Imp-Act Consortium

SPM in Practice

The Small Enterprise Foundation (South Africa)

Introduction

Established in 1991, the Small Enterprise Foundation (SEF) is a microfinance institution (MFI) based in the Limpopo Province of South Africa that works towards the elimination of poverty and unemployment by providing microfinance services to the poor and the very poor using an original Grameen-type lending methodology to reach out to poor with enterprise loans.

The Limpopo Province, where SEF is based, is one of the poorest regions of South Africa and one which has particularly acute levels of poverty. Much of Limpopo's population is economically marginalised and deeply vulnerable. Many households are headed by women. Almost all SEF's clients are women, most of whom operate small enterprises from or near their homes. Moreover, SEF, one of the largest non-profit microlenders in South Africa, is operating in an economic and political environment where support for microcredit as a development tool has been weak and threatened by for-profit consumer lenders.

To target and combat poverty in South Africa, SEF has developed two programmes, the Microcredit Programme (MCP) and the Tšhomišano Credit programme (TCP). The MCP is a non-targeted micro-credit programme, while the TCP is a poverty-targeted programme which involves a rigorous process of Participatory Wealth Ranking (PWR) to establish eligibility. Whilst SEF does not offer savings services, it facilitates group savings through savings accounts held by the Post Office and a commercial bank.

Approach to social performance

SEF has been a socially-driven institution since its inception, as seen in its mission statement and institutional values, which have been translated into a clear vision for its choice of target clients, methodology, and operational area. Beyond the pro-poor target approach of the TCP, SEF has also developed a comprehensive system to track and improve the institution's positive impact on the lives of clients.

For SEF, the ultimate goal of social performance management is poverty reduction. As a microfinance institution (MFI), social performance is closely linked to the success of clients' businesses in generating income and alleviating vulnerability in their households. A client's ability to do this depends upon their own understanding of the challenges facing them, and the value of SEF's services lies in providing a ladder to meet these challenges.

A focus on cost-effective SPM is of particular importance for SEF: given the difficult environment in which it works, donor pressure towards financial sustainability and high operational costs, their approach (as it evolved over time in response to these pressures) has allowed the organisation to balance a pro-poor focus with financial sustainability.

Focus on key issues

Social performance management (SPM) is an institutionalised process of translating an MFI's mission into practice. It involves setting clear social goals and objectives, developing a strategy to achieve these, monitoring progress, and using this information to improve performance and aligning organisational systems to the social mission. This section looks in detail at the key elements of SEF's SPM system.

Strategy for social performance management

To manage its social performance, an MFI must be clear about what it seeks to achieve (its goals), have operational objectives to manage against, and a clear strategy to achieve these. The case of SEF is interesting because of the way in which its mission and goals have been translated into everyday practice through its operational guidelines.

SEF's mission is 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. As an organisation, SEF also has a statement of its organisational values: 'We believe in respect for all, having a positive impact on the lives of clients and our stakeholders, and striving for operational efficiency and self-sufficiency.'

Defining target clients

SEF's operational policies clarify its choice of target market: the poor and very poor in rural and peri-urban areas. The poor are defined as those living below the poverty line, and the very poor are those living below half of the poverty line. As mentioned above, PWR is used to ensure that the TCP is reaching out to its target client group. SEF's three-year business plan (and its annual operational plans) set out clear objectives in terms of number of new clients, groups and centres to be achieved.

Meeting client needs for services

Based on this definition of poverty, SEF addresses client needs for services through the provision of enterprise credit and the facilitation of savings. SEF is very careful in determining the loan size, linking it to the value of the clients' business in order to ensure against over-indebtedness.

Additionally, SEF also provides a number of interventions such as leadership training and business coaching, and is currently piloting health education training. These services accompany the financial services and are seen as critical elements of a poverty reduction strategy.

Creating change in the lives of clients

SEF's goal for change is to allow clients to realise their potential using opportunities provided by SEF's loans. To this end, SEF monitors client-level change through an impact monitoring system which looks into food, housing, savings, and changes in clients' businesses. Whilst SEF aims to create positive changes and track general trends to signal when intervention is needed, it does not have specific change-related targets.

Strategy to achieve social goals

SEF's strategy to achieve its social goals lies in the careful design and delivery of its services. Importantly, they seek to operate in areas where there is a high incidence of poverty, and high density of poor communities. These areas also tend to have lower competition from other microfinance service providers.

SEF also offers products which address the real needs of clients. Clients have five options for the loan period and number of instalments for SEF's basic group loan product. Loan sizes are also tailored to the needs of the client through a business evaluation and verification process.

Challenges ahead

A key challenge for SEF in the future, however, is to ensure that all its social goals are translated into clear objectives and targets, and that these targets are integrated into operations, information collection, reporting and decision-making at all levels of the organisation.

Social responsibility

Social performance relates to who an organisation can serve, how it serves them, and the benefits of these services. It also relates to the way in which an organisation works in terms of its relationship with clients, staff and community, and its impact on the environment. Whilst SEF does not have a formal social responsibility policy, it strives to behave ethically towards its stakeholders, especially with regards to clients and staff.

Client protection

A number of features are designed to ensure transparency and accountability in SEF's interactions with clients. SEF ensures that the following are explained clearly during client training sessions:

- Access to formal grievance procedures
- Terms and conditions of services
- Contact information for complaints

Whilst formal mechanisms exist for communicating client dissatisfaction with SEF, there is a danger that given the frequent interaction between clients and staff, that clients bring grievances to staff instead of directly to the institution — allowing for the possibility that the staff do not pass on the information to head office. However, a system of checks and balances is in place which should in theory account for this, and strengthen compliance with client protection procedures.

Responsibility towards staff

SEF has taken a number of steps to ensure responsible treatment of staff, including:

- Universal staff pension and health insurance schemes
- Outsourcing disciplinary action and job dispute proceedings to an external human resources firm to ensure objectivity and labour law compliance
- Providing specialised staff training on prevention of sexual harassment and establishing an external sexual harassment hotline in response to a reported incident in the workplace
- Establishing an employment equity committee (in compliance with the law) to identify and address both direct and indirect discrimination in the workplace, and to implement communication feedback channels to monitor and report equity issues.

Monitoring and assessing progress towards social goals

An MFI needs reliable and timely information in order to track, understand and manage its progress towards social objectives. An information system needs to collect both routine monitoring and follow-up information, and communicate this effectively to the MFI's different stakeholders. SEF has a number of tools and systems in place to track and manage its social objectives, including:

Poverty targeting: SEF uses participatory wealth ranking (PWR) to ensure that potential clients are those judged to be most in need, according to local perceptions of poverty.

Drop-out monitoring: SEF defines drop-outs as clients who successfully complete their last loan cycle but do not choose to take another loan within one month of completion. SEF continuously monitors drop-out rates, to indicate when corrective measures may be required.

Client-level impact management: SEF's impact management focuses on loan application and centre performance monitoring; impact monitoring on food, housing, savings, and changes in clients' businesses; and loan utilisation monitoring. Together, these provide an opportunity for fieldworkers and clients to identify and discuss impact trends before drop-outs occur.

Vulnerable centres: Centre savings, attendance and repayment rates are monitored. Any centre which falls below a certain 'trigger value' for any one of these is defined as 'vulnerable', and so is targeted for corrective action. In this way, SEF has designed an 'early warning system' to detect problems before they become systemic and harmful to the MFI as well as its clients. The system is divided into *leading indicators* of client well-being that manifest before systemic problems arise; *intermediate indicators* such as client, group and centre vulnerability; and *trailing indicators*, such as drop-outs, that manifest once 'the damage is done'.

A number of key challenges remain for SEF:

- Ensuring data quality in poverty targeting, impact and vulnerable centre monitoring: through improved staff training in data collection, instituting standard data collection procedures (where lacking), and including SPM in the internal audit function
- Linking impact monitoring information to decision-making and setting social performance targets in key areas such as client impact
- Integrating impact information into systems for staff appraisal and reward
- Formalising procedures for following up 'red flags' raised by routine monitoring.

Using information to improve performance

The core of SPM is using information to improve performance. Decision-making at all levels of the organisation needs to be based on a balance between both social and financial performance information. MFIs use information to track social performance against targets, create early warning systems, segment their portfolio, monitor product and service use, and generate baseline information for in-depth research.

A key challenge for SEF is to more effectively use social performance information, both internally and externally. For this to happen, SEF needs to strengthen its information feedback loop. Currently, exit information is reported back to all staff on an individual, branch, zone and organisational level. However, weaknesses remain in feeding back impact monitoring data beyond senior management and the board.

Staff level

Given that impact monitoring data is not effectively fed back, staff struggle to see the importance of social performance information, which leads to shortcomings in the quality of the data and SEF's ability to manage improvements in social performance. In other cases, such as information about client exit, there is no formal process to address 'red flags' highlighted by routine monitoring information — for example by well-organised and efficient follow-up qualitative research.

Senior management

On the senior management level, social performance information is available as part of regular operational reports. However, a lack of clear targets or indicators in relation to some areas (i.e. client change) leads management to focus on those that do — such as client exit, portfolio quality, outreach, etc.

External stakeholders

SEF's regulatory bodies and business partners receive information on operational and financial performance, but do not receive information on its social performance.

Systems alignment: Aligning operations to social goals

Institutionalising SPM requires that an MFI's systems and processes are aligned to achieve its social objectives, not just the decision-making processes.

SEF's case is interesting because its operational systems are clearly aligned in a way which is designed to maximise results in two key areas of performance — poverty targeting and increasing outreach. Operational policies give an in-depth description of the service delivery process, highlighting not only the process (what needs to be done) but how to ensure quality of service and client treatment.

SEF's operational manual begins with a detailed treatment of its organisational mission, vision and values. It emphasises the balance between social and financial priorities, and encourages staff to be innovative in order to further improve overall organisational performance.

The manual sets out the responsibilities of loan officers, branch and zonal managers in the creation and development of client groups and centres. The emphasis here is on the *client development value* of the methodology — that is, in providing clients with opportunities to learn from each other, provide support to peers who find themselves in a difficult situation, and create an environment which supports successful client business growth.

Finally, whilst SEF's policies regarding group discipline are quite rigid, operational policies outline ways in which loan officers can provide a degree of flexibility in the case of client distress, such as allowing clients to appoint a representative to centre and group meetings in the case of prolonged illness, acceptable absenteeism in the case of temporary illness, or pregnancy/maternity leave for clients.

The value of managing social performance at SEF

Whilst it is difficult to quantify the costs and benefits of SPM, SEF presents a unique opportunity for a deeper insight. As mentioned, SEF has two distinct microfinance programmes: MCP, which uses a general approach, and the TCP, where rigid poverty targeting and impact monitoring are applied. Given this, comparisons between the two will highlight the underlying value of applying SPM to microfinance programmes.

An initial analysis was conducted to compare the costs and revenues per client at TCP and MCP branches of similar size and age. Based on data from six TCP and six MCP branches, the following trends can be seen:

The average branch cost per client in both clients is virtually equal (55–56 Rand), even though the TCP absorbs the additional cost of loan officer time to perform PWR and impact assessment, as well as branch manager time to oversee the process. Indeed, the average cost per borrower is slightly *lower* at TCP branches. This trend could be explained by the higher retention rate enjoyed by TCP branches, as well as lower delinquency rates — which result in higher loan officer productivity.

Average revenue per client comparisons between TCP and MCP branches reveals a significant difference: 145 Rand for the former, and 167 Rand for the latter. This gap could be attributed to the difference in average loan sizes between branches. In this case, it should be seen as the opportunity cost to SEF of serving poorer clients.

In terms of general benefits, SEF's social focus and NGO status provide access to tax breaks and low-cost funding (on average several per cent below the prime rate). A key challenge for SEF in future is to deepen the analysis of the value of SPM to achieving its double bottom-line vision.

Table two: Operational performance at a glance				
	June 2007	June 2006	June 2005	June 2004
Gross loan portfolio ($K)	6,623	5,356	4,025	3,148
Savings	0	0	0	0
OSS%	96.9%	96.3%	91.9%	93.0%
PAR > 30 days (%)	0.3%	0.4%	0.2%	0.2%
Staff	250	170	126	104
Clients (K)	41	35	28	22

Lessons learnt and challenges ahead

Since its inception, SEF has built and maintained a successful poverty-focused double bottom-line organisation. Through the vision and commitment of its board and management, SEF has become the leading South African MFI — maintaining strong financial performance and positive social results. A number of factors have contributed to this achievement, including:

- The mission-focused decision to operate in the Limpopo province, which demonstrates high levels of poverty and virtually non-existent competition.
- Consistent vision and leadership from the Director, Board and senior management
- A methodology, service design and delivery appropriate to the needs of target clients, and loan products which correspond to their capacities.
- Innovative tools and approaches to targeting and client change monitoring.

In the future, several challenges present themselves, which are to:

- Analyse SEF's potential in all three areas of social performance (outreach, meeting clients' needs, positive change in clients) and develop a balanced set of SMART objectives, indicators and targets in each.
- Introduce an objective-based system of performance evaluation and introduce social objectives into each functional area
- Review social performance information and ensure high level of its quality and reliability (including participatory wealth ranking and impact monitoring information)
- Strengthen understanding of the mission and implications of being a pro-poor MFI amongst all levels of staff
- Further promote an open institutional culture through a development of effective and reliable top to bottom information and bottom-up feedback loop; undertake efforts to promote staff empowerment and participation in the decision making process at all levels.

Imp-Act Consortium

SPM in Practice aims to capture good practice and lessons learnt emerging from the *Imp-Act* Consortium Global Learning Programme on social performance management (SPM), a two-year project which seeks to gather evidence of effective SPM and understand its organisational value.

This summary is based upon a longer case study of SEF written by Volodymyr Tounytsky (MFC).

Seven microfinance institutions (MFIs) are involved in the global learning programme:

AMK (Cambodia)
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