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CALMEADOW / Vulindlela Small Enterprise Foundation

Final Narrative Report

For the IGP Period covering Four Years October 1998 to September 2002

Implementation Grant Program
USAID Cooperative Agreement No. PCE-A-00-98-00039-00

Submitted October 29, 2002 to:

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G/EGAD/MD

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1. Key Program Indicators – See Table 1 on following page

<u>Scale</u>

During the four year period, SEF grew from 6,144 clients to 14,371 clients, or 134%, an average of 25% per year. The loan portfolio grew from R3.43 million to R9.2 million, or 168%, an average of 28% per year.

Although these figures are not bad for a South African MFI which is working in just one province, the performance is 32% below the original USAID target for clients of 21,000, and 48% below the original target for portfolio of R17.7 million. It is also below the targets revised just one year ago for USAID, of 15,547 for clients and R10.5 million for portfolio.

There are three primary reasons for not meeting the targets:

- One year into the USAID agreement, in late 1999, SEF changed strategy and decided to concentrate growth in the TCP poverty focused programme, whereas the USAID targets assumed that growth would be concentrated in the mainstream microfinance programme. It is more difficult to build volumes in the poverty market and introducing the new focus also absorbed management energy for a period of time.

- In an effort to push sustainability in the mainstream MCP programme, SEF introduced a new incentive scheme and a new methodology to encourage higher loan sizes and better meet the needs of its strongest clients. This experiment led to a significant climb in arrears and drop-out levels as clients took loan sizes which were too high. Management controls were not strong enough to prevent this development and, by March 2001, portfolio at risk over 30 days reached an all-time high of 3.2%. SEF spent the next year emphasizing arrears rates and drop-out levels rather than growth.

- As SEF grew, it underestimated the importance of building capacity of the branch managers. During early 2001, SEF identified that weakness at this level of management was a primary barrier to growth. SEF increased formal training for this group and introduced a formal Performance Management system in August 2001. This system is providing branch managers with a strong tool for supervising and coaching their staff.

As described in Annex C – SEF Case Study, the organization is now entering a fifth stage in its life cycle which it believes will be characterized by solid gains in scale. Steps taken to turn around the organization have already resulted in improvements and this is expected to continue. In the past six months, the number of clients has grown from 12,600 to 14,400, and the portfolio has grown from R7.4 million to R9.2 million. The charts in Annex C show that the improvement is most evident in the MCP programme, which experienced a large drop in clients and portfolio over the 15 month period from December 2000 to March 2002.

Small Enterprise Foundation : Key Program Indicators

	ACTUALS							Initial Target	Revised Target
	6/98	6/99	6/00	6/01	6/02	9/02	GROWTH	6/02	6/02
# of loans outstanding	6,144	8,693	11,850	12,247	12,924	14,371	8,227	21,000	15,547
Value of loans outstanding	R3.43 million	R5.6 million	R8.8 million	R7.58 million	R7.48 million	R 9.2 million	R 5.77	R17.7 million	R 10.5 million
Loan loss rate*	0.54%	0.18%	0.6%	2.66%	3.55%	0.6%	Avg 1.36%	1%	1.5%
Portfolio at risk > 30 days	0%	0.02%	0.57%	1.49%	0.5%	0.2%		2%	2%
Operational self sufficiency[1]	59%	65%	67%	67%	52%	63%	4%	109%	71%
Financial self sufficiency (Level 1)[2]	57%	64%	65%	65%	50%	59%	2%	96%	68%
Financial self sufficiency (Level 2)[3]	49%	56%	60%	62%	46%	54%	5%	85%	66%

**Rate Annualized*

[1] Operational self sufficiency = Total income / (total operating costs + loan loss provision)
[2] Financial self sufficiency (level 1) = Total income / (total operating costs + total financial costs + loan loss provision)
[3] Financial self sufficiency (level 2) = Total income / (total operating costs + total financial costs + loan loss provision + adjustment for subsidized cost of funds + inflation adjustment on average equity, less average net fixed assets)

Portfolio Quality

SEF continues to be a world leader in portfolio quality. The average loan loss rate over the past four years has been 1.36%, and this figure includes death write-offs which account for approximately .5% per year. As discussed above, loan losses went as high as 3.55% in the year ending June 2002, a result of pushing unrealistic loan sizes. Efforts to control arrears and drop-outs have brought portfolio at risk over 30 days down to 0.2% at September 30, 2002.

Efficiency and Self-Sufficiency

Perhaps these are the areas in which SEF has scored the most poorly over the four year grant agreement. Operating efficiency improved from 106% in the quarter to September 98 to 83% two years later, in the quarter ending September 00, but then rose to 115% for September 01 and down to 104% for September 02. These figures are explained by the drop in average loan sizes (see Loan Size chart in Annex C) and the focus on arrears management during 2001.

The self-sufficiency figures show a similar pattern, with gradual improvements from 1998 to 2000 and then a drop to June 2002. It is important to note that up to June 2000, performance of TCP indicated that it was possible to achieve self-sufficiency in the poverty programme within a reasonable time frame. It was only after 2000 that assumptions changed: arrears climbed, growth slowed, and the average loan sizes did not grow as anticipated. Every six months, SEF had to revise its forecast downwards – it was a difficult time for the organization.

The good news is that figures for the quarter to September 2002 are showing marked improvements in efficiency and self-sufficiency, just as they are for the scale indicators. SEF has implemented several strategies over the past six months to strengthen these indicators:

- The Zonal Manager layer of management has been eliminated; there are now eleven branches reporting to two operations managers.
- The Research and Development Department has been downsized to one person; more development will be conducted by the Operations Department.
- The TCP and MCP administrative units have been combined into one central administration office.
- The incentive scheme was revised to remove disincentives to building portfolios beyond a certain maximum.
- Between February and April, a new menu of products was introduced which effectively increases interest rates to between 70 and 82%.(from between 45% to 70% previously)
- A market assessment was carried out to determine the market size required for a Field Worker to attain and maintain a full portfolio of 320 clients. This resulted in the allocation of more areas to some Field Workers.

Despite the fact that financial self-sufficiency is still sitting at 54% for the quarter to September 30th, SEF is confident that the above strategies will continue to result in rapid improvements. SEF is also now looking at how to offer both the poverty loans and the mainstream loans in the same villages, which should have a significant effect on growth and productivity of branch units.

In the latest run of the financial model, SEF is predicting that it will reach full financial self-sufficiency within two years, by December 2004. In the interim, SEF will experience an operating loss of approximately R800,000, or US $ 80,000. Although more donations may come in, SEF could fund this shortfall with accumulated equity.

From this point of view, USAID can rest assured that the Small Enterprise Foundation did, indeed, reach self-sufficiency during the life of the IGP and is now technically independent of donor funding.

2. Calmeadow/Vulindlela Technical Assistance Trips

During the four year period, four individuals from the Calmeadow/Vulindlela team contributed to institutional development of the Small Enterprise Foundation: Barbara Calvin, Victoria White, Godfrey Letlape, and Savanhu Chianike.

The primary areas in which contributions were made include:

First Two Years - 1998/99/00

- Designing the Performance Indicators Report
- Updating and further development of the projection model
- Ideas for improving self-sufficiency and productivity of MCP
- Input on new incentive scheme
- Facilitation of three strategic planning workshops
- Documentation of the administration procedures
- Organizing for staff to visit Bolivia and attend international courses.
- Training Financial Manager on projection model.
- Assisted with MBB submission

Second Two Years – 2000/01/02

- Helping to design the convergence of TCP and MCP
- Contributing ideas for new loan product design and recommendations on effective interest rates.
- Input/sounding board on Organization Design
- Facilitating design, implementation, and refinement of the Performance Management system
- Developing HJA profiles for fieldworkers, branch managers, and the receptionist
- Contributed ideas for improving growth
- Drafting three Policy and Procedure Manuals: Operations, Human Resources, and Administration.

3. Challenges, Lessons Learned, and Success Factors

In August this year, Vulindlela was commissioned to write a series of case studies on South African microfinance institutions, including SEF. The attached copy, included as Annex C, provides a history and profile of the organization since inception in 1992.

The final section of the case study profiles the primary lessons learned over the years. For those who are interested, you can find this section on pages 13 to 15 of the case study.

4. USAID Budget

As shown by the Budget Schedule in Annex B, SEF claims and expenses were consistent with the budget. Calmeadow claims were slightly under budget and Vulindlela technical assistance claims were significantly under budget for the past year, by $25,000.

The primary reason for this variation is that Vulindlela was not able to build its consulting staff as planned and personnel were not sufficient to complete the workplan scheduled for the fourth year.

Six items were included in the workplan but only four were completed: Three Policy and Procedure Manuals and a review of the Performance Management system. The two areas which were not even started were the planned upgrades to the Branch Management Training and Loan Officer Training.

ANNEXES

A FINANCIAL TABLES

B IGP BUDGET

C SEF CASE STUDY

ANNEX C SEF CASE STUDY

SUCCESS FACTORS IN MICROFINANCE
LESSONS FROM SOUTH AFRICA

CASE STUDY NO. 6 OF 10

THE SMALL ENTERPRISE FOUNDATION
TZANEEN, LIMPOPO PROVINCE

Commissioned by Khula Enterprise Finance
September 2002

Prepared by
Vulindlela Development Finance Consultants
Edited by Barbara Calvin

1. Historical Beginnings, Champions and Vision

History, Vision and Goals

The Small Enterprise Foundation (SEF) is a non-governmental organization which registered as a Section 21 company in July 1991 and disbursed its first microenterprise loans in January 1992. The champion behind SEF was its founding Managing Director, John de Wit. After spending four years running the microcredit operations of the Get Ahead Foundation, from 1987 to 1990, John decided to launch his own organization in one of the poorest provinces of South Africa.

At the time, SEF's goal was to work towards the alleviation of unemployment and poverty among the black population in rural areas of South Africa. Having been exposed to global best practices at an early stage, SEF's initial vision included the concept of sustainability:

> *SEF's vision is to become a sustainable lender to the poorest economically active sector in rural areas of South Africa.*

After one year of lending, in early 1993, John hired Gabriel Davel as Finance Director and to assist with designing the policies and procedures to support the highly decentralized Grameen-based methodology. These two individuals, along with the new group of fieldworkers, spent long days and nights designing the water tight delivery procedures and management information system which ultimately served the organization for the next ten years.

During the years that SEF has been lending, the organization has gone through ***Four Phases,*** with each defined by a different approach to fulfilling the vision:

Phase One included the early years from 1992 to 1995, when SEF developed and refined its basic group lending methodology. Once SEF reached 2,000 clients in late 1994, however, John began to question if the organization was actually reaching the most vulnerable households in a village. Despite the low loan sizes and group based approach, it appeared that it was not women from the poorest households who were coming forward; they were left out and continued to suffer from extreme poverty.[1] SEF thus began the process of understanding, designing, and pilotting approaches to work with the poorest, including: poverty targeting tools, empowerment approaches, basic literacy training, emphasis on group support, and impact monitoring tools. These approaches were implemented under the name of the Tshomisano Credit Program (TCP)[2], in new villages which were not yet served by the mainstream program.

The launch of TCP in early 1996 marked the beginning of ***Phase Two***, which is characterized by continued growth of MCP, with TCP operating as a pilot with just eleven loan officers. Tshomisano branches served only the poorest 40% of households in a village. The programme grew slowly but steadily as staff learned the special techniques for working with this unique market. In the majority of cases , the women in these households did not have a business and did not initially want to start one or take a loan. Staff trained these women in the benefits of operating an income generating

[1] Following the lead from other poverty based programs worldwide, SEF had prioritized female borrowers. Men are allowed to join borrowing groups only in exceptional circumstances.

[2] Tshomisano means "working together".

project and encouraged the women to get involved. By September 1999, TCP was reaching 1600 active clients and MCP was reaching 7,500.

Phase Three began in late 1999, when SEF decided to expand the TCP programme. Management was feeling confident with the Tshomisano methodology – both its ability to reach the poorest and its ability to have a positive impact on the lives of the poorest. At the same time, loan sizes for TCP had been rising steadily, to over R800 from an early position of under R600. Assuming this trend would continue, financial projections showed that it would be possible to reach self-sufficiency in TCP despite the poverty focus. SEF began to hire new loan officers and open new branches for TCP, growing from 11 to 28 loan officers in a twelve month period to September 2000.

During this same period, SEF did not add loan officers for MCP but was introducing new policies to improve the productivity and profitability of the division. It was thought that MCP, which served the middle level microenterprise market, could help to subsidize the poverty programme. A "lions" lending policy was launched to better suit the needs of the strongest businesses and a new incentive scheme was introduced which emphasized payouts for loan portfolio growth.

To mark this new and exciting period, SEF revised its Statement of Purpose in 2000:

> The Small Enterprise Foundation (SEF) is a growing development finance organization.
> <u>Values</u>
> We believe in:
> Respect for all
> Having a positive impact on the lives of our stakeholders
> Striving for operational efficiency and self-sufficiency
> <u>Mission</u>
> 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.
> <u>Vision</u>
> A world free of poverty.

Phase Three, from September 1999 to March 2001, is characterized by rapid growth for the organization. During this 18 month period, clients grew by 33% and the portfolio grew by 24%, largely fuelled by TCP which grew by 105% and 80% respectively. Concurrent with this growth, however, was a disturbing rise in arrears and portfolio at risk. The number of month end arrears in MCP grew from 1 in September 1999 to 83 in March 2001, and portfolio at risk over 30 days peaked in March 2001 at 3.5%. In TCP, month end arrears grew from 12 to 187 and portfolio at risk over 30 days reached 2.1% of the portfolio.

Concern over loan quality defines ***Phase Four***, a period of consolidation and retraining. In MCP, the lions policy and incentive scheme were discontinued and replaced with a focus on setting affordable loan sizes and helping groups to resolve their problems. In TCP - the focus was reducing arrears, bringing drop-outs under control and maintaining steady growth

8

In addition, SEF had increasingly been feeling the strain of managing two separate programmes and began the process of consolidating under one General Manager of Operations. During 2001, SEF introduced new administrative procedures and a revised incentive scheme, which was the same for both MCP and TCP and did not incentivise portfolio growth. The organization also began a series of disciplinary hearings and retrenchments based on non-performance.

SEF has now regained control of portfolio quality (month end arrears have dropped back to 22 for MCP and 20 for TCP) and is beginning to plan its next phase of growth, which could be called ***Phase Five***. The biggest challenge facing SEF at the moment is the need to improve self-sufficiency ratios. A four year funding contract with USAID is coming to an end in September 2002, at a time when organizational earnings have been hurt by the decline in portfolio outstanding from a high of R 9.1 million in September 2000 to R 8.0 million in June 2002. Loan sizes for both programs have dropped substantially as staff were encouraged to be more cautious.

To address the earnings challenge, SEF has adopted a variety of strategies, including: introducing higher interest rates in early 2002, implementing a variety of cost cutting measures, and experimenting on how to expand its market by serving a wider range of clients (both the MCP and TCP type clients) in the same villages.

In conclusion, despite the significant expertise that SEF has developed over more than ten years of lending, the SEF story demonstrates that challenges in microfinance never cease and management can never relax the monitoring and innovations that are required to remain a leader.

Board of Directors

The board of directors is comprised of two executive directors (John de Wit and Ben Nkuna) and six non-executive directors. The board has provided solid support to the organization since inception and has participated actively in strategic planning sessions and other workshops.

The board meets five times per year; there are no sub-committees. Board members are not paid for their time but their travel expenses are reimbursed.

Non-Executive Board Member	Specialties/Skills
Matome Malatji *	Community Development, Limpopo Province
Marie Kirsten *	National Development
Daphne Motsepe *	Banking; Microfinance; Management
Mutle Mogase	Banking; Investments; Management
Sanjay Doshi	Corporate Management
Sizeka Rensburg	Economic Development consultant

Three of the board members have been serving since the early 90s (Malatji, Kirsten, and Motsepe) and three are newer members bringing more banking and corporate management experience to the group (Mogase, Doshi, and Rensburg).

9

Executive Management

SEF has been operating with a six-member senior management team which consisted of a Managing Director, a General Manager Operations, a Finance Manager, a Human Resource Manager, a Head of Development and a Senior Internal Auditor.

This team has developed significant capacity for SEF since it was fully staffed five years ago. In an effort to improve efficiency levels, however, the senior management layer is currently being downsized. The Development Department is to be shut down and future development activities will now be conducted by Operations. By 2005 all of SEF's branches will report directly to SEF's General Manager-Operations. Between now and then the former MCP branches will report directly to this manager while TCP branches will report to the current Head of Development who now takes on an operational role. These changes effectively do away with the middle management, Zonal Manager, layer in the organization.

The senior management team will now consist of the following members: Managing Director, two Operational Managers, Finance Manager, Senior Internal Auditor, and HR Manager.

Corporate Linkages

As the longest serving microfinance institution in the country, SEF is called upon to participate actively in sector developments in South Africa. John de Wit has served on the executive committee and board of directors of the Micro-Enterprise Alliance since 2000 and all SEF staff have conducted workshops and shared their expertise with other organizations.

SEF is well known internationally and has maintained links with CGAP, Calmeadow, USAID, Ford, Grameen Trust, and others in an effort to stay abreast of best practices and share its own lessons. SEF is considered to be a world leader in the areas of poverty targeting and working with the poorest households.

Corporate Strategy

The latest business plan developed by SEF shows breakeven by the end of 2004 with 20,800 clients and a portfolio outstanding of R 15,4 million.

Until now SEF has focused on serving villages and townships in the Limpopo province. Once the break-even point is reached, SEF plans to expand to other provinces.

2. Overview of Markets and Products

SEF is located in the Northern/ Limpopo Province of South Africa, the country's poorest. An August 1994 World Bank study revealed that the average monthly income among black ethnic groups in the area was R135, as compared to a national average for all race groups of R468. A statistical survey for 1990 showed that nearly 70% of the potential labour force of the Northern Province was officially unemployed, in subsistence agriculture, or in the informal sector.

Limpopo province has a population of around 6 million inhabitants and approximately 1.2 million households. It is estimated that around 40 percent of these households live below half the poverty line (480,000 households). It is estimated that of those households 20 percent could be a potential loan client (1 in every five households) which would translate into a potential client base of 96.000 clients. SEF estimates that there are an additional 48,000 potential clients that live between half the poverty line to around the poverty line.

SEF currently serves both rural and urban areas. The largest urban townships served by SEF include: Namakgale and Lulekani near to Phalaborwa and Nkowakowa and Lenyenye near to Tzaneen. Operating in these areas presents unique challenges such as: incomes are higher, clients want larger loans, clients experience monthly rather than daily cash flows, and communities are transient - the majority of residents have moved to the area within the past ten years. The other areas are more rural: the markets are shallow, skill levels are low, distances are significant, people socialize more with each other, and communities are stable - the majority of residents have a long history in such areas.

SEF's borrowers are from three ethnic groups: Northern Sotho, Shangaan and Venda. SEF's clients are 98% female. Typical enterprises include hawkers of fruits and vegetables and new or used clothing, small convenience shops, and dressmakers.

For MCP villages, 86% of clients have had three or more years experience in their business. All of them operate their microenterprise on a full-time basis. On average, each business employs 2.5 individuals on a full-time or part-time basis, including the owner. In TCP, while 67% of clients have had three or more years of business experience, 89% do not have an existing business at the time of joining the program. This apparent contradiction is testimony to poor people's on-going efforts to support themselves.

The sector breakdowns for both MCP and TCP are as follows:

Hawking	50%	Service	1%
Retail	24%	Catering	1%
Manufacture	19%	Other	1%
Entertainment	5%		

SEF has little competition. Current competitors are the Land Bank's Step-up Program and Marang. Beehive is also beginning to move into the province.

11

3. Description of Branch Structure

Field Offices

SEF currently operates eleven branches, all in the Limpopo Province and approximately 50 to 100 kilometers from each other. SEF has recently defined the area that it needs to allocate to a fieldworker to enable them to reach target of 68 groups or 333 clients each. MCP fieldworkers are allocated areas with 7,500 households and TCP fieldworkers are allocated areas with 1,700 households. This assumes penetration levels of 4% for MCP and 20% for TCP.

MCP Branches - 5	Letsitele Giyani Tlatja Phalaborwa Mankweng
TCP Branches - 6	Khomanani Sekgosese Trichardstal Vuwani Lwamondo Burgersfort

Zonal Offices

With the new organization structure, there will be just one Zonal Office; staffed by the Operational Head of TCP, plus one deputy. This office will serve only as an operational base for these two individuals; all loans administration will be done centrally.

Distribution Linkages

SEF has a close relationship with the Post Bank, which facilitates disbursements and repayments for clients and houses the group savings accounts.

Growth Strategy

As mentioned earlier, SEF does not plan to open any new branches until breakeven is reached, at which point, SEF will consider moving into new provinces.

4. Description of Lending Methodology

When John began designing the methodology for SEF, he had already been exposed to lessons from the sector, both from a theoretical point of view through conferences and readings and from his own practical experience. Over a four-year period, from early 1987 to the end of 1990, John was responsible for four different lending programs run by the Get Ahead Foundation. The first was an individual loan program for the smallest microenterprises, with loan sizes from R25 to R200. The second was an individual loan program for higher level enterprises, with loan sizes from R1000 to R10,000. The third

12

was a solidarity group lending program, with loan sizes from R300 to R3000. The final program was a community-based program in the Eastern Transvaal, in which John experimented with the concept of Centre Meetings. Over this four year period, John gained critical experience regarding the dos and don'ts of microenterprise lending.

" I read speeches by Mohammed Yunus and watched the Grameen videos over and over. It was trial and error in the early years; we monitored and responded. There was one workshop at Harper's Ferry in the USA in January 1988 which was particularly influential. All the pioneers were there – we discussed various topics. It was at this workshop that I became committed to the concept of sustainability". John de Wit

The initial policies and procedures for the Get Ahead solidarity group programme had been developed by Hank Jackelen, a recognized expert in the field. John took lessons from this programme, and from Grameen, and added home grown lessons from the successful burial societies, to come up with the initial design for the SEF Village-centre based methodology. During conferences John discussed aspects of methodology with other international practitioners and slowly refined the methodology over the first few years.

To date, the basic components of that initial methodology have not changed. Although new policies were introduced by TCP to better suit the poorest householdes, the basic components are as follows:

Solidarity Groups: Clients form themselves into solidarity groups of five members each. These members must prove that they know each other well and agree to co-guarantee each others loans.

Centre Meetings: Between two and ten solidarity groups come together to form a Village Centre. This group elects a Management Committee, with a Chairperson, Secretary and Treasurer. Centres meet every fortnight to conduct the primary transactions of the programme: approve new loans, gather savings, gather repayments, and follow-up on delinquencies. During these meetings they are also encouraged to discuss business issues and support each other.

Strict Adherence to Policy: SEF is very strict about meeting attendance, savings, and overall discipline, and has a policy of zero tolerance towards arrears. This has allowed SEF to grow and still maintain a 30 day portfolio at risk rate of below 1%.

Short Loan Terms: Loan terms range from 10 fortnights to 8 months, with either fortnightly or monthly repayments.

Further details on the methodology are included in Annex A.

5. Human Resource Management Policies

Organization Chart

a) Head Office

In addition to the six senior managers described under Executive Management, head office houses between 12 and 15 middle management staff and data clerks.

13

b) Zonal & Branch Offices

As mentioned, there will be one Zonal Office: managing the TCP branches and based in Louis Trichardt. Each branch has one Branch Manager and between five and seven fieldworkers. No other administrative staff are located in the branches.

The HR Function

SEF has an HR Manager and a Human Resources Administrator.

A comprehensive staff manual has been developed and covers detailed policies on general employment issues, remuneration and allowances, incentive systems, disciplinary procedures etc.

Hiring Policies

The hiring criteria for fieldworkers have evolved over time. Initially, qualifications included: female, age 32 or more, fluent in the local language, with no specified education requirements. Next, SEF changed this in favour of younger and more highly educated staff: male or female, 28 years old or younger, at least one year of schooling beyond standard 10 (even preferred university graduates), fluent in local language, willingness to be transferred to new areas. The younger and more educated group, however, are more ambitious and mobile, and there is a greater risk of losing them to another job after training. SEF continues to re-evaluate its hiring policies.

Branch managers are mainly internally recruited. The most crucial critieria is a branch manager personality profile.

SEF has comprehensive selection policies for field workers. Candidates first have to complete a mathematical test, a group interview test, personality test and a reader test. Selected candidates will be given a six month trainee contract and will begin the training programme (described below).

Compensation Policies

Fieldworkers earn an average base salary of R2,500, which includes a contribution to a provident fund. Medical coverage is optional and SEF offers a matching contribution to a medical aid scheme. All business related travel is reimbursed.

From the early days, SEF has operated a monthly incentive scheme for fieldworkers and branch managers, although it has evolved in design over time. Fieldworkers can earn up to R1000 additional per month with this scheme, although the average incentive payout is R350 to R500 per month.

Today the monthly incentive is based on the number of active groups managed by the field worker, with deductions for the % of groups in arrears. In addition, a quarterly incentive includes the retention rate and branch profitability. The branch manager receives an average of the fieldworker incentives. The head office staff (including the zonal management) receives fixed bonuses based on the overall performance of SEF.

Culture and Employee Satisfaction

A staff union was initiated in 1996/97 under CEPPWAWU and now represents just under 50% of total staff. The union organized a strike in September 2000 in support of wage demands. During the strike, management kept operations going through hard work and a series of innovative steps. The strike ended after one week. SEF management believe that the strike was actually a positive experience for the company – the entitlement attitude is now gone and staff have become more serious about performance and taking responsibility.

Loan Officer Training

Fieldworker training is highly practical, with significant in-branch exposure.

Time Period	Steps	
2 weeks	Induction	Observation in Branch A
1 week	Break	
2 months	Phase I – Month 1	Working in Branch B Theory, Observation, and Report Writing
	Phase I – Month 2	Working in Branch B Policies and Procedures Review
7 weeks	Phase II -	Working in Branch C Practical in branch activities Another day of in-class training on PWR and Impact Assessment
5 weeks	Phase III	Working in Branch C Further practical plus final assessment by HR and Operations.

Throughout the five months, the Training Officer, Managing Director, and others observe the trainees and solicit reports from the Branch Managers.

Performance Management

Last August SEF introduced a comprehensive performance management system which describes in detail a wide range of performance standards for zonal manager, branch managers and field workers, and includes: performance contracts, monthly performance monitoring, and semi-annual performance evaluations with scoring. Management is satisfied that this system has made a difference and is contributing to improved growth.

15

6. MIS and Automation Strategies

Unlike many other MFIs who have prioritized automation and poured large amounts of resources into this area, SEF has chosen an alternate strategy. Following the lead of the Grameen bank, which had over 1 million clients before it began to put computers in branches, SEF has operated with fully manual procedures and reports at the field level.

"SEF put a great deal of thought into the design of the manual management information system. The central philosophy behind the design is that each level of operation should generate the information that it requires to function effectively and thereby be fully independent. In an environment where distances are great and communication is poor, this has proved to be an excellent strategy. At the same time, reconciliations are designed into the process so that any errors or problems show up in a timely manner." Gabriel Davel

At head office, computers are used for accounting, payroll management, and reporting. All operational data is captured in Quatro Pro which functions like a database system. The Managing Director can sit at his desk and analyse virtually any trend. For example, John can call up all loans on the third cycle and determine how many are over R2,000 in value! This is impressive for an organization which has spent very little on automation.

Centre Level: The Centre Committee maintains a **Minute Book** and an **Attendance Register**. The Minute Book records all loan disbursements, repayments, and savings by group, as well as details such as who volunteers to deposit funds at the bank each week.

Fieldworker: The Fieldworker maintains a **Receipt Book** and a **Debtors Card** for each loan. The Receipt Book makes three copies of each receipt: one is given to the borrower group; one is sent to head office; and one is kept in the receipt book by the Fieldworker. The Debtors Card records transactions for each loan. This becomes the source of information for a **Repayment Schedule** which the Fieldworker completes on a weekly basis. On Monday mornings, Fieldworkers list all expected repayments, by Group and by Centre, for the week to come. On Friday, Fieldworkers list all payments received and note any late or outstanding repayments. This form is then submitted to head office the following Monday, with receipts stapled to one corner.

Branch Manager: Each Monday, the BM prepares a **Deposit Reconciliation Schedule** by Centre. The Coordinator collects deposit slips from the local bank branch and reconciles these to the expected payments and recorded receipts.

Head Office Level: As a final step, the Loans Administrator at head office reconciles the **Bank Statements** against the expected payments and receipts. This step closes the system.

16

7. Financial Management and Internal Audit Policies

Financial Statements

SEFs year end is June 30th; statements are audited annually in August.
Auditors are Deloitte and Touche

Provision and Write-off Policies

Up until June 2000, SEF made a general provision each month to maintain a reserve for bad debts equal to 1% of the outstanding portfolio and a reserve for death write-offs equal to .50%. In 2001, the reserve for bad debts was raised to 2% of the outstanding portfolio.

When a client passes away, SEF will write-off the amount owed by the member. In addition, all loans 84 days or more in arrears are written off.

All provisions and write-offs are made on a monthly basis.

Long-term Financial Forecasting & Annual Budgetting

With the assistance of Calmeadow, the Small Enterprise Foundation developed a financial forecasting model during the mid 1990s. The organization has actively used this model ever since, to project its point of sustainability and make decisions on pricing and other strategy changes.

SEF has also employed an annual budgeting process for many years, which involves branch managers in setting targets for their branches and monthly variance analysis.

Loan Capital and Operational Funds

SEF has received significant capacity building funds since inception, including R 11.5 million from USAID, and R2.71 million from the Ford Foundation.

The majority of loan capital has come from a R6.7 million grant from USAID, R600,000 loan capital grants from local companies, and loans of R1 million from Triodos Bank and R6.8 million from Khula. In the early years, loans were provided by the DBSA and Nedbank.

Internal Audit

In the mid 90s, a formal internal audit department was established to monitor operations and ensure that all policies and procedures were being followed. A comprehensive internal audit manual has been prepared, which spells out all the checks which need to be performed. Each year, every branch goes through one audit visit of three weeks and another follow-up audit of one week. The internal auditor reports directly to the Managing Director. Over the past ten years only three cases of fraud have occurred; remedial action was taken immediately.

8. Levels of Success

Development Impact

SEF has excelled in the area of development impact. Over a period of 10.5 years, SEF has disbursed close to 100,000 loans with a value of over R100,000,000, all in the Limpopo province.

In addition, SEF has been a world leader in developing tools to target and serve the poorest households. In a CGAP sponsored study conducted by the University of Natal during 2001, it was shown that 52% of the clients of TCP were from the poorest 1/3 of households in the region, whereas only 9% were from the least poor 1/3 of households. This contrasts with the MCP programme, in which only 15% of clients were from the poorest 1/3 of households and 50% were from the least poor 1/3 of households. This was proof that the wealth ranking tool developed by SEF to identify the poorest, and the motivational approaches used to encourage participation in the programme, have both been implemented effectively.

SEF has also contributed to development by acting as a demonstration model for other organizations. Within Southern Africa there are several SEF replicators who are operating successfully; SEF has always welcomed visitors and has been willing to share its methodology with others.[3]

Financial Performance

(See Tables A1 to A3 for detailed financial schedules)

SEF has also set world standards in loan portfolio quality. During the first nine years of operation, from 1992 to 2000, SEF's portfolio at risk over 30 days was consistently below 2% and writeoffs to average portfolio outstanding were below 1% per year. In the past two years, bad debt write-offs have risen slightly to 2.5% in 2001 and 2.4% in 2002, but these figures are still ahead of international standards. This performance can be credited to the tight policies and procedures and the attitude of zero tolerance towards arrears.

SEF has struggled, however, to achieve international standards of scale, efficiency, and self-sufficiency. With 13,000 active clients, SEF is the second biggest microenterprise lending NGO in the country, after Marang Financial Services which has 15,000 clients. This is impressive for South Africa, but some international observers would have expected to see at least 20,000 clients after ten years of lending.

The Administrative Expense ratio reached a low of 87% in the year to June 2002, but then jumped to 115% in the past year due to the falling average loan sizes. Again, after 10 years of lending, figures in the 50% to 60% range might have been expected for a poverty focussed programme.

Operational self-sufficiency and financial self-sufficiency also remain low at 51% and 47% respectively.

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[3] This willingness to share may need to change now that competition is getting stronger in the Limpopo province.

18

The under-performance in these areas is partially explained by the excellent portfolio quality - there is generally some trade-off between scale and quality - but there are other explanations:

- SEF has chosen a difficult province in which to work, with extreme poverty, a generally shallow economy, and long distances between villages.
- The pure version of poverty targeting that SEF has adopted is more costly to deliver in relation to loan sizes than most other programmes in the world. In addition, SEF contained growth until it was satisfied with the poverty methodology.
- The local staff hired by SEF require significant training before they are able to carry out their jobs effectively

With the measures adopted recently to improve efficiency and increase revenues, however, SEF is expected to break-even in just two years and will be poised to grow once again.

Institutional Development

SEF is a highly developed organization. All areas of operation have benefited from significant capacity building, from research, marketing and development tools, to human resources policies, to management information systems and accounting.

There is significant depth within management. Staff have developed solid experience over ten years of lending and SEF has made an effort to promote from within. SEF is proud of the number of head office staff who came through the ranks, starting as fieldworkers.

While an organization is never free of areas requiring investment, and SEF has a fair list of such projects, including Branch Manager Training and Data Base MIS Development, SEF is streets ahead of the younger MFIs in the country.

9. Challenges, Lessons Learned, and Success Factors

a) Zero Tolerance for Arrears

From the outset, SEF's attitude towards arrears was that they would not be tolerated. This was communicated over and over again to staff and clients. SEF even refused to introduce a delinquency fee because they said this would convey the message that late payments were acceptable! This attitude, backed up by immediate follow-up by staff if an arrear occurred, has been a success factor in maintaining the close to perfect repayment.

SEF's performance on repayment has also inspired other organizations in South Africa and demonstrated that 10%+ losses per year in microenterprise lending are not necessary or acceptable. This is a major contribution that SEF has made to the sector in the country.

b) Poverty Targetting

Through hard work and trial and error SEF proved that "If you don't focus on the very poor, you wont reach the very poor". It took several years of lending before John realized that he was not reaching the clients that he set out to reach and he had to redesign many aspects of the SEF methodology.

SEF has also learned that poverty lending is more expensive than lending to the middle or upper level micro-markets: loan sizes start smaller and grow more slowly, it takes an extra 12 or more months for a fieldworker to build to full client capacity, and full capacity is somewhat lower than for mid level programs; clients need more support and aftercare; and clients are more sensitive to increases in interest rates. SEF's sustainability levels have suffered from these realities and SEF is now looking at how to serve a wider range of clients within the same villages.

c) Growth Management

Over the years SEF felt the need to halt growth in response to a variety of challenges. In the first year of lending, SEF stopped growth in order to tighten the administrative procedures. In 1994, SEF delayed the opening of a new branch because it was determined to hire a female branch manager - attracting female management remains a challenge for the organization. In 1996, SEF slowed growth of MCP in order to launch the TCP programme. Finally, in 2000, SEF put the reins on growth in order to regain control of portfolio quality.

> *"We are proud of the fact that we have survived!" John de Wit*

Perhaps the lesson here is that growth should follow and not lead strong operational procedures.

d) Retention Management

Long before the international community took note of the impact of client drop-out rates, SEF had recognized client retention as a key success factor. Client retention is strongly linked to both scale and portfolio quality. If drop-outs are high, a loan officer will struggle to build their portfolio as the new clients are simply replacing the drop-outs. If group members are having trouble with some issue, one or all of them may drop from the programme and leave arrears in their wake.

To manage client retention, SEF trained staff and Centre Management to act as facilitators for resolving group problems before they become serious.

Also, since a major cause of group problems is loan sizes that are too high for members to easily carry, SEF introduced a range of policies to help with establishing sensible loan sizes, such as business value guidelines.

e) Performance Management

Managing performance with a highly decentralized delivery structure has always been a challenge for SEF, just as it is for most microenterprise lenders. Getting loan officers to build their portfolios to full capacity as quickly as possible is a key success factor, but how should an organization set and communicate targets, support staff, monitor, and take corrective action. If staff are below targets, how does an organization decide on the causes – does it require disciplinary measures or is there some cause beyond the control of the loan officer? As an organization gets bigger, it becomes harder to manage these steps and decisions in an informal way.

SEF introduced a formalized performance management system in August 2001 to help manage this process. The system includes annual performance contracts and requires monthly reviews of fieldworkers by branch managers. These meetings provide an important forum for support and coaching. All staff now fully understand their Key Result Areas and stronger performance has resulted since early 2002.

Annex A - SEF – Group Lending Methodology

Product Design	
Loan amounts (sizes)	*R300 to R10,000*
Loan terms	Five term options are offered: 8 Fortnights; 12 Fortnights, 4 months; 6 months; and 10 months
Repayment frequency policies	Either fortnightly or monthly
Pricing: interest and fees	Pricing is quoted as an instalment per term per R100 loan. No fees are charged. Effective rates range from 82% to 87%
Savings products and requirements	Each solidarity group opens a group savings account with three signatories. Each individual must save R5 per fortnight and there is a minimum amount of savings which must remain in the account during each loan cycle and grows as follows: R40; R80; R120; R160; R200 The savings deposits are *counted and recorded during a* Centre meeting in front of the whole centre membership.
Upfront guarantees/deposits	*SEF used to have a 10% deposit* but this was discontinued in 1994. It contributed to administrative costs and did not seem to assist with loan quality.
Insurance or other	No third-party insurance offered. Loans are written off upon death of a group member.

Eligibility Criteria	
Age	Must be 18 years of age – no upper limit.
Gender	TCP only allows women; MCP allows one man in a group
Years of Experience in Business	TCP does not require business experience; MCP requires six months experience.

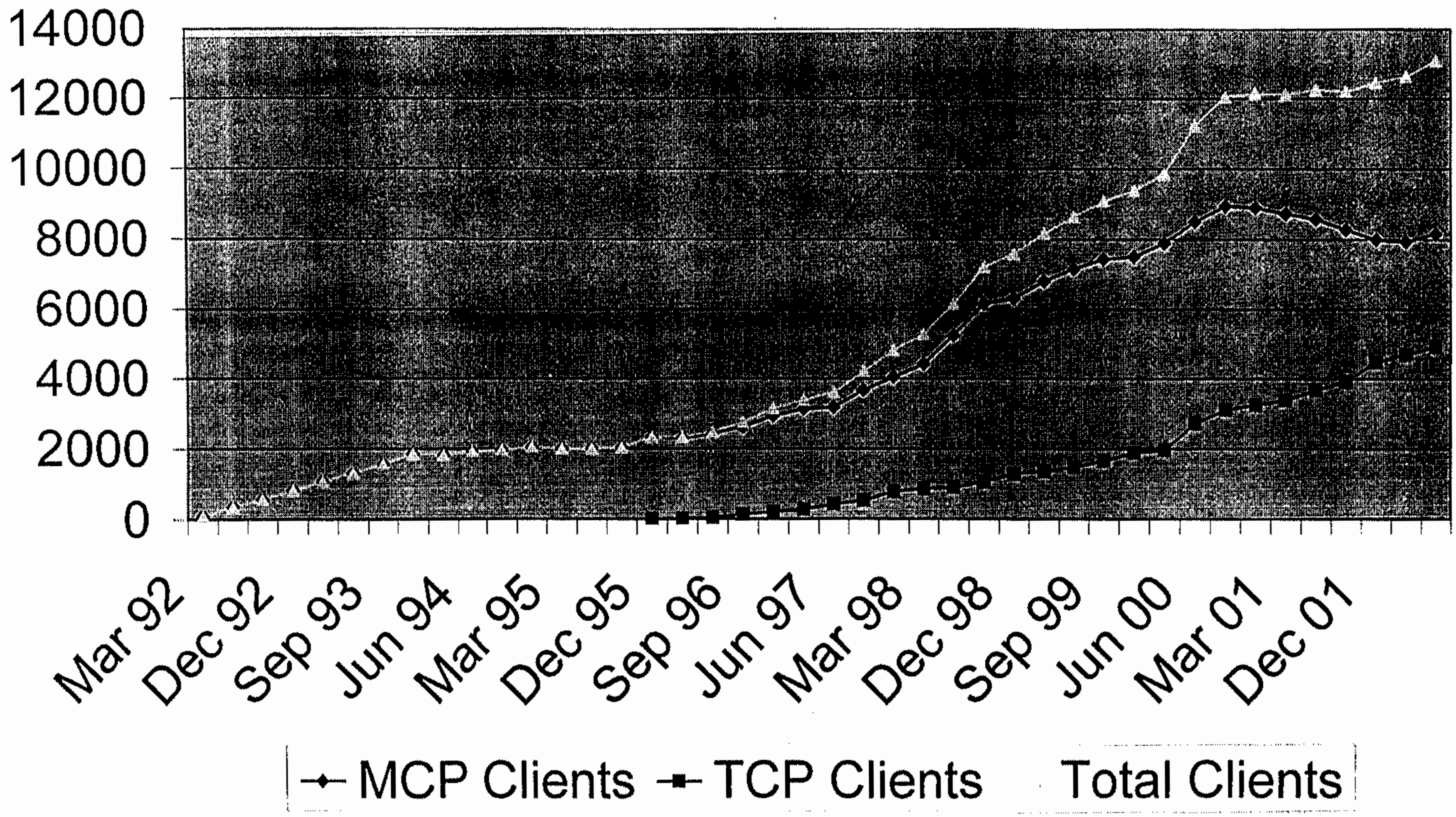
Legal, cultural, or other regulatory requirements	No
Group formation criteria	SEF utilizes a two-tier group structure: two or more smaller solidarity groups get combined into larger Centres. First cycle loans are not given unless there are five members in a solidarity group. If a member drops, groups may go down to four members for subsequent loans. Family members may not be in the same group; An age difference of a maximum of 20 years is allowed in one group. Members must live within walking distance of one another.

Collateral or other	
Fixed assets or other collateral Group guarantees	If a member cannot make a payment, the first level of security is contributions of fellow group members. The second level is contributions from the other members of the Centre.
Group Meetings	Centre meetings are held every fortnight. Some members will repay during two meetings in a month; other members will only pay once per month. All members save every fortnight. The Fieldworker attends the meetings and member attendance is carefully recorded. Bad attendance records will result in small loan sizes and other sanctions for all Centre members.
Loan utilization checks after disbursement	Loan utilization checks are conducted by the Group Chairperson for group members or the Centre Chairperson for the Group Chairpersons. The Fieldworker conducts the loan utilization checks for all first and second loans and for all Centre Chairpersons. Checks are conducted within 7 days of disbursement and includes: stock; cash; debtors; capital expenditure; and member savings. If the loan is misused, the member will be subject to sanctions ranging from a reduction in the size of the next loan to full membership expulsion.

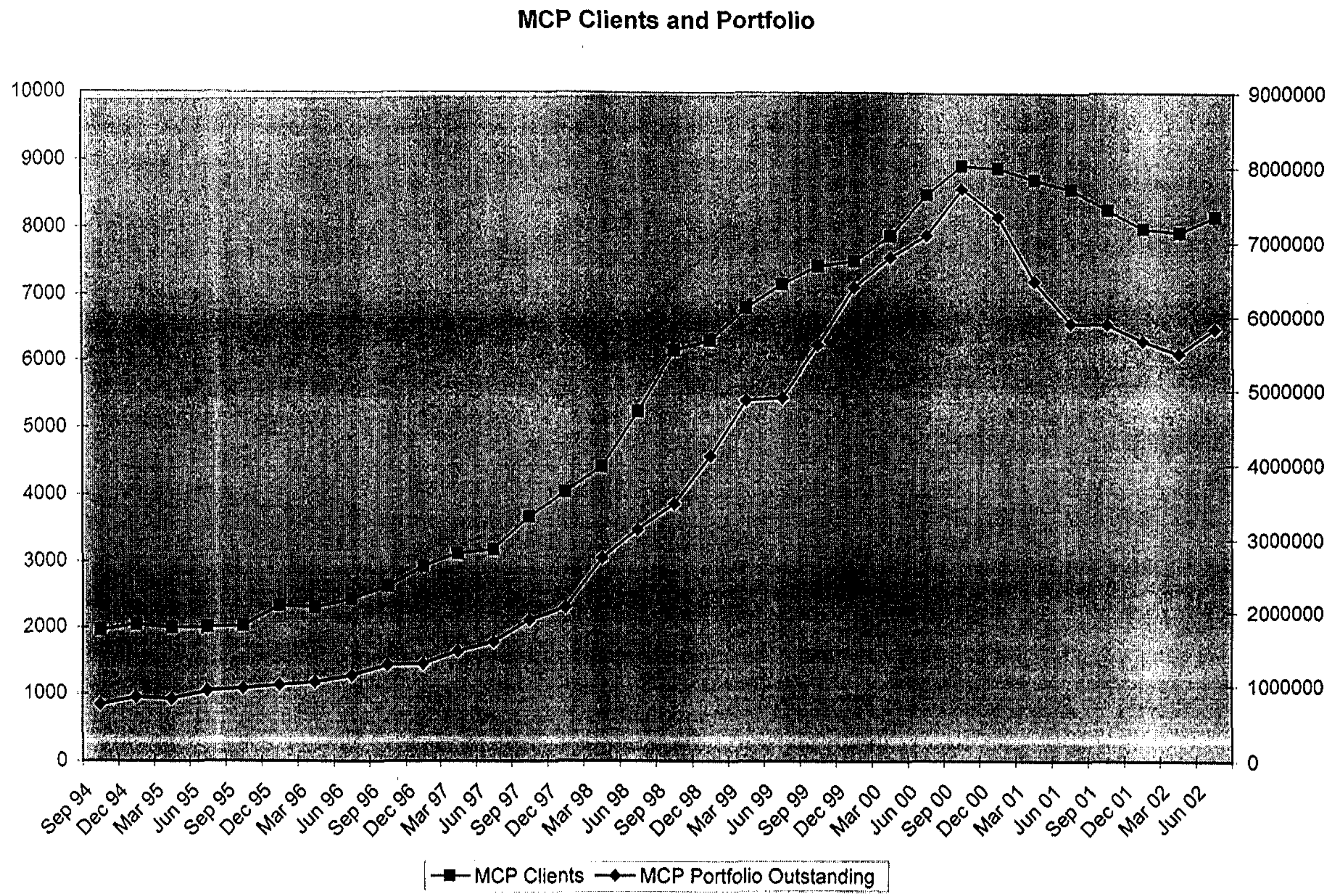
Credit Delivery Procedures	
Weekly and Monthly Schedule	Fieldworkers organize around a two week cycle; attending centre meetings and conducting follow-ups and group recognition in between. Half a day per week is required for administration and half a day is required for staff meetings. At most, a fieldworker can handle two Centre meetings per day, or sixteen per fortnight, leaving time for staff meetings and administration. In practice fieldworkers have a smaller number of larger Centres e.g. 10 Centres of 35 members.
Promotions	When TCP moves into a village, a participatory wealth ranking exercise is conducted which allows TCP to generate significant visibility. Village members assist with mapping each household and ranking the income level of the household. TCP first targets the poorest 40% of households.
Screening, Orientation, Group Formation	Groups go through two or more weeks of training and preliminary group recognition with the fieldworker. The final group recognition is done by the Zonal Manager. The Centre must approve all new groups.
Applications	Fieldworkers conduct simple business assessments to determine an appropriate size and term for the loan. The Centre must also approve all new loan applications. The purpose of each loan is discussed with the whole membership.
Disbursements	Disbursements are made by direct transfer into the group accounts. SEF is experimenting with cash transfers during the Centre Meetings.
Repayments	All repayments are made publicly at the Centre Meetings. Money is counted together and the amounts are recorded by the Centre Treasurer. The repayments are put into a cash box and taken to the Post Bank by two members of the Centre.
Renewals	Renewals are also approved and disbursed at the centre meetings. Fieldworkers conduct another business valuation exercise to determine the size of the repeat loan.

Delinquency Management	
Reports & Monitoring	At the beginning of each week the Fieldworker prepares an expected repayments report for the week. The report is completed at each centre meeting to determine if any amounts are outstanding.
Enforcement - Follow-up Procedures Use of Insurance / Savings / Forced Savings Policies on rescheduling, refinancing & death of borrower	It is first up to the solidarity group to make up a payment. If this is not possible, the Centre Leadership is encouraged to facilitate a resolution to the problem. The Fieldworker may visit the delinquent member along with the group members and Centre Leaders. If a resolution cannot be found, the Branch Manager or Zonal Manager gets involved. Groups will be encouraged to withdraw from their savings to make up the missed payment. A loan would be rescheduled only under unusual circumstances.
Incentives and Sanctions Rewards for timely repayment Penalties for late payment Consequences of default	If a group does not make up the delinquent payment, no member of the group may take another loan. If the delinquency levels for a Centre reach a certain level, there would be consequences for the whole centre, such as no increases in loan size or delayed disbursement of new loans. SEF does not use debt collectors or a credit bureau. All sanctions are informal.

Small Enterprise Foundation
No. of Clients



26


MCP Clients and Portfolio
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8000
7000
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4000
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2000
1000
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9000000
8000000
7000000
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5000000
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3000000
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Dec 94
Mar 95
Jun 95
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Mar 02
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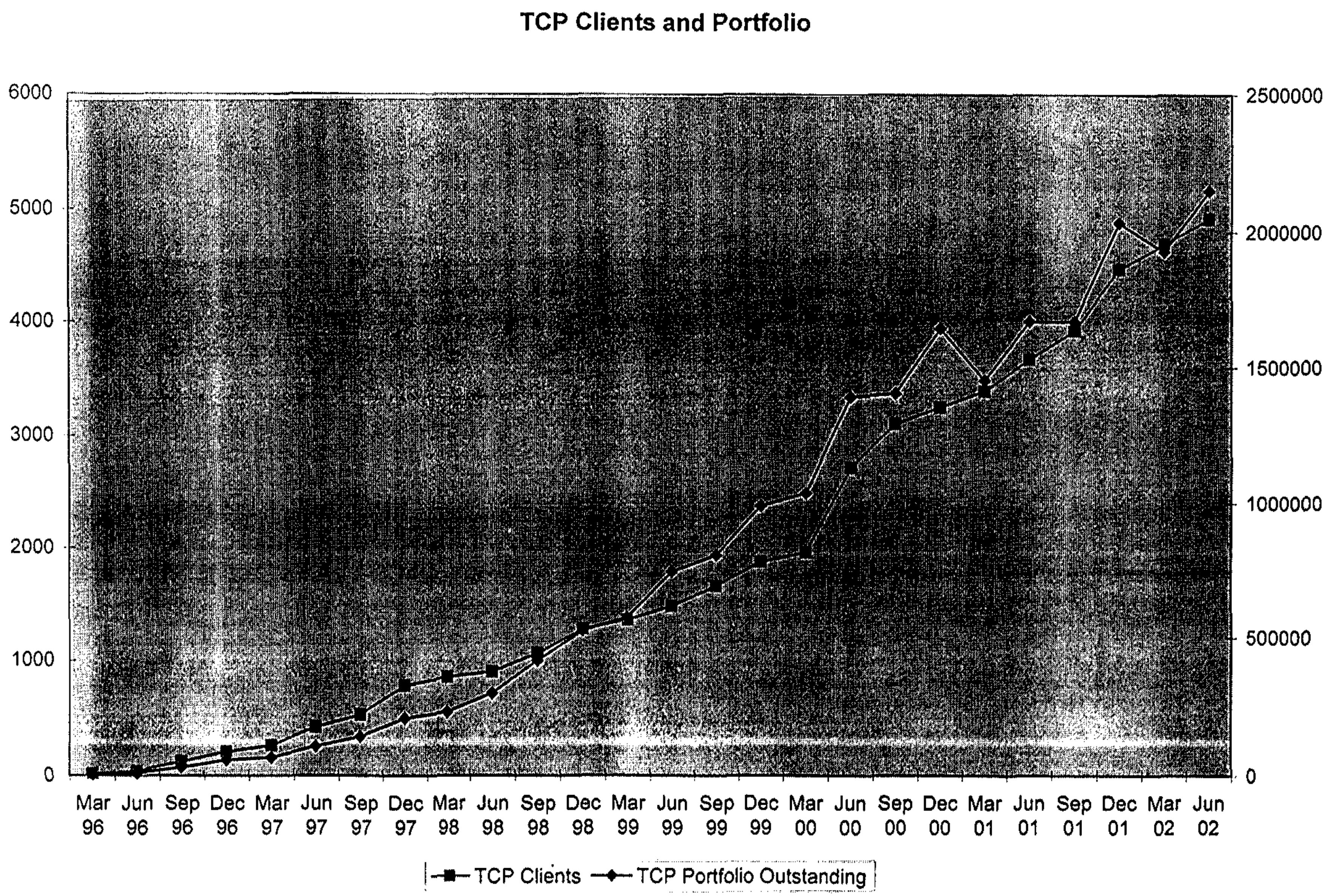
MCP Clients
MCP Portfolio Outstanding

27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4000
3000
2000
1000
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2500000
2000000
1500000
1000000
500000
0
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Jun 96
Sep 96
Dec 96
Mar 97
Jun 97
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Dec 99
Mar 00
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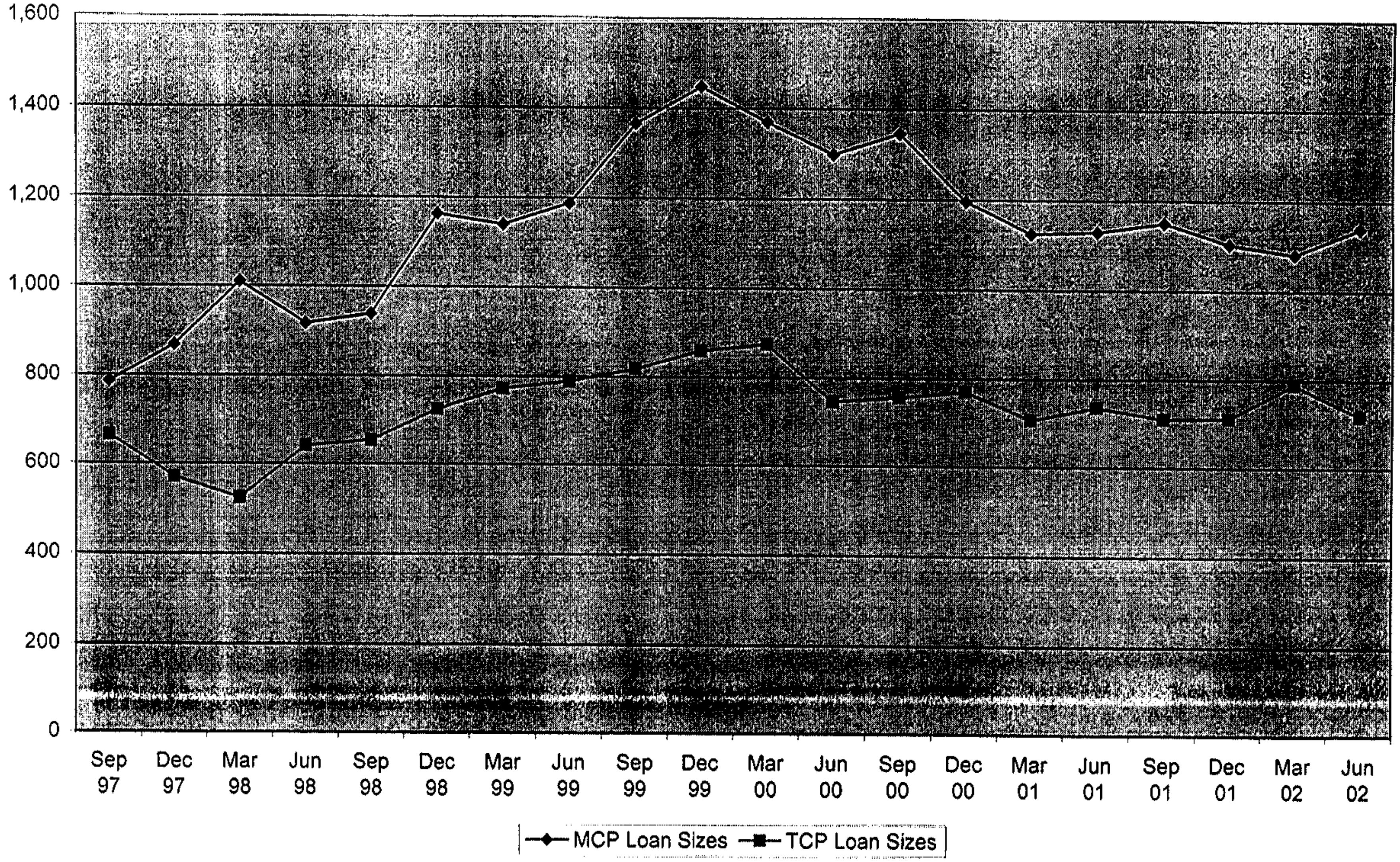
Dec 00
Mar 01
Jun 01
Sep 01
Dec 01
Mar 02
Jun 02
TCP Clients
TCP Portfolio Outstanding

28

Loan Sizes Disbursed



29

TABLE A1 - SMALL ENTERPRISE FOUNDATION

Fiscal Year End: June 30th **CLIENTS AND PORTFOLIO DATA**

	Year One June 1992	Year Two June 1993	Year Three June 1994	Year Four June 1995	Year Five June 1996	Year Six June 1997
Micro Credit Programme						
1 Active Borrowing Clients	350	1,305	1,925	2,008	2,427	3,179
2 Amount Loans outstanding (capital only)				940,419	1,141,707	1,598,844
3 No. Loans disbursed during period (estimated for 92 to 97)	400	1,958	2,888	3,012	3,641	4,769
4 Value Loans disbursed during period						
5 Average Disbursed Loan Size						
6 No. total staff members						
7 No. loan officers						
8 Loans Per Loan Officer (line 1/line 10)						
9 Portfolio Per Loan Officer (line 2/line 10)						
Tshomisano Credit Programme						
1 Active Borrowing Clients					40	424
2 Amount Loans outstanding (capital only)					9,989	107,125
3 No. Loans disbursed during period					40	550
4 Value Loans disbursed during period						
5 Average Disbursed Loan Size						
6 No. total staff members						
7 No. loan officers						
8 Loans Per Loan Officer (line 1/line 10)						
9 Portfolio Per Loan Officer (line 2/line 10)						
Combined						
Total Clients	350	1,305	1,925	2,008	2,467	3,603
Total Loans Outstanding				940,419	1,151,696	1,705,969
No. Disbursed	400	1,958	2,888	3,012	3,681	5,319
Value Disbursed (estimated up to 97)	320,000	1,566,000	2,598,750	2,710,800	3,680,500	5,318,500
Average Portfolio O/S During Period				470,210	1,046,058	1,428,833

TABLE A1 - SMALL ENTERPRISE FOUNDATION

Fiscal Year End: June 30th

		Year Seven				Year Eight		
	Sep 97	Dec 97	Mar 98	Jun 98	Sep 98	Dec 98	Mar 99	Jun 99
Micro Credit Programme								
1 Active Borrowing Clients	3,666	4,043	4,414	5,236	6,156	6,305	6,796	7,165
2 Amount Loans outstanding (capital only)	1,895,879	2,069,840	2,744,958	3,129,276	3,478,935	4,119,436	4,864,652	4,809,101
3 No. Loans disbursed during period (estimated for 92 to 97)	1,590	1,422	1,647	2,014	2,360	2,329	2,711	2,253
4 Value Loans disbursed during period	1,249,700	1,235,400	1,664,500	1,847,400	2,224,700	2,707,300	3,088,300	2,674,700
5 Average Disbursed Loan Size	786	869	1,009	917	939	1,162	1,139	1,187
6 No. total staff members	25	32	32	35	34	41	42	49
7 No. loan officers	19	26	26	29	28	35	36	40
8 Loans Per Loan Officer (line 1/line 10)	193	156	170	181	220	180	189	179
9 Portfolio Per Loan Officer (line 2/line 10)	99,783	79,600	105,575	107,906	124,176	117,696	135,120	122,476
Tshomisano Credit Programme								
1 Active Borrowing Clients	530	782	654	901	1,059	1,274	1,354	1,477
2 Amount Loans outstanding (capital only)	141,565	207,671	230,412	297,601	415,736	525,436	572,661	743,066
3 No. Loans disbursed during period	174	206	321	387	571	576	581	841
4 Value Loans disbursed during period	115,600	168,800	168,200	247,900	372,500	418,200	448,000	663,300
5 Average Disbursed Loan Size	664	570	524	641	652	724	771	789
6 No. total staff members	18	19	19	17	17	17	17	17
7 No. loan officers	8	12	12	11	11	11	11	11
8 Loans Per Loan Officer (line 1/line 10)	66	65	71	82	96	116	123	134
9 Portfolio Per Loan Officer (line 2/line 10)	17,696	17,306	19,201	27,055	37,794	47,767	52,078	67,553
Combined								
Total Clients	4,196	4,826	5,268	6,139	7,215	7,579	8,152	8,632
Total Loans Outstanding	2,037,444	2,277,511	2,975,370	3,426,877	3,892,671	4,644,872	5,437,513	5,642,167
No. Disbursed	1,764	1,718	2,168	2,401	2,940	2,907	3,292	3,094
Value Disbursed (estimated up to 97)	1,365,300	1,404,200	2,032,700	2,095,300	2,597,200	3,125,500	3,536,300	3,338,000
Average Portfolio O/S During Period	1,916,722	2,157,478	2,626,441	3,201,124	3,659,774	4,268,772	5,041,193	5,539,850
Average Portfolio in Year								4,627,397
Total Disbursed in Year								12,233
Value Disbursed in Year								12,597,000
Total LOs	27	38	38	40	39	46	47	51
Loans / LO	155	127	139	153	185	165	173	169
Portfolio/LO	75,461	59,935	78,299	85,672	99,812	100,976	115,692	110,631

		Year Nine				Year Ten				Year Eleven		
	Sep 99	Dec 99	Mar 00	Jun 00	Sep 00	Dec 00	Mar 01	Jun 01	Sep 01	Dec 01	Mar 02	Jun 02
Micro Credit Programme												
1 Active Borrowing Clients	7,426	7,502	7,883	8,492	8,926	8,893	8,720	8,575	8,264	7,988	7,932	8,163
2 Amount Loans outstanding (capital only)	5,616,206	6,401,229	6,805,566	7,093,513	7,719,546	7,341,060	6,480,631	5,912,511	5,896,806	5,672,057	5,501,265	5,836,773
3 No. Loans disbursed during period (estimated for 92 to 97)	2,711	2,673	2,859	3,156	3,607	3,163	2,637	2,919	3,157	2,472	4,708	3,480
4 Value Loans disbursed during period	3,700,600	3,871,100	3,915,000	4,100,000	4,852,700	3,780,400	3,191,800	3,296,200	3,629,800	2,727,000	5,068,000	3,963,400
5 Average Disbursed Loan Size	1,365	1,448	1,369	1,299	1,345	1,195	1,125	1,129	1,150	1,103	1,061	1,139
6 No. total staff members	52	51	55	64	50	47	44	41	45	44	40	39
7 No. loan officers	43	40	44	43	38	35	32	29	35	33	32	30
8 Loans Per Loan Officer (line 1/line 10)	173	188	179	197	235	254	273	296	236	242	248	272
9 Portfolio Per Loan Officer (line 2/line 10)	130,609	160,031	154,672	164,966	203,146	209,745	202,526	203,880	168,537	171,881	171,915	194,559
Tshomisano Credit Programme												
1 Active Borrowing Clients	1,656	1,675	1,961	2,722	3,109	3,251	3,306	3,672	3,924	4,472	4,895	4,918
2 Amount Loans outstanding (capital only)	805,994	990,472	1,039,900	1,391,783	1,405,520	1,642,875	1,454,436	1,669,337	1,668,303	2,035,127	1,926,007	2,150,566
3 No. Loans disbursed during period	820	951	949	1,748	1,567	1,784	1,497	2,065	2,048	2,734	2,097	3,157
4 Value Loans disbursed during period	670,600	817,600	830,700	1,302,400	1,183,100	1,372,100	1,056,800	1,517,600	1,451,600	1,942,900	1,654,100	2,263,500
5 Average Disbursed Loan Size	818	860	875	745	755	769	706	735	709	711	789	717
6 No. total staff members	17	26	27	25	34	33	33	30	33	42	42	42
7 No. loan officers	11	18	19	18	28	27	27	24	26	35	35	34
8 Loans Per Loan Officer (line 1/line 10)	151	104	103	151	111	120	126	153	151	128	134	145
9 Portfolio Per Loan Officer (line 2/line 10)	73,272	55,026	54,732	77,321	50,197	60,847	53,868	69,556	64,166	58,146	56,066	63,252
Combined												
Total Clients	9,082	9,377	9,844	11,214	12,037	12,144	12,118	12,247	12,188	12,460	12,827	13,081
Total Loans Outstanding	6,422,200	7,391,701	7,845,466	8,485,296	9,125,066	8,983,935	7,935,267	7,581,848	7,567,109	7,707,184	7,426,272	7,987,339
No. Disbursed	3,531	3,624	3,808	4,904	5,174	4,947	4,334	4,984	5,205	5,206	6,805	6,637
Value Disbursed (estimated up to 97)	4,371,200	4,688,700	4,745,700	5,402,400	6,035,800	5,152,500	4,248,600	4,813,800	5,081,400	4,669,900	6,742,100	6,226,900
Average Portfolio O/S During Period	6,032,194	6,906,951	7,618,595	8,165,392	8,805,181	9,054,501	8,459,601	7,758,558	7,574,524	7,637,192	7,566,228	7,708,306
Average Portfolio in Year				7,160,763				8,519,460				7,622,062
Total Disbursed in Year				15,867				19,439				23,853
Value Disbursed in Year				19,208,000				20,250,700				22,720,300
Total LOs	54	58	63	61	66	62	59	53	61	68	67	64
Loans / LO	168	162	156	184	182	196	205	231	200	183	188	204
Portfolio/LO	118,930	127,443	124,532	139,103	138,259	144,902	134,496	143,054	124,052	113,341	110,885	124,802

TABLE A2 - SMALL ENTERPRISE FOUNDATION

Financial Statements

Annual Data - For Past Three Years Minimum

INCOME STATEMENT	**June 2000**	**June 2001**	**June 2002**
INCOME			
1 Interest and fee income from loans	4,159,476	5,081,328	4,583,064
2 Income from investments	161,808	166,526	201,716
3 Other operating income from financial services	4,648	35,936	18,277
4 *Total Income from Microfinance Operations*	4,325,932	5,283,790	4,803,057
EXPENSES			
5 Staff expenses (salaries and benefits)	4,971,801	5,810,437	6,336,601
6 Other administrative expenses (incl. Depreciation)	1,416,726	1,605,524	2,438,517
7 Loan Loss Provision	85,715	317,117	243,950
8 Interest Expenses (Capital)_	209,468	403,970	407,598
9 Total Operating Expenses	6,683,710	8,137,048	9,426,666
10 NET OPERATING PROFIT			
11 *Donations*	2,540,120	3,307,321	4,403,259
12 Other non-operating income	0	0	0
13 Non-operating expenses	0	0	0
14 RETAINED EARNINGS	182,342	454,063	-220,350

BALANCE SHEET	**June 2000**	**June 2001**	**June 2002**
ASSETS			
15 Cash on hand and in banks	1,437,597	3,074,797	3,096,908
16 Short term investments&accts receivable	78,555	86,442	342,032
17 Loans outstanding	8,795,924	7,525,834	8,226,779
18 Less: Loan Loss provisions	127,275	188,427	208,777
19 Net portfolio *outstanding*	8,668,649	7,337,407	8,018,002
20 Long term investments	1,107,345	2,251,850	3,503,917
21 Fixed assets (after depreciation)	683,895	673,814	779,509
22 Other assets	0	0	
23 TOTAL ASSETS	11,976,041	13,424,310	15,740,368
LIABILITIES			
24 Deposits/guarantees from target group clients	0	0	0
25 Other deposits	0	0	0
26 Loans from banks or other	1,592,145	1,252,468	2,971,448
27 *Other short* term liabilities & Accts Payable	498,620	545,473	640,573
28 Other long term liabilities	1,000,000	1,000,000	999,996
EQUITY			
29 Paid in equity (shareholders)	0	0	0
30 Donated equity	7,614,499	8,534,736	9,256,825
31 Retained earnings	1,088,368	1,637,550	2,091,831
32 Current year profit or loss	182,397	454,076	-220,301
TOTAL EQUITY	8,885,264	10,626,362	11,128,355
33 TOTAL LIABILITIES AND EQUITY	11,976,029	13,424,303	15,740,372
Total Equity to Assets	74.19%	79.16%	70.70%

TABLE A2 - SMALL ENTERPRISE FOUNDATION

Financial Statements

	Figures to Carry Over from Clients Worksheet	June 2000	June 2001	June 2002
	Average Total Assets		12,700,176	14,582,339
34	Average O/S portfolio in Year	7,180,783	8,519,460	7,622,062
35	Total No. Disbursed in Year	15,867	19,439	23,853
36	Total Value Disbursed in Year	19,208,000	20,250,700	22,720,300
37	Average Prime Rate during Period	15.33%	14.44%	14.00%
38	Imputed cost of capital	1,100,814	1,230,210	1,067,089
	Ratios to Calculate			
	Personnel Expense Ratio	69.24%	68.20%	83.13%
	Other Admin Expense Ratio	19.73%	18.85%	31.99%
39	Operating Efficiency Ratio	88.97%	87.05%	115.13%
40	Cost Per Loan Disbursed	402.63	381.50	367.88
41	Cost Per Rand Disbursed	0.33	0.37	0.39
42	Operational Self-Sufficiency	64.72%	64.93%	50.95%
43	Financial Self-Sufficiency	57.11%	58.95%	47.62%
	Yield			0.601289248

TABLE A3 - SMALL ENTERPRISE FOUNDATION

ANALYSIS OF PROVISIONS & WRITEOFFS From Inception to Current Period Annual Data	June 2000	June 2001	June 2002
Closing Balance of Loans Outstanding Excluding Educational and Disaster Loans	**8,484,978**	**7,397,158**	**8,150,742**
Provision for Bad Debts	84850	150517	167021
Provision as % Loans Outstanding	1.00%	2.03%	2.05%
Provision for Deaths	42425	37910	41756
Provision as % Loans Outstanding	0.50%	0.51%	0.51%
Average Balance Outstanding During Year	**7,180,783**	**8,519,460**	**7,622,062**
Net Write-offs during the Year (net of collections)			
- For Bad Debts	2893	214119	184901
- For Deaths	40177	41847	38697
Additional Provision in Income statement	42645	61151	20352
Bad debt writeoffs as % Average	0.04%	2.51%	2.43%
Death writeoffs as % Average	0.56%	0.49%	0.51%
Total Loan Loss Ratio	**0.60%**	**3.00%**	**2.93%**
Provision as % Average	0.59%	0.72%	0.27%
Average Total Assets		12,700,176	14,582,339
Provision to Avg Total Assets		2.50%	1.67%

TABLE A4 - SMALL ENTERPRISE FOUNDATION

CLIENT PROFILE

Gender	
% Female	98.00%
Race	
% White	0.00%
% Indian	0.00%
% Coloured	0.00%
% Black	100.00%
Urban/Rural	
Rural or peri-urban	85.00%
Urban	15.00%
Age Groups	
0 to 20	1.00%
21 to 29	11.00%
30 to 59	77.00%
over 60	11.00%
Business Sector	
Retail	74.00%
Service	7.00%
Manufacturing	19.00%
Other	1.00%