

THE SMALL ENTERPRISE FOUNDATION  
(An association incorporated under  
section 21 of the companies Act)  
(Registration Number : 9103485/08)  
MANAGEMENT REVIEW  
for the year ended 30 June 1996  
ANNUAL FINANCIAL STATEMENTS  
for the year ended 30 June 1996

The Small Enterprise Foundation, SEF, is a not-for-profit, non-government organisation which is dedicated to working to end the joint problem of poverty and unemployment. The organisation was registered in July 1991 and disbursed its first loans in January 1992. The following is a summary of performance to date :

	Micro-Loan Programme	Tšhomišano Credit Programme
Inception date :	Jan 1992	Jan 1996
Loans Disbursed Since Inception :	7,646,800	13,500
Average Loan since inception :	660	339
Current average loan size :	826	339
No. of Loans Disbursed since Inception:	11,580	40
Number of Enterprises currently assisted	2,427	40
Cumulative Defaults since Inception :	623	nil
Delinquency (% of current portfolio with arrears) :	0.0%	nil
Re-Scheduled Loans (Due to Illness) :	1,605	nil
Death Write-Offes (Since Inception) :	12,664	nil
Outstanding Balances on Loan Accounts :	1,372,433	11,779
Total Savings as Held by Groups :	607,663	1,804
Number of Jobs Currently Supported :	5,684	94
Since Inception - Job Positions supported :	27,727	94
Number of clients per loan officer :	202	14
Number of staff for both programmes :		
- full time :	33	
- trainees :	17	

## **Background**

In all societies when people are faced with poverty and unemployment many will turn to some small income generating project in order to earn income for the family. SEF recognises that a lack of financial resources is the main constraint which inhibits the poor and the unemployed from successfully engaging in such activities or that it is this same constraint which inhibits the ongoing survival or growth of their enterprises.

To this end SEF provides micro-credit to those engaged in micro-enterprise activity and to the poor who have the desire to develop an income generating activity.

The organisation uses a group based methodology, based on that of the Grameen Bank of Bangladesh. Loanees form groups consisting of five individuals, all of whom have their own separate micro-enterprises. Credit is then extended to the individuals through the group. Each member guarantees the repayment of all loans made to the group.

After initial training in preparation for participation in the programme groups are introduced to a Centre which comprises several groups. If accepted the group affiliates to the Centre. All Centres meet every two weeks. The Centre meeting is the venue for loan approvals, disbursements, loan repayments, contributions to group savings and discussion of problems being encountered by groups and members.

First time borrowers are restricted to loans not exceeding R300. These are repaid over 10 fortnights. Second loans may be up to R700 and are repaid over 20 fortnights. Subsequent loan maximums are R1000, R1200, R1400 etc.

From the third loan onwards borrowers may choose between a 20 fortnight repayment period or an 11 month repayment period. There is no upper limit to the loan size to which borrowers may graduate but as the steps are relatively small and the repayment period for each loan runs over some 8 to 10 months the largest loan sizes increase relatively slowly.

Interest is charged at a flat rate and is calculated at R1 per fortnight for each R100 borrowed.

### **Tšhomišano - a programme for the poor**

From its inception SEF was founded in order, firstly, to address the problem of poverty, to help those living below the poverty line to cross that line, and, secondly, to alleviate unemployment. During 1994 it was realised that only some 30% to 40% of SEF's clients were among the poorest of the region. During the current financial year SEF launched a second credit programme, Tšhomišano (*work together*). The Tšhomišano Project is a specific poverty alleviation programme and exclusively targets the poor, in this case those whose income is in the bottom 30% of this region (around R100 per person per month as opposed to the poverty line of some R180).

As Tšhomišano targets the poor it applies a poverty test to screen the poor from the non-poor (or not as severely poor). This was found to be practically necessary as in SEF's original programme it was found that the presence of the non-poor actually prevents the entry of the poor into the programme. This is due to several factors. Firstly, more work is needed to motivate and encourage the poor to make use of the credit which is on offer. As this is not really needed with the non-poor they tend to "jump ahead of the queue" if allowed equal access to loan facilities. In its original programme SEF also found that the poor in an area would see that the programme served those who were better off than themselves and then believed that the programme was not for them. Furthermore the needs, aspirations and the daily difficulties faced by the poor are different from those who have other sources of income, who are financially more secure.

With the Tšhomišano Project SEF also hopes to reach a far greater density of clients than is the case with the present programme. In general there are far greater numbers of very poor in any village than there are established micro-entrepreneurs. It is hoped to build up portfolios of as much as four or even six times as many clients in a village than has been possible in the current programme. This will have a strong positive impact on self-sustainability due to staff being able to utilise their time more productively and due to the higher levels of loan supervision which will be possible.

Tšhomišano began initial ground work in one village in August 1995 and disbursed its first loans in December 1995. The programme has now been extended to five villages. Thus far there are 54 members of whom 40 have received loans. A total of R 13,500 has been disbursed. To date there have been no arrears.

It is anticipated that over time the majority of SEF's resources will be channelled into this programme.

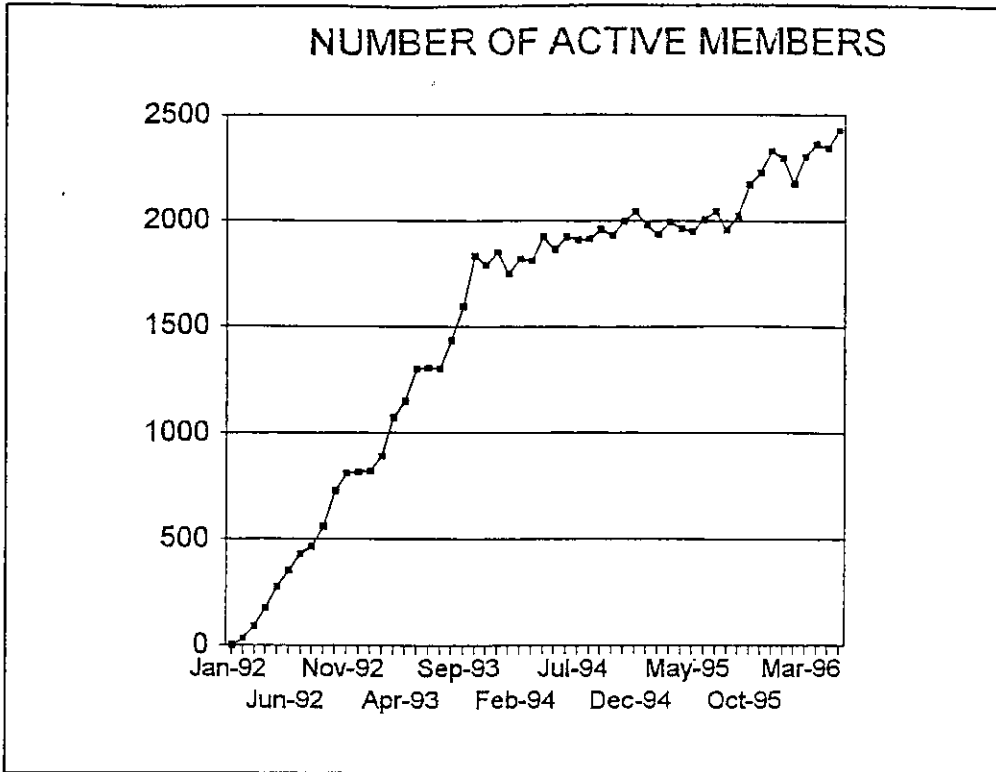
### **Delinquency**

Since inception SEF has only had to write-off two loans at a value of R 623. Currently only one loan is in arrears (arrears being defined as an instalment not paid on the scheduled instalment day). This exceptional performance is attributable to many factors including rigorous credit management, highly dedicated staff, excellent group formation and training and above all else that SEF's clients keep their commitment to assist one another in times of difficulty and to accept the responsibility of paying for any member who may fall into arrears.

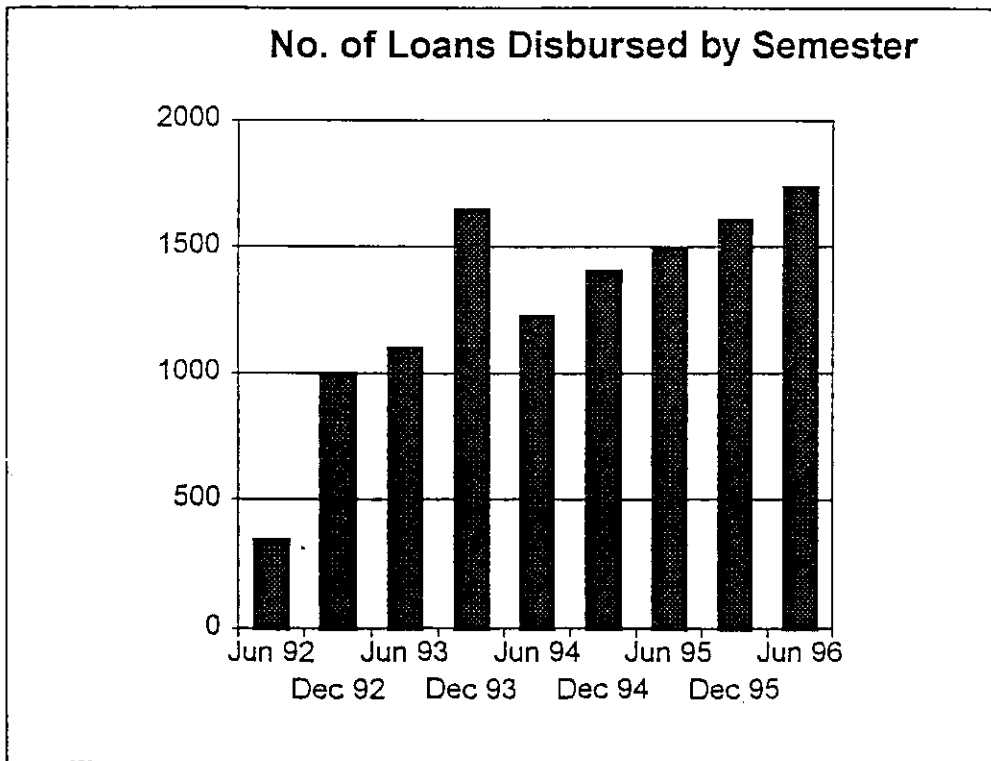
### **Growth**

Bad debts and arrears are, therefore, not an area of concern for this organisation. A much more pressing issue has been that of growth.

While the level of monthly disbursements has remained satisfactory the actual increase in the number of active clients has been disappointing. Considering the graph below of active members we see that there was good growth from inception to the end of 1993 but this was then followed by a period of very slow growth up to September 1995. The growth since then has been encouraging.



Considering again the graph below of quarterly numbers of loans disbursed it is seen that the level of lending activity has not declined, in fact it has been increasing.



The reason for the slow growth is that SEF has been experiencing a high "drop-out" rate amongst members. When members complete a loan a certain percentage of them do not return for further loans, they leave the programme. When it was first detected the drop-out rate was in the region of 45% to 55%. Since then the organisation has focused a great deal of its efforts into trying to resolve this matter. In fact further expansion in terms of training and deploying new staff into new geographical areas was completely curtailed while the organisation fought with this issue. To have geographically expanded at that stage would have led to an "artificial" perception that the programme was healthy and expanding whereas in reality it would have simply been spreading a "defective" product.

The major reasons for the drop-outs were identified as :

- a. weak group formation
- b. poor loan utilisation
- c. weak loan supervision

By the end of this financial year SEF had revised all policies and procedures, re-trained staff and won client acceptance for methodology changes to address all of the above.

Weak group formation meant that groups were not formed well enough to ensure that members assisted each other in times of trouble nor could they, often, amicably resolve differences. In many instances this led to some members carrying the burden of repaying the loans of others. This factor has been resolved through a better understanding of what constitutes good group formation and in being more discerning when applicants select group members.

#### **Loan Utilisation**

The implications of poor loan utilisation and weak loan supervision are that many clients do not apply the full amount of their loans to their business activities or subsequently redirect profits (and sometimes capital) from the business for household needs, or simply for consumption.

This frequently leads to a decline in the business and in income to the family. In addition the member is then faced with having to make loan repayments and may often have to borrow from other family members to do so. This painful experience would cause many to leave the programme.

The argument has often been made that at this level of business activity money is fungible. It appears that this may be too simplistic a view and that people will often make purchases that they would not otherwise have made if they had had to save over time for the same item. (Surely this is not too far from the manner in which Americans are famous for running credit cards to the limit, mainly because they buy things that are nice and not because they can really afford them.)

Learning from the Grameen Bank and from Associate Professor Sukor Kasim's work in Malaysia and the Philippines the organisation introduced a system of loan utilisation checking and ongoing loan supervision. Intensive staff training in this took place during the past six months and workshops were

held with all Centre leadership to see if all members would accept these new principles. It is very pleasing to report that in May 1996, with only one or two exceptions, SEF's Centres fully adopted the principles of loan utilisation checking and ongoing loan supervision.

Loan utilisation means that before a loan is to be disbursed the Field Worker works very closely with the group to determine what each person plans to use the loan for and how much is really required. This must then be approved by the group as a whole and their Centre.

Once the group has received its loans then each member asks her other group members to verify the correct utilisation of the loan. The Group leader asks the Centre Chairperson to verify the use of the loans and she in turn invites the Field Worker to see the loan utilisation.

### **Loan Supervision**

Loan supervision is a highly decentralised process to ensure that throughout the life of the loan members concentrate on improving their businesses. Each week the Group leader checks the business of one member of her group to ensure that all is going well. Where necessary she provides support and advice. The Centre Chairperson checks the business of one of her Group leaders each week and each week the Field Worker checks the business of one of her Centre Chairperson's.

### **Loan sizes**

With the introduction of loan utilisation and loan supervision SEF has also now been able to review the maximum loan sizes for each loan stage, see the table below. In each case the amounts shown are the maximum for that loan stage. With effective loan utilisation procedures both the group and the Field Worker will only approve the actual amount needed by an applicant, subject to these maximums.

We are very hopeful that these new loan sizes, together with effective loan utilisation checking and loan supervision, will enable members to substantially grow their businesses and family income. At the same time this will also result in a higher average loan size across the programme and this will be important for SEF's long-term self-sustainability.

	First Loan	Second Loan	Third Loan	Fourth Loan	Fifth Loan	Sixth Loan	Seventh Loan
Prior loan maximums	R 300	R 700	R 1000	R 1200	R 1400	R 1600	R 1800
New loan maximums	R 400	R 700	R 1000	R 1500	R 2000	R 2500	R 3000

### Expansion

Following on the sound initial results of the Tšhomišano Project and the successful introduction of loan utilisation the organisation has now embarked on a programme to expand its operations. Over the next five years SEF will grow by slightly more than 50% per annum to reach a size where it is actively servicing 21,000 clients.

If over the next few years it is seen that a higher rate of growth can be attained, without jeopardising the quality of that growth, then these targets will be adjusted upwards. The figure of 21,000 clients is by no means the limit to which SEF sees itself growing.

The first step in this expansion has been taken with the recruitment of 17 trainees for field staff positions. Considering that SEF currently has 21 Field Workers and Co-ordinators it will be seen that this is a significant step towards real expansion.

### Staffing

By the end of the financial year SEF had a staff of 32, split equally between women and men. Of these 7 are located at the Head Office, 4 at the Zonal Office (from where the original micro-enterprise operation is managed) and the remainder in 6 field Branch Offices. Zonal office staffing will not need to be increased until the number of active members is at least double what it is at present.

In order to prepare for the significant expansion of the programme it is envisaged that Head Office staffing may well need to be strengthened by the addition of a Human Resource Development manager, a Statistician and an additional Internal Auditor.



In July 1995 SEF's non-management staff formally elected a Worker's Representative Committee (WRC) to represent staff in matters such as salary/benefits negotiations and in other matters of concern to the staff. During the financial year the WRC and management worked on an agreement to formally recognise the WRC and to put in place acceptable disciplinary, grievance and retrenchment procedures. At the time of writing only one item remained to be resolved before these agreements could be formally adopted by both parties.

I wish here to recognise the very responsible manner in which the WRC has conducted its responsibilities and to thank them for their work.

### **Recruitment of Field Staff**

One of the most important factors for the success of a micro-credit programme which reaches thousands of clients is its ability to select and train field staff who are sufficiently skilled and above all else highly dedicated to this mission. In the light of this the selection and training process is constantly being reviewed.

Prior to this financial year recruitment criteria placed no emphasis on education but rather looked for people with maturity who displayed commitment to this work. During this year it was decided to experiment with a new approach, an approach which is paradoxically followed by most of the world's major credit programmes. Recruitment criteria then identified young people, less than 27 years of age, with a minimum of one year of higher education after standard 10 (the 12th year of schooling).

The initial response to this approach further led the organisation to believe that it could attract young graduates for Co-ordinator positions ie. as supervisors of loan officers.

Again with assistance from Associate Professor Sukor Kasim a rigorous recruitment methodology was adopted. This methodology places the burden on the applicant to prove her/his ability and enthusiasm for this work.

The new approaches were used for field staff recruitment in September 1995 and May 1996. The results are very encouraging. This change to higher educated, very enthusiastic staff will change the character of SEF over the next few years.

### **Staff Training**

Field staff are trained over a period of six months. The training is almost exclusively practical in nature with trainees given a large number of assignments which they must carry out in the field. An example may be: "Identify a strongly performing and a weakly performing group and study the group formation in each case."

This critical activity is also being constantly reviewed and new approaches experimented with. Each new version of the training is not so much an overhauling of the previous version but rather a honing for greater effectiveness.

## Funding

SEF's major sources of funding have been a grant agreement with USAID and a loan facility with the Development Bank of Southern Africa (in conjunction with the Independent Development Trust). The organisation also has a line of credit of R60,000 with Ned Enterprise, a division of NedBank, at commercial rates.

In April 1996 the four year grant agreement with USAID came to an end, with all funds being drawn down. The relationship with USAID has been a good one. We recognise that USAID also assisted the organisation towards a more formal and structured approach which has been very beneficial. In addition it was SEF found that many USAID personnel took a personal interest in our struggle and often provided encouragement, advice and ideas. The directors wish to record their sincere gratitude to USAID for this support and for their ongoing enthusiasm for our work.

During the year SEF also received grant funding from the Southern Life Foundation and Coca Cola SA (Pty) Ltd. We thank them for this support.

At this point SEF's funding position is healthy, mainly due to the way the grant agreement with USAID was structured. Funding for loan capital was linked to SEF's performance in terms of loan interest earnings and loan recovery performance. As SEF has experienced almost no arrears since inception the organisation was rewarded for this by being able to draw down funds for loan capital at a significantly faster rate than was originally budgeted.

From the early days of the programme SEF has received grants from USAID to cover a portion of operating expenses. As the USAID grant period has now come to an end the organisation will no longer be receiving outside funding for such expenses. SEF will instead rely on internally generated income to cover on-going operational expenses.

## Self-Sustainability

The following table presents the changes in the organisations performance in terms of self-sustainability ratios:

	Year to June 1993	Year to June 1994	Year to June 1995	Year to June 1996
<u>Operating Sustainability</u> Loan interest income as a % of operating expenses	53.3%	62.8%	47.7%	n/a
<u>Sustainability on Total Costs</u> Loan interest income as a % of operational and head office expenses	40.1%	48.8%	38.7%	31.8%
<u>Imputed Interest Sustainability</u> Loan interest as a % of all non-development costs, including interest on loan capital charged @ market rates	35.2%	43.1%	33.8%	28%

Note : Due to a change in allocation of expenses the 1996 figure for Operating Self-sustainability is no longer comparable with that for previous years.

The deterioration in self-sustainability figures is a consequence of SEF's gearing up for expansion as well as adjustments in salary levels.

The gearing up refers to increases in Head Office staffing - to reach a "critical mass" of staff which is needed to launch the programme on expansion - as well as the setting up of Branch and Zonal offices, purchasing additional furniture and equipment as well as recruiting and training additional field staff.

Whereas all employees had always been remunerated at considerably below market rates it was realised during the past year that this was not sustainable, salaries would have to be brought more in line with market rates. As a consequence salary levels were increased by an average of 14%. It may be noted, however, that the rates paid by the organisation are still well below market rates, especially as all employees have committed to work for 15% less than market rates as a confirmation of our commitment to alleviating poverty.

Notwithstanding this 15% sacrifice it appears as if remuneration rates are still too far below acceptable market levels and are again being reviewed.

It may be noted that three out of SEF's original four branches generated sufficient income from loans during this financial year to cover all direct operating expenses (ie. excluding indirect overheads and cost of capital).

#### **Income and Expenditure**

Internally generated income, from loan interest earnings as well as investments, rose by 61% from R 0.98 million to R1,57 million. This was mainly due to the increase in investment interest income. As SEF moves more loan capital out of investments into loans the figure for internally generated income will improve even further.

At the beginning of this financial year SEF introduced a complete budgeting system. This had the result of focusing all staff on performance and expenditure as compared to budget, a process which saw the organisation becoming even more focused on performance and efficiency. We are pleased to report that whereas budgeted expenditure for the year stood at R1,59 million, actual expenditure was R1,44 million.

The coming financial year will see further improvements in the budgeting process and in management against targets set.

I am also pleased to report that SEF's Financial Manager, Mr Shaun Cook, and his team have been able to reach a standard where financial accounts are available 15 days after the close of the month, an impressive achievement and I thank them for this.

#### **Job Creation and Lending Statistics**

Since the inception of the programme some 18,094 full and part time job positions have been supported. In addition to this a further 9,727 opportunities for pensioners and scholars have also been supported.

The statistical breakdown of loans advanced since inception and for the current active portfolio is presented by gender, age, type of activities and other statistical data in the tables on pages 13 and 14.

It may be noted that :

- a) at present 96% of all loans are supporting women controlled businesses
- b) manufacturing makes up 19% of all loans whereas activities such as entertainment, catering and service businesses make up a further 8%.

## **Directorship**

Ms Marié Kirsten was appointed to SEF's board of directors at the beginning of April 1996. Ms Kirsten is the Co-ordinator for the Business and Entrepreneurial Policy Programme within the Development Bank of Southern Africa. In 1995 she was seconded to the Ministry of Trade and Industry to co-ordinate the establishment of Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Ltd. We thank her for her long-time support of this organisation and for now being prepared to volunteer to give of her time to assist in guiding us towards the achievement of our mission.

## **A note of Gratitude**

During the year SEF was supported in word and deed by a great many people. On behalf of the Board and SEF's members I would like to thank all of them for their encouragement and advice. In particular I would like to mention Barbara Calvin of Calmeadow, Associate Professor Sukor Kasim and the student volunteers who worked with SEF during this year - Jan Gottschalk, Steffi Feilke, Denise Köppen and Markus Bisanz from Germany and Mary Yang from the United States. All at SEF really felt that these individuals put their hearts and souls into their work with us and we have benefited greatly from what they have done with us.

Lastly, on behalf of the directors I would like to thank all of SEF's staff for their untiring hard work and commitment. There can be little doubt that the work which all are called upon to perform is very difficult both in terms of strenuous working conditions and in terms of the great variety of challenges which staff have to deal with on an almost daily basis. This situation was made no easier by the fact that this has been a year of great change and challenge for SEF, factors which have made the working conditions even more strenuous.

The fact that SEF still has an almost perfect loan recovery record is testimony to the dedication of all staff in the performance of their responsibilities.

I thank all staff for being prepared to sacrifice not only the 15% of their income, but also long hours and their energy towards the fight against poverty and unemployment.

John de Wit  
Managing Director  
16 July 1996

THE SMALL ENTERPRISE FOUNDATION													
DISPURSEMENT OF LOANS - ACTIVE PORTFOLIO ONLY - AS AT 30 JUNE 1996													
BRANCH	GENDER		AGE			ACTIVE IN MICRO-ENTER		YEARS IN BUSINESS			PEOPLE EMPLOYED BY BUSINESS		
	M	F	<30	30-60	>60	FULL TIME	PART TIME	<=3	3<P<10	>=10	FULL TIME	PART TIME	OTHER
<b>Micro-loan programme branches :</b>													
Letsitele	29	683	24	578	110	712	0	93	299	320	712	432	597
Molototsi	24	417	33	387	21	441	0	59	196	186	442	210	530
Phalaborwa	21	594	47	540	28	615	0	73	315	227	617	249	410
Tlatja	16	643	47	571	41	659	0	95	279	285	663	251	571
<b>Tshomisano Branches:</b>													
Sekgosese	0	15	2	12	1	15	0	7	5	3	15	3	17
Trichardsdal	0	39	11	27	1	39	0	21	12	6	39	20	0
<b>TOTALS</b>	<b>90</b>	<b>2391</b>	<b>164</b>	<b>2115</b>	<b>202</b>	<b>2481</b>	<b>0</b>	<b>348</b>	<b>1106</b>	<b>1027</b>	<b>2488</b>	<b>1165</b>	<b>2125</b>
<b>% OF CATEGORY</b>	<b>4%</b>	<b>96%</b>	<b>7%</b>	<b>85%</b>	<b>8%</b>	<b>100%</b>	<b>0%</b>	<b>14%</b>	<b>45%</b>	<b>41%</b>	<b>43%</b>	<b>20%</b>	<b>37%</b>

Total Number of Loans : 2,481  
Number of Job Opportunities : 5,778  
Job Opportunities per Loan : 2.3

DETAILED LIST OF ACTIVITYWISE DISBURSEMENT OF LOANS - ACTIVE LOANS ONLY - AS AT 30 JUNE 1996														
BRANCH	HAWKING		RETAIL		SERVICE		MANUFACTURE		ENTERTAINMENT		CATERING		OTHER	
	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT
<b>Micro-loan programme branches :</b>														
Letsitele	302	262000	226	168800	4	2500	122	98200	34	27600	11	8000	13	12200
Molototsi	193	149300	172	146300	3	2800	52	40900	15	9400	4	2700	2	1600
Phalaborwa	321	292500	135	111400	7	5800	102	87000	27	20500	21	16700	2	1100
Tlatja	283	237400	135	104200	3	2600	169	136700	47	37600	10	6200	12	11600
<b>Tshomisano Branches:</b>														
Sekgosese	5	1900	3	1000	0	0	7	2200	0	0	0	0	0	0
Trichardsdal	19	5900	6	2100	0	0	8	3100	0	0	4	800	2	700
<b>TOTALS</b>	<b>1123</b>	<b>949000</b>	<b>677</b>	<b>533800</b>	<b>17</b>	<b>13700</b>	<b>460</b>	<b>368100</b>	<b>123</b>	<b>95100</b>	<b>50</b>	<b>34400</b>	<b>31</b>	<b>27200</b>
<b>% OF CATEGORY</b>	<b>45%</b>	<b>47%</b>	<b>27%</b>	<b>26%</b>	<b>1%</b>	<b>1%</b>	<b>19%</b>	<b>18%</b>	<b>5%</b>	<b>5%</b>	<b>2%</b>	<b>2%</b>	<b>1%</b>	<b>1%</b>

Hawking+Retail: 73% Entertainment : 5%  
Manufacture: 19% Catering : 2%  
Service : 1% Other : 1%

Total Loans : R 2,021,300

**THE SMALL ENTERPRISE FOUNDATION  
DISBURSEMENT OF LOANS - SINCE INCEPTION TO 30 JUNE 1996**

BRANCH	GENDER		AGE			ACTIVE IN MICRO-ENTER		YEARS IN BUSINESS			PEOPLE EMPLOYED BY BUSINESS		
	M	F	<30	30-60	>60	FULL TIME	PART TIME	<=3	3<P<10	>=10	FULL TIME	PART TIME	OTHER
<b>Micro-loan programme branches :</b>													
Letsitele	217	3634	264	3064	523	3849	2	820	1413	1618	3864	2513	2977
Molototsi	146	1622	213	1475	80	1765	3	458	781	529	1770	804	2005
Phalaborwa	109	2583	311	2282	99	2669	23	645	1181	866	2710	1985	2019
Tlatja	126	3143	325	2757	187	3250	19	731	1433	1105	3329	1042	2709
<b>Tshomisano Branches:</b>													
Sekgosese	0	15	2	12	1	15	0	7	5	3	15	3	17
Trichardsdal	0	39	11	27	1	39	0	21	12	6	39	20	0
<b>TOTALS</b>	<b>598</b>	<b>11036</b>	<b>1126</b>	<b>9617</b>	<b>891</b>	<b>11587</b>	<b>47</b>	<b>2682</b>	<b>4825</b>	<b>4127</b>	<b>11727</b>	<b>6367</b>	<b>9727</b>
<b>% OF CATEGORY</b>	<b>5%</b>	<b>95%</b>	<b>10%</b>	<b>83%</b>	<b>8%</b>	<b>100%</b>	<b>0%</b>	<b>23%</b>	<b>41%</b>	<b>35%</b>	<b>42%</b>	<b>23%</b>	<b>35%</b>

Total Number of Loans : 11,634  
Number of Job Opportunities : 27,821  
Job Opportunities per Loan : 2.4

**DETAILED LIST OF ACTIVITYWISE DISBURSEMENT OF LOANS - SINCE INCEPTION TO 30 JUNE 1996**

BRANCH	HAWKING		RETAIL		SERVICE		MANUFACTURE		ENTERTAINMENT		CATERING		OTHER	
	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT
<b>Micro-loan programme branches :</b>														
Letsitele	1928	1324000	853	603900	33	16900	735	464400	170	112600	57	34300	75	53300
Molototsi	754	454700	627	391500	13	6200	229	128100	106	54400	12	5200	27	14400
Phalaborwa	1536	1104500	535	348400	31	18900	461	321700	71	46700	52	32300	6	2500
Tlatja	1699	1094600	539	343400	23	14800	712	470700	184	111900	62	36000	50	36500
<b>Tshomisano Branches:</b>														
Sekgosese	5	1900	3	1000	0	0	7	2200	0	0	0	0	0	0
Trichardsdal	19	5900	6	2100	0	0	8	3100	0	0	4	800	2	700
<b>TOTALS</b>	<b>5941</b>	<b>3985600</b>	<b>2563</b>	<b>1690300</b>	<b>100</b>	<b>56800</b>	<b>2152</b>	<b>1390200</b>	<b>531</b>	<b>325600</b>	<b>187</b>	<b>108600</b>	<b>160</b>	<b>107400</b>
<b>% OF CATEGORY</b>	<b>51%</b>	<b>52%</b>	<b>22%</b>	<b>22%</b>	<b>1%</b>	<b>1%</b>	<b>18%</b>	<b>18%</b>	<b>5%</b>	<b>4%</b>	<b>2%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>

Hawking+Retail: 73% Entertainment : 5%  
Manufacture: 18% Catering : 2%  
Service : 1% Other : 1%

Total Loans : R 7,664,500

THE SMALL ENTERPRISE FOUNDATION  
(An association incorporated under  
section 21 of the companies Act)  
(Registration Number : 9103485/08)  
ANNUAL FINANCIAL STATEMENTS  
30 June 1996

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The annual financial statements set out on pages 2 to 13 were approved by the board of directors on 26 July 1996 and are hereby signed on its behalf by:

*J.R. Motupe*  
.....)  
*[Signature]*  
.....)

DIRECTORS





## Entrepreneur Services

Chartered Accountants (SA)  
Deloitte & Touche Place  
The Woodlands  
Woodlands Drive/Ryalaan  
Woodmead Sandton  
Republic of South Africa  
Docex 10 Johannesburg

Geotrooieerde Rekenmeesters (SA)  
Private Bag/Privaatsak X11  
Gallo Manor 2052  
Republiek van Suid-Afrika  
Tel (011) 806-5000  
Fax (011) 806-5558

QUALIFIED REPORT OF THE INDEPENDENT AUDITORS  
(An association incorporated under  
section 21 of the companies Act)  
TO THE MEMBER OF THE SMALL ENTERPRISE FOUNDATION

We have audited the annual financial statements set out on pages 2 to 13. These annual financial statements are the responsibility of the directors. Our responsibility is to report on these annual financial statements.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements. An audit includes an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence supporting the amounts and disclosures included in the annual financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statement presentation. We consider that our audit procedures were appropriate in the circumstances to express our opinion presented below.

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.

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 donations, in our opinion these annual financial statements fairly present the financial position of the company at 30 June 1996 and the results of its operations and cash flow information for the year then ended in conformity with generally accepted accounting practice, and in the manner required by the Companies Act

*Deloitte & Touche*

26 July 1996

THE SMALL ENTERPRISE FOUNDATION  
 (An association incorporated under  
 section 21 of the companies Act)  
 DIRECTORS REPORT  
 30 June 1996

BUSINESS REVIEW

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

SEF, has since inception, granted 11 620 loans to the value of R7 660 300. The loans generated 27 821 job opportunities, being 2,4 job opportunities per loan.

Primary sources of income are interest earned on loans and investments.

There has been no significant change in the activities, nature or policy relating to the use of fixed assets during the year under review.

OPERATING RESULTS

The main sources of income of the company are as follows:

	<u>1996</u> R	%	<u>1995</u> R	%
Loan interest earned	430 489	25	377 548	34
Interest on investments	1 266 396	75	718 160	66
	<u>1 696 885</u>	<u>100</u>	<u>1 095 708</u>	<u>100</u>

GENERAL CAPITAL RESERVE

The general capital reserve comprises grants designated by donors as loan capital.

DEVELOPMENT RESERVE

The development reserve comprises USAID grants designated for financial structure support.

The Foundation had a contract with the USAID in respect of which R7 708 942 was awarded to the Foundation over the life of the four year contract. In April 1996 the four year grant agreement with USAID came to an end and the US dollar amount of the grant has now been fully drawn down.

	<u>1996</u> R	<u>1995</u> R
USAID Grant No. 674-0303-G-SS-2033-06		
Taken to account in this period	(1 152 325)	(3 319 579)
Credit Administration infrastructure support	871 506	1 012 728
Financial structure support	280 819	2 306 851
Grant owing at end of period	<u>Nil</u>	<u>Nil</u>

THE SMALL ENTERPRISE FOUNDATION  
(An association incorporated under  
section 21 of the companies Act)  
DIRECTORS REPORT (continued)

LOAN LOSS RESERVES

In cases where groups experience death or prolonged illness 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 the operating expenses. An amount of R6 080 (1995 : R3 095) has thus been written off.

The bad debt provision stands at 4%. SEF has not had any bad debt write-offs since inception, during which time 11 620 loans have been disbursed. 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.

As result of the increase in the loans - principle outstanding - an amount of R9 536 (1995 : R7 306) has been debited against operating expenses in respect of the bad debt provision.

DIRECTORS AND SECRETARY

Ms M.A. Kirsten was appointed to the board on 1 April 1996.

There were no other changes in the composition of the board and the directors in office at the financial year end and at the date of this report were as follows:

Mr John Robert de Wit (Managing Director)  
Ms Marie Albertina Kirsten  
Ms Daphne Ramailsela Motsepe  
Mr Matome Patrick Malatji  
Mr Matome Nathaniel Ramalepe

Secretary - J.R. de Wit

Business Address

No 1B Peace Street  
Tzaneen  
0850

Postal Address

P.O. Box 212  
Tzaneen  
0850

THE SMALL ENTERPRISE FOUNDATION  
BALANCE SHEET  
30 June 1996

	<u>Notes</u>	<u>1996</u> R	<u>1995</u> R
<b>CAPITAL EMPLOYED</b>			
General capital reserve	3	577 523	547 523
Development reserve	4	6 654 460	5 782 954
Accumulated surplus		2 179 292	1 764 863
		<hr/>	<hr/>
Long term borrowings	5	9 411 275 1 607 807	8 095 340 2 002 765
		<hr/>	<hr/>
		11 019 082	10 098 105
		<hr/> <hr/>	<hr/> <hr/>
<b>EMPLOYMENT OF CAPITAL</b>			
Fixed assets	6	116 006	59 051
Loans	7	1 105 620	902 828
Investments	8	10 205 303	8 376 283
<b>CURRENT ASSETS</b>			
USAID grants receivable		-	814 731
Other receivables		94 429	37 128
Bank balances		76 759	287 191
		<hr/>	<hr/>
		171 188	1 139 050
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
USAID advance on grant receivable	9	-	99 516
Loan insurance fund	10	9 868	21 260
Accounts payable and accruals		82 714	66 753
Bank overdraft	11	92 470	15 615
Short term portion of long term liability	5	393 983	175 963
		<hr/>	<hr/>
		579 035	379 107
		<hr/>	<hr/>
<b>NET CURRENT (LIABILITIES) ASSETS</b>		(407 847)	759 943
		<hr/>	<hr/>
		11 019 082	10 098 105
		<hr/> <hr/>	<hr/> <hr/>

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 1996

	<u>1996</u> R	<u>1995</u> R
A. CASH (UTILISED) GENERATED BY OPERATIONS		
Net income for the year	414 429	859 661
Adjustments for		
Loss on disposal of asset	5	-
Depreciation	18 639	13 547
Investment income	(1 266 396)	(718 160)
	<hr/>	<hr/>
	(833 323)	155 048
	<hr/> <hr/>	<hr/> <hr/>
B. DECREASE (INCREASE) IN NET CURRENT ASSETS		
Decrease in stock	-	16 431
(Increase) decrease in receivables	(57 301)	25 441
Decrease (increase) in USAID receivables	814 731	(732 233)
Increase in accounts payable and accruals	15 961	20 167
Increase in loan debtors	(202 792)	(156 515)
Decrease in USAID advance on grants receivable	(99 516)	-
	<hr/>	<hr/>
	471 083	(826 709)
	<hr/> <hr/>	<hr/> <hr/>
C. PROCEEDS ON DISPOSAL OF FIXED ASSETS		
Book value of assets disposed of	1 466	-
Net loss on disposal	5	-
	<hr/>	<hr/>
	1 461	-
	<hr/> <hr/>	<hr/> <hr/>
D. ADDITIONS TO FIXED ASSETS		
- Furniture and fittings	22 710	4 714
- Computer equipment	27 308	17 622
- Office equipment	27 042	-
	<hr/>	<hr/>
	77 060	22 336
	<hr/> <hr/>	<hr/> <hr/>
E. (DECREASE) INCREASE IN LONG TERM BORROWINGS		
Loans raised	-	415 837
Loans repaid	176 938	-
	<hr/>	<hr/>
	176 938	415 837
	<hr/> <hr/>	<hr/> <hr/>

THE SMALL ENTERPRISE FOUNDATION  
ACCOUNTING POLICIES  
30 June 1996

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

**Loan interest earned**

Transfers from unearned interest to loan interest earned are made in direct proportion to loan repayments received. This method allows for matching between the interest earned on loans and the cost incurred in running the lending operation.

**Grants received**

Operational grants received

This only includes 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.

Grants for loan capital

Grants designated for loan capital are taken directly to General Capital Reserve. USAID grants for Financial Structure Support are taken to account when all conditions for the payment thereof have been met and are taken directly to Development 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.

**Fixed assets**

Fixed assets are depreciated on the straight line basis at rates calculated to depreciate the assets over their expected economic lives.

**Development expenses**

Development expenses are charged against operating profit as incurred and represent expenses that are not of a normal operational nature including research, consulting and conference expenses that are incurred with a view to improving the methodology, strengthening the management or expanding the operations.

SMALL ENTERPRISE FOUNDATION  
 (An association incorporated under  
 section 21 of the companies Act)  
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
 30 June 1996

	<u>1996</u> R	<u>1995</u> R
1. NET INCOME (LOSS) BEFORE GRANTS		
The net income (loss) before grants includes the following items requiring separate disclosure:		
Depreciation	18 639	13 547
Auditors' remuneration		
Provision for audit fees		
- underprovision - 1995	5 623	5 085
- statutory audit	12 000	7 500
- USAID recipient audit	15 000	15 000
	<u>32 623</u>	<u>27 585</u>
Audit expenses	5 486	733
Other services	1 704	2 441
	<u>39 813</u>	<u>30 759</u>
Directors' emoluments		
For managerial duties	132 238	136 000
Expenses relating to managerial duties	36 767	38 661
	<u>169 005</u>	<u>174 661</u>
2. OPERATIONAL GRANTS RECEIVED		
USAID Credit Administration support	280 819	1 004 304

SMALL ENTERPRISE FOUNDATION  
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)  
 30 June 1996

	<u>1996</u> R	<u>1995</u> R
3. GENERAL CAPITAL RESERVE		
Loan capital grants received:		
Balance at beginning of year	547 523	390 313
Grants for year	30 000	157 210
IBM International Foundation	-	152 000
National Beverage Services	25 000	-
The Southern Foundation	5 000	5 000
Lebowa Transport - Mondlali Women's Organisation	-	210
	<hr/>	<hr/>
	577 523	547 523
	<hr/> <hr/>	<hr/> <hr/>
4. DEVELOPMENT RESERVE		
Balance at beginning of year	5 782 954	3 904 598
Grant allocation available	871 506	1 878 356
	<hr/>	<hr/>
	6 654 460	5 782 954
	<hr/> <hr/>	<hr/> <hr/>
5. LONG TERM LOANS		
The Development Bank of Southern Africa has advanced loans to the foundation which have been funded to the extent of 55% by the Independent Development Trust. The terms and conditions relating to these loans are as follows:		
Loan 1		
Portion funded by DBSA is repayable in a single instalment on 31 March 1998. Interest at a rate of 13.5% per annum is payable six monthly.	450 064	449 701
Portion funded by IDT is interest free and is repayable in three equal annual instalments commencing 31 March 1996.	354 620	527 890
	<hr/>	<hr/>
	804 684	977 591
Less : current portion transferred to current liabilities	(175 963)	(175 963)
	<hr/>	<hr/>
	628 721	801 628
	<hr/> <hr/>	<hr/> <hr/>



SMALL ENTERPRISE FOUNDATION  
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)  
 30 June 1996

	<u>1996</u> R	<u>1995</u> R
5. LONG TERM LOANS (continued)		
Loan 2		
Portion funded by DBSA is repayable in a single instalment on 31 March 1999. Interest at a rate of 11.5% per annum is payable six monthly.	547 061	547 077
Portion funded by IDT is interest free and is repayable in three equal annual instalments commencing 31 March 1997.	650 045	654 060
	<hr/>	<hr/>
	1 197 106	1 201 137
Less: Current portion transferred to current liabilities	(218 020)	-
	<hr/>	<hr/>
	979 086	1 201 137
	<hr/>	<hr/>
	1 607 807	2 002 765
	<hr/> <hr/>	<hr/> <hr/>

6. FIXED ASSETS

	<u>Cost</u> R	<u>Accumulated Depreciation</u> R	<u>Net Book Value</u> R
<u>1996</u>			
Furniture & fittings	38 441	5 391	33 050
Office equipment	60 365	18 863	41 502
Computer equipment	63 175	21 721	41 454
	<hr/>	<hr/>	<hr/>
	161 981	45 975	116 006
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>1995</u>			
Furniture & fittings	17 534	3 050	14 484
Office equipment	33 322	12 079	21 243
Computer equipment	35 868	12 544	23 324
	<hr/>	<hr/>	<hr/>
	86 724	27 673	59 051
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

7. LOANS

Loans outstanding	1 384 212	1 129 235
Unearned interest	(232 525)	(188 816)
Provision for bad debts	(46 067)	(37 591)
	<hr/>	<hr/>
	1 105 620	902 828
	<hr/> <hr/>	<hr/> <hr/>

SMALL ENTERPRISE FOUNDATION  
 (An association incorporated under  
 section 21 of the companies Act)  
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)  
 30 June 1996

	<u>1996</u>	<u>1995</u>
	R	R
8. INVESTMENTS		
Unlisted		
Standard Bank	2 570 885	2 099 692
- Call	20 885	99 692
- Fixed deposit	2 550 000	2 000 000
Perm Bank - Fixed deposits	500 000	1 819 374
Syfrets Bank Ltd - Fixed deposit	2 274 802	2 211 099
Metboard - Fixed deposit	1 750 366	1 259 213
Investec Bank Ltd	1 009 250	986 905
- Zero Coupon Gilt	529 601	529 601
- Metfund Unit Trust Fund	240 417	226 570
- Norwich Unit Trust Fund	239 232	230 734
- Nedbank fixed deposit	2 000 000	-
- Post office fixed deposit	100 000	-
	10 205 303	8 376 283
	10 205 303	8 376 283

The market value of the investments held at Investec Bank Ltd at 30 June 1996 amounted to R1 146 053.

9. USAID ADVANCE ON GRANT RECEIVABLE

Overpayment	- June 1994	-	95 388
	- September 1994	-	207
Interest	- March - June 1995	-	3 921
		-	99 516
		-	99 516

10. LOAN INSURANCE FUND

This represents the total of deductions which were made from loans disbursed and which is retained as an insurance against unrecoverable loans. The amounts are reimbursable with interest at 12% per annum.

It has been decided to discontinue the practice of maintaining a loan insurance fund. No loan insurance fund deductions have been made as from 1 June 1994. A large number amounts due to clients, together with the interest payable, have been repaid and the balance will be repaid during the course of the coming financial year.

11. BANK OVERDRAFT

The bank overdraft facility of R60 000 is secured by a personal surety signed by JR de Wit.

12. TAXATION

No provision has been made for taxation as the company has an estimated tax loss of R183 222 (1995 : R315 432).

13. RETIREMENT BENEFITS

Pensions are provided for employees by a separate provident fund to which the company contributes. The provident fund is governed by the Pension Funds Act. The provident fund is in the nature of a defined contribution plan where the retirement benefits are determined with reference to the employee's contributions to the fund. All employee's contribute to the fund.

14. COMPARATIVE FIGURES

Certain expenses were reallocated between head office and operating expenses as part of the restructuring of the management reports. Consequently, the figure for operating self-sustainability is no longer comparable with that of previous years.