CALMEADOW

INVESTING IN PEOPLE

CALMEADOW / Small Enterprise Foundation

Semi-Annual Report

Covering the Two Periods :

April 1, 2001 to September 30, 2001, and

October 1, 2001 to March 31, 2002

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

Submitted to:

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

As revealed in Table 1, SEFs outreach has remained flat for the past 24 months, but hopeful signs are now appearing that both the scale of operations and portfolio quality are strengthening. Portfolio at Risk over 30 days rose above 2% in March last year but has now come under control and is down to 0.5 %. The number of clients grew by close to 800 clients from January to March this year, a welcome change from the sluggish growth of the prior periods. As stated in SEF's annual report for the year ending June 30, 2001 "The past financial year has probably been the most challenging that SEF has experienced in its ten year history."

Number of Loans: The number of loans outstanding now stands at 12,924, a growth of 809 from one year ago. Loans are comprised of 60% for the MCP villages and 40% for the TCP villages.[1] In March this year, Calmeadow/Vulindlela conducted a review of the growth challenges at SEF and suggested further measures to improve growth and sustainability. Extracts from this report are included in Annex One.

Value of Loans Outstanding: The total value of loans outstanding has dropped in the past year from R7.9 million to R7.5 million due to SEFs emphasis on delinquency management and client retention. The average size of loans disbursed has dropped from R 988 to R 901 in the same period.

Portfolio Quality: Portfolio at Risk over 30 days has dropped from a high of 3.2% in March 2001 to 0.5% at March 2002.

Total loan write-offs net of bad debt recoveries for the nine months to March 31st was R200,260 or 3.55% of average outstanding portfolio on an annualized basis. This is comprised of death write-offs of R 29,890(0.5%) and net bad debt write-offs of R 170,370 (3.02%).

Self Sufficiency: Self-sufficiency measures have actually dropped in the past year due to the lagging growth and decision to expand the TCP poverty program. A new set of loan products with significantly higher effective interest rates, in the range of 70 to 85%, are currently being introduced. This step will lead to improved self-sufficiency figures in the financial statements for the next fiscal year.

Operating Efficiency: Operating efficiency deteriorated during the past year, from 90% in the year ending March 31 2001 to 134% in the year ending March 31, 2002. Again, this can be explained by the lower loan sizes and greater emphasis on the TCP poverty programme.

[1] One year ago, at March 2001, TCP villages accounted for 28% of clients.

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Small Enterprise Foundation : Key Program Indicators

	ACTUALS					USAID TARGETS			
	6/98	**6/99**	**6/00**	**6/01**	**3/02**	**6/99**	**6/00**	**6/01**	**6/02**
# of loans outstanding	6,144	8,693	11,850	12,247	12,924	9,500	13,500	17,500	21,000
Value of loans outstanding	R3.43 million	R5.6 million	R8.8 million	R7.58 million	R7.48 million	R5.7 million	R9.2 million	R13.4 million	R17.7 million
Loan loss rate*	0.54%	0.18%	0.6%	2.66%	3.55%	.5%	.5%	1%	1%
Portfolio at risk > 30 days	0%	0.02%	0.57%	1.49%	0.5%	1%	2%	2%	2%
Operational self sufficiency[2]	59%	65%	67%	67%	52%	51%	70%	85%	109%
Financial self sufficiency (Level 1)[3]	57%	64%	65%	65%	50%	50%	69%	80%	96%
Financial self sufficiency (Level 2)[4]	49%	56%	60%	62%	46%	46%	64%	74%	85%

**Rate Annualized*

[2] Operational self sufficiency = Total income / (total operating costs + loan loss provision)
[3] Financial self sufficiency (level 1) = Total income / (total operating costs + total financial costs + loan loss provision)
[4] 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)

Productivity: MCP branch productivity improved significantly during the year to March 2001, but has dropped in the past year from 272 to 248 clients per fieldworker. Productivity of TCP branches has improved slightly from 126 to 143 clients per fieldworker.

2. Human Resource Management Initiatives

In an effort to address the lagging performance, five new HR initiatives were launched during the year:

New Organization Structure: In July the branch network was reorganized into smaller zones with just three branches and up to 18 fieldworkers each. This will allow Zonal Managers more time to coach and manage each branch manager. In addition, certain positions were eliminated, such as senior branch manager, and incumbents were transferred to positions in which there is a clearer set of accountabilities and clearer authority.

New Incentive Scheme: Also in July the new incentive scheme was introduced for loan officers. This new scheme eliminated portfolio size from the criteria and focuses on just three items: No. of Groups; No. of Arrears, and Retention rate. (Branch profitability remains a component of the Branch Manager incentive scheme.)

Performance Management System In August, SEF introduced a new PM system which includes the definition of KRAs, the signing of annual performance contracts, monthly reviews, semi-annual reviews, and annual reviews. SEF scored well in Vulindlela's audit of this system and we believe that it is already making a difference.

Employee Feedback Training : all branch managers attended a course on how to coach staff and deliver effective feedback. This is a critical element of the PM system.

Free to Grow programme: A training program which focuses on openness, participation, self esteem, and other individual growth topics has been planned for implementation in April/May 2002.

3. New Product Range

Between February and June 2002, each branch is being trained to offer the newly defined loan products. There are five choices for term: 8 Fortnights, 12 Fortnights, 4 Months, 6 Months, and 10 Months. Installment sizes are set to yield effective rates of between 70% and 85%. For details, see Annex Two, which includes extracts from the new Operational Policy and Procedure Manual.

In addition to new product features, the administration for processing these products was streamlined and the TCP and MCP procedures are now the same.

4. Operational Blueprint Project

Vulindlela has worked steadily throughout the past year to develop standardized policy and procedure manuals for SEF. Two manuals have been completed: Operations Manual and Human

Resources Manual. The Administration Manual in currently in process and will be completed by September. (See Annex Two for a sample format of the manual)

5. Other Development Department Initiatives

In addition to the new products, the SEF development department has been active on a pilot which combines work on HIV /Aids and microfinance, as well as on an international task team which is working on issues of Impact; SEF recently hosted a workshop on this topic.

6. Senior Management Changes

Two of SEFs five senior managers left the organization during the year; SEF is now rebuilding strength at this level. The Development Coordinator, who was American, left to join Accion's new African Operations Division. The HR Manager was asked to leave due to performance related issues.

7. Progress Made to Secure Non-USG Sources of Funds

During the reporting period, SEF secured a grant of US $200,000 from the Ford Foundation to cover part of the operating losses of the former TCP branches through to December 2003.

Subsequent to the reporting period, Khula Enterprise Finance approved a loan of R10 million, plus a further "Seed Loan" to cover operating shortfalls. The Seed loan will be converted to a grant where SEF achieves pre-approved performance targets.

8. Calmeadow/Vulindlela Technical Assistance Trips

During the reporting period, the Calmeadow/Vulindlela team conducted eleven person trips to SEF.

Table 3: Calmeadow/Vuli Technical Assistance Trips

Timeframe	Calmeadow staff	Purpose
May 2001	Barbara Calvin	Developed design and terms of reference for drafting of Policy and Procedures Manuals (PPMs).
Three trips between May & July 2001	Savanhu Chianike	Drafted Operational and HR PPMs.
Sept 2001	Barbara Calvin	Finalized HR PPM, contributed to PM system design.
November 2001	Barbara Calvin and Godfrey Letlape	Further Development of PPMs. Gather data for September USAID financial reporting.
February and March 2002	Godfrey Letlape, Pakie Mphahlele, and Danny Letwaba	Further Development of PPMs
March 2002	Barbara Calvin	Audit of Performance Management system Investigation of growth and sustainability issues and strategies

<u>Attachments:</u>

Annex One: Extracts from Report on Growth and Sustainability

Annex Two: Sample extract from Operational Policy and Procedure Manual

Annex Three: Financial Tables

THE SMALL ENTERPRISE FOUNDATION

CHALLENGES AND STRATEGIES FOR
GROWTH AND SUSTAINABILITY

With a Focus on :
THE PERFORMANCE MANAGEMENT SYSTEM

PREPARED BY VULINDLELA APRIL 2002

SECTION A - BACKGROUND

1. GROWTH PERFORMANCE JUNE 1999 TO DECEMBER 2001

Over the past 24 months, the growth of SEF slowed dramatically and fell far short of targets committed to USAID in the 1998 business plan. By June 2002, SEF had targeted to reach 21,000 clients, which represented a growth of approximately 4,000 clients per year from June 1998. At December 2001, however, SEF was reaching only 12,500 clients.

Table 1 at the end of this Section (excel worksheet) provides a revealing breakdown of growth by branch and Zone since June 1999.

MCP Zone: The slowing growth pattern actually began with the three most mature MCP branches during the second year of the USAID agreement. From July 1999 to June 2000 these three branches grew their number of active groups by only 7%. Between July 2000 and June 2001, these branches experienced negative growth, while the two newer MCP branches continued to grow at a good pace, resulting in an overall flat position for MCP during the year. Between June and December 2001, four of the five MCP branches dropped in number of groups.

Not only has the number of active groups dropped for this zone, but the average loan size has gone from 1,500 in June 2000 to 1,200 in December 2001. These two elements together have caused a significant drop in profitability of the MCP zone, which went from a contribution towards HO expenses of R296,500 in the quarter ending Dec 2000 to a contribution of only R 2,650 in the quarter ending Dec 2001.

TCP Zone: The relatively younger branches of the TCP zone continued to grow at a significant pace up until June 2001, with total growth of 46% for the zone during the 2001 fiscal year. In the past six months, however, two of the TCP branches have also experienced growth problems.

The Average Loan Size for TCP branches is significantly lower than for MCP branches, and it has also been declining, going from R825 at June 2000 to R780 at December 2001. TCP zonal losses have risen from (R230,600) in the quarter ending Dec 2000 to (R312,021) in the quarter ending Dec 2001.

2. CAUSES FOR LAGGING GROWTH

SEF has spent a great deal of time trying to understand the reasons for the slowing growth. The following factors have been identified:

a) Rising Arrears: Arrears began to rise for both the MCP and TCP zones in early 2000. Reasons cited were : loan sizes which were too large or multiple loans; branch fraud; competition from Provident Financial; ineffective management; floods affecting the businesses, and other business challenges. Arrears can have a devastating effect on a group lending program such as is used by SEF , as the whole centre can become discouraged by the efforts to collect from delinquent borrowers. Not only does a fieldworker need to spend time collecting, rather than attracting new clients, but existing clients are also more likely to drop out of the program. It takes significant effort to rebuild the portfolio once this happens.

b) Organizational Change: In July 2000, SEF made a strategic decision to focus growth on the poverty program and "converge" operations into one poverty focused organization. A General Manager, Operations, was appointed to oversee both the TCP and MCP zones and a series of changes were planned to converge the administrative and management systems of the two programs. Implementing these changes have taken a significant amount of time and energy away from the basic job of growing the business.

c) Morale Issues: The new vision, together with tougher management, led to uncertainty among some staff members. The union took advantage of the situation and SEF experienced an unpleasant employee strike in September 2000. The fallout from this situation most likely affected growth for some months during this period.

d) Weak Management: As SEF opened new branches, managers were appointed from among the existing Fieldworkers. Many of these individuals needed to learn new management skills and were not prepared for this new role.

[It would still be interesting to look at growth projected for each branch against what was achieved. How many new branches were planned for in the USAID business plan? How many FWs are at their maximum compared to the plan? Perhaps we can only fully understand the reasons and dynamics by looking branch by branch].

3. MOVING FORWARD

No matter what the reasons for the slow growth of the past, the pressing question now is whether or not SEF has done enough to turn the situation around - to begin moving forward and dramatically improve the sustainability outlook.

Steps that SEF has taken over the past nine months include:

a) Reorganizing into four smaller zones, each with three branches and 24 loan officers. This allows for close monitoring and management by Zonal Managers.

b) Introducing a formalized Performance Management System.

c) Introducing a revised Incentive Scheme,

d) Introducing streamlined administrative procedures which are now the same for both MCP and TCP., and

e) Introducing a new set of loan products with higher interest yields of between 70% and 80%.

The next section of this report looks at four management areas and provides recommendations for further changes which could improve the growth and profitability outlook.

SECTION B - IDEAS FOR GROWTH AND PROFITABILITY

1. PERFORMANCE MANAGEMENT SYSTEM

During a visit in March 2002, Vulindlela conducted an audit of SEF's Performance Management system. Overall, the SEF system scores a B **Ranking - Most Key Elements are in Place.** Our detailed analysis is found in Section C of this report. Overall we believe the PM system will have a positive impact on growth and other performance measures and we congratulate SEF on these efforts.

In the detailed analysis, we make numerous recommendations for minor changes to the forms and other items, but only five significant shortcomings were detected:

a) Incentive Scheme: We believe the incentive scheme requires a few important adjustments - see point 2 below.

b) KRAs for Profitability: There are no KRAs identified for any field staff (including Zonal Managers) which are directly related to the average loan size, portfolio size, or profitability of a branch (see Table 2 at the end of this Section). We are concerned that this will lead to a complete disregard for this important sustainability element. [1]

c) Minimum Performance Levels: It does not appear that SEF has identified minimum performance standards/levels or the consequences for dropping below these standards. This is an important element of an effective PM system.

d) Hiring Procedures for Branch Managers and Zonal Managers: SEF is in the early stages of refining its hiring criteria and procedures for these more senior levels of field staff.

e) Training for Branch Managers and Zonal Managers: SEF is also in the early stages of developing training programs for these levels of staff.

2. INCENTIVE SCHEME

While the incentive scheme does reinforce the field staff KRAs overall, the weightings reinforce the portfolio quality and retention rates more than the growth indicators, and possibly even work against growth. We believe SEF should urgently make adjustments which will give growth and sustainability a higher focus:

a) The reduction in incentives for arrears should be based on the % of arrears and not on the no. of arrears. During interviews, several staff members (the stronger ones) felt angry that 4 arrears with 45 groups were treated the same way as 4 arrears with 80 groups. This provides a disincentive for building portfolios.

b) Staff feel strongly that the cut-off to measure arrears for the incentives should be the end of the month and not earlier, since they need time to collect. If a group repays after the cut-off date, it does not contribute to the incentives earned and this is a cause of frustration.

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[1] SEF does have a quarterly branch incentive which is related to the branch contribution to head office expenses.

c) Another element that was not viewed as fair is that increasing the number of groups by five, lets say, is worth more with big portfolios than with smaller ones - it was felt that five groups should be worth the same whether going from 25 to 30 groups or from 75 to 80 groups.

d) Only one element of the incentive scheme for Branch Managers was considered to be unfair. That is, when a BM takes a new fieldworker, their incentives are divided by a larger number and this actually reduces the incentives that they earn even though they are working harder with a larger group of staff. Perhaps the percentage of FW incentives which is earned by BMs should be constant, no matter how many FWs they have. It could be set at 20% or 25% of FW incentives, so the BM actually earns more than the average of the FWs when they are managing six fieldworkers.

e) The incentive scheme has no measure for loan size or portfolio size for any staff members. Although SEF believes that these measures had a negative impact on arrears in the year 2000, we wonder if SEF has swung too far away from these indicators. Staff need to learn how to provide clients with as high a loan as possible without increasing the risk. Will they learn this balancing act if they have no incentives to increase the loan sizes. Will an absence of these incentives actually harm SEFs sustainability over time?

3. STRATEGIC ISSUES

Vulindlela believes that SEF needs to look more closely at the strategic positioning factors which may be hindering growth. We believe that SEF is unnecessarily limiting its market outreach and this is one explanation for the low number of new clients:

a) TCP Villages: Several TCP villages have saturated their market outreach within the levels of poverty that they are allowed to serve. SEF has been talking about "opening up" to one more level of poverty since the Warmbaths strategic planning session in March 1999. It is time to get on with this!

b) MCP Villages: MCP staff are not trained to serve the poorest households of the village, but neither is SEF innovating to better serve the upper sectors. MCP villages are "stuck in the middle" with nowhere to go. SEF needs to get on with including MCP branches in its vision and train them to motivate the poorest households.[2]

c) New Villages: SEF needs to evaluate the growth potential of the mature branches. Are they basically at saturation levels or are there new villages to which they could expand? What are the maximum client loads that are reasonable to expect for TCP branches when staff do not have transportation? How many mature fieldworkers have not reached these levels and why?

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[2] When Winston Churchill was introduced to a Mrs Bossom, his reply was "How unfortunate madam, 'tis neither one nor t'other" This is the status of MCP branches - they are neither one nor t'other !

4. LOGISTICAL BOTTLENECKS

a) Two of the branch managers that I interviewed were recently appointed but they did not yet have cars or a drivers licence and there did not appear to be any urgency or pressure on them to address this shortcoming. I would expect that a lack of transportation would significantly hinder the effectiveness of a branch manager and slow down the process of group recognition, which is so important for maintaining growth figures. Perhaps SEF needs to put more of a priority on the requirement for Branch Managers to have a vehicle and drivers license.

b) The requirement for Zonal Managers to do final Group Recognition is still being mentioned by staff as a point of bottleneck for growth. I realize that this issue has come up many times, and SEF is convinced that the ZM role in group recognition is an indispensable step in the methodology, but it does appear to be one reason for slow growth!

Table 2 - SEF KRA's by Position

Fieldworker	Branch Manager	Zonal Manager
Growth - No. Active Groups	Growth - No. Active Groups	Growth - No. Active Groups
Retention - Retention Rate %	Retention - Retention Rate %	Retention - Retention Rate %
Repayment - No. Groups in Arrears	Repayment - No. Groups in Arrears	Repayment - No. Groups in Arrears
Vulnerable Centres - Meeting Attendance - Savings Rates	Vulnerable Centres - Meeting Attendance - Savings Rates	Vulnerable Centres - Meeting Attendance - Savings Rates
	Compliance with PPM - application Checks - LU Checks - LSV - Staff Workshops	Compliance with PPM - application Checks - LU Checks - LSV - Staff Workshops
		Administration - Submissions on time
		Sustainability - Expenses not to exceed 10% of the budget

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SECTION E

VULINDLELA TECHNICAL NOTE ON PERFORMANCE MANAGEMENT SYSTEMS

All organizations manage performance in one way or another. The generic definition, therefore, of a performance management system is the way in which an organization designs its corporate structure and allocates tasks to different positions, hires individuals to fill those positions, and provides monitoring, feedback, and incentives to the individuals to ensure effective performance at all levels.

The introduction of a "Performance Management System", therefore, is simply the revision, formalization, and linking of various personnel management components which may already exist. To optimize results, job descriptions, hiring and training procedures, monitoring systems, appraisal/evaluation systems, and incentive schemes must work well together and support the vision of the organization. In addition, the performance goals set by the organization each year must be translated into performance goals for each individual and reflected in the personnel management components mentioned above.

There are two streams of activity, therefore, to install a performance management system. The first stream includes the qualitative work to design the personnel management components. The second stream involves the annual setting of targets and incorporation of these into the first stream.

Steps to establish a Performance Management System are outlined in Table 1 on the following page.

Table 1 -

Steps to Install and Maintain a Performance Management System

	PERSONNEL MANAGEMENT COMPONENTS	PERFORMANCE TARGETS
	Designed up-front, with periodic revisions	*Repeated Annually*
1.	Clarification of the Vision and Mission of the Organization	Setting of Long-term Goals by Senior Managers
2.	Design Organization Structure	
3.	Develop Job Descriptions for Each Position, including KRAs, authority levels, and skill requirements	Define Performance Standards for each position. Identify Annual Financial Targets for each position.
4.	Develop Hiring and Training Procedures for each position.	
5.	Develop Performance Contract for Each Position. Identify tasks/actions which support each KRA.	Each staff member to sign a performance contract annually, including the identification of action plans to support achievement of targets.
6.	Design and implement monitoring reports for each level of supervisor.	
7.	Design Appraisal System and Forms. Train supervisors in effective appraisal techniques.	Regular appraisal meetings take place throughout the year, with copies kept in the Personnel files.
8.	Design Performance Based compensation system to reinforce the above.	Incentive payments made periodically.
9.	Set Clear Consequences for not reaching Minimum Levels of Performance.	Consequences, such as warning letters, implemented in a timely fashion
10.	Revise System as needed	

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LOAN PRODUCT DESIGN	
Version 1: Jan 2002	Topic: Loan Terms and Pricing
Replaces: n/a	

Policy on Loan Product

1. **Frequency of Repayment and Loan Term**
   - All first loan clients repay based on a term of 8 fortnights;
   - On subsequent cycles, groups choose from the following terms: 4, 6, 10 months;
   - Members of groups choosing 4 or 6 six-month terms could repay monthly or fortnightly. Thus, they can choose from 4 months or 8 fortnights term and 6 months or 12 fortnights term.
   - Members paying fortnightly only pay twice a month, even if there are three meetings in the month. This also applies to firsts loans.
   - The 10 and 15 fortnight products as well as the 14 months product are discontinued.

2. **Interest Rates**

Loan Term	8FN	12FN	4Mo	6Mo	10Mo
Installment per R100 Ln	14.50	10.25	29	20.50	14
Total Interest Paid per R100 Ln	16	23	16	23	40
Effective Interest Rate	82.15	70.1%	74.6%	75.1%	79.6%

3. **Loan Product and Repayments**

Loan Amount	Repayments				
	8FN	12FN	4Mo	6Mo	10Mo
R100	R14.50	R10	R29	R20	R14
R200	R29.00	R20	R58	R40	R28
R300	R43.50	R30	R87	R60	R42
R400	R58.00	R40	R116	R80	R56
R500	R72.50	R50	R145	R100	R70
R600	R87.00	R60	R174	R120	R84
R700	R101.50	R70	R203	R140	R98

R800	R116.00	R80	R232	R160	R112
R900	R130.50	R90	R261	R180	R126
R1000	R145.00	R100	R290	R200	R140
R1100	R159.50	R110	R319	R220	R154
R1200	R174.00	R120	R348	R240	R168
R1300	R188.50	R130	R377	R260	R182
R1400	R203.00	R140	R406	R280	R196
R1500	R217.50	R150	R435	R300	R210
R1600	R232.00	R160	R464	R320	R224
R1700	R246.50	R170	R493	R340	R238
R1800	R261.00	R180	R522	R360	R252
R1900	R275.50	R190	R551	R380	R266
R2000	R290.00	R200	R580	R400	R280

Note: For amounts above those provided in the table use the following formula. Add together instalments of the given loan amounts to give the desired instalments:

Example 1: For a R2 300.00 loan over 8FN

R2 000.00	Instalment	= R290.00
R 300.00	Instalment	= R 43.50
R2 300.00	**Instalment**	**= R333.50**

Example 2: For a R2 300.00 loan over 6 months

R2 000.00	Instalment	= R400.00
R 300.00	Instalment	= R 60.00
R2 300.00	**Instalment**	**= R460.00**

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