

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21**  
**of the Companies Act)**  
**(Registration Number 91/03485/08)**

**MANAGEMENT REVIEW**  
**30 JUNE 2000**

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The Small Enterprise Foundation (SEF) is a non-profit, non-government organisation dedicated to ending poverty and unemployment. The organisation was registered in July 1991 and disbursed its first loans in January 1992. The following is a summary of performance :

<b>Statistics as at 30 June 2000</b>		
	<b>2000</b>	<b>1999</b>
Loans Disbursed Since Inception :	R 49 965 600 <sup>1</sup>	R 30 757 600
No. of loans disbursed since Inception :	52 845	36 978
Number of Enterprises currently assisted :	11 214	8 632
Current average loan size disbursed :	R 1 275	R 1 148
Principal Outstanding :	R 8 711 075	R 5 585 765
Defaults :	R 2 894	nil
Delinquency (% of portfolio with arrears over 1 day) :	2.5%	0.1%
Delinquency (% of portfolio with arrears over 30 days) :	0.6%	nil
Re-scheduled loans (due to illness) :	R 58 945	R 18 299
Death Write-Offs for the year :	R 40 177	R 8 530
Total Savings as held by Groups :	R 2 243 406	R 2 026 610
Number of Jobs positions currently supported including the client :	23 585	19 772
% Women clients :	97%	97%
Number of clients per loan officer :	184	173
Number of Programme staff :	86	71
Head Office, Development and Training staff :	12	9
Operational Self-Sufficiency :	64%	56%

<sup>1</sup>At the financial year end the Rand/US\$ exchange rate was R6.80 = US\$1.00

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**Does SEF have Impact?**

As part of SEF's in-depth impact assessment work Sarah Siaga was interviewed three times over a period of two years. This case study from her life demonstrates the process of changing impact over time.

During the first round of interviews, when Sarah was on her second loan, it was difficult to talk to her because of the painfulness of her situation. Prior to joining SEF she had a reasonable business which had collapsed with the breakdown of her fridge. Joining SEF offered her an opportunity to pick things up again. She made a slow start with a business she was not familiar with and which was not very productive but things progressed slowly. Later in this loan, however, her chronic illness led to the collapse of the business and created a very difficult situation at home where she and her five children were barely able to survive.

In this situation many members would have dropped from the programme, however, through the support of SEF staff and her fellow centre members, she was encouraged to remain within the programme, all-be-it taking a very small token loan. The second loan was a period of hardship for Sarah and the business continued at a very low level, providing insufficient income for her family. She did, however, learn about how to improve the business, and was in a supportive environment within SEF. She decided to train her daughters to run the business, an important move given her frequent illness.

On completion of her third loan, she now had much more confidence in her ability to succeed with her business and was given a huge jump in loan size from R 100 to R 1 200. This loan size was inappropriate according to SEF policies, but in her case she managed it well.

Following the advice of other centre members she travelled to Johannesburg and bought stock of clothes, umbrellas etc. This was the turning point for her, and the business went from strength to strength. She now has a very strong business, selling mostly clothes but also fruit and vegetables, and cold drinks from her new fridge. Sarah is now on her fourth loan of R 2 000. Three weeks prior to her third interview for the impact assessment she had travelled to Johannesburg and bought R 1 500 of stock. On the day of the interview she had bought R 450 stock of fruit and vegetables.

This transformation has had a huge impact on Sarah's life. She now talks with confidence and pride about SEF, and points out how the poor who are part of SEF are now becoming recognised in the village as people with leadership abilities - "their children are from a disciplined SEF family!" On a personal level she can afford the health treatment she needs and is now rarely sick. She has been able to send one of her children to tertiary education and has three more in high school. She now no longer struggles to feed her family, and they are able to eat well.

Since her husband's death some years ago she has lived with her mother and other relatives, moving between houses. Now she is at a stage where she can afford to build her own house, and is busy making plans. She has even bought furniture and other household items for this future house.

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**Does SEF have Impact? (continued)**

Essentially Sarah was a very poor women, with few resources. She did have previous business experience, but it is highly unlikely that without the support and encouragement from SEF members and staff, and the loans to finance her business, that she would have progressed much beyond the poverty that she was living in on joining the programme.

**Poverty Outreach**

In 1994 SEF concluded that only 30%-40% of people it was reaching were very poor i.e. living below half the poverty line. This experience taught the organisation that in order to reach this group it is necessary to establish a programme which exclusively targets the very poor. We learnt that one cannot mix the poor and very poor in the same programme. In relation to the very poor the less poor have more resources and often more self-confidence and skills. They are not as vulnerable to shocks as the very poor are, thus they make better clients, they save more, cope better with repayments and graduate more easily to larger loans. Naturally they are attractive clients for any loan officer and for the organisation. Thus an organisation may begin slowly to change its practices in order to serve these clients better. This will inevitably lead to policies that are difficult for the very poor to contend with and may lead to negative impact on the very poor. Such policy changes are also likely to then attract more non-poor clients, as opposed to very poor clients, who may in fact be alienated by the new policies and less likely to join.

In answer to this challenge SEF launched Tšhomišano Credit Programme<sup>2</sup> or TCP.

TCP is a programme that is exclusively for the very poor. A poverty targeting approach, Participatory Wealth Ranking, is used to identify the poorest households and only the women of these households are eligible to join TCP. None of those who are identified as not being amongst the very poor may join the programme.

SEF's Participatory Wealth Ranking approach has received considerable international attention with Anton Simanowitz, SEF's Development Advisor, who operationalised this tool for SEF, and Ben Nkuna, TCP's Zonal Manager, being asked to co-author a paper on practical poverty targeting along with Professor Sukor Kasim. This paper was one of four prepared for discussion at the plenary meetings of the Microcredit Summit Meeting of Councils held in June 1999, in Abidjan, Côte d'Ivoire and for the African Regional Microcredit Summit meeting in October 2000. Together with CASHPOR they have also produced and published a technical manual "Cost Effective Targeting: Two Tools to Identify the Poor".

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<sup>2</sup>

Tšhomišano is a Northern Sotho word meaning "Working Together"

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**General Description of the Credit and Savings Methodology**

In order to receive a loan an applicant must form a group of five with four others who are interested in gaining access to SEF's services. The strength of the group formation is then rigorously checked and where weakness is detected, the applicants are motivated to find alternate members. The group is then given preliminary recognition and begins a series of training sessions which focus on the credit and savings methodology, motivates applicants to begin regular savings and deals with the duties and responsibilities of group members. During the training process the group will be introduced to a Centre i.e. a fortnightly meeting of all groups from a section of a village under the leadership of an elected Centre Committee.

Once the group has been recognised by the Centre and has completed its training it will go on to a final recognition "test" by a senior manager. If recognised the group may apply for loans. Each member's business plan is discussed and refined during the training and each member applies for her own loan which she will utilise for her own income generating activity. All group members guarantee the loan repayments of their fellow group members and will be called upon to assist any member who falls into arrears.

Within a few days of disbursement members are expected to utilise their loans in accordance with their pre-agreed business plans. Group leaders check as to whether loans have been used according to these plans while the SEF Field Worker checks the loan utilisation of all first and second loans and spot checks thereafter. The principal aim of this process is to encourage members to assist each other and to demonstrate to members that the utilisation of their loans in accordance with their business plans is the first step towards success.

During the loan cycle the group leadership has the responsibility of checking the progress of each member's business. The results of these visits are reported at each fortnightly Centre meeting.

Towards the end of the loan cycle the Field Worker assesses the growth of the businesses for those who wish to apply for further loans. She then assists them to work out an appropriate loan size for the next loan.

SEF encourages regular savings by requiring groups to open a savings account at a local post office. Through this savings, borrowers build up a fund which they can fall back on when faced with mishaps and tragedies. At fortnightly Centre meeting members are encouraged to save into their account, the average amount saved ranging from R 2 to R 10 per member per meeting. This account is entirely controlled by the group.

Currently 97% of SEF clients are female. Typical enterprises include hawking of fruit and vegetables and new or used clothing, small convenience shops, and dressmaking. 18% of clients are involved in a manufacturing enterprise. On average, each business employs 2.1 individuals, including the owner, on a full-time or part-time basis.

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**SEF's Impact Assessment System**

SEF's impact assessment system, initiated during 1997, is a key tool for understanding, and focussing staff awareness on, our impact on the lives of clients. This has led to the creation of a "culture of impact", a focus on identifying and supporting the most vulnerable members, and a determination to prevent negative impact. The understanding and monitoring of impact is central to improving methodology and thereby, increasing the chances of positive impact.

Very often impact assessment is externally driven. It is included as a condition in a funding agreement, or is part of a donor's assessment of an organisation. This leads to the perception that impact assessment is large scale, costly and divorced from the day to day, on-the-ground practicalities. SEF does not set out to *prove* impact, but to *improve* impact. Given this priority and resource constraints, our methodology is less comprehensive and less costly than traditional impact assessments. However, positive practical changes, for example in reducing TCP's drop-out rate, have demonstrated the usefulness of the impact assessment work in terms of improving impact. This, combined with a deeper understanding, developed through qualitative research, provides credible impact conclusions.

The impact assessment system has a number of inter-related components :

*Livelihood case-studies:* The foundation of the system is a detailed understanding of members' livelihoods and the factors that lead to improvements or decline in livelihoods. This was done through detailed case-studies with 60 clients over a two year period.

*Studies:* A number of specific, discrete studies have been conducted, for example looking at savings, drop-outs, and business profiles. These have been fed into methodology improvements.

*Impact monitoring:* SEF's impact monitoring system monitors key variables at the level of individual, household and business. Data is collected about changes in members income, expenditure, housing conditions, food quantity/quality, savings, children's education, business strength and business diversification. The system also uses self-evaluation by the centres to assess members' problem solving abilities, participation in leadership positions in community structures, and satisfaction with SEF service and products.

The impact monitoring builds on the understanding developed through the detailed impact assessment research and gives a longitudinal view of changes in members' livelihoods. This process allows conclusions to be drawn about the relationship between impact and SEF's work.

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**Findings From The Tšhomišano Impact Assessment**

**1. Who is TCP reaching?**

TCP is effective in targeting the poorest women in the communities in which it works, and is achieving reasonable success in terms of recruiting these women into the programme. Penetration rates after one or two years in a village are reaching an average of about 20 per cent of qualifying people, with some villages exceeding the 40 per cent target by a large margin. TCP is also effective in retaining the poorest people that it targets. The poorest people are most vulnerable to problems that might lead to them leaving the programme, but are statistically no more likely to drop-out than TCP members as a whole. However, the drop-out rate, particularly for first loans, remains unacceptably high. Effectiveness in retaining members in the early loan cycles is thus a key step towards achieving positive impact.

Although TCP primarily targets the economic manifestations of poverty, its strategies are based on a broader understanding of poverty. TCP members are commonly women who head households with erratic and insecure livelihoods. A central defining characteristic of extreme poverty is a lack of reliable income and high vulnerability. This is reflected in food insecurity, poor quality housing, poor clothing, poor sanitation, and an inability to consistently educate children and to educate them beyond primary school level. Poverty is also reflected in social marginalisation, with community attitudes and behaviour towards the poor being very negative. The poor often have low self-confidence and social skills, do not participate in community structures, and have weak social networks - particularly in terms of support in times of problems.

Most TCP members do have some previous experience in running their own business, but these businesses have typically been very weak and erratic, and have not been able to provide an adequate or reliable income source. Consequently, the vast majority of TCP members do not have a functioning business when joining the programme. Most TCP members start businesses with which they are personally familiar, or where they know other people running that type of businesses. There is, therefore, a fairly small range of business types commonly run by TCP members, with most being some sort of petty trading.

**2. What is the quantitative impact of TCP?**

Analysis of the impact monitoring data base demonstrates an overwhelming positive impact for TCP members. There are a small number of people who experience negative impact, but there are very few who experience severe negative effects. This is partly a result of the low starting point of members. In the main, however, there is a general movement towards increasing positive impact over time, as members move from one loan cycle to the next. Analysis of five impact indicators all show average increases for the programme over time, although the *rate* of change decreases.

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**2. What is the quantitative impact of TCP? (continued)**

Contrary to the arguments of many academics (for example Hulme and Mosley) quantitative data suggest that TCP's poorest members perform at least as well as the average performance for the programme. This conclusion is also borne out by the qualitative analysis. What is also very clear from the case-studies is the high value of small initial livelihood changes. For example the securing of the business leads to a regular and reliable income. Small income changes for the very poor have proportionately much greater impacts on livelihood, than those for the better off. For example, the rapid and significant changes in impact scores related to food consumption provides evidence that small income changes are having great impacts. The pattern of increasing consumptive use of loans or business income on later loan cycles also suggests that livelihood changes are greatest for the very poor.

**3. How does TCP change its members lives?**

TCP facilitates the development of increasingly sustainable livelihoods through building secure incomes and other financial resources and by building the skills and assets to manage and continue to grow financial assets. The achievement of this positive impact is a combination of building a strong business that can provide a reliable and adequate income to meet basic household needs, with the development of assets to protect this income and reduce vulnerability. These assets include savings, which provides a fund to use in the case of emergencies and is a means of managing money to meet "lumpy" expenditure needs - for business or household purposes. Human assets, in terms of business, social and participation skills, are important in the effective management of the business and in terms of developing other livelihood opportunities. Children's education and the health of the family also contribute to the long term sustainability and protection of livelihood gains. Finally, the development of social networks and relationships with other people strengthen the social "safety-net" and improve the chances of support from other people in good times and bad. This TCP facilitates through the social networks of the groups and centres.

At an intra-household level, increased "independent" income for women, and control over resources builds their position to make decisions that are "good" for the household from their perspective. Although there are rare cases of increased conflict, there is substantial evidence that TCP membership strengthens their position within the household and builds confidence and sense of worth. Although SEF has not explicitly defined poverty-alleviation in terms of "empowerment", it is clear from our members and field staff that increased self-confidence, participation in wider structures, control of resources and decisions within the household, and improved perceptions of poor people by the rest of the community are important indicators of increased well-being.

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**4. TCP's methodology in facilitating impact**

TCP has a relatively minimalist approach, in that it does address wider poverty issues. In part, this is due to the pressures of financial sustainability and the need to achieve efficiency in operations. It is also a consequence of a conscious decision to maintain a focus and "do what we do best". Beyond this there is also a strong ethic to recognise members' own abilities, to let members control as much of the process as possible and to build on members' own strengths. TCP's role is one of facilitation in helping members to realise their own potential. This approach in itself is empowering and contributes to the human and social asset development described above.

It is clear that the provision of credit alone would not achieve the kind of impacts described in this report. TCP has a strong emphasis on the member selecting an appropriate business, developing skills to manage this business, and linking the loan product to the business. These services are an essential part of a process of developing a stable and sustainable business. This is particularly important in the case of the very poor, where there are limited other income sources to make loan repayments with, and to support the business if it experiences problems.

Key aspects in the success of TCP's credit product are the pressure put on members to manage and grow their businesses, the linkage of loan size to business value, and the relatively short loan terms. TCP's loan products are flexible in that they allow each member to determine her own loan size, and to a limited degree, repayment terms.

SEF does not collect savings deposits but facilitates savings through the use of the Post Office. This is not ideal, but is a viable solution given the nature of the regulatory framework and the costs and security issues of SEF collecting deposits. Savings plays a key role in reducing the vulnerability of members, and in allowing for effective financial management.

In addition to providing financial services, TCP plays a key role in identifying and supporting the most vulnerable clients and works towards reducing this vulnerability. To this effect, staff and members are encouraged not to perceive members with problems as being "a problem", but as people who need support. Consequently TCP policies and practices aim to facilitate the reduction of member vulnerability, and to support problem-solving with business and personal problems, as they arise.

By developing a detailed understanding of the changes in member livelihoods, and the reasons for these changes, it has been possible to understand the role of TCP services in promoting positive impact. Tracking the effects of financial services is complex, particularly given the multiple facets of livelihoods at the individual and household level. However, for the very poor, where there are few income sources, it is relatively simple to determine the impact of a loan. The key challenge is to understand the extent and the sustainability of the changes observed.

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**Financial Performance**

Financial Indicators for SEF (both MCP + TCP)				
	2000	1999	1998	Percentage Change 1999 to 2000
Loan Interest Income	R 4 164 736	R 2 566 919	R 1 026 690	62%
Operational Expenses	R 6 476 152	R 4 613 809	R 3 396 444	41%
Interest Paid	R 209 468	R 73 653	R 114 886	184%
Investment Interest Income	R 161 807	R 429 542	R 974 812	(62%)
Operational Self-Sufficiency	64%	56%	30%	

The growth in loan interest income is a result of a 50% increase in principal outstanding as well as the effective interest rate earned increasing from 57% to 59%.

Investment interest income decreased as investments were used to fund the increasing loan book. Interest paid increased substantially as SEF drew on loan facilities from Khula Enterprise Limited and Triodos Bank to further fund the loan book. Whereas for the last few years SEF has been able to fund the growth of its loan book from its own resources future increases will be funded from borrowings. Thus financial costs are set to continue increasing.

Operating self-sufficiency increased from 56% to 64% not far off projections of 66% at this stage.

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**MCP - The Micro-Credit Programme**

Operational Indicators for MCP				
	2000	1999	1998	Percentage Change 1999 to 2000
Delinquency (over 1 day)	2.6 %	nil %	nil %	
Delinquency (over 30 days)	0.7 %	nil %	nil %	
Defaults for the year	R 1 190	nil	R 454	
Active Clients	8 492	7 155	5 243	19%
No. of loans disbursed in the year	11 399	9 667	6 845	18%
Amount Disbursed in the year	R 15 586 700	R 10 695 000	R 6 200 500	46%
Average loan disbursed to clients active at year end	R 1 419	R 1 213	R 990	17%
Principal Outstanding Before provision for bad debts	R 7 404 431	R 4 842 679	R 3 129 256	46%
Operational Self-Sufficiency	126%	116%	73%	
No. of Field Workers	43	39	27	10%
Programme staff	59	53	38	11%

During the past year the number of active clients in MCP grew by 19% to 8,492. This was, however, significantly below the 1999-2000 budget of 10,575. An in-depth analysis of this under-performance identified the following primary causes :

1. Insufficient management focus on this aspect of operations
2. The revised incentive scheme, as introduced in February 1999, lead to some field staff opting to maximise short term rewards by rapidly accelerating loan sizes, while group numbers remained stagnant. Although this possibility had been foreseen the organisation was not effective in countering such a strategy.
3. A persistent moderately high drop-out rate of 21% to 22% throughout the year.

MCP Management has been directed to address this growth problem and the incentive scheme has been suspended. It is anticipated that significant features of this scheme will be dropped and the focus moved from growth in principal outstanding to growth in active clients.

To address the above challenges, and in particular to allow time for improvement in management, the expansion of MCP is being slowed down. Current planning is to maintain the Zone at five branches instead of allowing it to open a further two branches. While operations are consolidated the existing branches will be reduced from eight Field Workers to seven. The number of Field Workers per branch and the possible opening of a sixth branch will be looked into towards the end of this financial year.

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**TCP - Tšhomišano Credit Programme**

Operational Indicators for TCP				
	2000	1999	1998	Percentage Change 1999 to 2000
Delinquency (over 1 day)	2.3 %	0.5 %	nil %	
Delinquency (over 30 days)	0.1 %	0.2 %	nil %	
Defaults for the year	R 1 703	nil	nil	
Active Clients	2 722	1 477	901	84%
No. of loans disbursed in the year	4 468	2 571	1 362	74%
Amount Disbursed in the year	R 3 621 300	R 1 902 000	R 700 500	90%
Average loan disbursed to clients active at year end	R 825	R 834	R 556	-2%
Principal Outstanding	R 1 391 494	R 743 086	R 297 601	87%
Operational Self-Sufficiency	44%	30%	10%	
No. of Field Workers	18	11	11	63%
Programme staff	27	18	19	50%

Up until the early part of this financial year TCP had been limited to four branches and a maximum of eleven Field Workers. Significant changes in the average loan size sustained by TCP clients as well as field staff demonstrating that they were able to successfully manage portfolios of at least 300 clients led to a revision of TCP's sustainability projections. Based on this it was decided to expand TCP. A fifth branch was opened in June 2000 and all branches will be increased to six Field Workers. During the coming financial year performance will be monitored with a view to adding a sixth branch, possibly in the first half of the 2002 financial year.

At an institutional level, the reduction in the planned growth of MCP and the expansion of TCP extend's SEF's financial breakeven point to March 2004. Current projections indicate that SEF will be servicing 25 000 active clients by June 2005.

**Vision and Mission**

A variety of developments over the past six months have led to a reassessment of SEF's longer term vision and to the exploration of merging the MCP and TCP into one programme. The burden of managing two different programmes (two training programmes, two incentive schemes, two sets of research and development tasks, etc.) within one institution has become more apparent, especially as TCP expands to a full Zone. In addition, while MCP growth and overall performance over the last few months have not been as strong as expected, more confidence is developing regarding the potential success of TCP. Thus in a effort to streamline operations and develop one powerful strategic vision it has been decided to converge MCP and TCP into one model over the next few years.

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**Vision and Mission (continued)**

In this model, in more mature TCP villages staff will begin to serve higher income clients while MCP staff will be trained in impact monitoring and support for the vulnerable. Products for MCP will be revised to ensure that they cater first to the needs of lower income clients, with less emphasis being placed on identifying clients with strong growth potential and on increasing loan sizes. Over time it is the intention that both Zones will adopt identical policies.

**Floods and Disaster Loans**

During February and March SEF's operational area experienced the worst flood damage and the heaviest rainfall in recorded history. The result was many poor families being left homeless, the destruction of many businesses run by the poor and loss of income by farm workers, an important market for micro-enterprises, due to crop damage on commercial farms. SEF responded to the floods by surveying its members to identify those most badly affected and thereafter disbursed 375 "Disaster Loans" to the value of R 319 000, to assist clients to rebuild their homes and businesses.

These loans were structured very differently from all previous loan products; no group guarantee was required and repayment will be in small installments over 40 fortnights (roughly 20 months). The idea behind this action was to react quickly in the face of human suffering and the organisation was very much aware of the risks it was taking in terms of possible loan losses. The impact of these loans and the effectiveness of the methodology will be measured over time.

**Human Resources**

During the year the Field Worker training programme was integrated into the Human Resources function. This function is now responsible for the basic training programmes for all Field Workers, Senior Field Workers and Branch Managers.

The year also saw 22 managers participating in a First Line Supervisors Course, conducted over a two month period. SEF contracted the development of a five day facilitation skills course which has been piloted with twelve field staff and is now being taken to all field staff.

Other training which took place included a visit to PRODEM and Banco Sol, in Bolivia, by the MCP and TCP Zonal Managers. This exposed these managers to the reality of microfinance in a highly competitive environment. SEF's Financial Manager attended three weeks at the Microenterprise Training Institute at New Hampshire College, USAID provided the stipend for this, and CGAP provided a stipend for the Operational Development Coordinator to attend a microfinance course at the Economics Institute in Boulder, Colorado.

The organisation is well on track in terms of the requirements of the Employment Equity Act and overall the organisation measures very well in terms of these criteria. An employment equity audit has been conducted, a consultative body set up and an employment equity plan is in place. SEF now has a total of 98 full time staff, 49% of whom are women.