

# IMPACT EVALUATION

**SMALL ENTREPRISE FOUNDATION**

FINAL EVALUATION REPORT  
477 EEI SIDI FGCA



**Submitted by**  
Reciprocity CC  
Mercantile Building, 3rd Floor  
63 Hout Street - 8001 Cape Town  
South Africa



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### **Disclaimer**

This evaluation is funded and guided by SIDI, SEF, and Grameen Foundation-Credit Agricole, and presented by Reciprocity and ALESOPi Consultants. The report does not necessarily reflect the views and opinions of the evaluation commissioners.

# 1. EXECUTIVE SUMMARY

## 1. CONTEXT

This report aims at evaluating the socio-economic, psycho-social and gender impact of the Small Enterprise Foundation (SEF), a developmental microfinance institution (MFI) based in Limpopo province in South Africa. The evaluation was carried out by a team led by Reciprocity (South Africa), complemented by Alesopi (France) and ChoiceTrust (South Africa). It was commissioned by Solidarité Internationale pour le Développement et l'Investissement (SIDI), Grameen Crédit Agricole Foundation and F3E, a network of NGOs based in France.

SEF is South Africa's largest developmental microfinance institution. Founded in 1991, it is one of very few successful developmental MFIs operating in South Africa with a consistent track record in alleviating the poverty and improving livelihoods of its beneficiaries, who are almost exclusively female. Registered as a non-profit company (NPC), SEF operates in 6 of South Africa's 9 provinces, with its primary activities located in Limpopo and the Eastern Cape, two of South Africa's poorest provinces. Its primary approach is to use group methodology based on joint liability for loans (GP – general program). It has, over the past few years, introduced individual liability loans (IL – under group methodology) as well as larger loans (LL – as individual loans) as small but growing parts of its portfolio mix. As of December 2021, it had a total loan book of 822.5 million rands (54.5 million dollars), and a total of 219,342 active clients.

**“Being a better person and have gained confidence on my business and myself.”**

Mnoghaji KOMPELE - IKHALA - LUKHANJI

SEF operates within a specific set of macro-economic and societal factors present in South Africa, including a highly developed financial services sector, paradoxically combined with persistent levels of financial exclusion, the continued usage of informal savings and credit mechanisms, high levels of indebtedness and credit default, the return of rising interest rates (as of January 2022), and the prevalence of women-led households in the country's rural areas. **The covid-19 pandemic** has added additional elements to this mix, including a sharp rise of default rates from 0.5% to 4.7% of SEF's loan portfolio. From this perspective, the present impact evaluation study captures the impact of microfinance services during a moment of significant economic crisis.

The evaluation study was aimed at understanding the impact of SEF's activities at three levels: the socio-economic dimension, the psycho-social dimension, and the gender equality dimension. It also sought to analyse the differentiated effects of SEF's interventions according to client profiles. Finally, the evaluation seeks to offer pathways for SEF to adapt to future conditions.

**“I'm an independent woman”**

Smhlauli NTANTASANE - MTHATHA - MISTY MOUNT

## 2. METHODOLOGY

The evaluation team used a **mixed-method approach**, consisting of a combination of quantitative and qualitative evaluation tools and methods in a single evaluation framework. This mixed method provides complementarity of quant and qual evaluation tools and allows for triangulation to strengthen findings and uncover a broader diversity of findings. The evaluation process took place over a period of 16 months, mainly to the covid-19 pandemic which delayed the evaluation team's ability to carry out in-field part of the evaluation process.

The impact evaluation mandate was structured around the key research question: Is SEF's intervention successful in producing positive social and economic impacts and outcomes? This key research question was

broken down into 4 evaluations questions, each to be answered using a set of judgment criteria as per Figure 1.

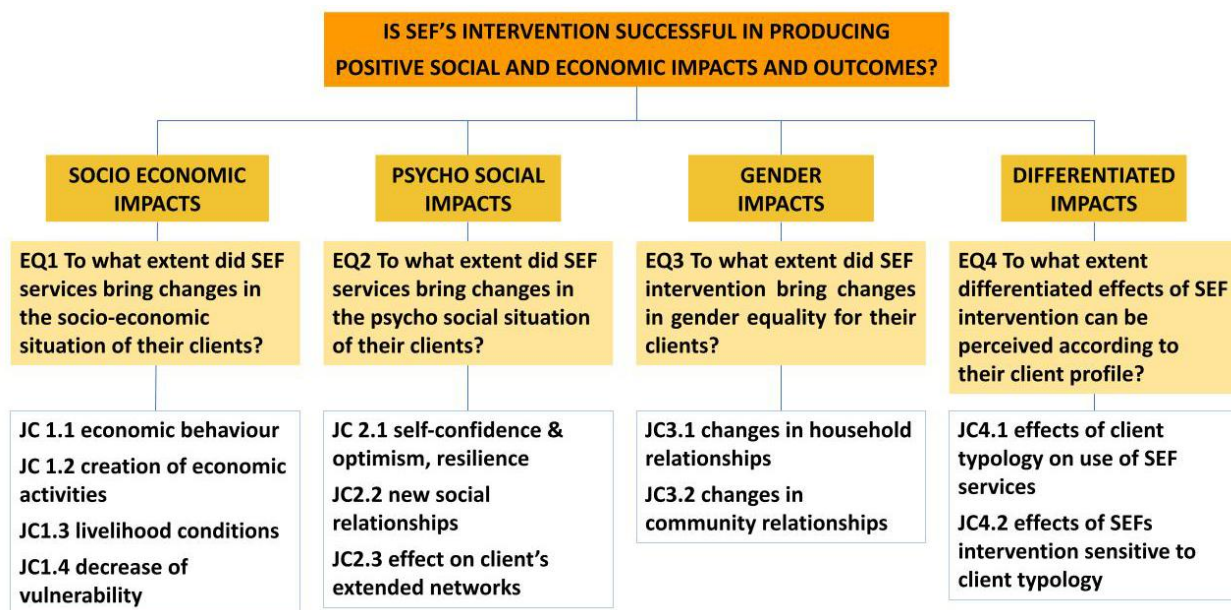


Figure 1: The evaluation questions at a glance

### 3. KEY FINDINGS

The below findings, as well as the findings in the body of the full report, were the result of a mixed-method methodology that combines the successive and intertwined use of qualitative and quantitative evaluation tools. This methodology has provided this evaluation with a high triangulation capacity and provided rich information and findings that resulted from said triangulation.

Given the nature of the methodology, however, it is not capable to “attribute” change. That is to say, it is not designed to “prove beyond reasonable doubt” that the change that was observed is caused by the evaluated intervention, nor to yield the fraction of the change that is attributable to the evaluated intervention.

As such, the level of robustness of this evaluation’s findings was communicated both directly in the relevant sections, and indirectly, by using nuanced wording to reflect that level of robustness (such as “seem” and “could” versus “is” and “in X% of the cases” where appropriate).

**SEF services have indeed been found to have brought positive changes to the socioeconomic situation of their clients, notably in their motivation to save, and their ability to repay loans.** SEF clients have also been found to often create new economic activities in the form of starting or supporting small, revenue-generating business ventures, even though that was not always their main usage of SEF loans. Indeed, loans are often allocated to a mix of purposes, including home improvements, or investment in children’s education. Triangulation of evidence revealed that these changes were accompanied by **improvements of the clients’ socioeconomic conditions** as well as a reduction in vulnerability. **The reduction in vulnerability may however be at risk for a part of the SEF portfolio**, as a result of SEF moving away from joint liability to individual liability in its group methodology.

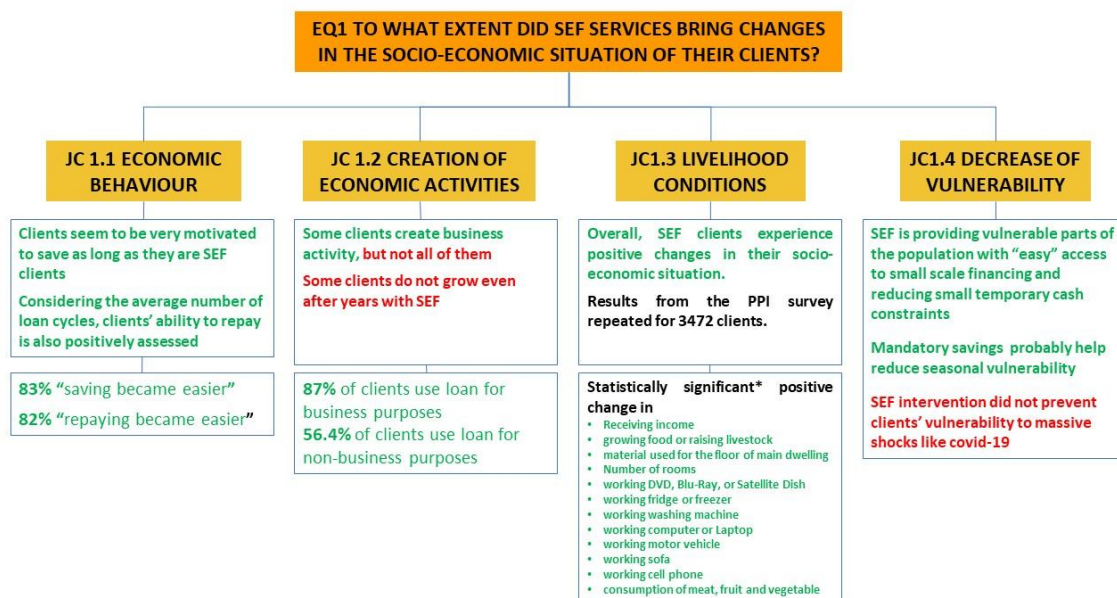


Figure 2 changes in clients' socio-economic situation at a glance

\*Statistically significant as revealed by the chi-squared tests of independence

**Results are more mixed in terms of changes in the psycho-social situation of SEF clients:** Indeed, clients naturally tend to perceive changes more readily in tangible elements rather than in their attitude. A direct exploration of perceived changes in clients' self-confidence, optimism, and resilience revealed overwhelmingly positive responses. When it comes to social relationships, the SEF methodology has led to the creation of community-based centres in which groups of clients interact, but this has not always led to positive changes, especially in terms of the relationship of the clients with their community.

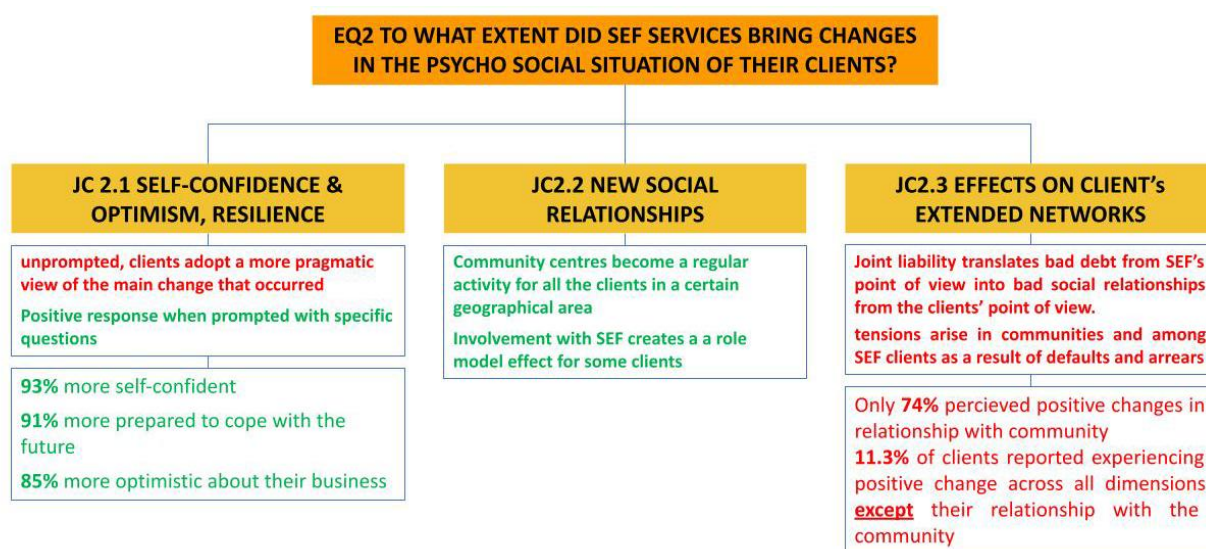


Figure 3 Changes in clients' psycho-social situation at a glance

**The gender equality** aspect was difficult to evaluate due to the deliberately discreet approach that SEF clients take with SEF. Indeed, gender dynamics in South Africa can often prompt women to protect the loans they take from interference of their husbands or life partners. Further evidence relating to gender-based violence could

not be gathered, but the context in which SEF clients find themselves is a context where “male backlash”<sup>1</sup> is likely to happen. The evidence seems to suggest, however, that in some cases, an increase in women’s ‘bargaining power’ can be perceived at household level. One of the reasons may be considering that they have, as women, the ability to borrow from SEF. At the community level, however, it is harder to have a robust judgement. It seems that the effect of SEF loans on gender equality at the community level are at least not very evident.

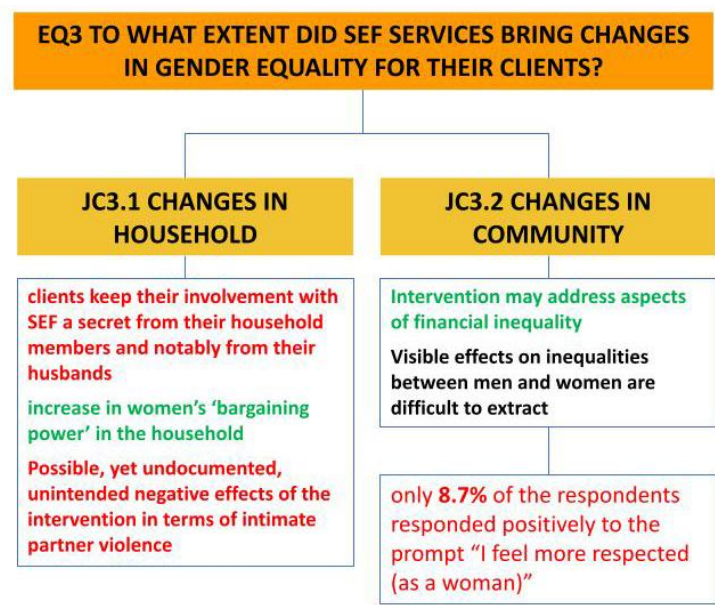
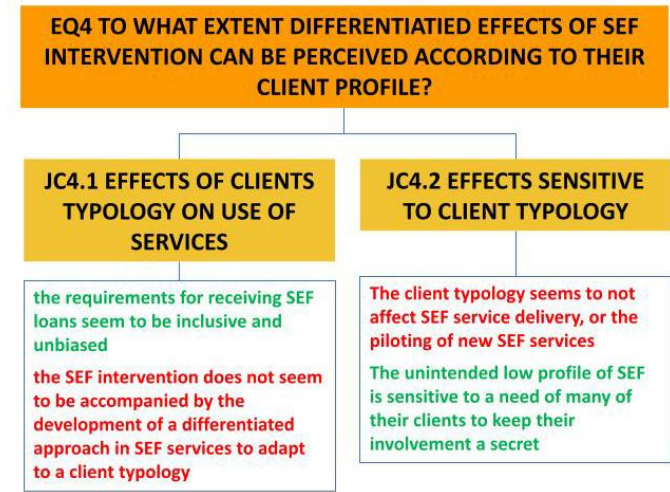


Figure 4 Changes in gender equality at a glance

**Differentiated effects** of SEF intervention were difficult to perceive in terms of different client profiles. This may be attributed to the way the intervention is administered. While there is a certain homogeneity in the client profile in terms of their common economic marginalisation, the manner in which clients use SEF services is not directly monitored by SEF. Some elements of the intervention, however, seem to be compatible with the client typology, especially the fact that the clients are able to keep their involvement with SEF to themselves if they wish.



<sup>1</sup> As defined by Hautzinger, S. (2003) and further discussed in 3.3.1

Figure 5 Differentiated effects at a glance

#### 4. OVERALL ASSESSMENT OF IMPACT



Figure 6 SEF Client's words to summarise the change

This word cloud is the results of the most significant change perceived by SEF clients following their experience as users of SEF financial and non-financial services. A statistical sample of 4551 respondents have been surveyed for this impact evaluation, among the various questions, one was " what has been the most significant change since you have been using SEF loans?". The font size in the word cloud, proportionate to the occurrence of the words used by SEF clients, reflects their perception of the change.

What has changed the most for SEF client is that they are now "able", able to deal with their businesses, able to provide for their family, able to impulse change in key poverty indicators: education, housing, food, clothing income, financial safety net, social well-being and psychological welfare.

## 5. KEY CONCLUSIONS

- **SEF is one of the few loan providers that a marginalized segment of the South African society can turn to for loans without risking steep financial and non-financial collaterals.** The long-term outcomes in terms of improvement of living standards and financial positions of clients and their households as well as the reduction of vulnerability and increase in clients' motivation to maximize their commercial potentials, visible in SEF's 2018 Theory of Change, seem broadly successful.
- However, SEF services are used by different clients in different ways that **do not lead to the improvement of financial positions in all cases, but rather prevent the deterioration of their financial positions.**

- In its new strategic vision, **SEF recognizes the multidimensionality of poverty and as a result, that of poverty alleviation.** However, the overarching assumption looking at SEFs “out-of-poverty” vision seems to be summarized by “reducing the monetary poverty reduces the multidimensional property, allowing for access to **education**, access to health, access to food security, access to social and financial inclusion etc.” This works most of the time, and is a valid assumption, but one that must be further nuanced to avoid unintended negative effects.
- On the operational side, **SEF's larger loan programme offers a chance to drive for financial inclusivity for a majority of its clients, and at the same time poses a risk of lack of coherence with SEF's "out-of-poverty" narrative.** Moreover, there are some elements related to the data collection and data management that could negatively affect the efficiency of the SEF intervention.

The evaluation concludes by proposing a number of pathways for SEF to adapt to future conditions, from an organisational, operational, and product perspective, in order to maximise its social, economic and gender impact.