THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 2002

"My family was very poor before I became a Small Enterprise Foundation member and started my spaza (shop). We didn't make decisions; we didn't have options. Now I can pay school fees, so my children go to school and we eat meat with our meals."
Mamayila Baloyi (SEF Member)

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	Sept 2002[1]	June 2002	June 2001
Number of loans outstanding	14 371	13 387	12 247
% Women clients	98%	98%	98%
Value of loans outstanding	R 9.2 million	R 8.0 million[2]	R 7.4 million
Current average loan size disbursed	R 1 045	R 1 033	R 1 149
Number of loans disbursed since inception	101 681	94 603	72 188
Amount disbursed since inception	R 98.2 million	R 91.5 million	R 70.2 million
Bad Debt rate	0.6[3] %	2.3 %	2.5 %
Portfolio at risk > 30 days	0.2 %	0.5 %	2.1 %
Since inception Re-scheduled loans (due to illness)	R 125 731	R 121 875	R 86 198
Death Write-Offs	R 7 402	R 38 695	R 41,846
Total Savings as held by clients	R 2,3 million	R 2,2 million	R 2,2 million
Total staff	101	103	94
Total Operations staff	81	81	79
Development and Training Staff, Loans Administration, Head office	20	15	15
Clients per loan officer	236	209	231
Operational self sufficiency[4]	59 %	51 %	66 %
Financial self sufficiency[5]	59 %	51 %	65 %

[1] As improvements in performance have become more marked in the quarter following the end of the financial year data for this period are also presented here.
[2] At the close of the financial year the Rand/US$ exchange rate stood very close to R10 = US$1.00
[3] Annualised figure i.e. R 12 368 for the quarter multiplied by four
[4] Operational self sufficiency = Loan interest income / (total operating costs + loan loss provision)
[5] 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 to strive for the alleviation 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 94 603 loans to the value of R91.5 million (US$9,2 million). SEF currently serves 13 387 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$220,000).

Within SEF there are two programmes; the original one, MCP, the Micro-credit Programme, which serves existing micro-enterprises and currently has 8 163 active clients and TCP, the Tšhomisano Credit Programme[6], which was started in 1996. TCP focuses exclusively on those households with an income approximately equivalent to that of the poorest 30% in the province in which SEF works.[7] 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 5 224 active clients.

[6] Tšhomisano is the Northern Sotho word meaning "Working together".
[7] The "household subsistence" level is used as the poverty line. In 2001 this stood at R920 (US$92) per family of five per month. 40% of households in the Northern Province live below half this line.

OPERATIONAL PERFORMANCE REVIEW

In our last annual report we noted that:

- portfolio at risk over 30 days, which had been virtually nil since the inception of the organisation, had reached a high of 3.2% in March 2001;
- the rate of growth in the number of active clients for the year ended 30 June 2001 had been only 9% whereas since 1997 this rate had been between 30% and 70% per annum;
- principal outstanding had fallen by 11% whereas it had grown by a minimum of 48% per year for the previous four years;
- operational self-sufficiency had improved to 67% but that it had been budgeted to improve to 75%, and
- the drop-out rate, defined as the percentage of clients who complete their loans and do not return for a further loan, had deteriorated significantly from reasonably stable levels below 20% to 33%.

In hind-sight we are now convinced that these setbacks reflect two phenomenon:

- SEF's staff had grown to just over 100 – SEF had hit one of the classic "glass-ceilings" predicted by management theory. Essentially the organisation's systems, in our case primarily our system of management delegation, responsibility and authority, were not up to the changes that were required of management as the organisation grew to this size.
- In an outright drive to attain self-sufficiency quickly the organisation had introduced an incentive scheme in January 2000 which rewarded field staff on the basis of the size of their principal outstanding (as well as applying severe sanctions for arrears). This led to too many field staff "pushing" loan sizes, resulting in arrears, drop-outs and client dissatisfaction as they were forced to meet their guarantees of fellow group members. The increase in arrears and drop-outs led to significant management pressure on field staff and falling staff morale.

During the 2001 and 2002 financial years a number of corrective actions were taken to address these issues. These included:

- Total revision of the field staff incentive scheme.
- Revision of those loan policies that allowed the "pushing" of loan sizes.
- Implementation of a comprehensive performance management system.
- Stricter enforcement of performance management with associated corrective action.

OPERATIONAL PERFORMANCE REVIEW (Continued)

- Restructuring of Zones and Branches to ensure stronger management and to concentrate efforts to address poor performance.

- In addition, although shortcomings with its loan and savings products were not seen as significant causes of the deterioration of performance – after all these had worked very well for the previous eight to nine years, the organization carried out very thorough market research, using MicroSave market research tools, to review its loan and savings products. This led to the design of new loan products and to improvements to existing products.

- While the organization had always known that the skills of its Branch Managers had to be improved it was only during the second half of this financial year that it really recognised the critical importance of Branch Management.

- This has led to concentration on this level of management in SEF which has involved:

  - building awareness amongst these managers of how critical their performance is to the survival and growth of the organisation;

  - concentrated training, and

  - replacement of those who have not been able to respond, through performance, to these interventions.

FURTHER CORRECTIVE ACTION IN LATE 2002

During the last part of this financial year the organisation focussed its attention on prospects for self-sustainability. By this time average loan sizes had returned to levels that, while being a little conservative, are in all likelihood more realistic for the client market. When financial projections were done with the income that would be derived from these loans it was seen that as it was structured SEF could not become self-sufficient, even in the long term.

This led to a serious review of operational efficiency and of the organisation's cost structure. The results of this review were:

- A recognition that the organisational structure that had been put in place in June 2001, where branches consisted of just six Field Workers[8] with three branches to a Zone, had essentially done its job of turning performance around but was now inefficient and costly. It was noted that many microfinance organisations, and for that matter many companies in other industries, are structured with a ratio of about ten branches reporting to a regional manager. Where the organisation strengthens its branch management capacity then there would be little reason for it to not have a similar ratio of branches to regional management. Subsequent to the end of the 2002 financial year

[8] The SEF term for an extension or loan officer

FURTHER CORRECTIVE ACTION IN LATE 2002 (Continued)

the organisation was restructured to an intermediate stage of two operations managers managing SEF's eleven branches. By January 2004 these eleven branches will all report to the General Manager-Operations.

- The organisation could not afford to have a separate research and development department. Ongoing research and development could be addressed by the Operations Managers with some external support. SEF's Head of Development has taken the role of one of the two Operations Managers, leaving one officer to focus on impact and research work. This position is funded by the Ford Foundation/IDS ImpAct project.

- The Loans Administration could attain greater efficiency by centralising from two offices to one office. This would enable a reduction from nine to seven staff.

- The incentive scheme is again being revised to give greater rewards to staff who attain more than the standard of 63 groups. Another feature of the current incentive scheme that has been perceived by some staff as being a disincentive to increase their portfolios is also being addressed.

- A market assessment was carried out to determine the market size required for a Field Worker to attain and maintain a full portfolio of 320 clients. This was done on the basis of determining the market size of field staff who had been successful in this regard. This resulted in an allocation of more areas to some Field Workers.

In the past SEF had hoped that, through its TCP program, it would be able to reach and work with 40% of the very poor[9] in each community in which it worked. While this may still be possible in some cases the standard has been revised to 20%. In some ways this can be read as SEF's *current* answer to the eternal question of **"Is micro-enterprise credit meant for all the poor?"** – at least 20% of the *very* poor can benefit from micro-enterprise credit but perhaps not many more than this, well at least not if a program is also to attain self-sufficiency.

It is firmly believed that the above actions will be sufficient to ensure that the organisation attains financial self-sufficiency by December 2004. Nevertheless a number of new initiatives are also being pursued to improve performance even further. I look forward to reporting on progress with these in the next annual report.

[9] SEF uses the CGAP and Microcredit Summit definition of the "very poor" as being those whose household income is below half of the national poverty line.

FURTHER CORRECTIVE ACTION IN LATE 2002 (Continued)

The following graphs illustrate how SEF has turned its performance around and broken through the "glass ceiling".

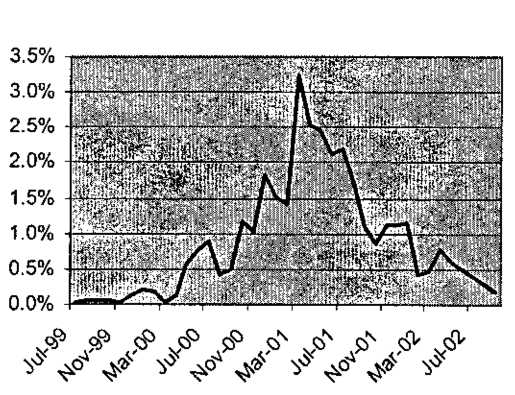


Figure 1 - Portfolio at Risk

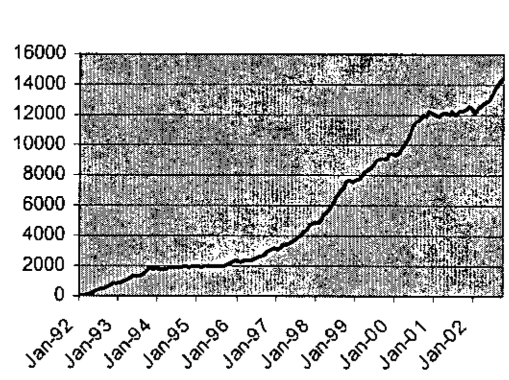


Figure 2 - Active Clients

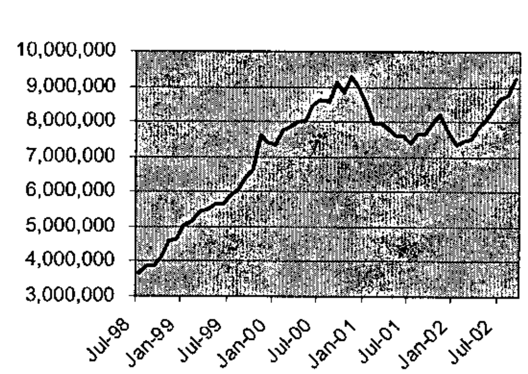


Figure 3 - Principal Outstanding

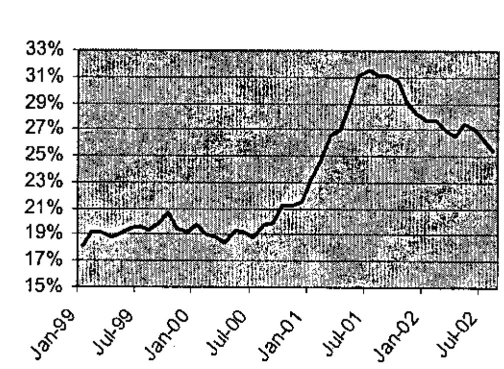


Figure 4 - Drop-Out Rate

Management is fully confident that now that the "glass ceiling" has been overcome the number of active clients will continue to increase steadily, the drop-out rate will continue to come down and principal outstanding will increase in line with organisational budgets.

SEF

SELF-SUFFICIENCY

Through to June 2001 the organisation had made good progress in moving towards self-sufficiency. The past financial year, however, saw operational self-sufficiency falling from 66% to 51%. While costs had continued to increase at the same rate as in previous years loan interest income declined by 9%. This is directly attributable to the fall in average loan size, a result of loan sizes returning to more sustainable levels.

As the organisation punched through the 12,500 active client level the principal outstanding increased by 7% for the six months to June 2002 (and a further 7% in the quarter following the end of the financial year). Management is fully confident that this trend will continue and principal outstanding will increase by 38% to R 11,2 million by June 2003.

The restructuring of the organisation, as described above, will allow the organisation to keep costs under control, with head office and operational costs expected to rise by no more than 7% for this financial year.

The result of increasing income and contained expenses will see operational sustainability improving from 51% to 65%.

Thereafter SEF's business plan sees the organisation's progress to self-sufficiency as follows:

Performance Factor	June 2002	June 2003	June 2004	June 2005
Active Clients	13 387	18 100	20 400	21 000
Principal Outstanding	R 8.0 million	R 11 million	R 14 million	R 16 million
Operational Self-Sufficiency	51%	65%	88%	110%
Financial Self-Sufficiency	51%	62%	83%	100%[10]

[10] The last month in which SEF will experience an operating loss, including financial expenses, will be December 2004.

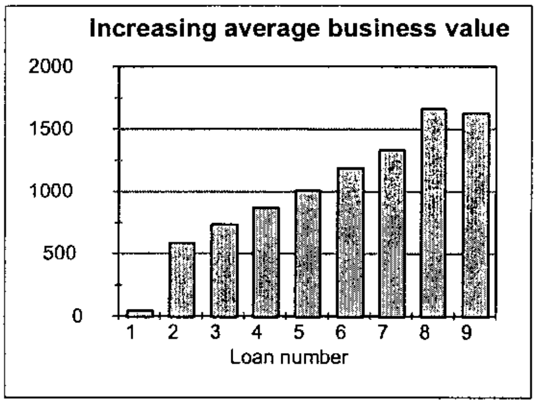
SEF

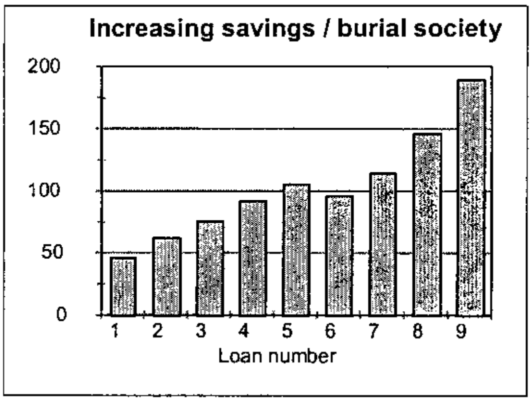
IMPACT

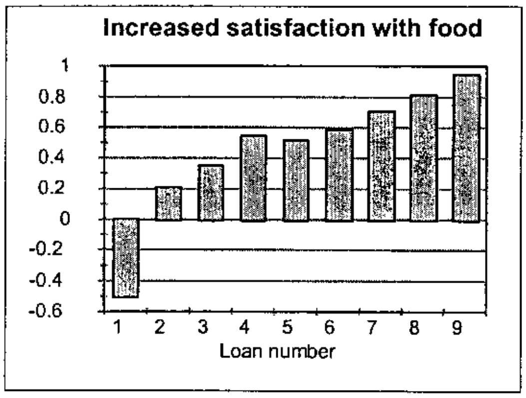
From 1998 to 2000 SEF conducted a professional, longitudinal, impact assessment on a group of clients over a period of two years. The results of this were compared against outputs from TCP's impact monitoring system. Analysis of this database demonstrated an overwhelming positive impact for TCP members with four impact indicators – quality and quantity of food consumed, quality of housing, contributions to ROSCAs and value of the clients business – all showing average increases over time.

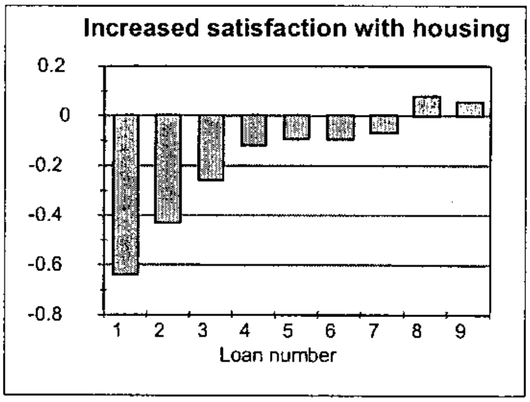
Contrary to the arguments of many academics (for example Hulme and Mosley) quantitative data suggested that TCP's poorest members performed at least as well as the average performance for the programme. This conclusion was also borne out by the qualitative analysis. What is also very clear from the impact assessment case-studies was the high value of small initial livelihood changes for the very poor. For example the securing of the business leads to 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 business income on later loan cycles also suggests that livelihood changes are greatest for the very poor.

For example, the graphs below give a good picture of the impact of the Tšhomisano Programme (TCP) on client's livelihoods:









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 2001 SEF began to work with the Health Systems Development Unit (HSDU) of the University of the Witwatersrand on a pilot to test the impact of an intervention which 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.

During the current financial year the following activities took place:

- A baseline survey of 1600 households was conducted to examine household composition and socio-economic status

- A baseline survey of over 3000 young adults was conducted to examine aspects of reproductive health and sexual decision making, in addition to an anonymous determination of HIV status using a saliva assay.

- 430 loan client households have been recruited by SEF during year one, all of whom will participate in the evaluation cohort.

- All 430 loan clients and 430 matched households from comparison villages have been surveyed to explore aspects of agency, well-being, household dynamics and gender inequalities, social networks and social capital.

- All young adults (14-35 years) living in the above households have been surveyed as per (2).

- 10 PLA (participatory learning and action) workshops on gender and HIV/AIDS issues have been conducted with 250 of these loan recipients and the series has begun with the remaining clients.

- A process of ongoing qualitative assessment has been established which includes community profiling, key events calendars, structured monitoring of loan centre meetings, focus group discussions with diverse loan groups, key informant household interviews and peer group monitoring among young people.

SEF

FUNDING

All of the work of the Small Enterprise Foundation has only been possible with the ongoing support of our funders. The organisation would like to record its most sincere thanks to the following and recognise their efforts to bring about the alleviation of poverty in rural South Africa, through the auspices of SEF:

- The United States Agency for International Development
- The Ford Foundation
- Hivos
- ImpAct – a Ford Foundation/Institute of Development Studies project

SEF also continues to fund its loan book through loan facilities with Khula Enterprise Finance Limited and Triodos Bank. The organisation wishes to thank these agencies for their ongoing excellent service.

Particular thanks are also due to Calmeadow, Vulindlela and Barbara Calvin, who worked with SEF on behalf of these organisations. Calmeadow received a technical assistance contract from USAID to support SEF over a period of four years and later passed this on to Vulindlela. We are grateful for the technical assistance provided. Over and above this, however, when they realised that they would not require the full amount allocated to them for the technical assistance work they motivated USAID to allocate an amount close to US$100,000 from their budget to SEF's operating budget. We greatly appreciate and admire this selfless deed.

DIRECTORS

This year SEF's board was strengthened by the addition Mr Ben Nkuna, SEF's General Manager-Operations. The appointment of another executive director was in part in response to the King Report recommendation of a balance between executive and non-executive directors.

I would like to thank all of SEF's directors and in particular our current chairperson, Mutle Mogase, for their ongoing support and guidance. SEF's directors work on an entirely voluntary basis, seldom even claiming travel expenses. I wish to recognise their contribution to SEF and their demonstration of their concern for poverty in our country.

SEF

THE CONTRIBUTION OF SEF's STAFF

On an annual basis we recognise the performance of SEF's top performers in various categories. This year's awards went to:

Best Branch Manager	Ernest Nkwashu
Best Field Workers	Kenneth Ntsieni, Jeaneth Shibambu
Best Field Worker – 1st runner up	Stanley Mabuza
Best Field Worker – 2nd runner up	Sydwell Tshimbani
Best branch in terms of sustainability	Tlatja Branch
Best Support Staff performer	Moses Ngamba
Best Support Staff performer– 1st runner up	Patience Moloko, Margreth Matidza

These individuals attained exceptional performance during the 2001 calendar year. 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.

This report reveals that this has been a year of great challenge and change at SEF. Change is always stressful. Beyond these challenges, however, the organisation has broken through the obstacles that were preventing it from growing beyond 12 500 clients. 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 of overcoming poverty.

John de Wit
Managing Director
16 October 2002

SEF

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21
of the Companies Act)
(Registration number: 1991/003485/08)

ANNUAL FINANCIAL STATEMENTS
30 JUNE 2002

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
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ANNUAL FINANCIAL STATEMENTS
30 JUNE 2002

CONTENTS PAGE

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 19 October 2002 and are signed on its behalf by:

Director

NKursten

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 2002. These annual financial statements are the responsibility of the company's directors. Our responsibility is 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 2002, 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
19 October 2002

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 JUNE 2002

The directors have pleasure in presenting their report on the company for the year ended 30 June 2002.

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 94 603 (2001: 72 188) loans to the value of R91,5 million (2001: R70.2 million).

OPERATING RESULTS

Results for the year ended 30 June 2002 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 R38 695 (2001: R41 846) was written off.

A debt is declared bad once it is 84 days in arrears. An amount of R184 899 (2001: R214 120) was written off during the year under review.

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 R121 875 (2001: R86 198).

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS (continued)
30 JUNE 2002

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 Ben Nkuna

Secretary - J R de Wit

Business Address	Postal Address
42 Boundary Street	P O Box 212
Tzaneen	Tzaneen
0850	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 2002

	Notes	2002 R	2001 R
ASSETS			
Non-current assets			
Property and equipment	1	779 510	673 812
Investments	2	603 348	577 128
Total non-current assets		1 382 858	1 250 940
Current assets			
Advances (principal outstanding)	3	8 018 004	7 375 314
Accounts receivable	4	378 292	99 646
Cash and short-term funds		5 961 223	4 736 317
Total current assets		14 357 519	12 211 277
TOTAL ASSETS		15 740 377	13 462 217
FUNDS AND LIABILITIES			
Funds			
General capital reserve	6	587 953	587 953
Development reserve	7	6 699 213	6 654 460
Educational reserve	8	5 800	5 300
Operational grant reserve	9	1 964 058	1 287 027
Accumulated income		1 871 338	2 091 629
Total funds		11 128 362	10 626 369
Non-current liabilities			
Long term loan	10	1 000 000	1 000 000
Current liabilities			
Short term loan	11	2 971 444	1 252 468
Accounts payable		640 571	583 380
Total current liabilities		3 612 015	1 835 848
TOTAL FUNDS AND LIABILITIES		15 740 377	13 462 217

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 JUNE 2002

	Notes	2002 R	2001 R
OPERATING INCOME			
Interest earned on advances		4 596 820	5 105 953
Investment income		201 717	166 526
Finance costs		(407 589)	(403 972)
Bad debts		(184 899)	(214 120)
MARGIN ON LENDING ACTIVITIES		4 206 049	4 654 387
Operating expenses		(5 289 750)	(4 569 781)
OPERATING (LOSS)/INCOME		(1 083 701)	84 606
Sundry income		7 539	5 610
Income on disposal of property and equipment		-	5 700
(LOSS)/INCOME before head office expenses		(1 076 162)	95 916
Head office expenses		(3 547 386)	(2 949 156)
LOSS before grants	12	(4 623 548)	(2 853 240)
Operational grants received	13	4 403 257	3 307 321
NET (LOSS)/INCOME FOR THE YEAR		(220 291)	454 081

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 2002

	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 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
Operational grant reserve – utilised to cover costs	-	-	44 753	500	(4 403 257)	-	(4 358 004)
Net income for the year	-	-	-	-	-	(220 291)	(220 291)
Operational grants received	-	-	-	-	5 080 288	-	5 080 288
Balance as at 30 June 2002	-	587 953	6 699 213	5 800	1 964 058	1 871 338	11 128 362

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 JUNE 2002

	Notes	2002 R	2001 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	(5 189 812)	(1 147 074)
Investment income		201 717	166 526
Finance costs		(407 589)	(403 972)
Net cash outflow from operating activities		(5 395 684)	(1 384 520)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(197 707)	(89 895)
Proceeds on disposal of property and equipment		-	5 700
Increase in investments		(26 220)	(14 836)
Net cash outflow from investing activities		(223 927)	(99 031)
CASH FLOWS FROM FINANCING ACTIVITIES			
Development grants received		45 253	-
Operational grants received		5 080 288	4 594 348
Increase/(decrease) in short term loans		1 718 976	(339 677)
Net cash inflow from financing activities		6 844 517	4 254 671
NET INCREASE IN CASH AND CASH EQUIVALENTS		1 224 906	2 771 120
Cash and cash equivalents at beginning of year		4 736 317	1 965 197
CASH AND CASH EQUIVALENTS AT END OF YEAR	B	5 961 223	4 736 317

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 2002

		2002 R	2001 R
A.	**CASH UTILISED BY OPERATIONS**		
	Loss before grants	(4 623 548)	(2 853 240)
	Adjusted for:		
	Investment income	(201 717)	(166 526)
	Finance costs	407 589	403 972
	Depreciation	92 009	99 974
	Profit on disposal of property and equipment	-	(5 700)
	Movement in provision for bad debts	58 260	65 667
	Operating loss before working capital changes	(4 267 407)	(2 455 853)
	Increase in accounts receivable	(278 646)	(3 640)
	Increase in accounts payable	57 191	42 325
	(Increase) / decrease in operating assets – principal outstanding, before movement in provision for bad debts	(700 950)	1 270 094
	Cash utilised by operations	(5 189 812)	(1 147 074)

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:

	2002 R	2001 R
Cash and short-term funds	5 961 223	4 736 317
	5 961 223	4 736 317

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
ACCOUNTING POLICIES
30 JUNE 2002

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:

Interest earned on advances

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

Other interest received

Other interest received is accrued on a daily basis.

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.

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.

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.

	2002	2001
Furniture and fittings	5 years	5 years
Office equipment	5 years	5 years
Computer equipment	3 years	3 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
2002						
Cost						
At beginning of year	517 195	133 540	129 100	135 014	25 623	940 472
Additions	-	65 388	20 082	101 237	11 000	197 707
At end of year	517 195	198 928	149 182	236 251	36 623	1 138 179
Accumulated depreciation						
At beginning of year	-	75 743	76 251	102 750	11 916	266 660
Depreciation	-	28 748	18 161	39 538	5 562	92 009
At end of year	-	104 491	94 412	142 288	17 478	358 669
Net book value	517 195	94 437	54 770	93 963	19 145	779 510

		2002	2001
		R	R

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 (2001: R517 195).

2. INVESTMENTS

Listed

		2002 R	2001 R
Investec Bank Limited	- Investec Equity Fund	302 105	289 947
	- Fedsure General Equity Fund	301 243	287 181
		603 348	577 128

The market value of the investments on 30 June 2002 amounted to R998 802 (2001: R829 054).

3. ADVANCES (PRINCIPAL OUTSTANDING)

	2002 R	2001 R
Loans outstanding	10 222 454	9 388 089
Unearned interest	(1 995 673)	(1 862 258)
Provision for bad debts	(208 777)	(150 517)
	8 018 004	7 375 314
Movement in the provision for doubtful debts		
Balance at beginning of year	150 517	84 850
Current year movement in provision for bad debts	58 260	65 667
Balance at end of year	208 777	150 517

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 70,1% to 82,1%.

3. ADVANCES (PRINCIPAL OUTSTANDING) (continued)

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

A total amount of R43 899 (2001: R203 979) 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	20 044	0.19
60 days	12 171	0.11
90 days	11 684	0.11
Total	43 899	0.41

	2002 R	2001 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 (2001: R Nil) at the financial year end. Loans are normally repaid over a period of two years.

	2002 R	2001 R
Staff debtors and other accounts receivable	378 292	99 646

5. NON-DISTRIBUTABLE RESERVE

	2002 R	2001 R
Balance at the beginning of year	-	366 786
Transfer to accumulated profit	-	(366 786)
Balance at the end of year	-	-

	2002 R	2001 R

6. GENERAL CAPITAL RESERVE

The General Capital Reserve comprises of 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.

	2002 R	2001 R
Balance at the end of year	587 953	587 953

7. DEVELOPMENT RESERVE

The Development Reserve comprises solely of 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.

	2002 R	2001 R
Balance at the end of year	6 699 213	6 654 460

8. EDUCATIONAL RESERVE

The Educational Reserve comprises of 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.

	2002 R	2001 R
Balance at the end of year	5 800	5 300

	2002 R	2001 R

9. OPERATIONAL GRANT RESERVE

A grant of US$200 000 was approved by Ford Foundation, in the current year for institutional strengthening to enable SEF to obtain financial self-sufficiency.

	2002 R	2001 R
Grant at the beginning of year	1 287 027	-
Utilised to cover costs	(4 403 257)	(3 307 321)
Grants received during the year:	5 080 288	4 594 348
- Hivos Triodos	197 880	307 114
- Ford	2 238 874	1 733 874
- Institute development studies	119 993	77 454
- USAID	2 377 540	2 447 885
- Khula	-	28 021
- HSDU	146 001	-
Balance at the end of year	1 964 058	1 287 027

-

10. LONG TERM LOAN

Hivos Triodos Bank of the Netherlands has approved a total loan facility of 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.

	2002 R	2001 R
Balance at the beginning of year	1 000 000	1 000 000
Balance at the end of year	1 000 000	1 000 000

10. LONG TERM LOAN (continued)

The average balance outstanding during the year, calculated on a straight line basis, was R1 000 000 (2001: R1 000 000)

Interest accrued and paid during the year amounted to R140 000 (2001: R140 000).

There were no arrears in respect of this loan during the year under review (2001: R Nil).

	2002 R	2001 R
11. SHORT TERM LOAN		
The amount represents a working capital loan from Khula Enterprises Limited. The loan bears interest at a rate of 14.5% per annum. Interest is payable monthly in arrears. The capital portion of the loan is payable within ten months of receipt of the loan.		
This loan is secured by a cession of the Khula end user loans.	2 971 444	1 252 468
12. LOSS BEFORE GRANTS		
The loss before grants is arrived at after taking into account the following:		
Depreciation		
– As previously reported	92 009	46 483
– Change in accounting estimate	-	53 491
	92 009	99 974

	2002 R	2001 R
12. LOSS BEFORE GRANTS (continued)		
Auditors' remuneration		
– Statutory audit	49 515	45 510
– USAID recipient audit	28 294	26 006
– Audit expenses	12 191	12 540
Directors' emoluments		
– For managerial duties	646 037	328 134
– Expenses relating to managerial duties	64 564	4 381
Current year movement in provision for bad debts	58 260	65 667

13. OPERATIONAL GRANTS RECEIVED

	2002	2001
H.S.D.U.	146 001	-
Ford Foundation (Operations)	1 411 631	785 854
USAID	2 377 540	2 447 885
Ford (Aids)	10 887	2 474
Khula Finance Enterprises	-	28 021
Institute for development studies	97 697	43 087
Hivos Triodos	359 501	-
	4 403 257	3 307 321

No donations or subsidies in kind were received during the year under review (2001: R Nil).

14. TAXATION

No provision has been made for taxation as the company is currently in a tax loss position.

15. RETIREMENT BENEFITS

All permanent employees of the company are members of the Old Mutual Orion Provident Fund. The provident fund is in the nature of a defined contribution plan where the retirement benefits are determined with reference to the employees' contributions to the fund.

16. FAIR VALUES

At 30 June 2002 and 2001 respectively, the carrying amounts of cash and short term funds, loans, accounts receivable, accounts payable, the short term loan and the bank overdraft approximated their fair values due to the short term maturities of these assets and liabilities.

17. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified in order to afford consistent disclosure.