1. Introduction: working towards a “triple bottom line”

The Small Enterprise Foundation (SEF) is a non-profit microfinance organisation (MFO) based in South Africa that works towards the elimination of poverty by fostering sustainable income generation, job creation and social empowerment. SEF achieves this by creating a supportive environment for microenterprise, facilitating savings services and providing credit services. Ninety-eight per cent of SEF’s 17,242 clients are female, their typical enterprises being hawking of fruits and vegetables and new or used clothing, running small convenience shops, and dressmaking.

It is SEF’s commitment to pursue a “triple bottom line” in poverty alleviation. This implies achieving poverty outreach by serving the poor and the very poor, achieving impact on poverty by eliminating poverty and enabling the poor to realise their potential, and achieving financial self-sufficiency.

SEF has a firm commitment to reaching and serving the poorest, to improve their livelihoods. Challenges to achieving this aim exist in three main areas. Firstly, this involves targeting the very poor to ensure that a high number of the target group is reached. Secondly, SEF assists the very poor to develop their capacity to maintain sustainable businesses, providing support, savings and credit services. Thirdly, an impact-monitoring and assessment system of SEF’s work with the very poor highlights problems and provides a learning forum where issues can be addressed by both staff and clients. These monitoring and assessment systems are essential in demonstrating the success or failure of the programme to alleviate poverty amongst the poorest.

SEF manages impact using an integrated management system, comprising:

- Operational methods to target, encourage and support the poorest in their businesses;

- Facilitating support and learning within groups and centres;

- Performance management systems to ensure staff focus on supporting the poor, as well as on financial requirements;
- Integrating impact-monitoring with other activities to inform everyday decision-making by loan officers, groups and centres, as well as SEF operational staff;

- Integrating impact-monitoring with the management information system (MIS);

- An ethos of continuous improvement in systems, implementation and approaches.

Finally, SEF is actively pursuing financial self-sufficiency through three strategies: strict credit discipline; success of members who take larger loans, improving SEF’s profitability as they succeed; and through setting and meeting productivity targets and looking for ways of improving efficiency and products. SEF aims to achieve financial sustainability by the middle of 2004.

This article explores how SEF has developed a poverty-focused culture, using both impact and financial information to manage performance and achieve its triple-bottom-line objective. Section 2 reviews the poverty-focus and impact methodology of the organisation. Section 3 then examines how the information generated by this system is used for strategic management and problem solving.

2. Developing a poverty-focused methodology

SEF currently facilitates two programmes, the Microcredit Programme (MCP) and the Tshomisano Credit Programme (TCP). The TCP specifically targets the poorest women in each village. The MCP is open to all existing micro-entrepreneurs in the villages in which it operates. Both MCP and TCP operate with a group-based microfinance methodology, modelled on the Grameen Bank.

MCP was designed to offer credit through group-based lending, following the theory that small loans and high transaction costs would discourage better-off members of communities from joining. In reality, however, SEF found that the need for credit is so great that those joining and remaining in the programme were in fact the better-off groups. Not only did this mean that SEF was not reaching the very poor, but it was further found that membership of better-off members served as an active deterrent for the very poor. Better-off people are less likely to accept the risk of guaranteeing the loan of a poorer person. Poorer members hinder this and are perceived as “problems”, or are pushed into taking inappropriately large loans.

Looking at the reasons why so few very poor people joined its initial MCP, SEF found that it had experienced mission drift through responding to the needs of the less poor and changing the methodology to address their needs, sometimes to the detriment of the very poor. Because they are an easier group to target, field staff usually prefer to work with the less poor. SEF therefore reached the conclusion that it had to adopt an active targeting strategy as well as set up a new programme exclusively for the very poor. TCP was consequently designed to actively target the poorest people in the province as defined by the communities themselves, using a Participatory Wealth Ranking (PWR) methodology.

2.1 Targeting and supporting the poorest

SEF recognises that microfinance on its own cannot lead to the eradication of poverty, and aims to build long-term social and economic capacity using local support structures. SEF aims to work in a way that ensures the success of the poorest. Too often the poorest are the most likely to fail and drop out of microfinance programmes. Hence, an understanding of members’ livelihood strategies is essential for designing support that works.

SEF is highly constrained by the sustainability goal, and limited staff time is available to support members, particularly in areas other than their businesses. SEF’s strategy, instead, is to utilise the resources of their members, and to facilitate clients’ support of one another. SEF facilitates and supports group and centre structures, which in turn support members and their businesses.

The poverty-focused TCP has four main stages of supporting members to develop successful businesses:

- Targeting: SEF’s primary criteria for targeting is geographical location. The organisation is
working in the rural areas of Limpopo Province in South Africa, one of the poorest provinces in the country. According to a 1994 World Bank-sponsored study, 64 per cent of the population in this province lived below the poverty line and 40 per cent of households lived below half this income level. The targeting tool PWR is used in TCP to reach the poorest, and this provides significant insights into the poverty dimensions of each village.

- **Motivation:** Poor people often lack self-confidence, and may not perceive programmes such as SEF’s as relevant to them. They may also feel that they could not succeed in running a business. Consequently, SEF staff spend time talking to potential members, explaining the programme and encouraging them to start thinking about starting a business or developing an existing business. New members are usually encouraged to join when they see the success of their peers.

- **Business planning:** Approximately 15 per cent of TCP members do not have an existing business when joining; however, most have some previous business experience. Whilst one should not underestimate the capacity of the very poor, it would be naïve to believe that the provision of financial services alone could lead to poverty reduction. Members need to be supported in their efforts to create successful businesses, both in terms of planning and of administration. Much of this support is provided by peers, in the supportive environment of groups and centres.

- **Ongoing support:** Members’ lack of business experience means that ongoing support is vital to their success. SEF support is based on the principles of experiential learning and facilitation. The role of the SEF loan officer is to facilitate a learning process whereby members share their experiences, and learn from and support one another. Activities include member meetings to solve specific problems, motivational talks by members at centre meetings, loan utilisation checks by fellow members, loan supervision visits, and business evaluation. Ongoing support is integrally linked with monitoring activities in a strong feedback loop.

### 2.2 SEF’s impact management system

The design features outlined above create the basis for successful poverty outreach and impact, but SEF has found that impact needs to be actively managed. This involves a system for monitoring simple impact variables from clients and encouraging staff/client learning, and using this information to improve practice.

#### 2.2.1 Objectives for impact-monitoring and assessment

For SEF, the primary objective for assessing impact is to increase understanding of the factors that lead to improvements or decline of members’ livelihoods, and thereby to improve the practice of the organisation. Measurement of impact by itself is not enough – it must form part of a process whereby successes and problems are highlighted and lessons learned. SEF’s impact management system is a dynamic process of constant review and learning, designed to detect the smallest problem and to enable operational adjustments to be made for improving impact. Impact assessment therefore is a learning process for all people involved in running and supporting a member’s business, including members, field staff and management.

The impact assessment also looks at the bigger picture and summarises how the organisation is doing and how this can be improved. A fundamental goal of the impact measurement is to examine and understand, at each level, the linkages between inputs, activities and outcomes.

Through involvement of clients and staff at all levels, the impact assessment is designed to yield useful results rapidly, although it has both short- and longer-term components. Financial and human resource constraints are a significant limiting factor for SEF’s impact assessment. It is designed to be implemented, analysed and used by SEF operational and development staff, without the requirement for significant outside support.

SEF relies heavily on participatory methods when conducting impact-monitoring and assessment. This approach is aimed at enabling clients to assess and analyse their own progress and to allow SEF staff, especially field staff, to understand the
impact, both positive and negative, of their work. This contributes to building an organisational culture of impact, together with a focus on identifying and supporting the most vulnerable members and a determination to prevent negative impact. The information gathered by staff enables them to assess individual progress. This influences them when it comes to making loan decisions or when determining what support the clients may need. It is important to note that there is no direct link between impact results and the loan decision. However, the impact discussion can alert the loan officer to potential problems.

2.2.2 Impact assessment design

SEF’s impact management system is comprised of two parts: impact assessment and impact-monitoring. Both components are fully integrated with each other and play a fundamental role in the operation of SEF’s work. Monitoring provides a system that warns, checks, controls and records the performance of the organisation. Assessment provides more in-depth understanding of issues, and can be used to judge the success of the work.

There are two main goals associated with SEF’s impact management system. Firstly, to provide immediate operational benefit through indicators of problems which may lead to reduced impact or success. These are built into the MIS at the level of client, group, centre, loan officer, branch and zonal manager. For instance, a general problem of lack of progress can be identified, such as default or drop-out, and staff can concentrate on problematic areas. Success can also be judged in a wider and more meaningful sense, which is motivating for both clients and staff. Discussions generated through impact-monitoring are further valuable in terms of improving institutional learning.

SEFs second goal is to supplement the occasional nature of impact assessment studies with continuous data, thus strengthening the impact assessment. The organisation wishes to know if it is being effective in achieving its mission of alleviating poverty. Over time, impact assessment combined with impact-monitoring gives the big picture of the organisation’s impact. In addition, SEF is able to use outputs from its impact management system to report impact to outside organisations.

Table 1: Indicators in SEF’s impact monitoring systems

<table>
<thead>
<tr>
<th>Loan and staff management information</th>
<th>Socio-economic information</th>
<th>Business information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member number</td>
<td>Poverty score</td>
<td>Years in business</td>
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<tr>
<td>Initials</td>
<td>Age</td>
<td>Full-time employees</td>
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<tr>
<td>Surname</td>
<td>Stokvel® and burial society savings</td>
<td>Part-time employees</td>
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<tr>
<td>Identity number</td>
<td>School-age children</td>
<td>Other employees (under 18 or over 65)</td>
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<tr>
<td>Group number</td>
<td>Children at school</td>
<td>Total employees</td>
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<tr>
<td>Group name</td>
<td>Children who passed std10</td>
<td>Business type</td>
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<tr>
<td>Centre</td>
<td>Children with higher education</td>
<td>2nd business type</td>
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<tr>
<td>Field worker</td>
<td>Total income (relative value)</td>
<td>Diversified</td>
</tr>
<tr>
<td>Group formed by</td>
<td>Total expenditure (relative value)</td>
<td>Business expenditure</td>
</tr>
<tr>
<td>Loan number</td>
<td>Food score (client opinion)</td>
<td>Business value (stock, cash, 50% of debtors) at loan application</td>
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<tr>
<td>Loan type</td>
<td>Housing score (client opinion)</td>
<td>Business value at loan supervision</td>
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<tr>
<td>Disbursement number</td>
<td>Centre leadership skills</td>
<td>visit (LSV)</td>
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<tr>
<td>Disbursement date</td>
<td>Relationships between group members</td>
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<td>Completed date</td>
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<td>Loan amount</td>
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<td>Repayments</td>
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<tr>
<td>Contribution to group savings</td>
<td></td>
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<tr>
<td>% Attendance at meetings</td>
<td></td>
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<tr>
<td>Loan cycle</td>
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2.2.3 Impact-monitoring indicators

Impact indicators were selected through detailed impact assessment interviews with clients, and also through field staff’s perceptions of key indicators. Based on this, a first impact-monitoring instrument was developed and, in time, evaluated and refined.

Impact indicators are combined in the MIS with operational indicators and business information; these two sets of indicators are generated and captured through existing operational procedures. Table 1 gives details of the indicators used in the monitoring system.

By combining these three types of indicators, it is possible to analyse impact in relation to operational, client demographic and business variables. This creates a powerful tool for pinpointing patterns and changes in these indicators.

Information is gathered at different stages of the relationship between the client and SEF. Some of this was already part of existing operations, and some was established specifically as part of the impact-monitoring. All the information helps SEF build an understanding of its clients and their needs.

- At the stage where SEF is considering targeting a village for TCP, a PWR exercise is carried out. The aim is to determine which families in the village are very poor. Community members decide who is eligible for participation in TCP.

- At the time of every loan application, a business evaluation takes place. The loan officer will visit the client’s business and estimate the business value based on stock, cash in hand, and business assets. The business value determines the maximum loan size. For new clients the business value and type are used to determine an appropriate loan size.

- Other stages include impact-monitoring interviews, loan utilisation checks, loan supervision visit and centre leadership training. SEF internal quality audit and exit interviews with clients who are dropping out.

3. Using impact information for strategic management and improving impact

3.1 Which stakeholders use impact information?

The primary use of information is for the client, group, centre and loan officer to monitor and manage business progress, and to monitor the impact of the business on the client’s family. Information is captured in the computerised MIS, generating reports useful for management decision-making.

Different stakeholders make use of impact information. Clients are able to see changes in their own and others’ business values, and can recommend changes, helping SEF to better serve their needs. Field staff can assess how well their clients are doing and find out who needs support; they are also able to improve their abilities to facilitate, assess and support clients. Branch managers use impact information to assess the overall branch performance, in order to identify problems at an early stage. Management can also gain a clear perspective of overall performance and monitor whether SEF’s mission is being achieved.

Experience of the use of the monitoring system has been generally favourable, and was endorsed by a formal review which took place in 2002. Field staff feel strongly that the monitoring system allows them to get to know their clients better, while clients value it as a means of self-assessment. The secondary objective of providing continuous data for impact assessment is also met. Generalised information from the impact-monitoring system is used at head office for strategic management, operations management and financial management. The impact reports are also used by members of the board and donors in order to track SEF’s progress in poverty outreach and impact.

3.2 Usefulness for performance management

SEF seeks to use its impact information to assist with performance management and in making strategic decisions. Without this information SEF would have to rely on financial data alone, and would not know whether its decisions were affecting its poverty outreach or impact.
SEF’s MIS provides regular monthly operational reports. In addition to the standard financial reports such as portfolio at risk or principle outstanding, there are a number of reports generated on social performance goals. These include client retention rates, average loan size, and “vulnerable” centres. These reports are used to determine staff incentives.

The vulnerable centre indicator is a clear example of the link between social and financial performance, and the mechanism by which additional social support can lead to improved financial performance. The index is calculated based on client attendance and savings and arrears at each centre, and provides an early warning system showing problems well before they manifest themselves as financial problems. Field workers, branch managers and operations managers increase their monitoring and management of these centres to solve the problems early and minimise long-term performance problems.

The MIS also generates quarterly impact-monitoring reports which are not linked to staff incentives. For example, Figure 1 gives a good picture of the impact of the TCP on client’s livelihoods.

In addition, the MIS is used to produce ad hoc reports on impact, and stores a wealth of information on SEF members and their businesses. Ad hoc reports, such as those looking at centre details and the characteristics of drop-outs, are generated to investigate specific issues and to understand organisational problems, and are essential for internal and external research and operations management.

SEF, by focusing on its “triple bottom line”, has been successful in developing a performance management system that reflects social as well as financial performance. Information from the field is crucial for the operation of this system. As each loan application is processed, all the information on the application form is captured in the computerised MIS. After the month end
reconciliation, standard performance reports are prepared, and performance incentives calculated. A summary report ranks all loan officers and branch managers in terms of performance and is displayed on the notice board. The best performers are praised, the worst performers are invited to “best practices” workshops to solve the problems. Disciplinary action is applied to poor performers, and consistent poor performers are dismissed.

3.3 Case-study of the usefulness of SEF’s impact-monitoring system
Like most other MFOs, SEF is under pressure to achieve financial self-sufficiency. It reached its highest operating sustainability of 76 per cent in December 2000. But between December 2000 and July 2002 financial performance had slipped steadily back to 42 per cent. It was clear that management had to take radical action to turn the tide, but first had to understand the problem.
Financial performance depends on a number of inter-linked factors: number of members, which is contingent on recruitment and low drop-out rates; the portfolio outstanding, which is most affected by average loan size and arrears; and operational efficiency, which is mainly affected by salary costs.

Using information from the MIS plus additional ad hoc research, management was able to analyse the problem and devise strategies to overcome them. Figure 2 gives examples of the patterns of performance revealed by the MIS prior to the crisis, during it, and afterwards.

The number of members had reached a ceiling of approximately 12,000, recruitment of new members was slow, and the number of drop-outs was high. Average loan sizes in the larger MCP programme had reached a high of R1500 (equivalent to $190) in September 2000, after which the average loan size decreased by 24 per cent over the 18 months from September 2000 to June 2002. The Rand had devalued dramatically at the start of 2002, and the maize meal price for consumers had more than doubled in just over a year. The combination of economic hardship and increasing loan sizes resulted in higher levels of drop-outs, as loan sizes increasingly exceeded the ability of clients to cover the costs of capital. Drop-outs and portfolio at risk peaked in June 2001.

Management was able to use this data and pinpoint a strategy that combined a greater focus on performance management for staff, with a concern for the underlying social causes of increasing member problems and reduced growth. As part of the strategy, management received training on how to manage performance more effectively; staff received training and workshops were organised for poor performers, and disciplinary action was taken against the poorest performers. Other actions included shifting the operational emphasis from “command-driven” to “self-motivated”; improving weekly planning and reporting mechanisms by loan officers to branch managers; reviewing the incentive scheme to reward high performers better and introducing bonuses; and management restructuring, allowing the most experienced staff to focus on the most serious problems. Changes were also made in the services provided to clients with a streamlining of loan products, such as through introducing smaller increases in loan sizes.

These actions could only be taken through strong leadership. Senior management thus sought to motivate staff and build a common vision through such initiatives as conducting client service workshops, allocating an innovation budget per branch, and providing personal growth training for all staff.

Continued use of the impact-monitoring system allowed management to track the effectiveness of the changes on the organisation’s financial performance, whilst checking that there was no negative impacts on social performance.

4. Challenges for the future

Changes made in response to the crisis mean that SEF is now ahead of its financial targets. However, challenges remain in balancing growth and financial performance with the commitment to poverty outreach and impact. The generation of useful high-quality management information is key to this, and the challenge is to maintain a low-cost system that provides consistent quality of information. Central to this are continued learning and review, staff training, policy and operations manuals, and quality audits and monitoring. In addition, maintenance of a reliable computerised MIS, and use of the information gathered are key.

Impact-monitoring and assessment form an integral part of SEF’s everyday operations, and are essential for effective decision-making at all levels of the organisation. By integrating impact-monitoring with daily activities, decision-making and problem-solving, the benefits in terms of operational efficiencies quickly outweigh the costs. Ongoing support to the very poor is integrally linked with monitoring activities in a strong feedback loop. Impact-monitoring results are used primarily by loan officers and members, and secondly to inform management on operational and policy issues. The primary focus, however, is on encouraging the loan officers to be effective managers.

SEF’s impact-monitoring system has been in operation for five years. Good quality information
on loans, clients, their micro-businesses, organisational performance, and the organisation's impact on poverty and poverty outreach are gathered, analysed and used. The impact-monitoring system provides information to:

- Build client service by loan officers;
- Monitor and manage loan officer performance against targets;
- Analyse and understand performance problems;
- Monitor the impact of new policies and procedures;
- Track actual performance against the organisation's objectives on the triple bottom line.

Notes
1. Tshomisano is a Northern Sotho word meaning “working together”.
2. Credit is given to individuals as part of a group of five people. No collateral is required, but the group must collectively guarantee each other’s loans. Members develop business plans, facilitated by loan officers and receive a loan on this basis. The groups are clustered into larger groups called centres, each comprising of a maximum of 8–10 groups. The centres in turn take collective responsibility for the repayment of group loans. Centres meet on a fortnightly basis to make repayments, deposit savings, and discuss issues. Loans are repaid over periods ranging from 8 fortnights to 10 months. A centre committee manages and directs meetings, with loan officers facilitating and monitoring the meetings. Field workers never touch money. They are, however, the primary contact with the borrowers and each of them is expected to service a portfolio of about 350 individuals or 70 groups. Regular savings are encouraged by requiring groups to open an account at the post office. Loans are disbursed and groups deposit their savings into this account. SEF has no direct control of, or access to, the group savings. Through the savings plan, borrowers build up a fund, which they can fall back on when faced with sudden shocks. At present the combined savings of SEF’s members totals more than R2.5 million.
3. Using the CGAP and Microcredit Summit definition of the very poor to mean those who live below half the national poverty line.
4. In South Africa the Household Subsistence Level is commonly used as the poverty line. In 2000 this amounted to R920 (equivalent of US$123) per family of five per month.
5. Staff rarely provide support themselves, and rely on the Groups and Centres to do this.
6. A stokvel is an indigenous savings group.