit, focusing on the Operations and Administration departments (in process of being extended to cover HO and all departments). Each branch is audited twice a year and includes audit visits to centre meetings, interviews with a small number of clients and spot-checks of record keeping. The process captures some aspects of client protection – mainly compliance with centre meeting policies as well as verifying the business evaluation and loan utilisation forms. Compliance with the audit findings is followed up by the QA team, though as part of the social rating we received a comment that the organisational culture is often 'hesitant to criticise or discipline' with the result that, although serious breaches of policy will be addressed, those which are less serious or careless may tend to continue creating an 'acceptable level of non-compliance'.

Transparency

Communication is mainly through the DFs' interaction with clients during fortnightly centre meetings. They are responsible for explaining the various product options, costs and terms of repayments. Product terms are documented in English on the reverse of the loan application forms, so verbal explanation in the local dialect is essential. Receipts for transactions (also in English) are issued on the group accounts by the local bank branch.

Individual group member transactions are not tracked and field information on client awareness (page 12) indicates scope for more effective communication, including by the group leaders and centre chiefs.

Avoiding over-indebtedness

SEF has reasonable systems to assess client borrowing capacity. In future it will need to try to review other household liabilities, as it expands into areas with other MFIs.

Loan size is linked to two features – level of savings and the business evaluation undertaken by the DF. The business evaluation estimates value of the business, stock/materials, accounts receivable and cash on hand of the clients, and is undertaken in detail. This is the basis for setting the loan amount. Group members can borrow different amounts, but they must borrow at the same time, and for the same term (though individual instalments may be monthly or fortnightly). To maintain group numbers, there may be pressure on each member to borrow, even a small amount, rather than to withdraw.

SEF has appropriate policies in case of client death or long-term illness: writing off loans in case of death, and rescheduling delinquent loans in case of such illness (provided there is medical evidence). Rescheduled loans account for 0.5% of average portfolio.

Cost to clients

Credit costs in S Africa are regulated under the National Credit Act which, from 1 June 2007, caps interest rates on 'developmental credit agreements' at (repo rate * 2.2 + 20%), that is 46.4% at the current repo rate (12%). Apart from interest on loans, the Act allows other fees: ('initiation' up to 15% of the loan amount and 'service' fees up to R50/month); and levies 14% VAT on the fees. The maximum allowable EIR on microfinance loans, including initiation, service fees and VAT, works out to 167% on a R1,500 loan, higher than this on smaller loans (229% for a R800 loan), less on loans at R5,000 and above. These must be among the highest regulated costs in the world – reflecting high costs of operations in the S African economy, particularly staff costs.

Following the NCA Act, all MFIs must break up the loan income into the three components, initiation fee, interest and service fees. However, fees attract VAT whereas interest does not. This means that under the NCA, both the statement of terms has become more complicated and costs to clients are potentially higher due to the VAT levy.

SEF's rates prior to June 2007 were clearly stated in terms of overall declining interest – with no additional fees. SEF has had to restructure its charges to introduce the fees and VAT. The result is a net increase in the average cost to clients, from 75% to 80.7% (including VAT), or 81.4% including the R1/fortnight contribution to the centre fund. This is well below the regulated maximum for average loan size of R1,644. Adding in the effects of compulsory savings (10% of loan amount after the first loan) the full Effective Interest Rate works out to over 83%.

The table below analyses SEF's portfolio cost structure in comparison with data for other African MFIs of similar size category reporting to the MiX.

Cost structure: % of av gross portfolio	SEF	Africa 'large'
[number reporting]		[21]
Average loan o/s ($)	270	736
Borrowers/staff	296	137
Costs		
Operating expenses	60.8%	23.0%
Financial expense[a]	8.7%	4.8%
Loan loss provision[a]	1.7%	2.4%
Total costs	**71.3%**	**30.2%**
Yield	**63.6%**	**23.1%**
Surplus	-7.7%	-7.1%
PAR/outstanding portfolio (30 days)	0.5%	6.6%
Write-off	1.2%	1.8%

MIX Data for, 2007: medians for 21 African MFIs with gross portfolio above USD8 million (up to >USD120 million, with average 86% FSS); [a]ratios based on average assets are recalculated as ratios of average gross portfolio.

SEF has high operating expenses as a proportion of average portfolio. This reflects high staff costs typical of S Africa (at 37.4% of average portfolio, compared to an average of 8.7% for large Africa MFIs). SEF's operations in rural areas and low average loan size also contribute to high costs of operations. Portfolio quality is extremely good resulting in low loan provisioning and write-off. Nevertheless the yield is a low 84% of the APR (estimated at 76.3% = EIR minus VAT). Raising the yield would enable SEF to cover its costs.

Client interactions

The group model emphasises discipline, responsibility and punctuality – with group responsibility. Fortnightly centre meeting schedules are organized by the Centre leaders (Chair, Secretary and Treasurer elected from the Group leaders). Conduct of Centre meetings and transactions are, over time, expected to be the responsibility of the Centre leaders and group leaders, including peer monitoring, encouragement and sanction. SEF staff may guide (facilitate) meetings and assist in ensuring procedures.

In case a member is not able to make the repayment instalment, it is the responsibility of the other group members to make up the payment (known as "patching"). When an arrear occurs, it is the DF's responsibility to inform the Branch Manager (BM) or if they are not available, the Zonal Manager on the same day it occurs. While it is the SEF staff's (DF and BM) responsibility to ensure an arrear is paid, the Centre Leadership and the rest of the Group are expected to assist the DF in "following up on" or recovering arrears.

Centre meetings usually take 1.5-2 hours. Clients may send another family member to meetings in case of illness, a death in the family or during pregnancy. Centre representatives, by turn, regularly visit a Bank branch (of Post Savings Bank, or Nedbank) to deposit payments. How SEF clients are treated in the banks is an issue that SEF has had to take up in the past.

In accordance with the National Credit Act, SEF provides both the head office phone number and the complaint line phone number of the National Credit Regulator on the loan contract which every group has. It is noted that these numbers should be used for complaints. The Head Office receives complaints – that are reported to be mainly about late loan disbursements. Though, client awareness of this mechanism seems low (see page 12).

Non-financial services and linkages

Integrated: An interesting feature in SEF's service delivery is the identified potential for staff to encourage clients to exchange ideas and experiences in their businesses. These discussions can provide practical grounded suggestions, whether within or outside Centre meetings. SEF believes this approach is more relevant than tapping external training for 'business skills development'. Nevertheless, there may be scope for enhancing DF's skills in this area, particularly when motivating women to start new enterprises – and for R&D to document common issues, experiences and options. This is a concern, given some evidence of competition amongst clients (page 13).

Linkage: Since 2001, SEF has partnered with the Rural AIDS and Development Action Research Programme to implement the IMAGE (Intervention with Microfinance for AIDS and Gender Equity) project. This project is a current and growing part of the organization.. The aim was to build on microfinance as a platform for addressing issues around gender norms, violence against women and HIV/AIDS, through training and supporting women to be more aware and confident to take action within their families and at the community level.

The pilot was in 2 branches. Teams from the NGO Sisters for Life introduced training programmes at the beginning of Centre meetings (10 1 hour programmes over 6 months) and then supported community activities for 6 months. The pilot has received international attention for its potential impact, with a paper published in the medical journal the Lancet in 2006.

The general perception of the pilot is that the social networking and financial services of SEF's programme provides a base – and can in be turn be reinforced by - the training and community mobilisation around gender issues and HIV/AIDS – though implementation on both sides needs to be effective. (It worked best in the first branch than in the second branch where the implementation was weaker).

A randomised impact study was undertaken of the project by the University of Witwatersrand (in 8 villages: 4 villages, 430 women with the IMAGE project, 4 (and 430 women) without). The findings included: decrease in violence from 10% to 4.5% experienced by women within the family in the IMAGE villages and a "24% increase in use of condoms" (actual % data not given in the literature).

By 2008 the partnership with IMAGE had covered 4,500 clients in 83 villages. There are plans to extend to 15,000 more households, with funding from AngloPlatinum in the area of Limpopo where there is planned expansion of platinum mining.

OTHER SOCIAL RESPONSIBILITY

GENDER APPROACH

Strongly supportive – both client and staff levels

Client level: In the S African context, where women are active in the informal economy, engaged in micro-enterprises, and very often the main provider for their families, SEF's strategy to target women as clients is entirely consistent with its mission to serve the poor. Its methodology supports women to take up economic activities, and to diversify. The group based approach also supports opportunities for women's self-help and social networking. Whilst women are expected to discuss credit arrangements within their families, they are not required to ask their husbands to act as guarantor (which in the African context helps to support women's independence).

The 1% men clients are part of the MCP, where policies allow no more than 1 man in a group. SEF' strongly believes that if you wish to benefit the family then it is more effective to work through women than men. The organisation also aims to support women's empowerment and leadership, and its early experience was that men tended to dominate Centres, even if there were very few of them in a Centre. For example, even if there was only one man in a Centre he would often be elected to the Centre Leadership. Also, SEF found in the early years that the system did not work so well with men: around half of the arrears were with the 3% men in the programme at the time.

SEF's link with another NGO under the IMAGE project represents a significant leverage for its microfinance clients to participate and benefit from a gender focused initiative around intra household decision-making, domestic violence and HIV/AIDS. To some extent the direct effect is limited by the fact that a majority of SEF's clients are women over 40.

Staff: SEF has fairly good representation of women at all levels, with three women on the eight member board and women at 64% of staff overall – including 69% of field staff, 48% of management. Though just 2 out of 12 Senior Managers are women.

Women staff

	Dec-06		Jun-08	
Staff level	Number	Women	Number	Women
Management	50	40%	48	48%
Field staff	159	65%	176	69%
Accounts/admin	22	59%	30	60%
Support staff	1		1	
Total	**232**	**59%**	**255**	**64%**

SEF's policies and operations support equal pay and opportunities for women. All branch managers – women and men – are expected to drive (with a car for their use provided by SEF). SEF recently created a "Women in Management Forum" to implement a more systematic approach to gender issues, however this forum is not very active yet.

There was an incident of sexual harassment of women staff by a senior male manager (4 years ago). SEF took immediate action, firing the manager, providing specialised training to staff and establishing a complaint hotline with an outside provider. This is available for both staff and clients – but subsequent cases have not been reported.

RESPONSIBILITY TO STAFF

Legally compliant policies and procedures – issues around opportunities for staff engagement and effective communication

SEF has an HR manager with 13 years of experience responsible for staff issues in line with the operations and procedures manual – and compliance with S Africa labour laws. The approach to training and skill development appears adequate: on average, staff attend 2-3 days training a year (in-house usually, some external programmes) and good field staff may be promoted to a management position. All staff are covered by pension, social and medical insurance schemes.

Salary levels are reported to be at the 25th percentile in S Africa (i.e. 25% of firms pays less than SEF, 75% of firms pays more). But SEF's salary levels (including a standard '13th month' bonus as well as a potential incentive are at least on par, if not higher than other MFIs/NGOs. Additional benefits include concessional loans for further education, vehicles or other personal use. (These loans vary from personal loans charged at 3% above prime to study aid. Where the staff member passes their course the "loan" is converted into a grant. If they fail then it becomes an interest free loan which must be repaid). Staff loans account for 0.1% additional to the TCP/MCP portfolio.

The nature of operations means that working conditions are tough, particularly for field staff – working in remote rural areas, without modern amenities and without regular contact with colleagues. The most effective branch managers are those who motivate and engage their field staff (beyond being administrators). Some are able to do this, but not all. There seems to be scope for senior management and HR to address this issue (include in management appraisal, training), and to set clearer systems for communications with Development Facilitators. A carefully designed staff satisfaction survey could reinforce this process, to strengthen opportunities for staff feedback.

Workshops on staff morale have been held at the zonal level (during 2007) and in future the HR department is planning Branch level meetings for feedback on HR issues.

Staff turnover at SEF has been in the range of 15-22% over the past 8 years, 21% in 2007-8. Corrective performance management is reported to account for about half this turnover. Field staff and managers may be seeking employment in competing MFIs which do not necessarily offer better employment conditions but appear to hold out faster promotion prospects. Exit surveys are conducted and could be an effective input into systematic HR review. Staff turnover requires review – as has been highlighted by the senior management in its annual report to the Board.

RESPONSIBILITY TO COMMUNITY & ENVIRONMENT

SEF has strong demonstrated values of working with the poor, with women and with black people. The majority of staff (95%) are black South African. The organisation engages with local community leaders in new areas of operation.

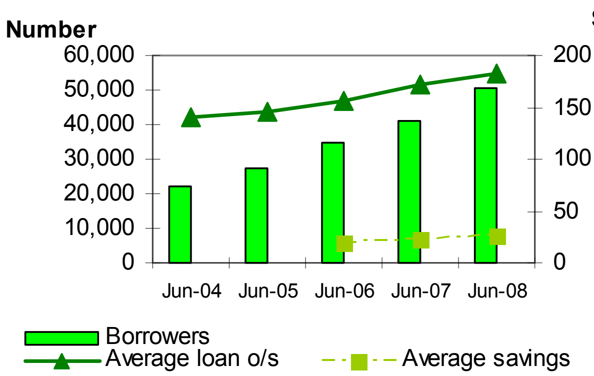
SEF does not support illegal activities such as the selling of drugs and poached animal products. This is monitored through the Loan Utilisation Checks and Loan Supervision Visits. Specific issues related to conditions of hired labour in supported enterprises and to the environment do not seem to be applicable.

RESULTS - OUTPUTS

OUTREACH

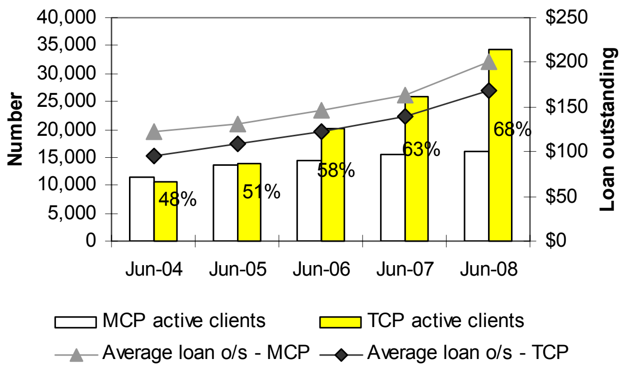
SEF's outreach has grown steadily by 23% a year on average over the past 5 years from 22,110 in 2004 to 50,319 in 2008. Average loan outstanding/borrower has grown from $140 to $195. Savings – deposited not with SEF but in the formal banking system – average $26 (total savings of $1.3 million).

Growth in outreach



TCP clients have increased as a proportion of the total, from around half in 2004-5, to over two-thirds in 2008, with 64% of the portfolio reflecting slightly lower average loan size.

Growth in TCP



Areas of operation

SEF's operations are in the north of S Africa, in three of the total nine provinces. SEF is primarily in Limpopo district (94.4% of clients) and expanding into Mpumalanga (5.4%) and Eastern Cape (0.3%). Limpopo and Eastern Cape are the provinces with the highest poverty rate in the country.

Areas are rural or peri-urban (near the provincial towns).

Financial inclusion

Client level data presented here comes from various sample surveys conducted by the SEF's Research Department. The samples are often quite small, and the findings are therefore taken as indicative rather than representative of SEF overall.

- the unbanked

From a small sample of 30 TCP clients (in 2008), over half the sample had a formal savings account before joining SEF, 9% had borrowed from a bank. This reflects some degree of access, especially to savings through the widespread Post Savings Bank network. A small study of TCP clients (20 indepth interviews, 5 Focus Groups) in 1999 indicated that very few held savings accounts before joining SEF, however recent government action to improve access of banking services to the poor may have increased the number of people with accounts.

TCP Household access to financial services	% sample
n	30 TCP
Bank savings account (before joining SEF)	55%
Bank loan (in last 3 years)	9%

- the poor

Depth of outreach is based on client poverty level at entry, - i.e. for new clients, or those with an MFI for less than 1 year – reflecting the situation before potential change through microfinance. SEF has PPI survey data for 312 TCP clients in their first cycle (from 2007) which shows over half are below $1/day at PPP and 81% are below $2. This is significant depth of outreach for SEF's poverty targeted programme – given that the 'national subsistence line' is above $2/day at PPP. The MCP programme, not poverty targeted, is nevertheless also catering to clients below the poverty line with half estimated to be below $2/day at entry (on the basis of a later small sample in 2008). Weighting the results between the two programmes (to reflect 68% of SEF's total current clients as TCP), the overall depth of outreach implied at entry is very significant, well above the national poverty rate. Depth of outreach for new clients will be higher since over 90% of new clients are now TCP.

Client poverty level at entry (est. for SEF's total programme)

Poverty lines	Est % poor at entry			% S Africa
	TCP	MCP	Overall	
<$1 at PPP	54	26	52	11
<$2 at PPP	81	50	77	34

N= 312 clients in 1st loan cycle, PPI pilot 2007
National data from UN Human Development Report, 2008 (refers – 2005)

- the vulnerable

The surveys of TCP clients indicate that a majority are women heads of households and mostly dependent on their own incomes to support themselves and others in the family.

TCP - Women headed households	% sample
Women headed households	70-74%
- no adult male earner	57%
- with adult male earner	17%

Employment

Drawing on business information collected from entering TCP clients during 2007-8, a high proportion (77%) have 'business value' at 0), implying that SEF credit is to be used for a new enterprise.

Start up enterprises	%
TCP (19,392 new clients 2007-8)	77
SEF overall - implied	52

Client profile (TCP)

Data from SEF's sample surveys for TCP clients shows the following:

- high average age – 47 years (69% over 40, including 14% aged 60 and above; 31% below 40)
- 18% are 'single' or divorced, 16% are widows
- 38% are supporting children other than their own
- at primary school level, attendance of clients' children in school is above the country average - 79% of girls, 100% of boys of primary school age compared to national rates of 66% girls/80% boys; secondary school attendance is lower - 32% of clients' children of secondary school age, compared to 62% nationally)
- 64% receive government grants (pension, child grants, disability)
- 32% have a member in the household with a salaried income (22% full-time, 10% part-time)
- 27% contributed to a funeral in the previous year, (for 4% more than one funeral)
- 13% do not have electricity
- 47% have access to piped water; just 3% to a flush toilet.

APPROPRIATE SERVICES

Information on client awareness and feedback comes mainly from structured FGDs with 40 MCP clients undertaken by SEF's Research team during 2008. The information therefore relates primarily to MCP clients.

Client awareness

Before a Group is formally "recognized" it undergoes a week-long Group Training. This training includes information on SEF's loan size, loan disbursement and repayments policies as well as the principle and procedures of savings. This training is meant to test and reinforce the group's solidarity and familiarize them with SEF's Operations policies, procedures and principles.

On a series of questions that SEF expects its clients to know, overall – and full – awareness is relatively low for the sample at under half; but rises to 71% if partial awareness is included. Awareness of interest on outstanding loans is high – and most know the range of credit terms on offer partially – i.e. with reference to the loan card provided by SEF, though just half understand the different interest rates. Around half are fully aware of the minimum savings requirement to obtain a higher loan. (SEF did not ask clients their awareness of interest on savings or withdrawability).

% sample aware of products & transactions	full	partial
Range of product terms available from SEF	4%	89%
Repayment terms on outstanding loan	90%	0
Minimum savings required for higher loan	57%	22%
Interest rates related to different loan options	52%	0
Grievance procedure	0%	39%
Overall average	**41%**	**30%**

N = 40 MCP clients

While SEF outlines loan terms and interest rates charged in all loan cards distributed to groups, communication is primarily verbal, by the DFs as it has to be – especially given the fact that not all clients are able to read (in a sample of 30 TCP clients, 21% had not been to school, 45% dropped out before completing primary). Given this, the DFs may have to increase the frequency of reminders to clients and the scope of explanation on loan terms and conditions. Low awareness of grievance procedure suggests that this is more of a formality and clients rely mainly on talking to the DF.

Group systems

Group discipline and regularity is core to SEF's methodology. Meetings are the responsibility of both the Centre and group leaders and the DFs. Attendance is good on average – 92% of meetings attended (PPI pilot survey, data for 217 TCP clients). The SEF standard is 80%. ('Vulnerable centres' fall below this level).

Group awareness appears quite high on decision making processes and Centre records – though low on the procedure for Centre leader elections.

% sample aware of group norms	full	partial
Group decision making process	74%	17%
Information recorded in Centre record book	65%	17%
Centre leadership election procedure	30%	43%
Average	**56%**	**26%**

N = 40 MCP clients

Centre and group leaders are elected every year. Re-elections can and do occur – the Centre Secretary and Treasurer can be re-elected as Chair, Secretary or Treasurer. The Centre Chair can only serve for two consecutive terms, however. Rotation of leadership is tracked sporadically in the field though data is not forwarded to Head Office.

Client feedback

Access to other financial services

The majority of clients save informally through funeral societies or other traditional *stokvels*. This is a positive feature reflecting financial sustainability – and insurance. None of the clients are a member of another MFI – reflecting limited overlap of MFIs so far, though competition is beginning in Limpopo and as SEF expands to the Eastern Cape.

Other financial services	% TCP samples
Funeral societies	94%[a]
Other Stokvel	42%[a]
Other MFI	0%[b]
Moneylender (in last year)	13%[b]

[a] Part of the PPI plot survey – 554 TCP clients (2007) **all cycles**
[b] Quick survey – 30 TCP clients (2008)

13% of client households had borrowed from a moneylender in the previous year. The average amount borrowed was reported to be R600 (just under half SEF's average loan size). Borrowing from a moneylender represents emergency credit since the informal rates go very high.

Client satisfaction

An indication of client satisfaction comes from FGDs with MCP clients. The overall level is good at 69%, with positive feedback on staff, interest rate and Centre meetings. Clients appreciate the sharing and problem solving during Centre meetings but there is lower positive feedback on assistance with business management through the Centre meetings and networking.

% satisfaction	% sample
Staff assistance: polite and helpful	77%
Staff assistance: follow up with defaulters	76%
Interest rate	75%
Centre meetings	71%
Assistance with business management	44%
Average	**69%**

FGDs 40 MCP clients 2008

In a separate piece of research – with 85 TCP clients (linked to the staff quality performance incentive pilot) – 77% of clients reported that they had seen improvement in their business over the previous 6 months, but <u>20% complained of increased competition from other clients as a hindrance to business growth.</u> This is an important feedback in the context of high use of SEF credit for start-up businesses.

Some issues

From the same FGDs, again only with MCP clients, a number of issues were raised by around half the participants, or less. These relate mainly to Centre systems – and loan size for older clients – areas which will require some attention, with implications for DF capacity building, as SEF expands:

→ To avoid meetings/repayments in the first two days of the month because of low cash flow at the beginning of the month (23% of the participants)

→ DFs to provide more follow up and assistance in dealing with defaulters (known more graphically as 'runaways'") (17% of the participants)

→ The time spent in meetings is an issue for some clients – especially if there are 'runaways' and the meeting time gets extended as a result. There is a suggestion for the Centre leaders to prepare more in advance of the main Centre meeting. 15% said they would prefer monthly to fortnightly meetings – to come only for the repayments.

  SEF has responded to time issues by testing the effect of monthly meetings. And since 2007 introducing a Direct Deposit policy – so that group leaders take responsibility to deposit payments in the local bank branch before the Centre meeting, and bring the receipts to the meeting. SEF prefers to continue regular fortnightly meetings after defaults increased when monthly meetings were tested. However the feedback, suggests that the 'additional' meetings need to be made more interesting, especially for older members; and perhaps monthly meetings could be introduced on a planned basis linked to Centre age and performance indicators.

→ Having to find another member if one drops out from the group of 5

→ Training of new members who join after the Centre is formed (to replace dropouts)

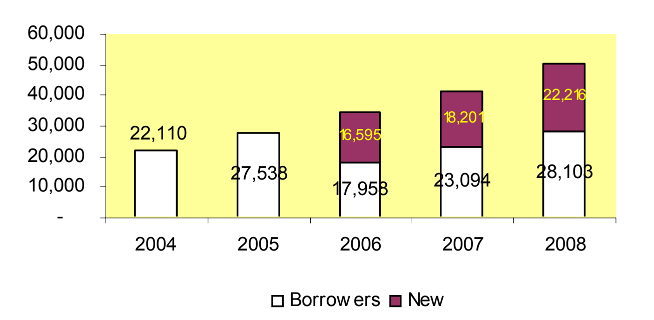
→ A few clients (2) mentioned issues about going to the Bank – to deposit savings and other payments – either distance (up to 20 km) or poor treatment.

→ Larger loans for some long standing clients – who may be constrained by group limitations.

Client exit

A mapping of annual numbers of clients, including the number of new clients each year, gives an indication of the degree of exit.

Client retention – and new clients



On SEF's own definition (those who do not take another loan within 6 months of completing the last loan cycle/those who completed the last loan cycle) the rate of dropout is 20%: 19% for TCP clients, 21% for MCP clients (June 2008). MCP dropout rates have been consistently higher than TCP though the difference is just 2-4 percentage points. Dropout rates show a declining trend, though still above the 18% SEF is aiming for as the maximum rate; and above the average recorded so far in the microfinance sector (around 8-15%) applying M-CRILs standard formula.

	Calculating the dropout rate	Jun-07	Jun-08
a	Total clients – end of year (incl those who completed loan cycle w/i last 6 m)	41,295	50,319
b	New clients during year	18,201	22,216
c	Clients at beginning of year	34,553	41,295
	Rate of dropout [c+b-a/c+b]*	**21.7%**	**20.8%**
	Number of dropouts – implied	*11,459*	*13,192*

* M-CRIL formula

Analyzing by cycle, SEF has found lower than 18% rate of drop-out after the first loan cycle, followed by higher drop-out rates (21-27%) after cycle two and three; and falling again after that, to under 12% after cycle 12 .

Reasons for exit are available from a small sample (of 89 – 35% TCP, 65% MCP) undertaken in 2007, though this data is not disaggregated (for example by time with programme).

The major reason (given by 44% of dropouts), is issues within the Centre/group, particularly "patching", or having to cover for any default in the group – and presumably the fact that there is no guarantee of reimbursement. "Family/husband" conflicts are another reason – though it is not entirely clear what this refers to. Apart from this, the next most significant reason is business failure. These are two aspects (patching and business failure) which represent key concerns for SEF if they are to reduce the rate of exit.

Reasons for dropout	%
n	89
Taking a Break	1%
Problems:	
Group and Centre Conflicts (mainly patching)	44%
Family/Husband Conflicts	27%
Business Failure	24%
Issues with SEF staff	3%
Externalities	
Job/Government Grant	20%
Relocation	1%

Data from SEF's dropout survey, September 2007. Includes multiple responses

Getting a job or a grant is a prominent reason to leave (for 20%), representing an alternative opportunity and income source.

OUTCOMES

Monitoring data that gives a snapshot across all TCP clients in the first 'eight cycles' shows in general, higher average scores/results at later cycles. The length of cycle may be 4-10 months, usually 6 months, so the total period of time involved is around 3-4 years. The data indicates a certain level of change which is overall positive – but lacks a reference to define how significant the change is, and does not account for dropouts between cycles:

- The average of business value (supported by micro-credit) as around R20 before the first loan, up at R500/800 just before the second cycle and up (with some variation) to R800-1,600 by the 7th cycle and slight fall at the 8th cycle.
- The average monthly contribution to a *stokvel* starts at R65 before the first loan, goes up to around R100/150 at the 7/8th cycle, again with variation in the later cycles.
- Two subjective indicators on a scale of -2 to +2: the adequacy of food score and quality of housing scores show quite similar averages of -0.5 for first cycle clients progressively going up to cross 0 for 4th or 5th cycle clients, and continuing to increase up to 0.2/0.4 for 8th cycle clients (still below +1).

PERSPECTIVE - CONCLUSION

SEF has successfully combined its resources to focus on social goals whilst working towards financial sustainability in the poorest and most rural northern region of S Africa. There is very strong evidence of innovation and commitment to social mission in practice, particularly in the approach to targeting (area and clients), the variation of terms provided around its credit product, and the tracking of some key social indicators (including the dropout rate) alongside robust financial systems. A fairly consistent approach to values of client protection is part of organisational culture and operations, though not formalised or specifically monitored.

Client level results – available from a pilot sample survey of the PPI and some indicative Focus Groups – show very substantial depth of outreach to the poor and moderate client awareness and satisfaction.

SEF has been growing at a steady pace of 22-25% (including a dropout rate of around 22%) a year and aims to continue to grow at 20% a year as it expands outside Limpopo. This will require substantive attention to staff capacity, internal communication and staff retention. Group systems also need attention together with supporting field staff capacity for the facilitation role intended for them.

Systems for SPM are quite well established and under further development, as SEF seeks to refine its staff incentive system, and introduce the PPI (if it can be adapted more practically to the operational context). Other aspects to be strengthened in tracking social performance include checking the quality and reference of data collected in the existing monitoring system, extending this beyond 8 cycles and to MCP clients, including the distribution (as a basis for following up on more vulnerable clients), analysing reasons for exit on a more regular basis – and including BMs and DFs more regularly in the feedback loop.

Independent research has underlined the effective synergy between microfinance and gender focused training and community action around domestic violence and HIV/AIDS. There are already funds available for this to be extended with SEF clients.

An area to flag for the future remains the question of livelihoods opportunities.

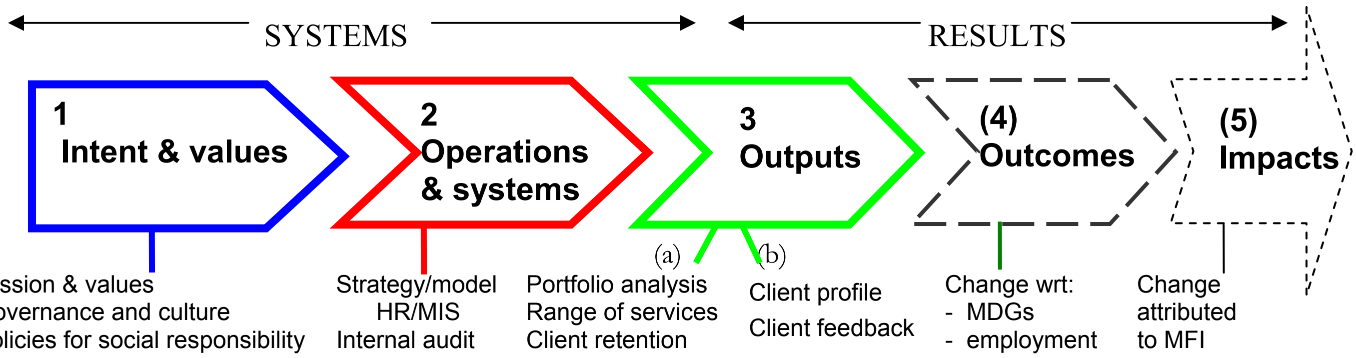
M-CRIL's Microfinance Rating Symbols

Grade	Credit Rating description	Social Rating description	Grade
α++	Excellent systems, highest safety ➢ most highly recommended	Excellent systems and adherence to social mission and values	$^{\Sigma}\alpha$++
α+ α	Very good systems, high safety ➢ (very) highly recommended	Very good systems and adherence to social mission and values	$^{\Sigma}\alpha$+ $^{\Sigma}\alpha$
α– β+	Good/satisfactory systems and safety ➢ recommended, needs monitoring and improvement to handle large volumes	Good/satisfactory systems and adherence to social mission and values	$^{\Sigma}\alpha$– $^{\Sigma}\beta$+
β β–	Borderline to weak systems, significant risk ➢ acceptable after improvement	Weak systems and adherence to social mission and values	$^{\Sigma}\beta$ $^{\Sigma}\beta$–
γ+ γ	Weak systems, very high risk ➢ not ready for investment	Very limited/no social mission or values	$^{\Sigma}\gamma$+ $^{\Sigma}\gamma$

$^{\Sigma}$ (the capital sigma, represents the 'S' for Social Rating

- Mission and values relate primarily to: financial inclusion, client protection and quality services
- The social rating covers organisational systems alignment and field level evidence for outputs (who are the clients at entry, are the services appropriate). Field level information may be collected as part of the social rating exercise, if not already available as part of the MFI's own reporting system.
- If the MFI has robust evidence for change (outcomes/impact), this will be documented as part of the social rating report.
- Otherwise a first social rating does not directly collect information on outcomes, and it is not included. A subsequent social rating, however, can include direct follow up of the initial client survey to profile change at the client level.

Social rating thus usually covers the first three steps of the ***social performance pathway*** as shown.



This is the framework for social performance reporting. The findings of the social rating apply directly to social reporting.