# THE SMALL ENTERPRISE FOUNDATION

(An association incorporated under Section 21 of the Companies Act)
(Registration number 1991/034850/08)
MANAGEMENT REVIEW

30 JUNE 2001

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

| Indicator | 30 June 2001 | 30 June 2000 |
|---|---|---|
| Number of loans outstanding | 12 247 | 11 214 |
| % Women clients | 98% | 97% |
| Value of loans outstanding (principal) | R7.38 million[1] | R8.71 million |
| Current average loan size disbursed | R1 149 | R1 275 |
| | | |
| Number of loans disbursed since inception | 72 188 | 52 845 |
| Amount disbursed since inception | R70.2 million | R50.0 million |
| | | |
| Bad debt rate | 2.66 % | 0.04 % |
| Portfolio at risk > 30 days | 1.49 % | 0.43 % |
| Re-scheduled loans (due to illness) | R86 198 | R58 945 |
| Death write-offs | R41 846 | R40 177 |
| | | |
| Total Savings as held by clients | R2.24 million | R2.24 million |
| | | |
| Total staff | 94 | 98 |
| Total operations staff | 79 | 86 |
| Head office, development & training staff | 15 | 12 |
| Clients per loan officer | 231 | 184 |
| | | |
| Operational self sufficiency[2] | 68 % | 64 % |
| Financial self sufficiency[3] | 65 % | 65 % |

[1] At the close of the financial year the Rand/US$ exchange rate stood at R8.03 = US$1.00

[2] Operational self sufficiency = Loan interest income / (total operating costs + loan loss provision)

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

**Introduction**

The Small Enterprise Foundation is a growing development organization

**Values**

We believe in:

Respect for all

Having positive impact on the lives of our stakeholders

Striving for operational efficiency and self-sufficiency

**Mission**

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 realize their potential

**Vision**

A world free of poverty

## Background

As the above statements indicate the aim of SEF (The Small Enterprise Foundation) is tc strive for the elimination of poverty by working with the very poor in a sustainable manner. The principle methodology used is group-based microcredit, modelled very much after the approach of the Grameen Bank. In group-based lending personal guarantees amongst a small, five person, group replaces the conventional lending requirement for collateral.

Loans are for enterprise only, with a series of checks being in place to ensure that loans are not diverted for other purposes. Since inception SEF has disbursed 72,000 loans to the value of R70 million (US$8,7 million). SEF currently serves 12,247 poor clients.

While SEF may not collect savings it facilitates regular savings through the existing Post Office network. Total client savings as held in group accounts at the Post Office amounts to R2,2 million (US$278,000).

Within SEF there are two programmes. The original one, MCP, the Micro-credit Programme, serves existing micro-enterprises and currently has 8,575 active clients. The second programme, which was started in 1996, is TCP, the Tšhomisano Credit Programme[4], which focuses exclusively on those households with an income approximately equivalent to that of the poorest 30% in the province in which SEF works.[5] TCP uses a targeting methodology, Participatory Wealth Ranking, to identify the poorest households and has developed a range of strategies to ensure positive impact when working with the poorest. At year-end TCP had 3,672 active clients.

SEF has been particularly dedicated to not only building an efficient microfinance programme but it has very specifically focussed on the very difficult task of identifying the very poor and ensuring that it has positive impact with this target group. The organisation's poverty targeting approach is regarded as a pioneer effort in the microcredit field. The organisation is frequently consulted on this work and has been asked to train others in this approach on various occasions, including at the regional Microcredit Summit Campaign conferences in Zimbabwe, India and Mexico.

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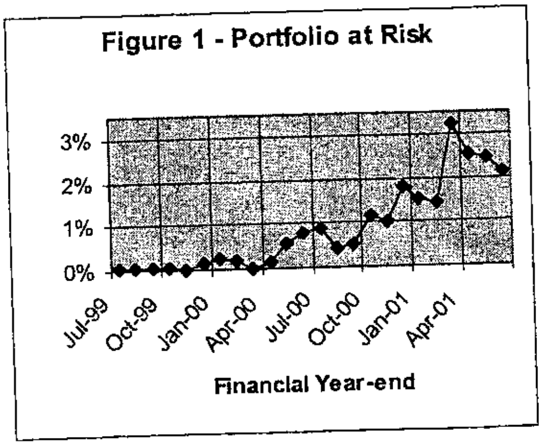
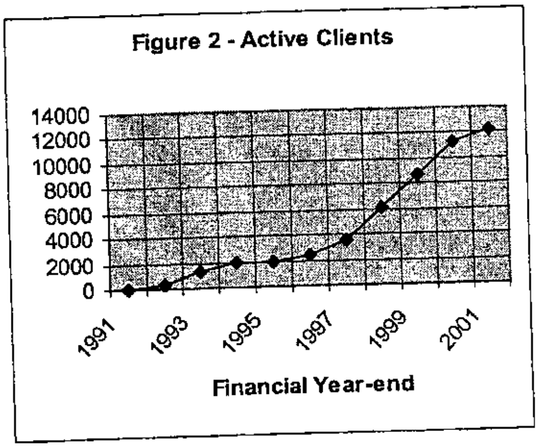
[4] Tšhomisano is the Northern Sotho word meaning "Working together".

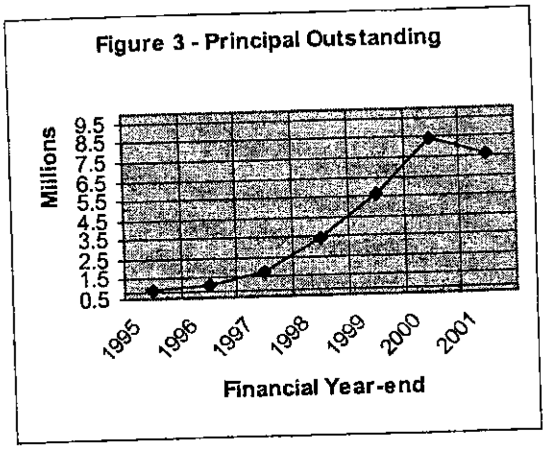
[5] The "household subsistence" level is used as the poverty line. Currently this stands at R920 (US$115) per family of five per month. 40% of households in the Northern Province live below half this line.

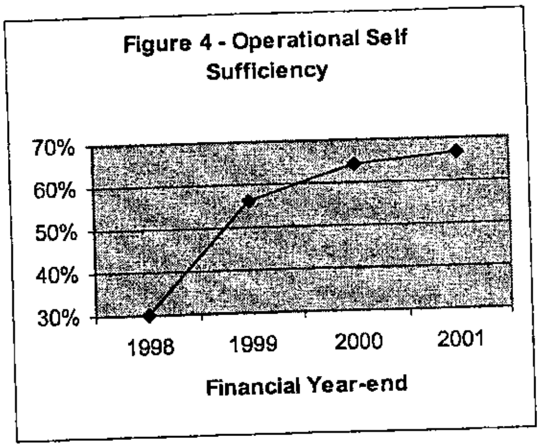
## A Challenging Year

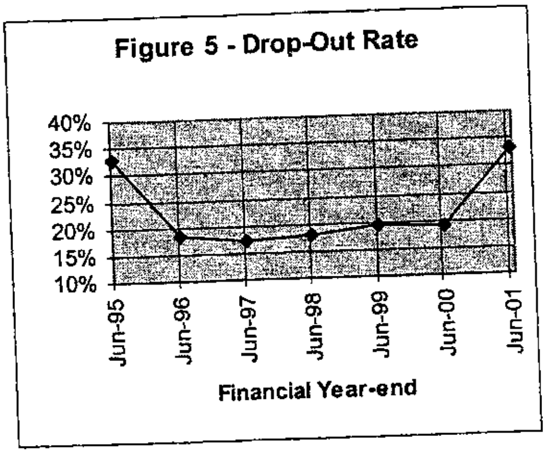
The past financial year has probably been the most challenging that SEF has experienced in its ten year history. The following graphs illustrate this:



## A Challenging Year (continued)

From the above it can be seen that:

- whereas the organisation had virtually no arrears – in fact cumulative write-off from inception in 1992 to June 2000 amounted to only R4 162 – the percentage of the portfolio with arrears in excess of 30 days increased from 0.43% in June 2000 to a high of 3.2% in March 2001;
- whereas the number of active clients had been growing steadily at a rate of between 30% and 70% per annum since the 1997 financial year, the number of active clients only increased by 9% over the past 12 months, considerably below a budgeted growth of 28%;
- whereas the past four financial years saw the principal outstanding growing by a minimum of 48% per year the past year saw this factor falling by 11% versus a targeted increase of 31%;
- whereas operational self-sufficiency improved to 68% for the year this was only a marginal improvement of 4% over the June 2000 figure of 64%, the organisation had budgeted to attain 75% self-sufficiency by June 2001;
- the drop-out rate, defined as the percentage of clients who complete their loans and do not return for a further loan, has deteriorated significantly from reasonably stable levels below 20% to the current 33%.

More than anything else the causes of the above setbacks can be traced back to the organisation's push for growth and self-sufficiency. The pursuance of these goals revealed weaknesses in supervision. A number of corrective measures have been put in place. These include:

### 1. Corrective measure with regard to poor performance

In the past the organisation had not acted with sufficient purpose where staff performed poorly. This year, after a suitable warning period, where stress was put on all staff having to perform well and achieve their targets, firm corrective measures were taken against staff members, including managers, where necessary. During the financial year 15 staff were either dismissed for poor performance or resigned pending disciplinary action for poor performance.

As regrettable as it has been to have had to take this action it has also clearly been vital for SEF to ensure that it is an efficient organisation that is able to attain its goals. This firm action has now ushered in a new culture of performance and accountability within the organisation.

### 2. Restructuring of Zones and Branches

In the MCP zone we were experimenting with branches with a staffing of eight Field Workers, a Branch Manager and a Senior Field Worker, who was to act as an assistant to the Branch Manager.

## A Challenging Year (continued)

### 2. Restructuring of Zones and Branches (continued)

During the year it became clear that this structure was not working, essentially as Branch Managers were not able to effectively utilise their Senior Field Workers and so their span of control became too great. The result was to move to branches of six Field Workers and a Branch Manager. The position of Senior Field Worker was done away with.

Both zones, MCP and TCP, consisted of five branches managed by a Zonal Manager. It became clear that these zones were geographically too large for one manager to control. Hence it was decided to reduce the standard zone size to three branches.

These changes were implemented in May and June 2001. The two zones were divided into three zones of three branches and one zone with just one branch. Where branches had more than six Field Workers or included a Senior Field Worker these staff were redeployed to fill vacancies in other branches.

We are confident that that this move to smaller more focussed units will see considerable improvement in management control and support for BMs and Field Workers.

### 3. Implementation of a more comprehensive Performance Management System

While SEF has for years been managed through measuring performance against budgets the implementation of this new Performance Management System brings together existing performance components in a more comprehensive way. An important feature is a focus on detailed performance contracts and formal reviews against contract on a monthly basis. The systems also bring together performance standards in a far more thorough manner than was previously the case.

### 4. An overhaul of the field staff Incentive Scheme

In January 1999 the existing incentive scheme in MCP was changed to one which rewarded field staff in line with their number of groups in arrears and in proportion to the principal outstanding of the loan book which they managed. This was motivated by a need to increase income, in pursuit of sustainability, and was meant to encourage staff to look to increasing their portfolios by providing their strongest clients with larger loans. The intention was to provide larger loans to the top-end clients i.e. those who were more than capable of handling more money, and who were in fact constantly demanding access to larger loans. The result, however, was that a significant percentage of field staff, not all, pushed loan sizes with <u>all</u> of their clients.

## A Challenging Year (continued)

### 4. An overhaul of the field staff Incentive Scheme (continued)

Naturally this was disastrous with many clients taking more than they could handle and soon finding it difficult to keep up their loan repayments. This had a serious knock-on effect as field staff insisted that groups make up the payments for fellow members who were struggling to pay their full instalments. In time this led to many clients preferring to leave the program than face the risk of again having to pay for someone else. This negative effect, members leaving as they had to pay for defaulters accounts for the increase in drop-out rate and is still impacting negatively on the programme.

The contribution of the incentive scheme in "encouraging" poor loan decisions was recognised and so this system has been thoroughly redesigned. A new system, based on the number of groups in arrears and the number of active groups, was introduced with effect from 1 July 2001.

### 5. Significant changes to the loan size policy

Internal studies clearly identified imprudent loan decisions, driven by the need to grow loan sizes for the attainment of sustainability, as a major cause for underperformance. To tighten up on this new loan policies were introduced which link increases in loan size to the growth of clients' businesses. This will lead to slower growth in loan sizes but is designed to assist both staff and clients to make sound loan decisions.

A policy like this also has another positive side effect as it encourages and rewards clients for growing their businesses, for keeping profits in the business.

### 6. Revision of SEF's Mission Statement

In the previous financial year the decision was taken to merge SEF's two methodologies i.e. the poverty focus of TCP and the general microcredit focus of MCP. In pursuance of this objective and in response to the many changes that the organisation was undergoing it was decided to rework the mission and vision statements. This was done through a series of participative workshops with all staff and SEF's directors. The statements at the beginning of this report are the result of this process.

### 7. Increase in Interest rate

The poor performance of the last year meant that SEF fell significantly behind its growth targets. On top of this the average loan sizes fell to a far lower level than had been anticipated. Subsequent to the end of the financial year a full analysis was done of expected financial performance over the coming years. This analysis demonstrated that SEF could not break even with its current interest rate.

## A Challenging Year (continued)

7. **Increase in Interest rate (continued)**

   Earlier in the year SEF's Development Department had conducted a loan product survey with clients. This study looked at what product attributes the clients identified as the most important and was used as a basis for improving the product design. A by-product of the study was an understanding of clients' perceptions of SEF's existing interest rate. Clients consistently did not raise the interest rate as an issue, thus indicating that it was not having a major impact on them.

   It should be noted that despite the above findings indicating clients' perceptions of the interest rate many members of SEF's senior management team and board of directors were most reluctant to increase the interest rate. A primary reason for this reluctance was the concern that we were pushing our inefficiencies on to our clients, the very poor.

   Faced with the analysis that showed that SEF could not break-even the board had no choice but to approve an increase in the rate. For example, whereas the rate for the most typical loan in TCP, a six month loan, was 20% on the initial loan amount this will be increased to 23%. These rate changes will only take effect later in the year.

   Financial analysis shows that on condition that the organisation is able to bring its drop-out rate down to acceptable levels of 18% to 20%, this higher interest rate will enable SEF to breakeven before December 2004.

## Environmental Factors

The previous paragraphs have outlined the steps taken to correct underperformance. At the same time it is recognised that there may be a number of external factors that have also contributed to increasing arrears and drop-outs. While we hesitate to attribute blame for disappointing performance to such factors and while we have not conducted sufficient research to know their significance, we have nevertheless noted the following:

- In recent years SEF has experienced an increase in competition, especially with the arrival of Provident Financial, a door-to-door micro-loan company. Provident has grown from zero to roughly 34,000 clients, all in the Northern Province, within the last three years.
- Increased competition for our clients themselves from two sources:
  - Formal retailers opening up operations in remote rural villages; and
  - Local commercial farmers not only selling directly to our clients, as they always have, but now also marketing their produce directly to the same rural communities.

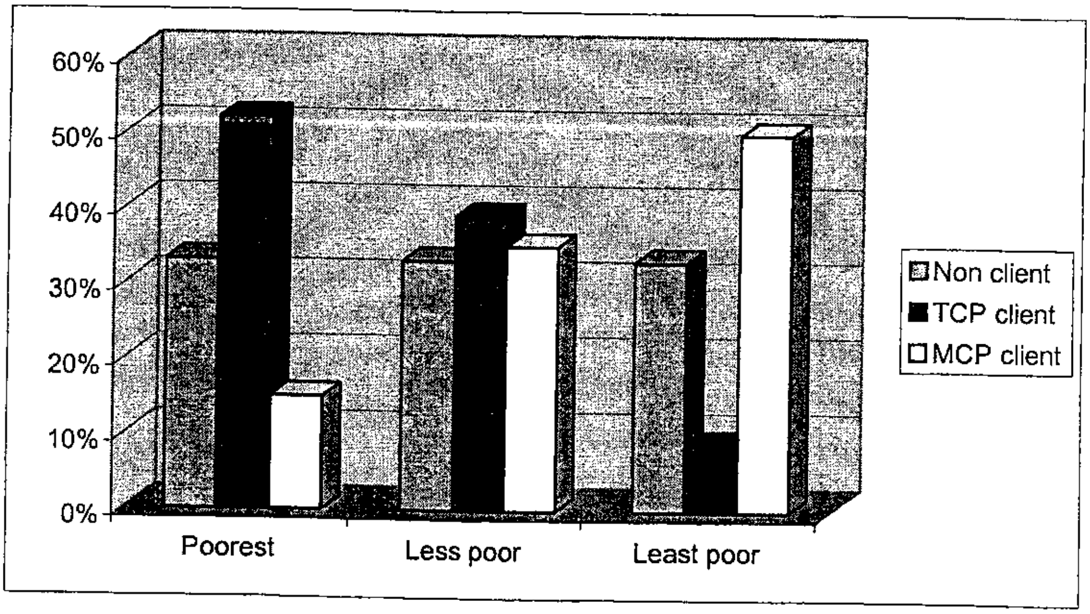
## CGAP Poverty Assessment

From its inception the mission of SEF has been to reach the poor and to provide them with resources to enable them to increase their income through self-employment and thereby move out of poverty. In the early years we did not understand well that South Africa's poor were not at all a homogeneous group in terms of their daily experience of poverty. (In hindsight, considering that 60% of the population of the region in which SEF works live below the poverty line, this seems to have been a ridiculous assumption.) By 1994 we began to realise that we were not reaching a sufficient number of the very poor in the villages in which we worked. This led to the launching of TCP that was entirely separate from MCP with different staff working in entirely different villages and with a very specific mission of targeting very poor households.

When we say that we were not reaching a sufficient number of very poor households in 1994 this was determined through on-the-ground observation. Our own observations were backed up by similar observations by an international evaluation team that worked with SEF in late 1994. Nevertheless neither ourselves nor the evaluation team had at its disposal a rigorous tool to determine the poverty profile of SEF's clients versus the general population.

In 1999-2000 CGAP[6] designed and tested a poverty assessment tool. This tool is meant for use by donors and governments where they wish to better understand the poverty outreach of a particular programme. It is an assessment tool not a targeting tool.

SEF was fortunate in being able to invite CGAP to do a further field test of the tool at SEF. The results of that study are illustrated in the following graph.




[6] The Consultative Group to Assist the Poorest, CGAP, is a joint multilateral and bilateral forum housed at the World Bank. It was created to bring coherence to the activities of international donors in microfinance and to serve as a centre of excellence for the growth of a viable microfinance industry, with a specific focus on reaching the very poor (defined as those living below half their national poverty line).

**CGAP Poverty Assessment (continued)**

Quoting from the assessment report:

> "There is a striking contrast between the poverty profiles of these two programmes. The clients in the poverty targeted programme [TCP] are overwhelmingly situated in the poorest category, while the majority of clients in the non-poverty targeted scheme [MCP] are found in the least poor category. The majority of TCP clients (52 %) are located in the poorest category, as opposed to 9% in the least poor category. The remaining 39% are in the less poor category. In comparison, 15% of MCP clients fell in the poorest category, and 35% are in the less poor group with 50% in the least poor group. The TCP poverty profiles indicate that SEF is reaching the poorest people and point to the success of the targeting mechanism (PWR) in encouraging poorer people to join the programme. MCP in contrast appears to be reaching people who are better off."

We are most grateful to CGAP, and in particular to Syed Hashemi, for carrying out this test at SEF. The results show through a rigorous, statistical methodology that SEF's decision to launch its poverty focussed programme was indeed very necessary given the organisation's mission.

**Imp-Act – Improving the Impact of Microfinance on Poverty**

The Ford Foundation together with three British universities, Sussex, Bath and Sheffield, have led the formation of an action research programme, Imp-Act, which has the primary objective of improving the quality of microfinance services and the impact of these on poverty. This is being done through strengthening the development of impact assessment systems. SEF is proud to have been selected as one of the organisations that will work with Imp-Act on this agenda. This participation will enable SEF to strengthen its impact monitoring systems that provide vital information that is needed for the organisation to constantly improve its methodologies and thereby achieve its mission.

**HIV/AIDS and Microfinance pilot project**

In recent years some evidence has emerged from countries with a high AIDS prevalence that households in poor communities which are engaged in micro-enterprise and which work with a microfinance programme, are better able to cope with the effects of AIDS. Furthermore it has been noted that such households also have a lower AIDS prevalence than others.

In attempting to explain the above it is seen that, amongst other things, AIDS puts great financial stress on poor households. This includes expenditure on medical services, burial expenses and the loss of income due to illness or death. Households with an enterprise and access to microcredit and microsavings services are better able to cope with these effects through access to savings and loans to meet sudden cash demands as well as a reliance on continued income from an enterprise – family members are frequently able to continue running an enterprise even if the main entrepreneur is ill.

## HIV/AIDS and Microfinance pilot project (continued)

The reason for such households having a lower AIDS prevalence is due to a common practice of poor women being involved in several relationships over a number of years as they look for partners who can provide financial support. For others sex is often exchanged for favours such as paying for clothing for children or children's school fees and so on. Women involved in micro-enterprise are often financially independent and thus able to avoid the financial pressures to engage in what has become very risky behaviour.

During the financial year SEF was approached by the Health Systems Development Unit (HSDU) of the University of the Witwatersrand to work with them on a pilot to test the impact of an intervention that specifically combines HIV/AIDS education and health support with microfinance for enterprise. The pilot, which will run for three years, aims to understand more clearly the observations noted above.

## AIDS work with SEF Staff and Clients

It was felt that SEF should take active steps in response to the AIDS pandemic. After-all SEF's mission of poverty alleviation is essentially fuelled by a wish to reduce human suffering. Thus our mission would be seriously undermined if we continued to support households to earn sufficient income to move out of poverty but have those same households struck down by AIDS. We, however, also recognise that we must remain focussed on "our core business".

SEF raised funding from the Ford Foundation to conduct AIDS education and support work with our staff and clients. It is also hoped that if clients find the AIDS education very useful then they will ask for the same education to be brought to their children and possibly also to their wider communities.

Recognising that we would probably not be successful in developing a strong HIV/AIDS intervention as well as continuing to run our existing programmes well we have taken the approach of looking for partners to work with. These partners would be specialists in HIV/AIDS work and would be subcontracted to work with our target group. After a period of observing different potential partners at work we approached a Tzaneen based health NGO, ChoiCe, to do behavioural change work with our clients.

To date all of SEF's staff have been through AIDS awareness programs and some have also completed a three day behavioural change workshop. A few of these workshops have been run with clients but progress is slow and it is clear that we will have to continue to adapt our approach in order to be successful in giving our clients and communities access to support in their fight against AIDS.

## Funding

In 1998 USAID awarded Calmeadow, a Canadian based technical assistance agency, an amount of US$1,258,000 to be used directly as operational grants to SEF. This amount was to cover operating losses as SEF expands over the period to October 2002. In addition USAID has granted Calmeadow further funding to provide technical assistance to SEF over this period.

**Funding (continued)**

In May 1999 the organisation entered into loan agreements with Khula Enterprise Ltd (R6,83 million) and the Hivos/Triodos Fund (R1 million). These loans are currently being utilised to fund SEF's loan book. In June 2000 the Hivos/Triodos Fund indicated that it was willing to increase its loan facilities to R3 million. The decline in SEF's loan book over the past year has meant that the organisation would not be able to utilise the additional R2 million in the short term. In consequence it was agreed with Triodos that the offer would be withdrawn and SEF's needs reconsidered in the second half of 2001.

SEF received an amount of $200,000 from the Ford Foundation to support action research aimed at demonstrating that a specifically poverty-focussed programme such as TCP can become fully self-sufficient. This amount will go towards covering TCP operating losses through to December 2001.

The Hivos Fonds has agreed to provide SEF with capacity building funding to: (a) upgrade the computer system at SEF's head office, (b) for governance training for SEF directors and (c) for communication and personal development training for all of SEF's staff. This last intervention is intended as a first step in raising the skills of all staff to better carry out their present responsibilities and to prepare them for career advancement.

Ford Foundation also granted SEF an amount of $31,500 for the HIV/AIDS education and support programme mentioned above.

On behalf of the Board of Directors, all of us at SEF and all of those with whom we work, I would like to most sincerely thank the above organisations for their support. This has meant that SEF can continue in its efforts to have significant positive impact on the lives of very poor households in rural South Africa and can continue to contribute towards demonstrating to the national and international community that micro-savings and microcredit for enterprise can be used very effectively by the very poor in their struggles against poverty.

I also wish to thank Calmeadow for their ongoing technical assistance, their moral support and continuous encouragement. In particular they have assisted SEF with financial projection modelling and thinking through strategic issues such as SEF's organisational structure and the merging of MCP and TCP.

**Directors**

Mr Nathaniel Ramalepe who was one of SEF's founding directors and who has been on the board since 1991 resigned from the board to more fully enjoy his recent retirement. I wish to thank Mr Ramalepe most sincerely for doing so much to help us launch SEF in the days when the programme was nothing more than a dream. We wish him all the best in his retirement.

I am also pleased to report that SEF's board has been strengthened by the addition of Mr Sanjay Doshi, an industrialist with a passion for SEF's poverty focussed work. Mr Doshi is a member of the Doshi family business that has interests in Kenya, Uganda, Tanzania, the United Kingdom and South Africa.

After a very successful term of two years as SEF's Board Chairperson Mr Matome Malatji stood down as chair. Mr Mutle Mogase was then unanimously elected to this position.

## Directors (continued)

I would like to thank all of these board members as well as Marie Kirsten and Daphne Motsepe for their continued support and guidance during the past year. The board has not only performed the necessary supervisory role but have continued to ensure that SEF remains true to its mission. SEF's directors work on an entirely voluntary basis and I certainly appreciate the time that they take from their own lives and from their families to assist us in our struggle to end poverty.

## The Contribution of SEF's Staff

The SEF Cup is awarded annually to "The Employee of the Year", that is the person who most embodies the spirit of SEF and who displayed through her/his actions commitment to SEF's mission and vision. This year the award went to Ernest Nkhwashu.

This year the awards for the best branches went to Khomanani Branch headed by Agnes Rapau, and Giyani Branch, headed by Ernest Nkwashu.

In addition each December the organisation recognises the outstanding performances of staff in the operations and support functions. This year the awards for the award for best performance in operations in MCP went to Tryphinah Mabuza with the most promising upcoming performer award being split between Stanley Mabuza and Bridget Mandlazi. In TCP the best operations performance award went to Rachel Sekgoka and the second place award went to Veronica Marobela.

The best support staff performer for 2000 was Mary Zanetic and the most promising upcoming performer was Phillipine Letsoalo. The following trainees were also recognised for consistently high performance during training: Phillip Makgoba and Kenneth Ntsieni. On behalf of the Board of Directors and the organisation as a whole I would like to congratulate all of these staff members for their excellent achievements and contributions to our work.

Over the years we have been most fortunate to have many interns work with SEF. These individuals pay for their own costs to travel to South Africa and cover the majority of their expenses while working with the organisation. We have benefited considerably from their skills and enthusiasm and I would like to thank them for their contribution to our efforts. During this year we were fortunate to benefit from the work of Caroline Falaiye, Katja Limmartz, Paul Makwala, Simon Mathye, Althea Rivas, Brooke Stearns and Frank Stelljes.

As has been mentioned this financial year was a particularly tough year for the organisation. In light of this I wish to underline my gratitude to all of SEF's staff for their hard work, their determination to see the organisation succeed and their continued efforts to ensure that the organisation achieves its mission.

I am fully confident that SEF will overcome the challenges outlined in this report and will move on to assist many thousands of very poor households to overcome poverty.

John de Wit

Managing Director

27 September 2001

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ANNUAL FINANCIAL STATEMENTS
30 JUNE 2001

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## DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for ensuring that the annual financial statements fairly present the financial position and operating results of the company. The annual financial statements have been compiled by management in terms of South African Statements of Generally Accepted Accounting Practice and are supported, where appropriate, by reasonable and prudent judgements and estimates.

The annual financial statements, set out on pages 3 to 18, were approved by the board of directors on 27 September 2001 and are signed on its behalf by:

Director

Director

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Deloitte & Touche

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION

## Introduction

We have audited the annual financial statements of The Small Enterprise Foundation set out on pages 3 to 18 for the year ended 30 June 2001. These annual financial statements are the responsibility of the company's directors. Our responsibility to report on these annual financial statements based on our audit.

## Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

## Qualification

In common with similar organisations, it is not feasible for the company to institute accounting controls over cash collections from grants received prior to the initial entry of the receipts in the accounting records. Accordingly, it was impracticable for us to extend our examination beyond the receipts actually recorded.

## Audit opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2001, and the results of its operations and cash flow information for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants (S.A.)
Registered Accountants and Auditors
Johannesburg
27 September 2001

Deloitte
Touche
Tohmatsu

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 JUNE 2001

The directors have pleasure in presenting their report on the company for the year ended 30 June 2001.

## BUSINESS REVIEW

The principal business of the organisation is to motivate the poor to take up income generating activities and to extend credit to micro-entrepreneurs to enable them to realise their potential and thereby generate income and employment.

The Small Enterprise Foundation ("SEF"), has since inception, granted 72 188 (2000: 52 845) loans to the value of R70, 2 million (2000: R50,0 million).

## OPERATING RESULTS

Results for the year ended 30 June 2001 are set out on page 6 of the financial statements and require no further comment.

## LOAN LOSS RESERVES

In cases where borrowers experience death amongst their members, the company will decrease the group's repayment and write-off the amount owed by the member. Such write-offs are classified as death write-offs and are included under operating expenses. During the year under review an amount of R41 846 (2000: R40 177) was written off.

A debt is declared bad once it is 84 days in arrears. An amount of R214 120 was written off during the year under review (2000: R2 894). It was therefore decided to increase the bad debts provision from 1% to 2%. Accordingly the provision for the year under review was increased by R65 667 (2000: R28 428).

We believe that the nature of the lending procedures, the diligence of the field staff, and the commitment of clients, give reason for believing that this excellent performance will be maintained.

The only instance where the organisation allows the renegotiation of delinquent loans is where clients are able to provide medical evidence of long-term illness. Such amounts are not written off, and the respective clients are urged to continue with loan repayments when their condition improves. The accumulative amount renegotiated in this way since inception and still outstanding at year end was R86 198 (2000: R58 945).

## DIRECTORS AND SECRETARY

The directors of the company for the year under review, and at the date of this report were as follows:

Mr Mutle Constantine Mogase (Chairperson)
Mr John Robert de Wit (Managing Director)
Ms Marie Albertina Kirsten
Ms Daphne Ramaisela Motsepe
Mr Matome Patrick Malatji
Mr Sanjay Doshi
Mr Matome Nathaniel Ramalepe (Resigned 17/11/2000)

Secretary - J R de Wit

**Business Address**
42 Boundary Street
Tzaneen
0850

**Postal Address**
P O Box 212
Tzaneen
0850

## POST BALANCE SHEET EVENTS

No events have occurred between the financial year end and the date of this report that would have a material adverse effect on either the operations of the company or its financial position.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
at 30 JUNE 2001

| | Notes | 2001 R | 2000 R |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Property and equipment | 1 | 673 812 | 683 891 |
| Investments | 2 | 577 128 | 562 292 |
| Total non-current assets | | 1 250 940 | 1 246 183 |
| **Current assets** | | | |
| Advances (principal outstanding) | 3 | 7 375 314 | 8 711 075 |
| Accounts receivable | 4 | 99 646 | 96 006 |
| Cash and short-term funds | | 4 736 317 | 2 080 041 |
| Total current assets | | 12 211 277 | 10 887 122 |
| TOTAL ASSETS | | 13 462 217 | 12 133 305 |
| FUNDS AND LIABILITIES | | | |
| **Funds** | | | |
| Non-distributable reserve | 5 | - | 366 786 |
| General capital reserve | 6 | 587 953 | 587 953 |
| Development reserve | 7 | 6 654 460 | 6 654 460 |
| Educational reserve | 8 | 5 300 | 5 300 |
| Operational grant reserve | 9 | 1 287 027 | - |
| Accumulated income | | 2 091 629 | 1 270 762 |
| Total funds | | 10 626 369 | 8 885 261 |
| **Non-current liabilities** | | | |
| Long term loan | 10 | 1 000 000 | 1 000 000 |
| **Current liabilities** | | | |
| Short term loan | 11 | 1 252 468 | 1 592 145 |
| Accounts payable | | 583 380 | 541 055 |
| Bank overdraft | 12 | - | 114 844 |
| Total current liabilities | | 1 835 848 | 2 248 044 |
| TOTAL FUNDS AND LIABILITIES | | 13 462 217 | 12 133 305 |

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 JUNE 2001

| | Notes | 2001 R | 2000 R |
|---|---|---|---|
| OPERATING INCOME | | | |
| Interest earned on advances | | 5 105 953 | 4 164 736 |
| Investment income | | 166 526 | 161 807 |
| Finance costs | | (403 972) | (209 468) |
| Bad debts | | (214 120) | (2 894) |
| MARGIN ON LENDING ACTIVITIES | | 4 654 387 | 4 114 181 |
| Operating expenses | | (4 569 781) | (4 142 279) |
| OPERATING INCOME/ (LOSS) | | 84 606 | (28 098) |
| Sundry income | | 5 610 | 1 352 |
| Income/ (loss) on disposal of property and equipment | | 5 700 | (1 963) |
| **INCOME/ (LOSS) before head office expenses** | | 95 916 | (28 709) |
| Head office expenses | | (2 949 156) | (2 329 016) |
| **LOSS before grants** | 13 | (2 853 240) | (2 357 725) |
| Operational grants received | 14 | 3 307 321 | 2 540 120 |
| NET INCOME FOR THE YEAR | | 454 081 | 182 395 |

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 JUNE 2001

| | Non-distributable reserve | General capital reserve | Development reserve | Educational reserve | Operational grant reserve | Accumulated income | Total |
|---|---|---|---|---|---|---|---|
| | R | R | R | R | R | R | R |
| **Balance as at 1 July 1999** | 461 332 | 587 953 | 6 654 460 | 5 300 | 99 931 | 993 821 | 8 802 797 |
| Revaluation of investment | (94 546) | - | - | - | - | - | (94 546) |
| Operational grant reserve – utilised to cover costs | - | - | - | - | (99 931) | - | (99 931) |
| Net income for the year | - | - | - | - | - | 182 395 | 182 395 |
| Transfer from non-distributable reserve | - | - | - | - | - | 94 546 | 94 546 |
| **Balance as at 30 June 2000** | 366 786 | 587 953 | 6 654 460 | 5 300 | - | 1 270 762 | 8 885 261 |
| Operational grant reserve – utilised to cover costs | - | - | - | - | (3 307 321) | - | (3 307 321) |
| Net income for the year | - | - | - | - | - | 454 081 | 454 081 |
| Operational grants received | - | - | - | - | 4 594 348 | - | 4 594 348 |
| Transfer from non-distributable reserve | (366 786) | - | - | - | - | 366 786 | - |
| **Balance as at 30 June 2001** | - | 587 953 | 6 654 460 | 5 300 | 1 287 027 | 2 091 629 | 10 626 369 |

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 JUNE 2001

| | Notes | 2001<br>R | 2000<br>R |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash utilised by operations | A | (1 147 074) | (5 190 587) |
| Investment income | | 166 526 | 161 807 |
| Finance costs | | (403 972) | (209 468) |
| Net cash outflow from operating activities | | (1 384 520) | (5 238 248) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property and equipment | | (89 895) | (77 031) |
| Proceeds on disposal of property and equipment | | 5 700 | 3 500 |
| (Increase)/ decrease in investments | | (14 836) | 967 387 |
| Net cash (outflow)/ inflow from investing activities | | (99 031) | 893 856 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Operational grants received | | 4 594 348 | 2 440 189 |
| Increase in long term loans | | - | 500 000 |
| (Decrease)/ increase in short term loans | | (339 677) | 1 092 145 |
| Net cash inflow from financing activities | | 4 254 671 | 4 032 334 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 2 771 120 | (312 058) |
| Cash and cash equivalents at beginning of year | | 1 965 197 | 2 277 255 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | B | 4 736 317 | 1 965 197 |

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE CASH FLOW STATEMENT
for the year ended 30 JUNE 2001

| | 2001<br>R | 2000<br>R |
|---|---|---|
| **A. CASH UTILISED BY OPERATIONS** | | |
| Loss before grants | (2 853 240) | (2 357 725) |
| Adjusted for: | | |
| Investment income | (166 526) | (161 807) |
| Finance costs | 403 972 | 209 468 |
| Depreciation | 99 974 | 43 427 |
| (Profit)/ loss on disposal of property and equipment | (5 700) | 1 963 |
| Movement in provision for bad debts | 65 667 | 28 428 |
| Operating loss before working capital changes | (2 455 853) | (2 236 246) |
| Increase in accounts receivable | (3 640) | (34 839) |
| Increase in accounts payable | 42 325 | 234 236 |
| Decrease/ (increase) in operating assets – principal outstanding, before movement in provision for bad debts | 1 270 094 | (3 153 738) |
| Cash utilised by operations | (1 147 074) | (5 190 587) |

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts:

| | 2001<br>R | 2000<br>R |
|---|---|---|
| Cash and short-term funds | 4 736 317 | 2 080 041 |
| Bank overdraft | - | (114 844) |
| | 4 736 317 | 1 965 197 |

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
ACCOUNTING POLICIES
30 JUNE 2001

The annual financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which have been consistently applied with prior years in all material respects:

1. **Interest earned on advances**

Given the risk profile of the advances book, interest earned on loans is suspended until received.

2. **Other interest received**

Other interest received is accrued on a daily basis.

3. **Grants received**

**Operational grants received**

These are grants which are specifically designated as being for operational expenses, where the expenses to which they relate have actually been incurred and charged to income in the same period, and where all the contractual conditions for payment of the grant amount have been met. Where such grants have not been fully utilised during the relevant period, the balance remaining is transferred to reserves.

**Grants for loan capital**

Grants designated for loan capital are taken directly to General Capital Reserve.

4. **Investments**

Investments are stated at cost less amounts written off. Where, in the opinion of the directors, a permanent diminution in value has occurred, a provision is raised and charged to the income statement.

5. **Property and equipment**

Property and equipment are depreciated on historical cost using the straight line method over the estimated useful lives of the assets. As from 1 July 2001 a change in accounting estimate was made with regards to the useful life of fixed assets. The change in useful lives is documented below.

| | 2001 | 2000 |
|---|---|---|
| Furniture and fittings | 5 years | 10 years |
| Office equipment | 5 years | 7 years |
| Computer equipment | 3 years | 5 years |
| Motor vehicles | 4 years | 4 years |

Land and buildings are not depreciated.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 JUNE 2001

1. PROPERTY AND EQUIPMENT

| | Land & Buildings | Furniture & Fittings | Office Equipment | Computer Equipment | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| | R | R | R | R | R | R |
| **2001** | | | | | | |
| **Cost** | | | | | | |
| At beginning of year | 515 897 | 121 830 | 99 253 | 114 219 | 11 623 | 862 822 |
| Additions | 1 298 | 11 710 | 39 542 | 23 345 | 14 000 | 89 895 |
| Disposals | - | - | (9 695) | (2 550) | - | (12 245) |
| At end of year | 517 195 | 133 540 | 129 100 | 135 014 | 25 623 | 940 472 |
| **Accumulated depreciation** | | | | | | |
| At beginning of year | - | 35 086 | 58 306 | 75 126 | 10 413 | 178 931 |
| Depreciation | - | 40 657 | 27 640 | 30 174 | 1 503 | 99 974 |
| Disposals | - | - | (9 695) | (2 550) | - | (12 245) |
| At end of year | - | 75 743 | 76 251 | 102 750 | 11 916 | 266 660 |
| **Net book value** | 517 195 | 57 797 | 52 849 | 32 264 | 13 707 | 673 812 |
| **2000** | | | | | | |
| **Cost** | | | | | | |
| At beginning of year | 494 037 | 96 216 | 100 271 | 110 407 | 11 623 | 812 554 |
| Additions | 21 860 | 25 614 | 17 119 | 12 438 | - | 77 031 |
| Disposals | - | - | (18 137) | (8 626) | - | (26 763) |
| At end of year | 515 897 | 121 830 | 99 253 | 114 219 | 11 623 | 862 822 |
| **Accumulated depreciation** | | | | | | |
| At beginning of year | - | 24 037 | 61 644 | 63 616 | 7 507 | 156 804 |
| Depreciation | - | 11 049 | 14 799 | 14 673 | 2 906 | 43 427 |
| Disposals | - | - | (18 137) | (3 163) | - | (21 300) |
| At end of year | - | 35 086 | 58 306 | 75 126 | 10 413 | 178 931 |
| **Net book value** | 515 897 | 86 744 | 40 947 | 39 093 | 1 210 | 683 891 |

1. PROPERTY AND EQUIPMENT (continued)

The land and building is situated on Erf 199 in the township of Tzaneen Extension 4, Registration Division LT, Northern Transvaal. The directors value the above property on an open market basis at R517 195 (2000: R515 897).

2. INVESTMENTS

| | | 2001 R | 2000 R |
|---|---|---|---|
| Listed | | | |
| Investec Bank Limited | - Investec Equity Fund | 289 947 | 278 526 |
| | - Fedsure General Equity Fund | 287 181 | 283 766 |
| | | 577 128 | 562 292 |

The market value of the investments on 30 June 2001 amounted to R829 054 (2000: R821 974).

3. ADVANCES (PRINCIPAL OUTSTANDING)

| | 2001 R | 2000 R |
|---|---|---|
| Loans outstanding | 9 388 089 | 11 060 240 |
| Unearned interest | (1 862 258) | (2 264 315) |
| Provision for bad debts | (150 517) | (84 850) |
| | 7 375 314 | 8 711 075 |
| Movement in the provision for doubtful debts | | |
| Balance at beginning of year | 84 850 | 56 422 |
| Current year movement in provision for bad debts | 65 667 | 28 428 |
| Balance at end of year | 150 517 | 84 850 |

The entity is operational in Tzaneen and the surrounding area in the Northern Province, South Africa. Individual loans do not exceed R10 000.

Effective interest rates, based on a declining balance, range from 46% to 66%.

## 3. ADVANCES (PRINCIPAL OUTSTANDING) (continued)

Amounts written off during the year were expensed directly to the income statement.

A total amount of R203 979 (2000: R84 215) was in arrears at the financial year end. An analysis of the arrears for the current year is presented below. The ratios presented are based on the arrears balance, divided by the gross advances amount as at year end.

| | R | % |
|---|---|---|
| 30 days | 94 420 | 1.00 |
| 60 days | 63 830 | 0.68 |
| 90 days | 45 729 | 0.49 |
| Over 90 days | - | 0.00 |
| Total | 203 979 | 2.17 |

| | 2001 R | 2000 R |
|---|---|---|
| **4. ACCOUNTS RECEIVABLE** | | |

Included in accounts receivable is an amount for staff debtors. These constitute small loans available generally to managers. These loans are interest free. There were no arrears in respect of staff loans (2000: R Nil) at the financial year end. Loans are normally repaid over a period of two years.

| | 2001 R | 2000 R |
|---|---|---|
| Staff debtors and other accounts receivable | 76 369 | 54 938 |

## 5. NON-DISTRIBUTABLE RESERVE

| | 2001 R | 2000 R |
|---|---|---|
| Balance at the beginning of year | 366 786 | 461 332 |
| Revaluation of investment | - | (94 546) |
| Transfer to accumulated profit | (366 786) | - |
| Balance at the end of year | - | 366 786 |

The guaranteed capital investment related to a guilt held, which realised during the prior financial year.

| | 2001 | 2000 |
|---|---|---|
| | R | R |

6. GENERAL CAPITAL RESERVE

The General Capital Reserve comprises grants received from donors other than USAID (see Development Reserve, note 7). Such grants are, for the most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by The Small Enterprise Foundation. All grants have been designated by the donors concerned as Loan Capital to be utilised for future disbursements of loans to members. No new grants were received during the year under review.

| | 2001 R | 2000 R |
|---|---|---|
| Balance at the end of year | 587 953 | 587 953 |

7. DEVELOPMENT RESERVE

The Development Reserve comprises solely grants received from USAID in terms of a five year agreement that expired in September 1995. Such funds were designated by USAID as Financial Structure support. As with General Capital reserve, all such grants are designated as Loan Capital to be used for future disbursements of loans to members.

| | 2001 R | 2000 R |
|---|---|---|
| Balance at the end of year | 6 654 460 | 6 654 460 |

8. EDUCATIONAL RESERVE

The Educational Reserve comprises a grant from a group of workers at LAPA, Toronto, Canada. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998. There was no movement in this reserve for the year under review.

| | 2001 R | 2000 R |
|---|---|---|
| Balance at the end of year | 5 300 | 5 300 |

| | 2001 R | 2000 R |
|---|---|---|

## 9. OPERATIONAL GRANT RESERVE

A grant of US$100 000 was approved by Ford Foundation to cover operational costs relating to action research aimed at improving the impact and sustainability of TCP. This research will take place through to December 2001.

| | 2001 R | 2000 R |
|---|---|---|
| Grant at the beginning of year | - | 99 931 |
| Utilised to cover costs | (3 307 321) | (2 540 120) |
| Grants received during the year: | 4 594 348 | 2 440 189 |
| - Hivos Triodos | 307 114 | - |
| - Ford | 1 733 874 | - |
| - Institute development studies | 77 454 | - |
| - USAID | 2 447 885 | 2 440 189 |
| - Khula | 28 021 | - |
| Balance at the end of year | 1 287 027 | - |

## 10. LONG TERM LOAN

Triodos Bank of the Netherlands has approved a total loan facility for R1 million. The loan is redeemable in South African Rand, in two instalments of R500 000 each, on 1 July 2004 and 1 July 2005 respectively. No specific grace period is specified in the contract.

Interest is paid at a rate of 4% below prime, with a minimum of 14% and a maximum of 18% per annum, and is payable six monthly in arrears.

The purpose of the loan is to increase the working capital for onlending to micro entrepreneurs. The loan is secured by a first session of the advances to micro entrepreneurs financed by this loan facility.

| | 2001 R | 2000 R |
|---|---|---|
| Balance at the beginning of year | 1 000 000 | 500 000 |
| Amounts received during the year | - | 500 000 |
| Balance at the end of year | 1 000 000 | 1 000 000 |