THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 2009

"SEF has changed my life. Life is good now and my children, nieces and nephews are able to go to school. I now own a brick house but my biggest gain and what really makes me rich, is my ability to help others".
Paulinah Ramaesela Mokgawa (SEF Client)

Summary of Performance

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	June 2009	June 2008	June 2007
Number of active clients	57 425	50 319	41 295
% Women Clients	99%	99%	99%
Value of Loans Outstanding	R 89.97 million[1]	R 70.8 million	R 49.9 million
Current Average Loan Size Disbursed	R 2 023	R 1 715	R 1 592
Number of Loans disbursed since inception	592 013	468 705	364 827
Amount disbursed since inception	R 853 million	R626 million	R467 million
Bad Debts as % of annual disbursements	0.3%	0.3%	0.2%
Bad Debts as % of average Principal Outstanding	1.0%	1.0%	0.7%
Portfolio at risk > 30 days[2]	0.3%	0.2%	0.3%
Current Re-scheduled loans (due to illness)	R 306 785	R 320 422	R 339 411
Death write-offs	R442 040	R 337 159	R 246 911
Total Savings held by clients	R 11.9 million	R 9.5 million	R 6.4 million
Total staff at year end	373	255	250
Total operations staff at year end	315	214	211
Clients per loan officer	213	284	261
Clients per staff member	154	199	165
Operational self-sufficiency[3]	86%	96%	98%
Financial self-sufficiency[4]	86%	95%	97%

[1] At the close of the financial year the Rand/US$ exchange rate stood at R8.0241 = US$1.00
[2] Portfolio at risk > 30 days = Balance of all loans in which any part of any instalment is more than 30 days in arrears / Balance of all loans
[3] Operational self sufficiency = Total Financial Revenue /(Finance Expense + Loan Loss Provision + Operating Expense)
[4] Financial self sufficiency = Total Financial Revenue /(Finance Expense + Loan Loss Provision + Operating Expense + an adjustment which assumes all borrowings are at the prime lending rate)

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 realise their potential.

Vision

A world free of poverty

Highlights 2009

SEF achieves top class world Social Rating

SEF received an excellent α (Alpha) Social Rating from the independent, international microfinance rating firm M-CRIL, Micro-credit Ratings International Limited. M-CRIL http://www.m-cril.com/ is the world's leading microfinance rating agency and has done over 480 financial and social ratings in 27 countries.

Annual loan disbursements exceed R200 million

The total amount disbursed in the year exceeded the R200 million milestone with a total of R226 million being disbursed.

SEF receives an international award

In March 2009 SEF was awarded the "Innovation award" by the International Center for Research on Women, ICRW, in Washington DC. SEF received the award for its outstanding contribution in empowering women.

SEF attains PBO Status

In May 2009 SEF was granted Public Benefit Organisation, PBO, status. The benefits of attaining this status are that when SEF achieves an operating surplus then this will not be taxable. Secondly, any donations to SEF will be tax deductible in the hands of the donor.

BACKGROUND TO THE SMALL ENTERPRISE FOUNDATION

The Small Enterprise Foundation, SEF, was established with a mission to fight poverty in a sustainable manner. This is done by enabling the poor to increase their income through microcredit for self-employment and by assisting them in the accumulation of savings. SEF began operations in 1992 and since then has cumulatively disbursed 592 013 loans to the value of R 853 million to very poor people, 99% of whom were women.

The organisation is now located in four of South Africa's provinces, namely, Limpopo Province, the most northerly province, Mpumalanga Province to the east of Johannesburg, North West Province, and the coastal Eastern Cape Province. The Limpopo and Eastern Cape provinces have the highest proportion of poor in the country with 77% and 72% of their populations living below the poverty income line, respectively.[5] The areas of Mpumalanga and North West Province in which SEF works are characterised by similar poverty.

As the organisation's mission statement suggests, SEF works to reach the poor. In 1996, the organisation started a special program to target the *very poor* – those from households whose income is less than half the poverty line[6]. As a consequence the organisation now has two programs, MCP, which aims to work with poor people who have an existing micro-business and TCP which specifically targets women from households which are below half the poverty line. TCP makes up 72% and MCP 28% of SEF's total of 57 425 active clients.

Methodology

The following is a brief summary of the credit, savings and support methodology.

SEF starts working in a community by first identifying the poorest households through Participatory Wealth Ranking (PWR). Thereafter, field staff go to these households to motivate the women to start an income generating activity. In other cases where a previous micro-business had collapsed the women are encouraged to resume that enterprise. The motivation provided by the field staff, combined with access to a small loan is often all the *very poor* need to launch an income generating activity or micro-enterprise.

While the poor may be motivated to start a micro-business one of their biggest hurdles is the lack of money to do so. It is here that SEF utilises the approach pioneered by the Grameen Bank of Bangladesh to provide microcredit for micro-enterprise.

A very poor person who wishes to access SEF's services is required to form a group with four others whom she knows very well and trusts. Each of the five must wish to obtain a loan for their own individual business. The five group members are then required to guarantee each others' payments. No other collateral is required. SEF's loans are only for enterprise and a series of checks are in place to ensure that loans are not diverted for other purposes.

The graph of Business Value, on page 11 illustrates how successful clients are at starting and growing their businesses. This graph shows the average business assets of clients before each loan cycle. For example, before the first loan the average business value of clients is less than R100 ($12) whereas by the beginning of the fourth loan cycle this has grown to an average of R1700 ($211).

[5] "*Fact Sheet, Poverty in South Africa*", Fact Sheet No.1, 26 July 2004, Human Sciences Research Council
[6] The "household subsistence level" is used as the poverty line. In 2001, this stood at R920 ($121) per family of five per month.

SAVINGS

In terms of South African law SEF may not take deposits so instead of providing a direct savings service the organisation strongly motivates its clients to save with a formal banking institution. This is done by providing training on how to open and operate a formal savings account and then motivating clients to save at each of their fortnightly meetings.

Due to its extensive outreach in rural areas the majority of SEF's clients deposit their savings at the Post Bank while the remainder utilize Nedbank. As at the end of the financial year the sum of savings as held by clients in their Post Bank or Nedbank accounts amounted to R 11.9 million.

OPERATIONAL PERFORMANCE REVIEW

Global Recession

South Africa has been touched by the global recession with the country entering its first recession in 17 years and unemployment increasing from 21.9% in the last quarter of 2008 to 23.6% in the second quarter of 2009.

At the time of writing it is still not clear if SEF's clients have been significantly affected by the recession or not. The discussion below shows that portfolio at risk and bad debt write-offs were at similar levels to those of the past few years. The first half of the 2009 calendar year, however, saw slightly higher client exits than have been experienced for some years with the exit rate reaching a seasonal high of 24% in June 2009 versus 21% in June 2008. The last six months also saw the growth in the number of clients being slightly below that expected.

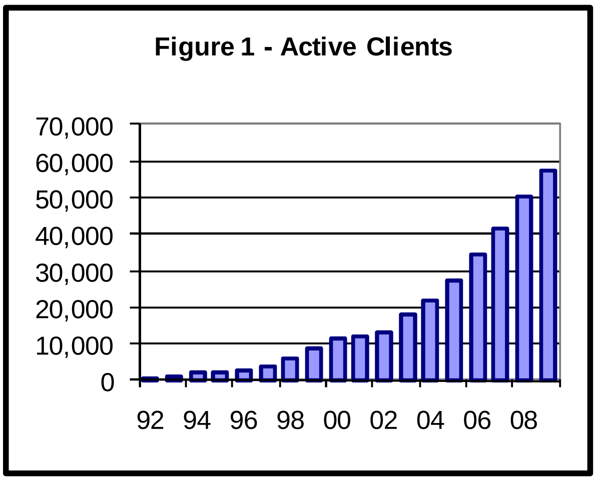
What makes it difficult to attribute the higher exits and slower growth to the recession is that during the same period the organisation increased it number of branches by 46% growing from 26 to 38 branches. It appears that this significant growth led to some "growing pains" as less experienced staff took on bigger challenges. Again, over the same period at least one other not-for-profit microfinance organisation significantly expanded their operations in areas where SEF has been working for many years. The combination of these factors occurring during the same period make it difficult to easily attribute any changes in performance to one or other of these factors.

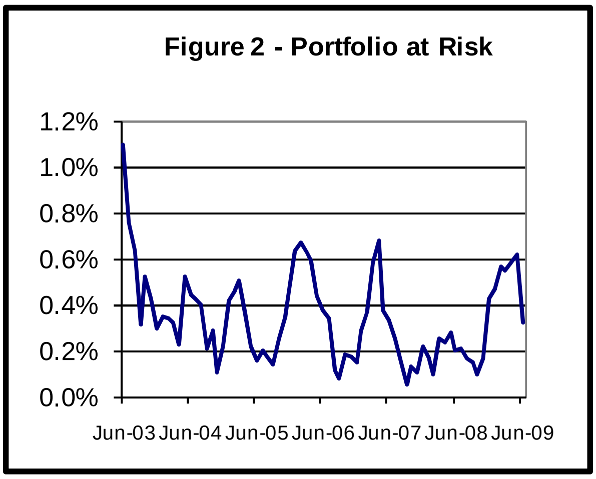
Apart from the impact of the recession on clients at least one of SEF's major suppliers of finance was not able to lower the rate that it charges the organisation due to their own higher cost of capital. So far this seems to only be affecting this one lender.

Growth

This year SEF continued its focus on expansion with operations starting in the Eastern Cape, Mpumalanga and North-West Provinces. SEF now operates seven branches in the Eastern Cape in rural villages between Butterworth and Mthatha. In the North-West operations are located in the villages around Hammanskraal, Maubane, Winterveld, Moses Kotane Municipality, Marbieskraal and Sun City. Operations have also started in villages around Acornhoek in Mpumalanga. In all 12 new branches were opened in the financial year, six in the Eastern Cape Province, five in the North-West Province and one in Mpumalanga. SEF now has 38 branches.

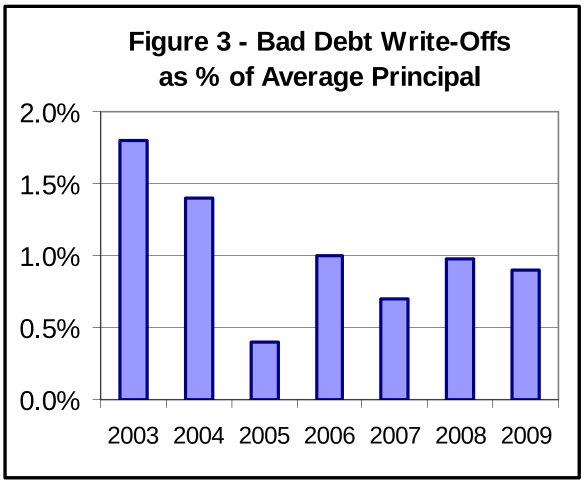
By the end of the financial year the organisation was actively serving 57 425 clients, 10 753 of these clients are youth between 18 to 35 years old. The graph below illustrates the growth since inception. On a compounded basis SEF has cumulatively grown by more than 23 % per annum for each of the past 7 years.

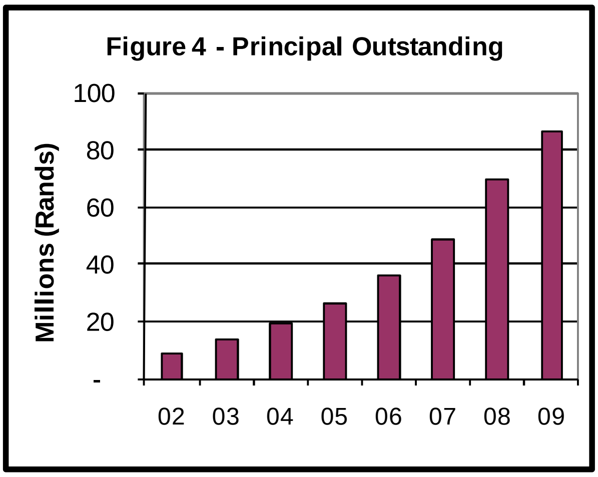




Portfolio at Risk

I am pleased to report that this was once again a strong year in terms of the arrears and portfolio at risk performance. The portfolio at risk over 30 days remained below 0.7% throughout the financial year. This is illustrated in Figure 2 above.





Bad debt Performance

SEF has a very strict bad debt write-off policy with loans being declared not recoverable as soon as any part of any instalment is more than 90 days in arrears. Despite this tough approach Figure 3 illustrates how well the organisation has done in terms of bad debt performance. This year bad debts as a percentage of annual disbursements amounted to just 0.3%, or 0.9% when expressed as a percentage of the average principal outstanding for the year[7].

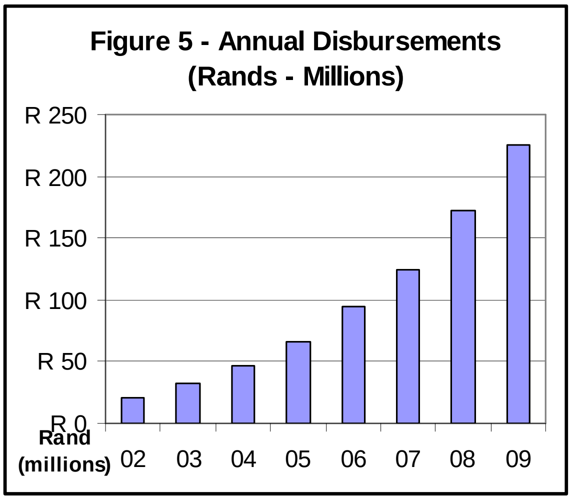
[7] "The Bad Debt ratios do not include Death Write-off losses. Should these have been included the ratios would have been 0.5% for Bad Debts as a % of annual disbursements and 1.6% for Bad Debts as a % of average Principal Outstanding".

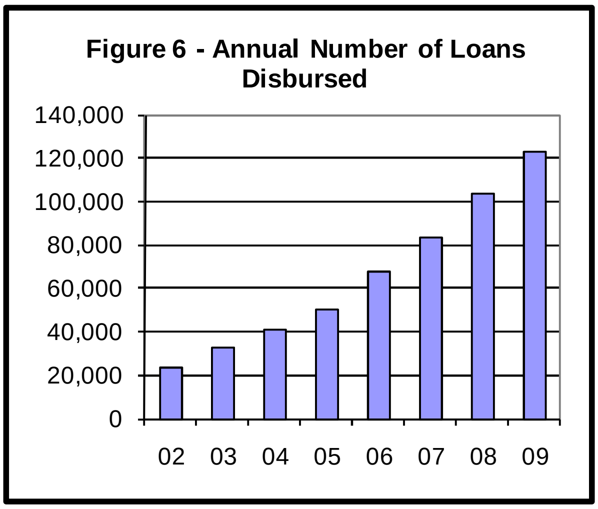
Principal Outstanding

Over this financial year principal outstanding grew by 24% to R89.97 million. This growth in principal may be seen in Figure 4 above.

Disbursement Activity

The vast majority of loans are repaid over six months thus when considering SEF's performance it is wise to look not only at the principal outstanding but also the disbursement activity. The following graphs, Figures 5 and 6, indicate how substantial this activity is, both in terms of the amount and number of loans disbursed.

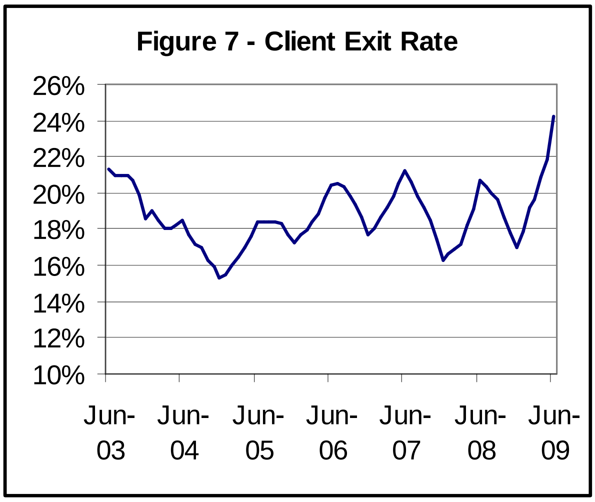


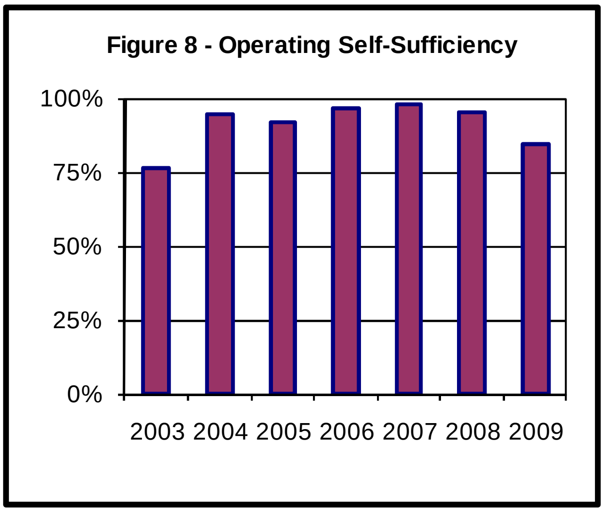


Operational Challenge – Client Exits

Figure 7 below illustrates the client exit or drop-out rate. It will be seen that this has a cyclical nature with the highpoint coinciding with the financial year-end. The exit rate currently stands at 24% which is the highest that it has been for several years. We continue to investigate the reasons for this increase in exits. Possible causes appear to be a slight decline in the quality of client service – partly a consequence of the "growing pains" associated with the 46% increase in the number of branches in the year – and possibly some over-indebtedness of clients as a result of other non-profit microfinance organisations beginning to operate in areas that SEF has been working in for many years.

The organisation is taking all measures to improve the client retention.





Operational Self-Sufficiency

The organisation's financial performance in terms of operational self-sufficiency, the ratio of all operating income (loan plus investment income) to all operating expenses, including finance costs and loan loss provisions, stood at 85% for the year. Financial self-sufficiency[8] also came to 85%. The drop in sustainability to below 90% is due to the 46% growth in the number of branches in this financial year, with 12 new branches being opened. While the cost of investing in new branches is high this investment will enable strong expansion in future years. For example, even if SEF were not to open any new branches in the 2010 financial year then growth in existing branches at growth rates similar to that of previous years would result in an organisation wide 20% increase in the number of clients.

As will be seen from Figure 8 above, prior to this financial year SEF has maintained its operational self-sufficiency above 90% since 2004. In fact, the organisation attained 100% operational self-sufficiency for the financial year to September 2004 but since then has continued a strategy of constant growth. Naturally growth implies additional investment, additional costs, before the income from the growth is seen. While the organisation's strategy is to balance growth and self-sufficiency in the coming financial year the organisation will take steps to ensure that self-sufficiency rises to 97%. In the 2011 financial year breakeven, or 100% self-sufficiency, is expected to be achieved or exceeded.

HUMAN RESOURCES AND TRAINING

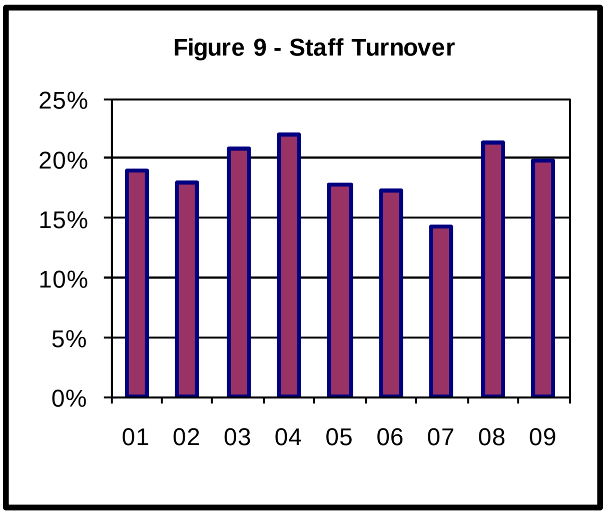
At the end of June 2009 SEF employed a total of 373 employees of which 315 were operations staff. The total number of employees increased by an impressive 46%.

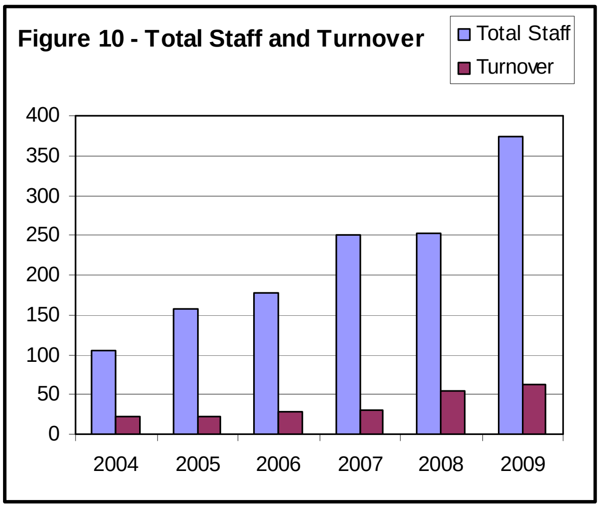
Figures 9 and 10 show the organisation's increase in the total number of staff as well as the staff turnover for past years. At face value the current staff turnover of 20% looks somewhat quite alarming. If, however, we take into consideration that 50% of the terminations were due to corrective action it does put this into perspective. We continue to keep monitoring staff turnover closely and making all efforts to reduce this as far as possible.

[8] See definitions of these terms at the foot of page 1.

On a positive note we acknowledge the effort of our training department to continuously deliver the required number of staff to support our considerable increase in the number of branches.

SEF utilizes a formal internal program for the training of new field staff. This is further supported through selected external programs to enhance management effectiveness.





P.R.I.D.E (formerly Research & Development) Department

During the financial year, the Research and Development Department underwent significant changes aimed at professionalizing the department and strengthening SEF's Social Performance Management, SPM, systems. In terms of staffing the department grew to three permanent, one temporary and one part-time staff member as well as two interns. The aim of this growth was to reduce turnover and improve the quality of output from the department. Departmental management systems and processes were formalized and preparations to implement specific projects in the 2009/2010 financial year were made. In accordance with these changes, the Department was re-named the P.R.I.D.E (Progress, Research, Innovation, Development and Efficiency) Department to reflect its full responsibilities of constantly reflecting on and making improvements to operations and SEF as a whole.

Major accomplishments of the financial year included the conclusion of two pilot projects as well as hosting of the Imp-Act Consortium Global Learning Program meeting and the completion of SEF's social rating.

SEF began piloting a change in its staff incentive scheme in November 2007 which placed more emphasis on preventing and reducing client exit rates. Though client exit rates improved in some areas, fraudulent activities meant the pilot had to be cancelled. Another pilot allowing field staff to accept clients deemed "too wealthy" for the program by the Participatory Wealth Ranking, PWR, process became operational policy by the end of the financial year.

In August 2008 SEF hosted the second meeting of the Imp-Act Consortium Global Learning Program on social performance management. This is an international group of seven microfinance organisations from six countries working together with three microfinance research institutions dedicated to understanding and implementing social performance management.

In February 2009 Microcredit Rating International Limited (M-CRIL) completed SEF's first social rating for which it received an alpha grade – the second highest possible – indicating very good SPM systems and adherence to a social mission. M-CRIL is the first credit rating agency in the world to offer a social rating and has completed 480 credit and social ratings to date. Very much like a credit rating's assessment of an MFI's financial performance, a social rating is an independent assessment of the organization's social performance. Its primary aim is to evaluate the effectiveness of the MFI's systems and processes in reaching its social goals.

The PRIDE Department's work in the upcoming financial year will mainly focus on improving SEF's existing management systems and products so as to enhance its social impact.

INFORMATION TECHNOLOGY SYSTEMS

SEF's Information Technology Systems are continuously being improved to better support the organisation's mission and growth.

The key areas that received attention this fiscal year are as follows:

1. *MIS Project;*
   SEG-Data (South Africa) was selected to provide SEF with an MIS solution. Initial project scoping and process documentation has been completed. At the time of writing, we are at the pre-test phase with much effort being devoted toward the detailed documentation and adaptation of current processes to better support the testing and parallel-run stages of the project.

2. *IT Network Infrastructure;*
   SEF's internal computer network has grown considerably to keep up with the demand for computing resources used by support services and has subsequently outgrown the current Microsoft Small Business Server platform. Migration to the next platform tier will be completed by the end of September 2009.

3. *Management Mobility;*
   SEF's senior management team has been provided with greater mobility and remote access capability with the adoption of HSDPA connectivity and centrally managed data services.

While these areas are some of the current highlights, SEF is continually striving to improve the efficiency and cost effectiveness of its IT systems to achieve the organisation's goal of serving the poor to the best of its ability.

QUALITY ASSURANCE

The purpose of the department is to ensure that:

- All activities in the organisation are performed according to internal policies and procedures.
- Corrupt and/or fraudulent activities are prevented, identified and reported on.
- Special assignments as may be requested by senior managers are executed.
- Weaknesses/threats to the organization are identified, and preventative measures are recommended.
- The overall service to our clients, the very poor, is of high quality.

By end of June 2009, the Quality Assurance department had completed 60 routine and follow-up audits of SEF's branches, as well as six other special assignments.

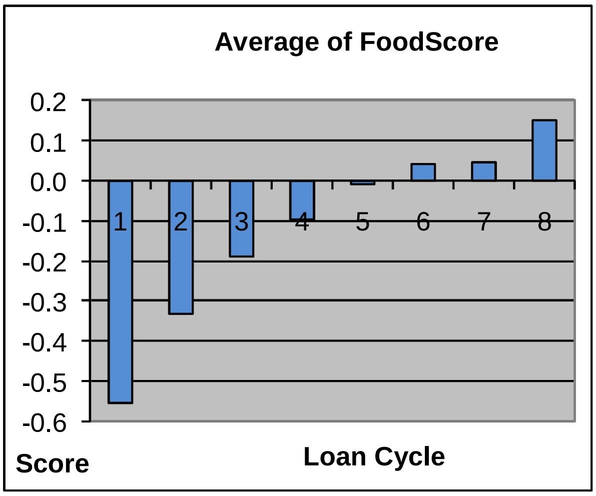
A rating system has been introduced into our operations. This system seeks to evaluate and compare the compliance levels of branch activities against the internal policies and procedures, and in the long run helps managers identify and deal with challenges on quality issues. To further enhance portfolio quality, this system is built into the incentive scheme for Branch Managers.

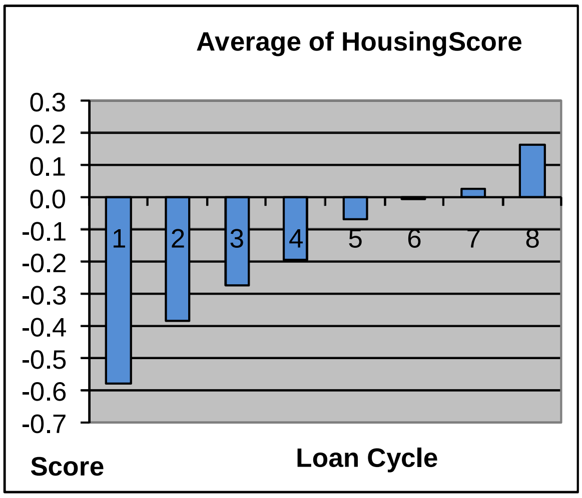
IMPACT

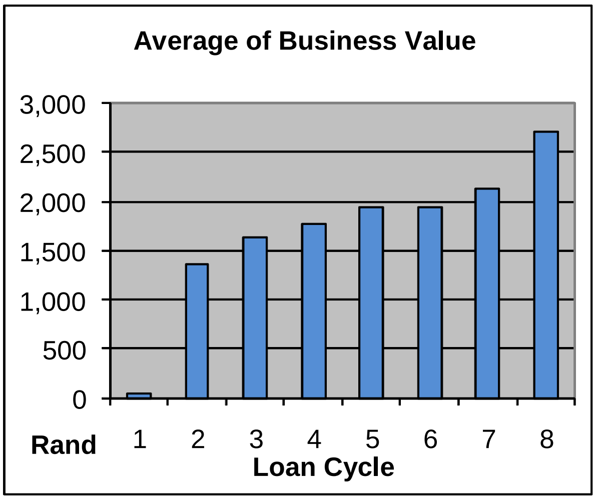
SEF does not just see microfinance as a simple process of people taking and repaying loans or using convenient, low cost savings instruments. For SEF microfinance is about whether people utilise such opportunities to improve the lives of their families and ultimately move out of poverty. Thus SEF is not only concerned about its own operational efficiency and sustainability but whether its work has a positive impact on the lives of those with whom it works.

SEF uses an impact monitoring system to check, measure and understand the impact of the program on an ongoing basis. Using a participatory methodology, each client is interviewed on a number of key impact indicators before each loan cycle. This understanding not only informs SEF whether it is attaining its goal of positive impact but also provides information on how to improve performance to ensure better impact, and consequently improve operational and financial performance.

The following graphs illustrate outputs from the impact monitoring system for the quarter ending 30 June 2009. The first graphs were compiled from interviews with clients about their own perceptions of the quality and quantity of food consumption in their households and the quality of their housing. Their responses are allocated scores on a scale of -2 to +2 and the graphs display the aggregate responses at the start of successive loan cycles. The third graph displays the actual measured value of business assets, again collected prior to successive loan cycles.







HIV/AIDS AND MICROFINANCE PILOT PROJECT

IMAGE Project (Intervention with Microfinance for AIDS and Gender Equity)

The IMAGE project, Intervention with Microfinance for AIDS and Gender Equity, is a community-based intervention that works in partnership with SEF. The two organisations are now entering their ninth year of partnership.

This program combines SEF's microcredit with a 12-15 month gender and HIV training curriculum, known as Sisters for Life. The purpose of the IMAGE Project is to improve the economic well-being and independence of communities, reduce vulnerability to both HIV and gender-based violence, and foster robust community mobilization to address the key drivers of the HIV pandemic.

The training is divided into two phases. Phase I comprises of a structured series of 10 one-hour training sessions based on principles of Participatory Learning and Action (PLA). Topics include gender roles, gender inequality and cultural beliefs, sexuality and relationships, and domestic violence, as well as topics relating to HIV prevention. Specially trained facilitators implement this phase. At the end of Phase I, women from each SEF centre are required to elect women whom they feel can make good leaders and can lead their centre in community mobilization to address gender-based violence and HIV. These leaders are then trained and during Phase II they lead an open-ended program that aims to support participants in developing and implementing responses to gender-based violence and HIV infection that are appropriate to their own communities.

Impact assessment from the IMAGE pilot programme (2001-2004) has demonstrated that after two years of exposure, the intervention has the following effects:

- Shifts in economic well-being including consistent positive shifts in financial confidence, perceived household economic well-being, assets and expenditure.
- Changes in livelihood security including a 70% increase in the proportion of participants making improvements to their household, a 50% increase in food security, consistent improvements in the availability of resources for basic needs

including clothing, basic household items, school fees/uniforms, and money for health care.

- Changes in numerous dimensions of empowerment including self confidence, autonomy in decision making, better relationships with partners and other household members, and improved communication.
- A 55% reduction in the levels of intimate partner violence.

All IMAGE publications could be accessed through the following links: http://sef.co.za/content/image-study or http://web.wits.ac.za/Academic/Health/PublicHealth/Radar/SocialInterventions/InterventionwithMicrofinanceforAIDSGenderEquity.htm

During the financial year IMAGE operated in four branches namely; Burgersfort, Zebediela, Mokopane and Fetakgomo. A total of 6 905 households have been trained to date and 3 180 clients from Mokopane and Fetakgomo branches are currently in training.

This year again saw a number of community activities organised by clients. These included working with youth, providing health talks regarding safer sex practices, teenage pregnancy, HIV/AIDS related issues and providing support and advice where necessary. Below are some of the highlights;

- In a number of areas client leaders and IMAGE trainers conducted an HIV awareness campaign in local schools, youth groups and churches societies.
- Women within centres formed counselling teams to provide counselling and support to survivors of domestic violence in the community.
- Continued support of rape victims by natural leaders in the village of Ga-Motodi through a rape committee that was established in 2003. The women assist sexually assaulted victims to access post-rape services from the hospital, clinic and police station.
- As part of ongoing community mobilization activities, in partnership with IMAGE trainers and the Moshira Home Based Care group, natural leaders from Moshira centre are assisting with providing home-based care services to the local community.
- Clients from Botheshoek village are working with orphans and the elderly to assist them in accessing social grants.
- IMAGE trainers have supported the establishment of a fitness group for elderly women in Zebediela area.
- At the Anglo Platimun supported Mosesatjane clinic IMAGE trainers have provided health talks and support to the clinic's gardening project.
- An HIV/AIDS support group has been established in Mandagshoek which makes home visits to the local miners' households to provide information on HIV/AIDS.
- IMAGE trainers have designed and implemented a short training program for Driekop mine workers on leadership and women empowerment.

In the next financial year IMAGE plans to intensify its community engagement by supporting its natural leaders in community mobilisation and through expansion to a new branch IMAGE will roll out the training program to a further 1800 households.

FUNDING

I wish to use this opportunity to recognise our donors and to sincerely thank them on behalf of the organisation and our clients who have used the possibility provided by these funders to transform the lives of their families. I wish to humbly note that our work and achievements would not have been possible if it were not for the support of these donors. These funders share SEF's belief that microfinance can assist the poorest to improve their livelihood and through their financial support they contribute to the alleviation of poverty through microfinance.

During the past financial year the following donors provided operational grants:

- Old Mutual, through its Masisizane Fund
- Hivos
- Health Systems Development Unit (H.S.D.U.)
- Small Enterprise Education

The following donors provided capital grants:

- Old Mutual, through its Masisizane Fund
- Hivos
- Coutts & Co through Charities Aid Foundation
- The International Alliance for Women (TIAW)
- Robert Gailey

SEF funds its loan book through loan facilities from the following organisations and individuals. While these loans are mainly provided on a commercial basis it must be recognised that, like SEF, all of these funders also strive to attain a double bottom-line of social and investment return.

Table of borrowings:

Name of Lender	Amount in Rand	% of total borrowings
Hivos-Triodos and Triodos-Doen	21,750,000	30%
Khula Enterprise Finance Limited	19,655,962	27%
Swedfund	10,414,630	15%
Oikocredit	7,575,000	11%
Standard Bank	7,500,000	10%
Tembeka Social Investment Ltd	1,280,200	2%
Genesis Steel	1,115,000	2%
Teba[9]	761,853	1%
Sentinel Steel	635,000	1%
GJO Marincowitz	563,300	1%
ABSA	213,957	0%
Dr. M Vintges	146,294	0%
Total	**71,611,196**	**100%**

The organisation wishes to thank these agencies and individuals for their excellent ongoing service and support. Without them the lives of 57 400 formerly very poor South Africans would not have been as hopeful as they are today.

EXPANSION PLANS

Strategically SEF is determined to continue to take its services to all of South Africa's provinces and to reach 350,000 clients by 2019. It will also now focus on improving its operational self-

[9] While the facility provided by Teba expired in July 2009, ABSA continues to provide SEF with a revolving facility of up to R5 million where the guarantee is provided by Thembani International Fund.

sufficiency from the current 85% to 97% by June 2010 and thereafter ensure that self-sufficiency remains above 100%.

The following table summarises the organisation's medium term objectives:

KEY OBJECTIVES	**June 2010**	**June 2011**	**June 2012**	**June 2013**	**June 2014**
# Active Clients	72,275	90,471	109,333	127,146	150,671
Principal Outstanding	R 116 million	R157 million	R209 million	R267 million	R348 million
Operational Self Sufficiency	97%	104%	111%	116%	122%

DIRECTORS

I would like to thank all board members; Matome Malatji (Chair), Sanjay Doshi, Charmaine Groves, Marie Kirsten, Mutle Mogase, Modise Motloba, Olivia van Rooyen and Sizeka Rensburg for their continued leadership, guidance and support during the past year.

SEF's board conduct their work with the organisation on an entirely voluntary basis and yet are totally committed to ensuring that the organisation remains true to its mission and to achieving success in terms of that mission. I truly appreciate the time that they take from their own lives and from their families to ensure that SEF is successful in its struggle to end poverty.

THE CONTRIBUTION OF SEF's STAFF

In December of each year the organisation recognises the outstanding performances of staff. This year's best performers were:

Best Branch Manager:	Goodluck Ngobeni
Best Branch Manager- 1st runner up:	Dolly Modika
Best Development Facilitators:	Gladys Mamushiana Mihloti Marivate Edward Khosa Euphilia Mbhalati Grace Maredi
Best Development Facilitators- 1st runner up:	Linah Modipane Rachel Maimela Charles Phokongwane Colbert Baloyi
Best Support Staff	Jimmy Sape
Best Support Staff- 1st runner up:	Selaelo Maselesele

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.

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 poor overcome poverty.

John de Wit
Managing Director

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

ANNUAL FINANCIAL STATEMENTS
30 June 2009

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
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ANNUAL FINANCIAL STATEMENTS
30 June 2009

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DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The annual financial statements have been compiled in terms of South African Statements of Generally Accepted Accounting Practice.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for the foreseeable future.

The annual financial statements, set out on pages 5 to 41, were approved by the board of directors on 8 October 2009 and are signed on its behalf by:

Director

Director

Private Bag X6
Gallo Manor 2052
South Africa

Deloitte & Touche
Registered Auditors
Financial Services Team - FIST
Building 8
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The Woodlands
Woodlands Drive
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Docex 10 Johannesburg

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)

We have audited the annual financial statements of The Small Enterprise Foundation (An association incorporated under section 21 of the Companies Act), which comprise the directors' report, the balance sheet as at 30 June 2009, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 41.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT) (continued)

Opinion

In our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2009, 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 in South Africa.

Deloitte & Touche

Deloitte & Touche

Per: J van Staden
Partner
8 October 2009

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 June 2009

The directors have pleasure in presenting their report on the organisation for the year ended 30 June 2009.

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 company is registered with the National Credit Regulator.

The Small Enterprise Foundation has, since inception, granted 592 013 (2008: 468 705) loans to the value of R853 million (2008: R626 million). In the current year the organisation granted 123 308 (2008: 103 878) loans to the value of R 226 million (2008: R159 million).

The Small Enterprise Foundation is incorporated in the Republic of South Africa as a non–profit company with the aim of providing micro finance to the poor and very poor. No holding company or parent company has any interest in the organisation and all its operations are conducted in the Limpopo, Mpumalanga North West province and Eastern Cape provinces of South Africa. The head office is situated in Tzaneen in the Limpopo province.

Operating results

Results for the year ended 30 June 2009 are set out on pages 7 to 41 of the financial statements. The directors are pleased to report a 27% increase in loans and advances as well as a 39% increase in loan interest income. At the same time expenses, excluding finance costs and impairment of advances, increased by 46% due to eleven new branches being established.

Loan loss reserves

In cases where borrowers experience death amongst their members, the company will decrease the borrower's repayment and write-off the amount owed by the member. Such write-offs are classified as provisions for claims not yet incurred. An amount of R 616 976 (2008: R 492 615) was provided for.

A debt is declared irrecoverable once it is 90 days in arrears. An amount of R766 406 (2008: R 629 850) was written off during the year under review.

We believe that this excellent performance will be maintained due to the nature of the lending procedures employed, the diligence of the field staff and the commitment of clients.

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 R 306 785 (2008: R 320 422).

A loan loss reserve is created for all loans in arrears more than 1 day up to 90 days. The reserve is calculated based on historical information of outstanding loans for the previous 12 months and is calculated for the following categories:

Loan loss reserves (continued)

1 - 30 days in arrears	– MCP 23.04% and TCP 9.74% of the outstanding group loan amount is provided
31 - 60 days in arrears	– MCP 48.07% and TCP 39.48% of the outstanding group loan amount is provided
61 - 90 days in arrears	– MCP 62.30% and TCP 72.63% of the outstanding group loan amount is provided
91 days and older	– The group loan is written off as a bad debt

Directors and secretary

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

Mr Matome Patrick Malatji (Chairperson)
Mr Sanjay Doshi (Non-executive)
Ms Olivia Henwood (Non-executive)
Ms Marie Albertina Kirsten (Non-executive)
Mr Mutle Constantine Mogase (Non-executive)
Mr Modise Motloba (Non- executive)
Ms Sizeka Monica Rensburg (Non-executive)
Mr John Robert de Wit (Managing Director)

Secretary and Public Officer - Nexia Levitt Kirson and John Robert de Wit

Auditors - Deloitte & Touche

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Post balance sheet events

No events have occurred between the financial year-end and the date of this report that are expected to 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 2009

	Notes	2009 R	2008 R
ASSETS			
Non-current assets			
Property and equipment	2	4 873 743	2 204 387
Current assets			
Loans and advances	3	89 968 914	70 806 191
Other receivables	4	1 564 650	796 971
Cash and short term funds		7 719 495	11 852 437
Total current assets		99 253 059	83 455 599
TOTAL ASSETS		104 126 802	85 659 986
FUNDS AND LIABILITIES			
Funds			
Non-distributable reserve		2 090 079	-
General capital reserve	5	11 372 099	8 367 670
Development reserve	6	6 654 459	6 654 459
Educational reserve	7	20 188	20 188
Retained earnings		4 855 666	10 149 210
Total funds		24 992 491	25 191 527
Non-current liabilities			
Long term loans	8	55 062 814	33 469 787
Current liabilities			
Short term loans	9	16 548 382	18 394 328
Trade and other payables		1 617 530	1 846 616
Provisions	10	2 900 401	2 783 414
Accruals		990 284	291 625
Unutilised grants	15	2 014 900	3 682 689
Total current liabilities		24 071 497	26 248 672
TOTAL FUNDS AND LIABILITIES		104 126 802	85 659 986

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 June 2009

	Notes	2009 R	2008 R
Revenue	11	49 857 136	38 409 765
Finance costs	12	(8 203 405)	(5 258 490)
Impairment of advances	13	(1 140 020)	(891 253)
Provision for impairment of loans and advances	3	(297 688)	(153 082)
Margin on lending activities		40 216 023	32 106 940
Operating expenses		(30 773 544)	(22 795 897)
Operating income		9 442 479	9 311 043
Sundry income		558 033	66 887
Profit on disposal of property and equipment		842	1 077
Income before head office expenses		10 001 354	9 379 007
Head office expenses	19	(18 245 355)	(11 163 661)
Loss before grants	14	(8 244 001)	(1 784 654)
Operational grants utilised to cover expenses	15	2 950 457	1 330 780
Capital grants received	15	3 004 429	2 121 241
Other grants refunded		-	(431 422)
Net (loss) / income for the year		(2 289 115)	1 235 945
Capital grants received*	15	(3 004 429)	(1 689 819)
Loss for the year		(5 293 544)	(453 874)

* All capital grants were received with the express condition that the funds be used for lending to customers and are therefore considered being capital in nature. The capital grants are therefore not available in the day to day operations of the company.

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 2009

	Non-Distributable reserves R	General capital reserve R	Development reserve R	Educational reserve R	Retained earnings R	Total R
Balance as at 1 July 2007	**-**	**6 246 429**	**7 085 882**	**20 188**	**10 603 083**	**23 955 582**
Net income for the year		-	-	-	1 235 945	1 235 945
Revaluation	-					
Grants transferred from Retained earnings*		2 121 241	(431 423)	-	(1 689 818)	-
Balance as at 30 June 2008	**-**	**8 367 670**	**6 654 459**	**20 188**	**10 149 210**	**25 191 527**
Net loss for the year					(2 289 115)	(1 693 360)
Revaluation of owner occupied land and buildings	2 090 079					
Grants transferred from Retained earnings *		3 004 429			(3 004 429)	2 090 079
Balance as at 30 June 2009	**2 090 079**	**11 372 099**	**6 654 459**	**20 188**	**4 855 666**	**24 992 491**

*During the current year all capital grants received were recognised as income. The capital grants were then transferred to the General capital reserve as these grants were specifically received from donors to be used as loan capital.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 June 2009

	Notes	2009 R	2008 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	(68 606 232)	(53 426 186)
Other interest and fees received		49 857 136	38 409 765
Interest paid		(8 203 405)	(5 258 490)
Net cash used in operating activities		(26 952 501)	(20 274 911)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(1 216 619)	(709 641)
Proceeds on disposal of property and equipment		2 000	15 300
Net cash used in investing activities		(1 214 619)	(694 341)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in long term loans		21 593 027	13 872 243
(Decrease) / increase in short terms loans		(1 845 946)	7 447 003
Grants received		5 954 886	3 452 021
Grants refunded		-	(431 422)
(Decrease) / increase in unutilised grants		(1 667 789)	3 682 378
Net cash generated by financing activities		24 034 178	28 022 223
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(4 132 942)	7 052 971
Cash and cash equivalents at beginning of the financial year		11 852 437	4 799 466
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR		7 719 495	11 852 437

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 2009

	2009 R	2008 R
A. CASH UTILISED BY OPERATIONS		
Loss before grants	(8 244 001)	(1 784 654)
Adjusted for:		
- Other interest and fees received	(49 857 136)	(38 409 765)
- Interest paid	8 203 405	5 258 490
- Depreciation	636 183	468 323
- Profit on disposal of property and equipment	(842)	(1 077)
- Provision for impairment on loans and advances	297 688	153 082
Operating loss before working capital changes	(48 964 703)	(34 315 601)
- Adjusted for changes in working capital:		
- Increase in other receivables	(767 679)	(56 025)
- (Decrease) / increase in trade and other payables	(229 086)	916 511
- Increase in other accruals	815 647	1 069 801
- Increase in loans and advances	(19 460 411)	(21 040 872)
Cash utilised by operations	(68 606 232)	(53 426 186)

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of

	2009 R	2008 R
Balances with banks	7 719 495	11 852 437

1. Accounting policies

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The annual financial statements are prepared on the accrual basis, except for certain financial instruments which are fair valued. The following principal accounting policies have been incorporated, and are consistent with prior years in all material respects:

1.1 Interest earned on advances

Interest earned on advances is recognised using the effective interest rate method over the term of the loans. No interest rate risk exists on advances as interest is not linked to market changes but remains constant even when Repo rate changes are made.

1.2 Other interest received

Other interest received is accrued on a daily basis using the effective interest rate method.

1.3 Initiation and service fees

Initiation fees are recognised as income on the date that loans and advances are disbursed as this represents a cost recovery in respect of loan initiation. Service fees are recognised as income on a monthly basis as they are received.

1.4 Grants received

Operational grants received

These are grants which are specifically designated to be utilised 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.

Grants for loan capital

Grants designated for loan capital are recognised in the income statement when received. These grants are then transferred to the General capital reserve.

1.5 Property and equipment

Property and equipment are stated at historical cost (land and buildings at the revalued amount) and are depreciated to their residual value using the straight-line method over the estimated useful lives of the assets. The following rates of depreciation have been used:

Furniture and fittings	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicles	4 years
Buildings	40 years

Land is not depreciated.

1. Accounting policies (continued)

1.5 Property and equipment (continued)

The carrying amounts of property and equipment are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value.

1.6 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on balance sheet when the company becomes a party to the contractual provisions of the instrument.

All financial instruments are initially measured at cost, which is the fair value of the consideration given or received in exchange for these instruments, less any impairment.

At 30 June 2009, the company's principal financial assets included cash and short term funds, advances and accrued interest and trade and other receivables. Advances and accrued interest are measured at amortised cost. Cash, short term funds and trade and other receivables are stated at their nominal values which approximate fair values. All financial assets are reduced by appropriate allowances for estimated irrecoverable amounts where applicable.

At 30 June 2009, the company's principal financial liabilities included trade and other payables, short and long term loans. Short and long term loans are measured at amortised cost. Trade and other payables are stated at their nominal value which approximates fair value.

1.7 Retirement benefits

Contributions to retirement benefit funds are charged to the income statement when they are incurred.

1.8 Provisions

Provisions for staff related expenses such as outstanding leave days not taken at year end and 13th cheques are made at total cost to the organisation as at 30 June 2009.

Provision for audit fees and workmen's compensation are based on estimates as at 30 June 2009.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2009

2. Property and equipment

	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
Cost						
At beginning of year	1 088 158	663 872	997 018	1 143 651	13 611	3 906 310
Additions	21 763	326 499	133 676	609 138	125 541	1216 617
Revaluations*	2 090 079	-	-	-	-	2 090 079
Disposals and scrapings	-	-	-	-	(6 944)	(6 944)
At end of year	3 200 000	990 371	1 130 694	1 752 789	132 208	7 206 062
Accumulated depreciation						
At beginning of year	89 204	360 187	475 820	768 026	8 685	1 701 922
Depreciation	41 837	121 616	179 799	278 187	14 744	636 183
Disposals and scrapings	-	-	-	-	(5 786)	(5 786)
At end of year	131 041	481 803	655 619	1 046 213	17 643	2 332 319
Carrying value	3 068 959	508 568	475 075	706 575	114 566	4 873 743

*The Head Office premises at 42 Boundary Road, Tzaneen, South Africa, was revalued by an independent valuator, GJ Moller (MSAV No 376). The effective date of the valuation was 16 February 2009. The capitalisation rate valuation method was used. The company adopted a policy of revaluing their land and buildings once every 3 years. If the impact of revaluation is ignored, the carrying value of land and buildings as at 30 June 2009 would be R996 582.

2. Property and equipment (continued)

	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
2008						
Cost						
At beginning of year	1 072 320	530 620	818 968	809 195	13 611	3 244 714
Additions	15 838	133 252	216 046	344 505	-	709 641
Disposals and scrapings	-	-	(37 996)	(10 049)		(48 045)
At end of year	1 088 158	663 872	997 018	1 143 651	13 611	3 906 310
Accumulated depreciation						
At beginning of year	65 413	279 044	341 907	576 086	5 282	1 267 732
Depreciation	23 791	81 143	160 510	199 476	3 403	468 323
Disposals and scrapings	-	-	(26 597)	(7 535)	-	(34 132)
At end of year	89 204	360 187	475 820	768 026	8 685	1 701 923
Carrying value	998 954	303 685	521 198	375 625	4 926	2 204 387

3. Loans and advances

	2009 R	2008 R
Gross advances	89 388 212	70 032 124
Accrued interest on advance	1 804 301	1 699 978
Provision for bad debts	(606 623)	(433 296)
IBNR provision (death write offs)	(616 976)	(492 615)
	89 968 914	70 806 191
Movement in impairment provision:		
Balance at beginning of year	925 911	772 829
Current year movement in provision	297 688	153 082
Balance at end of year	1 223 599	925 911

Advances that have been funded out of loans received from the following institutions: Hivos Triodos Bank, Khula Enterprise Finance, Umsobomvu Youth Fund, Tembeka Social Investment Co, Teba Bank, ABSA Bank, Standard Bank and Oiko Credit.

The company is operational with its Head Office in Tzaneen and operational in the surrounding areas in the Limpopo Province, Mpumalanga Province and the Eastern Cape Province and North West Province, South Africa. Individual loans do not exceed R12 000.

Effective interest rates, based on a declining balance, are charged at a fixed rate and an initiation and service fee are also charged. Rates do not fluctuate with changes to Repo rate changes and no provision is calculated for rate changes.

Due to the fact that the interest rate on advances does not fluctuate with changes in the Repo rate and due to the fact that the advances have a short time to maturity, the carrying amounts approximate fair value.

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

	2009 R	2008 R

3. Loans and advances (continued)

A total amount of R999 144 (2008: R515 460) of advances was in arrears at the financial year end. An analysis of the arrears for the current year is presented below.

	2009 R	2008 R
Rescheduled loans	306 785	320 422
1 – 30 days	415 306	89 619
31 – 60 days	149 503	30 802
61 – 90 days	127 550	74 617
	999 144	515 460

4. Other receivables

Included in accounts receivable is an amount for staff debtors of R167 531 (2008: R55 424). This constitutes small loans generally available for salary advances and study loans given to staff. These salary advances carry a market related interest rate while study loans are interest free. There were no arrears in respect of staff loans (2008: R nil) at the financial year end. Loans are normally repaid over a period of two years.

Due to the fact that the other receivables have a short time to maturity, the carrying amount approximates fair value.

	2009 R	2008 R
Other receivables and staff debtors	1 564 650	796 971

Other receivables and staff debtors are neither past due nor impaired.

	2009 R	2008 R

5. General capital reserve

The General capital reserve consists of grants received from donors other than USAID (see note 6). Such grants are, for most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by the company. During the year grants were received from the Thusano Trust, Old Mutual, The International Alliance of Womem, Hivos, Charities Aid Foundation and R Gailey. All grants have been designated by the donors concerned as loan capital to be utilised for future disbursements of loans to clients.

	2009 R	2008 R
Balance at beginning of year	8 367 670	6 246 429
Movement in general capital reserve	3 004 429	2 121 241
Balance at end of year	11 372 009	8 367 670

6. Development reserve

The development reserve comprises mainly of grants received from USAID. These grants are utilised for lending.

	2009 R	2008 R
Balance at beginning of year	6 654 459	7 085 882
Unutilised portion of Ford grant refunded	-	(431 423)
Balance at end of year	6 654 459	6 654 459

7. Educational reserve

The educational reserve consists of small individual grants. 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. As from July 2007 these loans were discontinued.

	2009 R	2008 R
Balance at end of year	20 188	20 188

	2009	2008
	R	R

8. Long term loans

Hivos Triodos Bank

Hivos Triodos Bank of the Netherlands has approved four loan facilities totalling R 21.75 million.

The first facility of R7 million is redeemable in South African Rand in one installment on 1 July 2010. This loan should have been paid July 2009 but has been renegotiated to be rolled over to July 2010. Interest is paid at the prime rate with a minimum of 12% and a maximum of 18% per annum, and is payable six monthly in arrears.

The agreement for the second facility of R4 million was signed in 2007 and the first R2 million was received in June 2007. The loan is redeemable in South African Rand in one installment of R2 million on 1 July 2010 and a final installment of R2 million on 1 July 2012. Interest payable on this loan facility is paid at prime with a minimum of 12% and a maximum of 18% per annum and is payable 6 monthly in arrears.

The agreement for the third facility of R3.25 million was signed in 2008 and the amount of R3.25 million was received in June 2008. The loan is redeemable in South African Rand in one instalment of R3.25 million on 1 July 2012. Interest payable on this loan facility is paid at prime with a minimum of 13.5% and a maximum of 18% per annum and is payable 6 monthly in arrears.

The agreement for the fourth facility of R7.425 million was signed in 2008 and the amount of R7.425 million was received in November 2008. The loan is redeemable in South African Rand in one instalment of R7.425 million in November 2012. Interest payable on this loan facility is paid at prime with a minimum of 13.5% and a maximum of 18% per annum and is payable 6 monthly in arrears.

The purpose of the Hivos Tridos loans is to increase the working capital for the purpose of lending to micro entrepreneurs. The loans are secured by a first session of the advances book to micro entrepreneurs financed by this loan facility.

	2009 R	2008 R
Balance at beginning of year	14 325 000	9 000 000
Movement	7 425 000	6 051 402
Short term portion transferred to current liabilities	-	(726 402)
Balance at end of year	21 750 000	14 325 000

8. Long term loans (continued)

Khula Enterprise Finance Limited

In the 2004 year, the company entered into two additional business loan agreements with Khula Enterprise Finance Limited. The maximum loan facilities under these agreements are R2.1 million and R9.6 million. Interest on loan drawdowns is calculated at prime minus 3%.

Draw downs in respect of the R2.1 million facility are repayable over 60 months from the date of the specific drawdown.

The repayment period in respect of the R9.6 million facility is set at a maximum of 60 months from initial drawdown

In March 2009, the company entered into a new business loan agreement with Khula Enterprise Finance Limited. The maximum loan facility being R 15 million. Interest on the loan is calculated at prime minus 3%.

	2009 R	2008 R
Balance at beginning of year	3 748 358	6 060 110
Movement	15 907 604	819 811
Short term portion transferred to current liabilities	(7 462 278)	(3 131 563)
Balance at end of year	12 193 684	3 748 358

	2009	2008
	R	R

8. Long term loans (continued)

Tembeka Social Investment Company Limited

Two additional loans of R1 million was entered into in April and October 2007. The loans are repayable in 8 instalments of R250 000 starting in month 18 and thereafter every 6 months with a final payment in May and November 2010. The one loan carries interst at a flat rate of 13% per annum while the other loan carries interest at the repo rate plus 3.75% and which is payable quarterly in arrears.

	2009 R	2008 R
Balance at beginning of year	1 250 000	1 499 997
Movement	30 200	801 559
Short term portion transferred to current liabilities	(1 030 200)	(1 051 556)
Balance at end of year	250 000	1 250 000

	2009 R	2008 R

8. Long term loans (continued)

Teba Bank and Tembani International Guarantee Fund

In February 2004, the company entered into a loan agreement with Tembani International Guarantee Fund and Teba Bank. The maximum loan facility under this agreement is R3 million. Interest is calculated at prime less 0.5% and is payable monthly. The loan is repayable on a monthly basis. Maturity date is 25 February 2009. An addendum was signed in February 2006 to increase the facility with R2 million to R5 million with final maturity due on 1 July 2009. The facility operates on a revolving fund basis.

This loan is secured by a cession of a fixed deposit of R500 000 held at Standard Bank and a letter of credit for R3.5 million by City Bank New York on behalf of Tembani International Guarantee Fund.

The loan is further secured by a cession of end user loans.

	2009 R	2008 R
Balance at beginning of year	-	-
Movement	761 853	5 031 487
Short term portion transferred to current liabilities	(761 853)	(5 031 487)
Balance at end of year	-	-

8. Long term loans (continued)

Umsobomvu Youth Fund

In December 2005 the company entered into a loan agreement with Umsobomvu Youth Fund. The maximum loan facility under this agreement is R5.4 million. The interest is calculated at prime less 4% and is payable in 10 equal quarterly payments starting 90 days after the last drawdown.

	2009 R	2008 R
Balance at beginning of year	-	971 380
Movement	-	202 200
Short term portion transferred to current liabilities	-	(1 173 580)
Balance at end of year	-	-

Oiko credit

In March 2007 the company entered into a loan agreement with Oiko credit. The maximum loan facility under this loan is R10.1 million. The interest is calculated at Repo rate +3.75% with a minimum interest rate of 10.75% and is payable in 3 monthly instalments. The loan capital is payable in 16 equal half yearly payments starting 6 months after the initial drawdown and a final payment in March 2015. The loan is repayable in South African Rand.

	2009 R	2008 R
Balance at beginning of year	7 575 000	2 816 057
Movement	-	6 089 899
Short term portion transferred to current liabilities	(1 262 500)	(1 330 956)
Balance at end of year	6 312 500	7 575 000

Swedfund

In October 2007 the company entered into a loan agreement with Swedfund. The maximum loan facility under this loan is R10 million. The interest is calculated at JIBAR (Johannesburg Inter-bank Acceptance Rate) plus 3.8% for a six month period calculated two banking days prior to the first day of the relevant interest period. The JIBAR rate for the period 1 July 2008 to 30 June 2009 was 8.44%. The loan capital is payable in 7 equal half yearly payments starting 18 months after the initial drawdown and a final payment in March 2012. The loan is repayable in South African Rand.

	2009 R	2008 R

8. Long term loans (continued)

Swedfund (continued)

	2009 R	2008 R
Balance at beginning of year	6 571 429	-
Movement	3 843 201	8 262 501
Short term portion transferred to current liabilities	(2 858 000)	(1 691 072)
Balance at end of year	7 556 630	6 571 429

Standard Bank Term Loan

In October 2008 SEF entered into a loan agreement with Standard Bank for R 7.5 million. This loan was received in 3 equal tranches of R 2.5 million in this financial year. The loan carries interest at prime and capital is repayable in 15 bi-annual instalments commencing in month 18 after the date of the first draw down. Interest is payable monthly.

	2009 R	2008 R
Balance at beginning of year	-	-
Movement	7 500 000	
Short term portion transferred to current liabilities	(500 000)	-
Balance at end of year	7 000 000	
Total long term loans	55 062 814	33 469 787

Long term loans are carried at amortised cost. Due to the fact that the loans have variable interest rates that fluctuate with changes in the repo rate and the prime rate, the carrying amount approximates fair value.

	2009 R	2008 R
9. Short term loans		
M Vintges		
In the 2006 financial year the company entered into a loan agreement with Margaretha Vintges. The loan amount advanced was R100 000. Interest is calculated at prime less 4%. The full amount outstanding is repayable on short-term notice by the lender.		
Loan from Margaretha Vintges	146 294	132 056
In April 2008, the company entered into a loan agreement with Tembani International Guarantee Fund and ABSA Bank. The maximum loan facility under this agreement is R5 million. Interest is calculated at prime less 1.5% and is payable monthly. Maturity date is November 2012. The facility operates on a revolving fund basis. This loan is secured by a cession of a fixed deposit of R500 000 held at ABSA Bank and a letter of credit for R3.5 million by City Bank New York on behalf of Tembani International Guarantee Fund. The loan is further secured by a cession of end user loans.		
ABSA Bank and Tembani International Guarantee Fund revolving facility	213 957	2 839 949
Loan from Genesis steel (no repayment terms)*	1 115 000	465 000
Loan from Sentinel steel (no repayment terms)*	635 000	285 000
Loan from GJ O Marincowitz	563 300	535 707
Current portion of Hivos Triodos Bank loan		726 402
Current portion of Khula Enterprise Finance Limited Business loan	7 462 278	3 131 563
Current portion of Tembeka Social Investment Company loan	1 030 200	1 051 556
Current portion of Teba Bank loan and Tembani International Guarantee Fund	761 853	5 031 487
Current portion of Umsobomvu Youth Fund Loan	-	1 173 580
Current portion of Oiko Credit	1 262 500	1 330 956
Current portion Swedfund	2 858 000	1 691 072
Current portion of Standard Bank Term Loan	500 000	-
	16 548 382	18 394 328

*These loans have been reclassified to short-term as there are no repayment terms and the loans are repayable on demand. Comparatives have been restated accordingly.

	2009 R	2008 R

10. Provisions

	2009 R	2008 R
Provision for accumulated leave	1 366 543	969 076
Provision for annual bonus	1 018 532	700 053
Provision for incentive bonus	-	665 295
Provision for audit fee	515 326	448 990
	2 900 401	2 783 414

11. Revenue

	2009 R	2008 R
Interest received on advances	27 014 862	19 416 982
Interest received on cash balances	617 816	944 685
Initiation fees	21 387 028	17 586 741
Service fees	837 430	461 357
	49 857 136	38 409 765

12. Finance costs

	2009 R	2008 R
Finance costs in respect of loans	8 101 516	5 182 680
Administration cost on borrowings	101 889	75 810
	8 203 405	5 258 490

13. Impairment of advances

	2009 R	2008 R
Bad debts written off	766 406	629 850
Bad debts recovered	(68 426)	(75 756)
Death write-offs	442 040	337 159
	1 140 020	891 253

14. Loss before grants

The loss before grants is arrived at after taking the following into account.

	2009 R	2008 R
Staff costs	31 306 717	22 551 361
Auditor's remuneration		
- Statutory audit – current year	455 323	383 990
- Statutory audit – prior year under provision	61 654	26 880
- Audit expenses	60 000	65 000
	576 977	475 780
Depreciation	636 183	468 323
Operating leases		
- Rentals motor vehicles	964 625	803 483
- Buildings	970 690	422 686
	1 935 315	1 226 169
Death write offs	442 040	337 159
Legal fees	11 762	15 492
Directors' emoluments		
- For managerial duties (paid by the company)	1 201 401	751 576
- Expenses relating to managerial duties	37 545	73 170
	1 238 946	824 746

	2009 R	2008 R
15. Grants received		
Operational grants received – gross amount*		
H.S.D.U.	81 692	
Old Mutual Masisizane Fund	2 584 755	2 900 000
Hivos Triodos	336 337	445 618
Small Enterprise Education	38 063	-
Total operational grants received	3 040 847	3 345 618
Unitilised portion of operational grants received		
- Old Mutual Masisizane fund	-	(1 884 755)
- Hivos	(90 390)	(130 083)
	2 950 457	1 330 780
Capital grants received – gross amount*		
Sida	-	1 017 059
Thusano Trust	100 000	210 000
Old Mutual Masisizane Fund	1 812 239	500 000
Hivos	2 492 552	1 782 474
Threshold Foundation	-	216 660
The International Alliance of Women	138 263	62 588
Charities Aid Foundation	384 885	-
R Gailey	1 000	-
Total capital grants received	4 928 939	3 788 781
Unitilised portion of capital grants received		
- Hivos	(1 924 510)	(1 667 851)
	3 004 429	2 121 241
Total grants received	5 954 886	3 452 021

All capital grants were received with the express condition that the funds be used for lending to customers and are therefore considered being capital in nature. The capital portion of the HIVOS grant is intended for the purchase of a new computerised loan administration management system.

**Gross amount received represent grants available for use during the year, thus includes opening unutilised grants.*

	2009 R	2008 R

16. Operating leases

The company has various operating leases entered into with Stannic for the rental of motor vehicles. The minimum lease payments are detailed below:

	2009 R	2008 R
Amounts payable within 1 year	884 768	830 887
Amounts payable within 2 – 5 years	1 358 564	1 297 589
Amounts payable greater the 5 years	-	-
Total	2 243 332	2 128 476

17. Taxation

No provision has been made for taxation as the organisation is incorporated under Section 21 of the Companies Act and is therefore exempt from taxation.

18. 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 employer and employees' contributions to the Provident Fund. In 2009, the employer contributed R3 426 638 (2008: R2 453 722) towards the Provident Fund and group life premiums. Current contributions to the Provident Fund are charged against income as incurred.

19. Total head office cost

	2009 R	2008 R
Training department	3 338 048	1 405 835
Human Resources department	1 348 808	1 532 319
Quality Assurance department	1 136 293	872 875
Loan administration	1 378 777	1 050 897
Research and development including micro-insurance trial	1 155 667	385 240
Senior Management, finance and secretarial	9 182 362	5 916 495
Information Technology Department	582 714	-
U.S. Office	122 686	-
	18 245 355	11 163 661

The 2009 financial year saw a 46% increase in new branches. The Small Enterprise Foundation had to expand its head office accordingly, so as to accommodate future increments.

20. Encumbered assets and contingent liabilities

The following securities have been ceded by the company:

The Standard Bank fixed deposit account has been ceded as security to Teba Bank for the loan held with Teba Bank to the value of R500 000.

The Standard Bank money market account has been ceded to Stannic as collateral of the leased vehicles to the value of R515 362.

The Standard Bank Bond Account has a second mortgage registered with Standard Bank to the value of R1 700 000.

ABSA Bank fixed deposit account has been ceded as security to ABSA Bank for the loan held with ABSA Bank to the value of R500 000.

21. Related party balances and transactions

The Small Enterprise Foundation entered into a related party transaction with a close family member of the Managing Director (John De Wit). The transaction involved renting of office space and use of telephone, water and electricity. The transaction was carried out on commercial terms at R45 526.

22. Risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation, and cause the other party to incur a financial loss. The company mitigates this risk by employing a comprehensive framework of policies, procedures and limits to ensure a process of risk assessment, quantification and monitoring.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities. Management, through regular review of the company's position, ensures that the company's operations can meet the minimum levels of funds required.

As the company is still dependant on grants in order to continue as a going concern, the management of this risk is critical to the company's survival. The company does however have loan facilities available should funds be required to meet commitments.

The table in **(22.3)** analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the discounted cash flows except if stated otherwise. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company mitigates this risk by setting fixed repayment terms for all loans and advances.

Interest rate risk

Interest rate risk is the risk that interest rates will fluctuate in future. The company adopts a policy of ensuring that its borrowings are at market related rates to address its interest rate risk. Advances attract interest at a fixed rate.

Capital risk

The company manages its capital to ensure that it will be able to continue as a going concern while maximising its social returns through the optimisation of the debt and equity. The company's strategy remains unchanged from 2008.

The capital structure of the company consists of debt, which includes borrowings, cash and cash equivalents, reserves and retained earnings respectively.

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22.1 Balance Sheet - categories of financial instruments - 2009

	Total	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities
Assets	**R**	**R**	**R**	**R**
Property and equipment	4 873 743	-	-	4 873 743
Loans and advances	89 968 914	89 968 914	-	-
Other receivables	1 564 650	233 219	-	1 331 431
Cash and short term funds	7 719 495	7 719 495	-	-
Total assets	**104 126 802**	**97 921 628**	**-**	**6 205 174**
Funds and liabilities				
General capital reserve	11 372 099	-	-	11 372 099
Developmental reserve	6 654 459	-	-	6 654 459
Educational reserve	20 188	-	-	20 188
Retained earnings	4 855 666	-	-	4 855 666
Non – distributable reserve	2 090 079	-	-	2 090 079
Long term loans	55 062 814	-	55 062 814	-
Short term loans	16 548 382	-	16 548 382	-
Trade and other payables	1 617 530	-	1 617 530	-
Accruals and Provisions	3 890 685	-	3 890 685	-
Unutilised grants	2 014 900	-	-	2 014 900
Total funds and liabilities	**104 126 802**	**-**	**77 119 411**	**27 007 391**

22.1 Balance Sheet - categories of financial instruments - 2008

Assets	Total R	Loans and receivables R	Financial liabilities at amortised cost R	Non financial assets and liabilities R
Property and equipment	2 204 387	-	-	2 204 387
Loans and advances	70 806 191	70 806 191	-	-
Other receivables	796 971	263 512	-	533 459
Cash and short term funds	11 852 437	11 852 437	-	-
Total assets	**85 659 986**	**82 922 140**	**-**	**2 737 846**
Funds and liabilities				
General capital reserve	8 367 670	-	-	8 367 670
Development reserve	6 654 459	-	-	6 654 459
Educational reserve	20 188	-	-	20 188
Retained earnings	10 149 210	-	-	10 149 210
Long term loans	33 469 787	-	33 469 787	-
Short term loans	18 394 328	-	18 394 328	-
Trade and other payables	1 846 616	-	1 846 616	-
Accruals and Provisions	3 075 039	-	3 075 039	-
Unutilised grants	3 682 689	-	-	3 682 689
Total funds and liabilities	**85 659 986**	**-**	**56 785 770**	**28 874 216**

22.2 Income and expenses per category of financial assets and financial liabilities - 2009

	Total R	Loans and receivables R	Financial liabilities at amortised cost R	Non financial assets and liabilities R
Interest income	27 632 678	27 632 678	-	-
Finance cost	(8 203 405)	-	(8 203 405)	-
Initiation and service fees	22 224 458	22 224 458	-	-
Other income	3 509 333	-	-	3 509 333
Impairment and provision for impairment on loans and advances	(1 437 708)	(1 437 708)	-	-
Other operating expenses	(49 018 900)	-	-	(49 018 900)
Loss for the year	**(5 293 544)**	**48 419 428**	**(8 203 405)**	**(45 509 567)**

22.2 Income and expenses per category of financial assets and financial liabilities - 2008

	Total R	Loans and receivables R	Financial liabilities at amortised cost R	Non financial assets and liabilities R
Interest income	20 361 667	20 361 667	-	-
Finance cost	(5 258 490)	-	(5 258 490)	-
Initiation and service fees	18 048 098	18 048 098	-	-
Other income	1 398 744	-	-	1 398 744
Impairment and provision for impairment on loans and advances	(1 044 335)	(1 044 335)	-	-
Other operating expenses	(33 959 558)	-	-	(33 959 558)
Loss for the year	**(453 874)**	**37 365 430**	**(5 258 490)**	**(32 560 814)**

22.3 Liquidity risk management -2009

	Total **R**	**<1 year** **R**	**>1 year <5 year** **R**	**> 5 year** **R**	**Non - determined** **R**
Funds					
Total funds	24 992 491	-	-	-	24 992 491
Discounted liabilities					
				-	
Long term loans	55 062 814	-	51 300 314	3 762 500	-
Short term loans	16 548 382	16 548 382	-	-	-
Undiscounted liabilities					
Trade and other payables	1 617 530	1 617 530	-	-	-
Accruals and Provisions	3 890 685	3 890 685		-	-
Unutilised grants	2 014 900	2 014 900	-	-	-
Total funds and liabilities	**104 126 802**	**24 071 497**	**51 300 314**	**3 762 500**	**24 992 491**

22.3 Liquidity risk management -2008

	Total R	<1 year R	>1 year <5 year R	> 5 year R	Non - determined R
Funds					
Total funds	25 191 527	-	-	-	25 191 527
Discounted liabilities					
			-		
Long term loans	33 469 787	-	30 944 787	2 525 000	-
Short term loans	18 394 328	18 394 328	-	-	-
Undiscounted liabilities					
Trade and other payables	1 846 616	1 846 616	-	-	-
Accruals and Provisions	3 075 039	3 075 039	-	-	-
Unutilised grants	3 682 689	3 682 689	-	-	-
Total funds and liabilities	**85 659 986**	**26 998 672**	**30 944 787**	**2 525 000**	**25 191 527**

22.4 Credit risk management

	2009 R	2008 R
Financial assets whose terms have been renegotiated		

These loans are termed rescheduled loans, as the terms have been renegotiated, due to the client's inability to pay. These loans are fully impaired.

	2009 R	2008 R
Rescheduled loans - carrying amount	306 785	320 422
Loans and advances past due and impaired	692 359	195 038
Past due up to 30 days	415 306	89 619
Past due up to 31-60 days	149 503	30 802
Past due up to 61-90 days	127 550	74 617
Loan advances neither past due and nor impaired	90 193 369	71 216 642
Gross loans and advances	90 192 513	71 732 102
Impairments	(1 223 599)	(925 911)
Net loans and advances	89 968 914	70 806 191

22.5 Interest rate risk – 2009

		Repricing period			
	Total	**<1 year**	**>1 year <5 year**	**>5 year**	**Non-Interest bearing**
Assets	**R**	**R**	**R**	**R**	**R**
Property and equipment	4 873 743	-	-	-	4 873 743
Loans and advances (fixed rate)	89 968 914	-	-	-	89 968 914
Other receivables	1 564 650	-	-	-	1 564 650
Cash and short term funds	7 719 495	7 719 495	-	-	-
Total assets	**104 126 802**	**7 719 495**	**-**	**-**	**96 407 307**
Funds					
Total funds	24 992 491	-	-	-	24 992 491
Discounted liabilities					
Long term loans	55 062 814	55 062 814	-	-	-
Short term loans	16 548 382	16 548 382	-	-	-
Undiscounted liabilities					
Trade and other payables	1 617 530	-	-	-	1 617 530
Accruals and Provisions	3 890 685	-	-	-	3 890 685
Unutilised grants	2 014 900	-	-	-	2 014 900
Total funds and liabilities	**104 126 802**	**71 611 196**	**-**	**-**	**32 515 606**
Interest rate gap	**-**	**(63 891 701)**	**-**	**-**	**63 891 701**

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22.5 Interest rate risk – 2008

		Repricing period			
	Total	**<1 year**	**>1 year <5 year**	**> 5year**	**Non-Interest bearing**
Assets	**R**	**R**	**R**	**R**	**R**
Property and equipment	2 204 387	-	-	-	2 204 387
Loans and advances (fixed rate)	70 806 191	-	-	-	70 806 191
Other receivables	796 971	-	-	-	796 971
Cash and short terms funds	11 852 437	11 852 437	-	-	-
Total assets	**85 659 986**	**11 852 437**	**-**	**-**	**73 807 549**
Funds					
Total funds	25 191 527	-	-		25 191 527
Discounted liabilities	-	-	-		
Long term loans	33 469 787	33 469 787	-	-	-
Short term loans	18 394 328	18 394 328	-	-	-
Undiscounted liabilities					
Accruals and Provisions	3 075 039	-	-		3 075 039
Trade and other payables	1 846 616	-	-	-	1 846 616
Unutilised grants	3 682 689	-	-	-	3 682 689
Total funds and liabilities	**85 659 986**	**51 864 115**	**-**	**-**	**33 795 871**
Interest rate gap	**-**	**(40 011 678)**	**-**	**-**	**40 011 678**

23. Interest rate sensitivity analysis

As at 30 June 2009, if interest rates on floating rate assets and liabilities held at amortised cost has decreased/increased by 100 basis points with all other variables held constant, the impact on profit and loss would have been as set out below:

	2009 R	2008 R
Decrease	592 445	388 958
Increase	(592 445)	(388 958)