

THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 1997

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
(Registration Number 91/03485/08)
MANAGEMENT REVIEW
30 JUNE 1977
ANNUAL FINANCIAL STATEMENTS
30 JUNE 1997

The Small Enterprise Foundation, SEF, is a not-for-profit, non-government organisation which is dedicated to working to end the joint problems 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 :

Statistics as at 30 June 1997

	Micro-Loan Programme	Tšhomišano Credit Programme
Inception Date :	Jan 1992	Jan 1996
Loans Disbursed Since Inception :	R 11,038,200	R 229,800
Average Loan since inception :	R 691	R 397
Current average loan size :	R 810	R 409
No. of loans disbursed since Inception :	15,962	579
Number of Enterprises currently assisted :	3,179	463
Cumulative defaults since Inception :	R 814	nil
Delinquency (% current portfolio with arrears) :	R 510	nil
Re-scheduled loans (due to illness) :	R 8,855	R 180
Death Write-Offs (since inception) :	R 18,109	nil
Principle Outstanding :	R 1,598,844	R 107,125
Total Savings as held by Groups :	R 857,320	R 24,251
Number of Jobs positions currently supported :	8,166	832
Since Inception - Job positions supported :	38,912	1,063
Number of clients per loan offices :	245	58
Number of staff for both programmes :		..
- full time :	43	
- trainees :	30	

Introduction

Dorah married after leaving school in Standard 6. Her husband worked in Johannesburg and sometimes he would send money, often he did not. Even when he did send money it was not enough for the needs of her children and herself.

Through dressmaking Dorah struggled to support her children and herself but she did not have enough stock, customers were few and there were many other dressmakers in her village. So in order to try to reach more customers Dorah tried hiring a room in the town of Tzaneen, but after a while she was not able to pay the rent anymore. Her business was too small.

Then a friend told her about SEF and motivated her to join SEF. She said to her: "Why are you sitting at home doing nothing, there is an organisation which is giving small loans to people like us and look at our businesses, they are running well !"

She decided to join SEF. The loan money helped her greatly. She could afford to pay the rent for a new room in Tzaneen which provided a comfortable working place to sew, was safe and most importantly she now had access to many, many clients.

Dorah has now finished her fifth loan and the group has applied for their sixth loan. She believes her life has improved greatly. She has enough material to sew, she makes her loan repayments and there is still money left for savings.

Now Dorah also has two women who sell for her on the streets of Tzaneen. She does not pay them cash but rather gives them completed garments to sell for themselves. She also has an employee, a woman who is sewing for her full time. This employee she pays R 250 a month.

She is very happy that she is able to support her family by herself. Now she feels she is no longer worried about the future.

Background

Only one third of people in the Northern Province of South Africa have access to employment. For the remaining two-thirds self employment is the only hope of generating an income. However, without credit, a small business will struggle to survive, if survive at all. With little or no collateral such people cannot approach banks nor can they afford the 700% or higher, interest rates that money lenders charge.

The aim of the Small Enterprise Foundation (SEF), a non-profit NGO, is to work towards the elimination of poverty and unemployment among the black population in rural areas of South Africa, by providing sustainable financial services.

SEF uses a group-based lending methodology patterned after that of the Grameen Bank of Bangladesh. Clients form themselves into groups of five, which are then combined into Centres containing six to eight groups. Centres meet on a fortnightly basis to make repayments, deposit

savings, and discuss issues. Meetings are directed by a Centre committee, with Field Workers facilitating and monitoring the meetings. Field Workers are the primary program contact with the borrowers; each is expected to service a portfolio of about 300 individuals or 60 groups.

SEF encourages regular savings by requiring groups to open an account at the Post Office. Loans are disbursed to this account and groups deposit their savings into the same account. SEF has no direct control of or access to the group savings. Through the savings plan, the borrowers build up a fund on which they can fall back when faced with mishaps and tragedies.

An evaluation in 1995 concluded that only 30%-40% of people reached by SEF lived below the poverty line. Rather than change the operations of the existing programme a new project, Tšhomišano, was launched to specifically target the poorest sector. Although similar in philosophy and basic structure, the targeting approach, the motivational techniques, loan utilization checks, on-going follow-up and other aspects of the program have been adjusted to address the needs of the poorer population.

Currently 97% of SEF and Tšhomišano's clients are female. Typical enterprises include hawkers of fruits and vegetables and new or used clothing, small convenience shops, and dressmakers. On average, each business employs 2.5 individuals, including the owner, on a full-time or part-time basis.

Even from the first loan people's lives change radically. Very poor families are able to afford three meals a day rather than one. Other families pay school fees and buy uniforms to send their children to school - even to college or university. After a few loans many families electrify their houses or expand their business to hire employees. In addition, increase in income, sense of independence and self reliance enables abused women to change their circumstances.

The program structure enables the communities, which SEF and Tšhomišano serve, to increase their sense of security and self esteem not only through the loans provided, but also, through the regular savings and through Centers which function as local support structures.

Thus SEF has two distinct programmes, the Micro-Credit Programme (MCP) and Tšhomišano Credit Programme (TCP). The first focuses on existing micro-enterprises, all of which are certainly very small but where the entrepreneur's family is not necessarily amongst the poorest 30% of the Northern Province. The second programme is exclusively targeted to the poorest 30% of households in the Northern Province. An implication of this latter case is that this programme also motivates the poor to launch enterprises based on their income generating survival skills. We will now report on each of these two programmes separately.

SEF's MICRO-CREDIT PROGRAMME

This section discusses progress in SEF's Micro-Credit Programme (MCP) over the past 12 months.

Delinquency

One of the most remarkable features of this programme has been its loan recovery performance. In this financial year an amount of R 191 was written off, taking since inception write-offs to R 814.

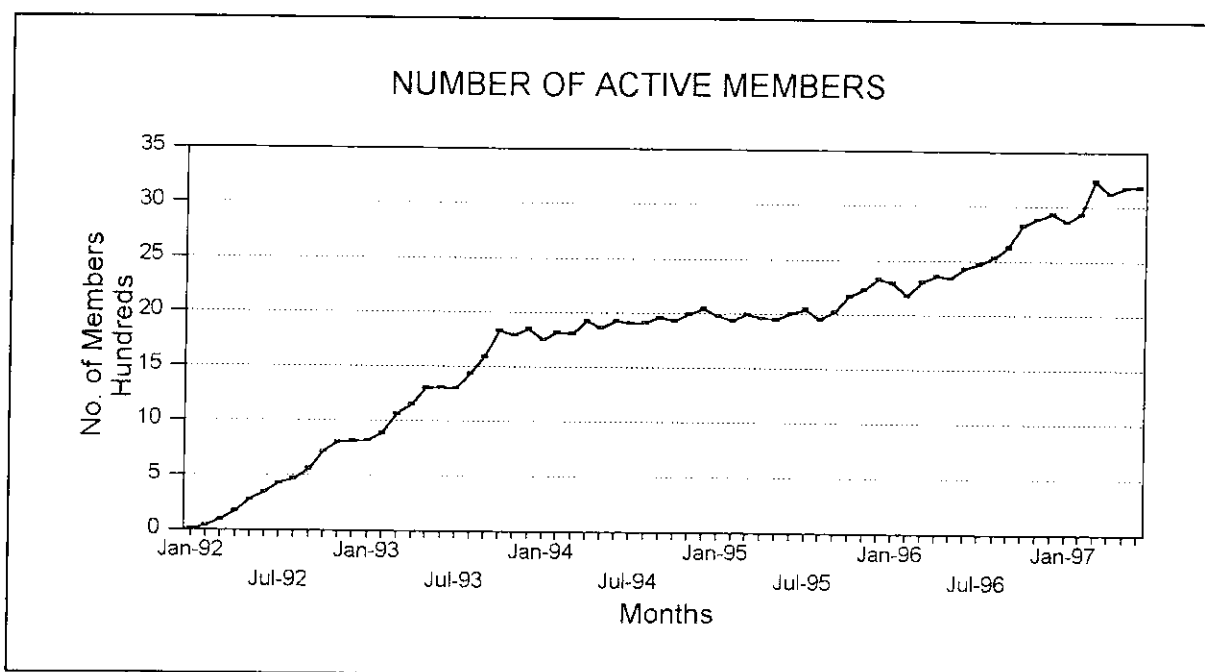
In the MCP as at the end of financial year there were four loans, with a total outstanding balance of R 510 in arrears, a group is regarded as being in arrears immediately upon an instalment not being paid on due date.

This exceptional performance is attributable to many factors, including rigorous credit management, highly focused staff, excellent group formation and training and above all else the fact that SEF's clients keep their commitment to assist one another in times of difficulty and to accept responsibility of paying for any member who may fall into arrears.

Growth

The past 12 months have seen the MCP grow from serving 2,467 clients to an active portfolio of 3,179 active clients. This represents a 29% increase. In all 4,382 loans to the value of R3,392,300 were disbursed. This brings the cumulative number of loans disbursed since inception, January 1992, to 15,962. Since inception a cumulative amount of R11,038,200 has been disbursed.

The following graph shows how the MCP grew rapidly from inception (January 1992) until November 1993, then went into a long period of relatively little growth until September 1995 and since then has grown most satisfactorily. In fact the growth of the past year has been exactly in line with the budgeted growth for this period. For this achievement I must congratulate in particular our Micro-credit Programme's Zonal Manager, Mokete Ratlabala, and his staff.



The main cause of the long period of little growth from late-1993 to late-1995 was a high “drop-out” rate. This refers to members not returning for repeat loans after they have finished a loan cycle. At that time the drop-out rate was between 45% and 55%.

The drop-out rate has been reduced to 21% through a series of measures. These included greatly improving the strength of the group formation process, introducing a process of working with clients to carefully plan their credit needs before each loan cycle and introducing a system whereby group members and field staff check on the utilisation of loans after disbursement.

There is little doubt that SEF’s services have a great impact on the lives of its members. Nevertheless there is a small minority of members who do not seem to benefit much - at least in terms of our own definitions - from the programme. It is believed that the majority of the drop-outs plus those members whose businesses do not grow from year to year, make up this group. In all this would be about 20% to 30% of members. The efforts at planning the correct loan for each individual and setting up a discipline for the use of the loan, together with group and Centre and field staff monitoring of business progress are all aimed at improving the impact of the loans. The end result of this will not only be improvements in the lives of SEF’s members but will also contribute greatly to SEF’s own viability as members’ businesses expand and as a consequence they will in all probability demand successive larger loans.

During the financial year the MCP began to allow members to qualify for larger loans than had previously been the case. The following table indicates the “old” and new loan limits.

	First Loan	Second Loan	Third Loan	Fourth Loan	Fifth Loan	Sixth Loan	Seventh Loan
“Old” loan maximums	R400	R700	R1000	R1200	R1400	R1600	R1800
New loan maximums	R500	R800	R1200	R1500	R2000	R2500	R3000

A new monitoring tool was introduced to assist field staff in determining the loan size which members would be allowed to qualify for after each successive loan cycle. This involves looking at how the previous loan was utilized and the state of the business at the end of loan cycle. Amongst the micro-finance development community it is often stated that it is not possible to evaluate the strength of micro-enterprises. After years of trying different approaches we are beginning to challenge this assumption and are hopeful that this new tool will enable us to assist our clients into better decisions when applying for credit.

The MCP is now looking into the need to introduce alternative loan term products. Initial indications are that members would prefer the options of choosing either a 6 month, 10 month, 14 month or 15 fortnight loan as opposed to the current choices of an 11 month or 20 fortnight loan.

TŠHOMIŠANO - A PROGRAMME FOR THE POOR

Tšhomišano Credit Programme (TCP) uses a poverty test, a housing index test, to specifically identify households in the villages where it works that are amongst the poorest 30% of households in the Northern Province. Staff then go to these homes and begin a careful process of motivating the women of these households to build on their income generating survival skills to start an enterprise to support their families and to move out of poverty.

TCP made its first loans in January 1996. Thus far the recovery performance in this programme has equaled that of the MCP. There have been no bad debt write-offs and as at the end of financial year there were no loans in arrears.

Tšhomišano is in fact experimenting with a different approach for the management of arrears. Unlike in the MCP, where no group payment is accepted unless it is a complete payment for the group, where a member in TCP is not able to make a payment then the repayments are collected from the remaining members of the group, the arrear is recorded and must be collected within a fortnight. If it is not collected then both the group and Centre are held responsible for the arrear payment. It is hoped that this process will put additional pressure on group members to supervise each others business activities and not to simply pay for one another when there are problems. This underscores SEF's mission which is to see people overcoming poverty and not simply taking and repaying loans.

Tšhomišano grew from 40 to 463 active clients in the 1997 financial year. Since its first loans this programme has disbursed a total of 579 loans to the value of R229,800. The programme is now located in 5 branches which are within a 120 km radius of Tzaneen.

As it is a new programme and as far as we know the first poverty focussed micro-finance programme in this country, much work is being done on the development of the operational methodology. In particular TCP is experimented with the PRA Wealth Ranking approach as an alternative tool for identifying the poorest 30% of households. The initial tests of this approach as compared to the housing index method that is currently in use, indicate that this technique provides more accurate results as well as a wealth of other household information.

At the same time whereas 3 of the TCP branches offer only 20 fortnight loans the other 2 only offer 10 fortnight loans. These different approaches are being tested to see their effectiveness in terms of manageability from the members perspective, and therefore enabling greater impact on members' businesses, as well as reducing the programme's drop-out rate.

EXPANSION

During the course of 1996 the decision was taken to begin expansion of the programme. This saw SEF as a whole growing by 48%, as measured by number of active clients, over the financial year.

The budget that has been put in place for the 1998 Financial Year will see the MCP growing by 32% to 4,200 active members and TCP growing by 280% to 1645 members. This represents a total growth of 60% to 5,845 members. This growth is part of SEF's long-term plan to reach in excess of 27,000 clients within 5 years.

The expansion plan is being put into effect through the opening of new branches and recruitment of new field staff. During the past financial year three new branches were opened. The recruitment of new staff is covered in the next section.

STAFFING

Over the 12 months to June 1997 SEF's staff increased from 32 to 43. All but one of these staff additions were field staff, loan officers and Coordinators (field office managers). These new field staff were trained over the first 6 months of the financial year and deployed in January 1997.

The one addition to support or head office staffing, was a part time Human Resources Coordinator. This person has increased the organisation's ability to deal with many pressing personnel management and human resource development issues.

As part of the expansion plan the organisation has been aggressively recruiting new field staff. At the time of writing there were 26 recruits in training. It is anticipated that 70% of these recruits will successfully complete their training and join SEF on a full time basis.

Since 1994 SEF's non-management staff had been represented on matters of conditions of employment and remuneration by a democratically elected committee known as the Workers Representative Committee. In February 1997 half of SEF's staff joined the PPWAWU (Paper, Printing, Wood and Allied Workers Union). The organisation is now working with this union to agree remuneration levels and changes to conditions of employment.

INCOME & EXPENDITURE

In this Financial Year total operating costs amounted to R2.20 million. At the same time total internally generated income amounted to R1.84 million, 31% of this came from interest on loans and 69% from interest on investments. In addition an amount of R199,680 was received as a "discount" upon early repayment of a loan due to the Independent Development Trust.

The interest on loans is up 31% from that of the 1996 financial year. Expenses increased by 53% over 1996. Although this is a substantial increase it is nevertheless R311,760 less than the budgeted expenses. The principal reason for SEF's increased costs lies in expenditure necessary for expansion. Naturally when a loan officer is employed she/he has few clients, generates very little income but her/his expenses are not much different from those of a loan officer with a full portfolio of 300 - 350 clients.

The cost of training recruits also represents another high input cost. Loan Officer training lasts for 6 months and only 1 out of 3 recruits who begin training will eventually complete training and become full time employees.

Another major increase in expenses was due to the adjustment to remuneration paid to all employees. In the early part of the financial year it was seen that SEF would have to begin to pay market-related salaries, it could no longer expect staff to work for below market remuneration. We undertook a grading exercise, determined the grade for all jobs in the organisation and put through adjustments in late 1997. These adjustments went part of the way towards bringing salaries into line with the market. In the beginning of the 1998 financial year we will put through the remainder of adjustments that are necessary to bring salaries in line with the market.

SELF-SUSTAINABILITY

The following table shows the progress of SEF branches towards operational self-sustainability. Here operational self-sustainability is the extent to which a branch's income from loans covers its direct operating expenses.

Operational Self-Sustainability at Branch level	
Letsitele	100%
Molototsi	70%
Phalaborwa	111%
Tlatja	89%
Trichardtsdal	13%
Sekgosese	8%

With the strong increase in costs, for expansion and to achieve more market-related staff remuneration, it is not surprising that overall operational self-sustainability has been negatively impacted. In the 1997 financial year operational self-sustainability was 26% and for the 1996 financial year it was 30%.

SEF is certainly faced with the challenge of how to cover its expenses. We are examining different approaches in order to try to improve productivity.

At the same time in order to increase income we have taken the policy decision that interest rates will have to be increased. While SEF at present charges above market-related interest rates it has been seen that in order to become self-sustaining over the next few years, rates will have to be further increased. We are currently experimenting with different products all of which will enable the organisation to earn a higher rate of interest on loans made.

The most sensitive factor which determines income is the average loan size. The average loan size will go up as businesses run by members grow and as they subsequently demand larger amounts of credit to satisfy their own increasing needs. Thus we are focussing attention on what can be done to ensure that members themselves are successful in growing their businesses. Thus our objective of becoming self-sustaining is intrinsically linked with our overall mission of ensuring that our members themselves are successful.

A note of Gratitude

During the year we received support from many organisations and individuals. In particular I would like to thank Barbara Calvin and Calmeadow for their strategic inputs, advice and encouragement, Grameen Trust for funding two of our staff to spend three weeks with Grameen Bank and for arranging and coordinating that exposure training, and the Southern Life Foundation who funded part of the research work on participatory Wealth Ranking, a new means to identify the poorest 30% of households in the areas we work in.

The Contribution of SEF's Staff

At the end of December 1996 the organisation recognised the outstanding performances of individuals in our organisation in the field and in support functions. The outstanding field operations performer for 1996 was Field Worker Maria Mabunda and in second place was Enny Mokgalaka. Winsome Mashele, the secretary/receptionist at Head Office was recognised as SEF's outstanding support staff performer. On behalf of the Board of Directors and the organisation as a whole I would like to again congratulate these staff members for their excellent contributions to the achievement of our mission.

At the end of each quarter the MCP awarded bonuses to its top performing branch in recognition of their high standard of performance against budgets. On three of 4 occasions the Phalaborwa branch won these awards on three of four occasions and shared the award with Letsitele Branch on the fourth occasion. I would like to congratulate Mishack Mathale, the Phalaborwa Branch Coordinator and his staff of Enny Mokgalaka, Mable Sibuyi and Judy Mahlaola.

On behalf of SEF's directors I would also like to thank all of SEF's staff for their hard work and commitment during the course of 1997. By the end of the financial year we could be proud of having achieved our budgeted target growth in active clients, having maintained our almost perfect recovery record, and for keeping total costs below budget. For their contribution towards these high-points I thank all of SEF's staff.

John de Wit
Managing Director
17 July 1997

THE SMALL ENTERPRISE FOUNDATION
DISBURSEMENT OF LOANS - ACTIVE PORTFOLIO ONLY - AS AT 30 JUNE 1997

BRANCH	GENDER		AGE			ACTIVE IN ENTERPRISE		YEARS IN BUSINESS			PEOPLE EMPLOYED BY BUSINESS		
	M	F	<30	30-60	>60	FULL TIME	PART TIME	<=3	3<P<1	>=10	FULL TIME	PART TIME	OTHE
Micro-loan programme branches :													
Letsitele	25	903	45	753	130	928	0	152	402	374	931	485	942
Molototsi	28	507	48	456	31	535	0	55	235	245	534	235	554
Phalaborwa	19	826	80	720	45	845	0	141	407	297	845	462	730
Tlatja	24	847	78	715	78	871	0	102	356	413	872	335	1241
Tshomisano branches :													
Bungeni	0	22	2	19	1	22	0	12	7	3	22	4	0
Khomanani	0	42	8	34	0	42	0	12	17	13	42	0	47
Trichardsdal	0	256	36	201	19	256	0	154	71	31	256	84	105
Sekhosese	0	143	15	128	0	143	0	32	50	61	143	74	55
TOTALS	96	3546	312	3026	304	3642	0	660	1545	1437	3645	1679	3674
% OF CATEGOR	3%	97%	9%	83%	8%	100%	0%	18%	42%	39%	41%	19%	41%

Total Number of Loans : 3,642
 Number of Job Oppertunities : 8,998
 Job Oppertunities per Loan : 2.5

DETAILED LIST OF ACTIVITYWISE DISBURSEMENT OF LOANS - ACTIVE LOANS ONLY - AS AT 30 JUNE 1997

BRANCH	HAWKING		RETAIL		SERVICE		MANUFACTUR		ENTERTAINME		CATERING		OTHER	
	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUN	NO	AMOUN	NO	AMOUN
Micro-loan programme branches :														
Letsitele	508	432200	256	216900	4	3000	103	85400	25	18200	26	13700	6	5400
Molototsi	174	139800	278	228300	0	0	68	60000	9	7200	5	4200	1	1200
Phalaborwa	381	353000	257	210100	3	1800	148	138900	27	23700	28	25100	1	700
Tlatja	254	214800	302	246300	3	3400	230	200800	62	51000	12	7700	8	9200
Tshomisano branches :														
Bungeni	10	3800	7	2800	0	0	5	1400	0	0	0	0	0	0
Khomanani	4	1600	23	10200	0	0	12	5700	3	1300	0	0	0	0
Trichardsdal	145	58200	27	12400	1	400	61	26400	7	2600	6	1700	9	4200
Sekhosese	67	27000	36	12200	0	0	33	11500	2	700	5	2400	0	0
TOTALS	1543	1230400	1186	939200	11	8600	660	530100	135	104700	82	54800	25	20700
% OF CATEGOR	42%	43%	33%	33%	0%	0%	18%	18%	4%	4%	2%	2%	1%	1%

Hawking+Retail: 75% Entertainment : 4%
 Manufacture: 18% Catering : 2%
 Service : 0% Other : 1%

Total Loans : R 2,888,500

THE SMALL ENTERPRISE FOUNDATION
DISBURSEMENT OF LOANS - SINCE INCEPTION TO 30 JUNE 1997

BRANCH	GENDER		AGE			ACTIVE IN ENTERPRISE		YEARS IN BUSINESS			PEOPLE EMPLOYED BY BUSINESS		
	M	F	<30	30-60	>60	FULL TIME	PART TIME	<=3	3<P<1	>=10	FULL TIME	PART TIME	OTHE
Micro-loan programme branches :													
Letsitele	251	4907	329	4128	701	5156	2	1063	1976	2119	5174	3194	4359
Molototsi	185	2333	293	2105	120	2515	3	557	1123	838	2520	1137	2776
Phalaborwa	133	3688	433	3232	156	3798	23	858	1729	1234	3839	2581	2999
Tlatja	157	4308	442	3722	301	4446	19	899	1923	1643	4526	1476	4331
Tshomisano branches :													
Bungeni	0	22	2	19	1	22	0	12	7	3	22	4	0
Khomanani	0	42	8	34	0	42	0	12	17	13	42	0	47
Trichardtsdal	0	296	45	232	19	296	0	179	82	35	296	101	112
Sekhosese	0	219	26	193	0	219	0	58	76	85	219	102	118
TOTALS	726	15815	1578	13665	1298	16494	47	3638	6933	5970	16638	8595	14742
% OF CATEGOR	4%	96%	10%	83%	8%	100%	0%	22%	42%	36%	42%	22%	37%

Total Number of Loans : 16,541
 Number of Job Oppertunities : 39,975
 Job Oppertunities per Loan : 2.4

DETAILED LIST OF ACTIVITYWISE DISBURSEMENT OF LOANS - SINCE INCEPTION TO 30 JUNE 1997

BRANCH	HAWKING		RETAIL		SERVICE		MANUFACTUR		ENTERTAINME		CATERING		OTHER	
	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUN	NO	AMOUN	NO	AMOUN
Micro-loan programme branches :														
Letsitele	2617	1863700	1231	887700	39	20800	894	577200	202	134200	94	53800	81	58700
Molototsi	972	618700	1041	690600	13	6200	320	198600	125	67800	17	9400	30	17000
Phalaborwa	2007	1516100	905	612300	38	22800	653	482100	120	80600	90	61200	8	3900
Tlatja	2075	1400400	928	640000	28	20400	1021	721000	272	178200	79	46000	62	48800
Tshomisano branches :														
Bungeni	10	3800	7	2800	0	0	5	1400	0	0	0	0	0	0
Khomanani	4	1600	23	10200	0	0	12	5700	3	1300	0	0	0	0
Trichardtsdal	166	65200	32	14000	1	400	68	29700	7	2600	10	2500	12	5200
Sekhosese	100	40500	52	17700	0	0	56	20500	3	1300	8	3400	0	0
TOTALS	7951	5510000	4219	2875300	119	70600	3029	2036200	732	466000	298	176300	193	133600
% OF CATEGOR	48%	49%	26%	26%	1%	1%	18%	18%	4%	4%	2%	2%	1%	1%

Hawking+Retail: 74% Entertainment : 4%
 Manufacture: 18% Catering : 2%
 Service : 1% Other : 1%

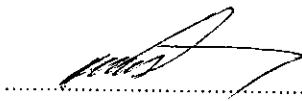
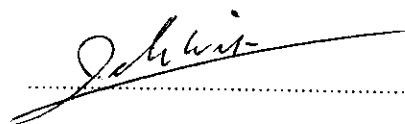
Total Loans : R 11,268,000

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30 June 1997

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The annual financial statements set out on pages 2 to 12 were approved by the board of directors on 29 August 1997 and are signed on its behalf by:


.....)
)

.....) Directors



Entrepreneur Services

Chartered Accountants (SA)
Deloitte & Touche Place
The Woodlands
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QUALIFIED REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION

Introduction

We have audited the annual financial statements set out on pages 2 to 12. These annual financial statements are the responsibility of the directors. Our responsibility is to report on these annual financial statements.

Scope

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.

Qualification

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

Opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion these annual financial statements fairly present the financial position of the company at 30 June 1997 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.

29 August 1997

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 June 1997

The directors have pleasure in presenting their report on the company for the year ended 30 June 1997.

BUSINESS REVIEW

The principal business of the company 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.

SEF, has since inception, granted 16 541 (1996: 11 620) loans to the value of R11 268 000 (1996: R7 660 300). The loans generated 39 975 (1996: 27 821) job opportunities, being 2,5 job opportunities per loan.

OPERATING RESULTS

Results for the year ended 30 June 1997 are set out on page 4 of the financial statements.

LOAN LOSS RESERVES

In cases where borrowers 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 operating expenses. An amount of R5 445 (1996 : R6 080) has thus been written off.

The bad debt provision stands at 3% of outstanding debtors. A bad debt is declared once an amount becomes 84 days in arrears. Bad debts write offs amounted to R191 during this financial year (1996: R623). We believe that the nature of the lending procedures, the diligence of the field staff, and the commitment of clients, will ensure that this excellent performance will be maintained.

As results of the increase in the loans principle outstanding, an amount of R7 883 (1996 : R9 536) has been debited against operating expenses in respect of the increase in the bad debt provision.

DIRECTORS AND SECRETARY

There were no 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 Ramaisela 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
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
30 June 1997

	<u>Notes</u>	<u>1997</u> R	<u>1996</u> R
Operating income			
Loan interest earned		563 712	430 489
Interest on investment		1 370 776	1 361 201
Interest paid		(121 138)	(123 992)
Bad debts		<u>(191)</u>	<u>(623)</u>
Margin on lending activities			
Operating expenses		<u>1 813 159</u>	<u>1 667 075</u>
		<u>(1 443 648)</u>	<u>(514 318)</u>
Net operating income			
Sundry income		369 511	1 152 757
		<u>1 526</u>	<u>1 386</u>
Net operating income before head office expenses			
Head office expenses		371 037	1 154 143
Development expenses		(763 280)	(840 558)
		<u>-</u>	<u>(85 170)</u>
Net (loss) income before grants			
Operational grants received	1	(392 243)	228 415
	2	<u>199 680</u>	<u>280 819</u>
Net (loss) income for the year			
Transfer to non distributable reserves		(192 563)	509 234
Retained income at beginning of year	3	(94 546)	(94 805)
		<u>2 179 292</u>	<u>1 764 863</u>
Accumulated income at end of year			
		<u>1 892 183</u>	<u>2 179 292</u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
30 June 1997

	<u>Notes</u>	<u>1997</u> R	<u>1996</u> R
CAPITAL EMPLOYED			
Non distributable reserve	4	272 240	177 694
General capital reserve	5	582 523	577 523
Development reserve	6	6 654 460	6 654 460
Educational reserve	7	2 300	-
Retained income		<u>1 892 183</u>	<u>2 179 292</u>
Long term loan	8	<u>9 403 706</u> <u>531 905</u>	<u>9 588 969</u> <u>1 607 807</u>
		<u><u>9 935 611</u></u>	<u><u>11 196 776</u></u>
CAPITAL EMPLOYMENT			
Fixed assets	9	134 105	116 006
Investments	10	1 298 957	1 186 944
Current assets			
Loans	11	1 654 790	1 105 620
Receivables		82 878	94 429
Bank balances and cash		<u>7 470 422</u>	<u>9 272 812</u>
		<u>9 208 090</u>	<u>10 472 861</u>
Current liabilities			
Accounts payable and accruals		179 238	92 582
Bank overdraft	12	91 158	92 470
Short term portion of long term loan	8	<u>435 145</u>	<u>393 983</u>
		<u>705 541</u>	<u>579 035</u>
Net current assets		<u>8 502 549</u>	<u>9 893 826</u>
		<u><u>9 935 611</u></u>	<u><u>11 196 776</u></u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
30 June 1997

	<u>Notes</u>	<u>1997</u> R	<u>1996</u> R
Cash (utilised) generated by operations	A	(1 531 751)	(833 323)
Investment income		1 370 776	1 361 201
(Increase) decrease in net current assets	B	<u>(450 963)</u>	<u>459 691</u>
Cash retained from (utilised) in operating activities		(611 938)	987 569
Cash utilised in investing activities		(161 700)	(275 638)
- Proceeds on disposal of fixed assets	C	<u>400</u>	<u>1 461</u>
- Additions to fixed assets	D	<u>(50 087)</u>	<u>(77 060)</u>
- Increase in investments		<u>(112 013)</u>	<u>(200 039)</u>
		<u>(773 638)</u>	<u>711 931</u>
CASH EFFECTS OF FINANCING ACTIVITIES			
Decrease in long-term borrowings	E	(1 075 902)	(176 938)
Increase in short-term borrowings		41 162	-
(Decrease) increase in bank overdraft		(1 312)	76 855
Decrease (Increase) in bank balances		1 802 390	(1 513 354)
Increase in capital grants received		7 300	30 000
Increase in development capital grants received		<u>-</u>	<u>871 506</u>
		<u>773 638</u>	<u>(711 931)</u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE CASH FLOW STATEMENT
30 June 1997

	<u>1997</u> R	<u>1996</u> R
A. CASH (UTILISED) GENERATED BY OPERATIONS		
Net (Loss) income for the year	(192 563)	509 234
Adjustments for		
Loss on disposal of asset	-	5
Depreciation	31 588	18 639
Investment income	<u>(1 370 776)</u>	<u>(1 361 201)</u>
	<u>(1 531 751)</u>	<u>(833 323)</u>
B. (INCREASE) DECREASE IN NET CURRENT ASSETS		
(Decrease) increase in receivables	11 551	(57 301)
Decrease in USAID receivables	-	814 731
Increase in accounts payable and accruals	86 656	4 569
Increase in loan debtors	(549 170)	(202 792)
Decrease in USAID advance on grants receivables	<u>-</u>	<u>(99 516)</u>
	<u>(450 963)</u>	<u>459 691</u>
C. PROCEEDS ON DISPOSAL OF FIXED ASSETS		
Book value of assets disposed of	400	1466
Net loss on disposal	<u>-</u>	<u>(5)</u>
	<u>400</u>	<u>1 461</u>
D. ADDITIONS TO FIXED ASSETS		
- Furniture and fittings	12 680	22 710
- Computer equipment	23 092	27 308
- Office equipment	2 692	27 042
- Motor vehicles	<u>11 623</u>	<u>-</u>
	<u>50 087</u>	<u>77 060</u>
E. DECREASE IN LONG TERM BORROWINGS		
Loan repaid	<u>(1 075 902)</u>	<u>(176 938)</u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
ACCOUNTING POLICIES
30 June 1997

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

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

Other interest received

Other interest received is accrued on a daily basis.

Grants received

Operational grants received

These are grants which are specifically designated as being for operational expenses, where the expenses to which they relate have actually been incurred and charged to income in the same period, and where all the contractual conditions for payment of the grant amount have been met.

Grants for loan capital

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

Investments

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

Fixed assets

Fixed assets is depreciated on historical cost using the straight line method over the estimated useful lives of the assets.

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 and expanding the operations.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 1997

	<u>1997</u>	<u>1996</u>
	R	R
1. NET INCOME (LOSS) BEFORE GRANTS		
The net income (loss) before grants includes the following items requiring separate disclosure:		
Depreciation	31 588	18 639
Auditors' remuneration		
- underprovision in prior year	3 000	5 623
- statutory audit	21 000	12 000
- USAID recipient audit	-	15 000
- audit expenses	6 000	5 486
- consulting fees	17 000	1 704
Directors' emoluments		
- For managerial duties	177 510	132 238
- Expenses relating to managerial duties	8 180	36 767
2. OPERATIONAL GRANTS RECEIVED		
USAID Credit Administration support	-	280 819
Independent Development Trust	<u>199 680</u>	<u>-</u>
	<u>199 680</u>	<u>280 819</u>

3. PRIOR YEAR ADJUSTMENT

During the year the company changed its accounting policy with respect to the valuation of the guaranteed capital investment. Previously interest on such an investment was not accounted for. In order to fairly present the value of the investment, the company now accrues the expected interest on a straight line method over the period of the investment. As a result it was deemed prudent to transfer such interest to a non distributable reserve until such time as the interest is realised in cash and available for use as part of retained income. All adjustments necessary to affect this have been incorporated and where appropriate, prior year comparatives have been adjusted to provide consistency in presentation. The effect of this change is as follows:

	<u>Gross</u>
Increase in interest received.	
1997	94 546
1996	94 805
Restatement of opening non distributable reserve in respect of prior year adjustment - 1996	82 889
No tax effect as the company has an estimated tax loss, refer note 13.	

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 1997

	<u>1997</u> R	<u>1996</u> R
4. NON DISTRIBUTABLE RESERVE		
Revaluation of guaranteed capital investment		
Balance at beginning of the year	177 694	82 889
Balance as previously disclosed	-	-
Prior year adjustment (refer note 3)	-	82 889
Surplus on revaluation of investment	<u>94 546</u>	<u>94 805</u>
	<u>272 240</u>	<u>177 694</u>
5. GENERAL CAPITAL RESERVE		
The General Capital Reserve comprises grants received from donors other than USAID (see Development Reserve note 6). Such grants are, for the most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by The Small Enterprise Foundation. All grants have been designated by the donors concerned as Loan Capital to be utilised for future disbursements of loans to members.		
Balance at beginning of the year	577 523	547 523
Grants for year	<u>5 000</u>	<u>30 000</u>
	<u>582 523</u>	<u>577 523</u>
6. DEVELOPMENT RESERVE		
The Development Reserve is comprised solely of grants received from USAID in terms of a 5 year agreement which expired in September 1995. Such funds were designated by USAID as Financial Structure support. As with General Capital reserve, all such grants are designated as Loan Capital to be used for future disbursements of loans to members.		
Balance at beginning of year	6 654 460	5 782 954
Grant allocation available	<u>-</u>	<u>871 506</u>
	<u>6 654 460</u>	<u>6 654 460</u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 1997

	<u>1997</u>	<u>1996</u>
	R	R
7. EDUCATIONAL RESERVE		
<p>The Educational Reserve comprises a single grant received in the year under review from a group of workers at LAPA, Toronto, Canada. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme to be introduced early in 1998.</p>		
Grant for the year	<u>2 300</u>	<u>-</u>
8. LONG TERM LOAN		
<p>The Development Bank of Southern Africa has advanced loans to SEF which have been funded to the extent of 55% by the Independent Development Trust (IDT). The IDT portion of the the loan was repaid in full during the year under review.</p>		
Loan 1		
<p>Portion repayable in a single instalment on 31 March 1998. Interest at a rate of 13.5% per annum is payable six monthly in arrears.</p>		
Portion funded by the Independent Development Trust.	435 145	450 064
	<u>-</u>	<u>354 620</u>
	435 145	804 864
Less : current portion transferred to current liabilities	<u>(435 145)</u>	<u>(175 963)</u>
	<u>-</u>	<u>628 721</u>
Loan 2		
<p>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 in arrears.</p>		
Portion funded by Independent Development Trust	531 905	547 061
	<u>-</u>	<u>650 045</u>
	531 905	1 197 106
Less: current portion transferred to current liabilities	<u>-</u>	<u>(218 020)</u>
	<u>531 905</u>	<u>979 086</u>
	<u>531 905</u>	<u>1 607 807</u>

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 1997

9. FIXED ASSETS

<u>1997</u>	<u>Furniture & Fittings</u>	<u>Office Equipment</u>	<u>Computer Equipment</u>	<u>Motor Vehicles</u>
Cost				
At beginning of the year	38 441	60 365	63 175	-
Additions	12 680	23 092	2 692	11 623
Disposals	<u>(498)</u>	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	<u>50 623</u>	<u>83 457</u>	<u>65 867</u>	<u>11 623</u>
Accumulated depreciation				
At beginning of year	5 391	18 863	21 721	-
Additions	4 335	12 970	12 588	1 695
Disposals	<u>(98)</u>	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	<u>9 628</u>	<u>31 833</u>	<u>34 309</u>	<u>1 695</u>
Net book value	<u>40 995</u>	<u>51 624</u>	<u>31 558</u>	<u>9 928</u>

	<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	<u>63 175</u>	<u>21 721</u>	<u>41 454</u>
	<u>161 981</u>	<u>45 975</u>	<u>116 006</u>
		<u>1997</u> R	<u>1996</u> R

10. INVESTMENTS

<u>Listed</u>		
Investec Bank Limited - Metfund Unit Trust Fund	247 624	240 417
- Norwich Unit Trust Fund	249 492	239 232
- Guarantee Capital Trust	<u>801 841</u>	<u>707 295</u>
	<u>1 298 957</u>	<u>1 186 944</u>

The market value of the investments held at Investec Bank Ltd on 30 June 1997 amounted to R1 575 809 (1996: R1 323 747)

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
30 June 1997

11. LOANS

Loans outstanding	2 045 441	1 384 212
Unearned interest	(339 472)	(232 525)
Provision for bad debts	<u>(51 179)</u>	<u>(46 067)</u>
	<u>1 654 790</u>	<u>1 105 620</u>

12. BANK OVERDRAFT

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

13. TAXATION

No provision has been made for taxation as the company has an estimated tax loss of R396 875 (1996: R5 528).

14. RETIREMENT BENEFITS

All permanent employees of the company, after six months of service, 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 employee's contributions to the fund.

15. COMPARATIVE FIGURES

The bank balances have been reallocated between investments and bank and cash balances. The prior year comparatives have been adjusted to provide consistency in presentation.