THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
(Registration Number 91/03485/08)

MANAGEMENT REVIEW
30 JUNE 1998

ANNUAL FINANCIAL STATEMENTS
30 JUNE 1998

THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 1998

The Small Enterprise Foundation (SEF) is a non-profit, non-government organisation dedicated to ending 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 1998		
	Micro-Loan Program	Tšhomišano Credit Program
Inception Date :	Jan 1992	Jan 1996
Loans Disbursed Since Inception :	R17,238,700	R926,900
Average Loan since inception :	R756	R480
Current average loan size disbursed:	R989	R556
No. of loans disbursed since Inception :	22,807	1,933
Number of Enterprises currently assisted :	5,243	901
Cumulative defaults since Inception :	R1,268	nil
Delinquency (% current portfolio with arrears) :	nil	nil
Re-scheduled loans (due to illness) :	R9,952	R372
Death Write-Offs for the year :	R11,741	R1,400
Principle Outstanding :	R3,129,256	R297,601
Total Savings as held by Groups :	R1,332,293	R75,948
Number of Jobs positions currently supported :	13,769	1,283
Since Inception - Job positions supported :	56,627	3,068
Number of clients per loan officer :	181	82
Number of staff for both Programs :		
- full time :	65	
- trainees :	11	

Introduction

Mamaletelo lives with her four children, in two mud brick rondavels in a village near to Tzaneen. She has no husband and relies on making mud bricks for sale, hawking cold drinks, chicken heads and feet, and other items. A few years ago she struggled to meet even the basic needs at home.

In 1994 Mamaletelo joined the Small Enterprise Foundation (SEF) and received a R300 loan. With the help of this loan she managed to develop her business, increasing the stock and with it her income. With the help of further loans from SEF (she is now on her 6th loan) Mamaletelo has strengthened her business into a secure and reliable source of income. The income is still small, but she is able to meet her basic needs and can now think about the future and make plans.

Importantly for her, she is able to save. When she joined SEF she was encouraged to save R5 per fortnight. As her income improved, she joined a stokvel (a rotating savings club) and later opened a Bob bank savings account and a post office account and over the years has increased her savings balance. Now she has R2024 in her Bob account, and is a member of three stokvels. The first stokvel is for her business. She pays in R20 per day, and once per week receives R140 with which she re-stocks her business. The other stokvels total R450 monthly and pay out about once in 6 months. When her turn for a pay-out comes she puts as much as possible into the bank - normally at least R600.

For Mamaletelo savings represents her security for the future. She plans to send her children to tertiary education, and she knows that if there is ever a disaster or illness in her family she has the means to cope with it. This is a big change from the days her children could not attend school for lack of money.

Background

Only one third of people in the Northern Province of South Africa have access to employment. A 1994 World Bank sponsored study showed that 64% of the population of the Northern Province lives below the Household Subsistence Level, which is commonly used as the poverty line. Furthermore, 40% of households live below half this income level.

The aim of the Small Enterprise Foundation (SEF) is to work towards the elimination of poverty and unemployment by working with the very poor in a sustainable manner. The organisation motivates very poor women to support themselves through self-employment, encourages them to save regularly and provides credit for self-employment to those who are starting an enterprise as well as to those running an existing micro-enterprise.

General Description of the Credit Methodology

While the poor may have initiative, ideas and the will to become self-employed they very often do not have the small amounts of capital needed to start a business. Likewise the majority of those running micro-enterprises are not able to grow their activities due to lack of capital. SEF answers this problem by providing loans to the very poor to start an enterprise and to existing micro-entrepreneurs to stabilise and expand their businesses. The following is a summarised description of SEF's loan methodology:

In order to receive a loan an applicant must form a group of five with four others who are interested in gaining access to SEF's services. The strength of the group formation is then rigorously checked and where weakness is detected, the applicants are motivated to find alternate members. Then the group is given preliminary recognition and begins a series of training sessions which focus on the credit and savings methodology, motivates applicants to begin regular savings and deals with the duties and responsibilities of group members and group leadership. During the training process the group will be introduced to a Centre ie. a fortnightly meeting of all groups from a section of a village under the leadership of an elected Centre Committee.

Each member's business plan is discussed and refined during the training. Once the group has been recognised by the Centre and has completed its training it will go on to a final recognition "test" by a senior manager. If recognised, the group may apply for loans. Each group member applies for her own loan which she will utilise for her own income generating activity. All group members guarantee the loan repayments of their fellow group members and will be called upon to assist any member who falls into arrears.

Within a few days of disbursement each member is expected to utilise her loan in accordance with her pre-agreed business plan. Group leaders check as to whether loans have been used according to this plan while the SEF Field Worker checks the loan utilisation of all first and second loans and spot checks thereafter. The principle aim of this process is to encourage and demonstrate to members that the utilisation of their loans in accordance with their business plans is the first step towards success.

During the loan cycle the group leadership has the responsibility of checking the progress of each member's business. The results of these visits are reported at each fortnightly Centre meeting.

Towards the end of the loan cycle the Field Worker assesses the growth of the businesses for those who wish to apply for further loans. She then assists them to work out an appropriate loan size for the next loan.

SEF encourages regular savings by requiring groups to open a savings account at a local post office. Through this savings, borrowers build up a fund which they can fall back on when faced with mishaps and tragedies. At each fortnightly Centre meeting members are encouraged to save into their account, the average amount saved ranging from R2 to R10 per meeting. This account is entirely controlled by the group.

An evaluation in 1995 concluded that only 30%-40% of people reached by SEF were very poor i.e. living below half the poverty line. Rather than change the operations of the existing Program a new project, Tšhomišano Credit Program, 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 very poor.

Currently 97% of SEF clients are female. Typical enterprises include hawking of fruit and vegetables and new or used clothing, small convenience shops, and dressmaking. On average, each business employs 2.4 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.

Sustainability Crisis

At the beginning of the financial year the organisation realised that if it continued to operate as it had in the past then it would never attain self-sufficiency. In fact the probability was greater that it would incur ever increasing losses, to the point where such losses would become unsustainable. This realisation led to a rethinking and changes which have resulted in a strategy which project the organisation achieving full financial self-sufficiency by 2003.

Clarification of Mission

The first change seems obvious, even simple, yet it was the most important of all. The organisation has two Programs, the Micro-Credit Program (MCP) and Tšhomišano Credit Program (TCP). The first step was to clearly define what the objective of each of these was.

TCP, SEF's poverty focussed program, would focus on households which live below half the poverty line and would aim to ensure that these households rise above the poverty line through self-employment. TCP clients would be financially very vulnerable and many would be starting an enterprise. This meant that TCP expected to have to build strong client support mechanisms.

MCP would aim to be a micro-enterprise or micro-finance program. It would service any micro-enterprise, not specifically looking at the household income level. This program would not work with start-up businesses and would aim for financial self-sufficiency as soon as possible.

The medium term strategy is for TCP to cover its operational and finance costs. MCP will cover all of its operational and finance costs plus all of the SEF head office overhead. This will enable SEF as a whole to be self-sufficient. Current projections show that this point will be attained during the latter half of the 2003. At that time SEF will have some 23,000 active clients.

Targeting the Very Poor

Since its inception in 1996 TCP has used tools to target or identify the poorest households in the communities in which we work. The initial tools were based on a housing index method. Field staff observed the housing condition of households from the street and thereby judged whether the households were very poor or not. Although this method led TCP to working with clients who were on average far poorer than those in MCP there were nevertheless some problems, in the local context, with the implementation of this method.

During this financial year the organisation developed and implemented Participatory Wealth Ranking as an alternate strategy for identifying the poorest households. The importance of this step is that the organisation can now be sure that it is dealing with the very poorest households in the target areas and is able to avoid the problems which occur when mixing both very poor and middle or non-poor in the same program. An operational manual on Participatory Wealth Ranking, an early edition of which was presented at the Microcredit Summit Meeting of Councils in June 1998, has been completed and a publisher is currently being sought.

Changing the Interest Rate

In MCP the loan products carried an effective interest rate of 39%. With this rate it would have been almost impossible for the program to break-even. A pilot was run with loans with different terms and higher rates to test the effect on clients. No problems with the higher rates were experienced and in fact clients preferred the different loan terms. As from 1 January 1998 MCP went over to new loan products with effective interest rates ranging from 58% to 65%. This change will have a major impact on SEF's ability to attain self-sufficiency.

Loan Volumes

At the start of the financial year SEF's Field Workers were expected to build portfolios of around 300 active clients over a 4 year period. In turn branches would comprise six Field Workers, thus reaching 1,800 active clients. As part of the process for ensuring that the organisation does attain self-sufficiency these targets were changed to 400 or more clients per Field Worker within 3 years and 8 Field Workers per branch, leading to 3,200 clients per branch. The organisation's field staff are fully committed to attaining these goals and by the end of the financial year six Field Workers had portfolios of over 350 clients.

Increasing the Loan Sizes in MCP

With the clarification of the mission of MCP as a micro-finance program serving any small micro-enterprise it became clear that the program's loan sizes were inappropriately small for the majority of its clientele. An approach was developed to base the first loan on an approximation of the current business value. This led to the maximum first loan size being increased from R500 to R800 and greater step increases with repeat loans. For example whereas a client in her fourth loan cycle would have only been able to take a maximum loan of R1500 such a client now qualifies for a loan of R2800 - R3300.

Monthly Loans

A pilot which is currently underway is a test to convert MCP from a program of fortnightly meetings where a client's first two loans must be repaid on a fortnightly basis to a program of monthly meetings and loans which are repaid on a monthly basis only. If this pilot proves successful it is expected to have a very significant effect on the number of clients field staff are able to service. Early indications are that these changes will also be very popular with potential members and may thus lead to a strong increase in demand for loans. On the other hand the most important factor to be tested is whether the credit discipline, the group discipline, remains as strong as it is at present. Perhaps a warning anecdote is where a client said she did not like fortnightly loans as this didn't give her a "chance to relax".

Impact Monitoring

Having confirmed the main aim of TCP as being to reach the very poor and to ensure they cross the poverty line, the organisation recognised the need to develop an impact monitoring system. This is currently being tested throughout the program and involves visually-based qualitative and quantitative monitoring forms which look at key impact areas on an individual and Centre level. This process is integrated into the field staff's existing work patterns and in addition, both uses and requires minimal adaptation from the existing MIS and monitoring systems.

The impact monitoring system is based on a detailed study of impact at individual (female/male) and household level. This study involves the development of a detailed methodology paper, background analysis and case-study interviews with approximately 50 members in 8 villages, with follow-up interviews to be conducted after 6-10 months.

The monitoring system will give early indications of success or problems in TCP implementation, overcoming the time-lag problem with financial indicators based on, for example, repeat loan size or drop outs.

Performance Report

Operational Indicators for SEF (both MCP + TCP)			
	1998	1997	Percentage Change
Delinquency	nil %	nil %	
Defaults for the year	R454	R191	
Active Clients	6144	3642	67%
No. of loans disbursed in the year	8207	4913	67%
Amount Disbursed in the year	R6,901,000	R3,604,300	91%
Principle Outstanding	R3,426,857	R1,705,969	101%
Full time staff	65	43	51%

Delinquency

The organisation's near perfect recovery performance continued this year. Only one loan with an outstanding principle value of R484 had to be written off as non-recoverable. It is indeed incredible to consider that the organisation has made almost 25,000 loans since inception and has only had to write off 7 of these due to bad debts. Of the over R18 million lent out only R1,268 has been lost because of bad debts.

The organisation uses a very strict measure to monitor arrears. A loan not paid on the day the instalment is due is immediately regarded as being in arrears and the full amount outstanding on that loan is regarded as delinquent. MCP experienced a very low level of delinquencies, less than one tenth of a percent, throughout the year. TCP experienced almost the same delinquency performance and ended the year with only R66, the full balance of the only loan that was in arrears, at risk.

Growth

During the course of 1996 the decision was taken to expand SEF's operations. Field staff were recruited during the course of 1997 and then underwent six months training before deployment. The above table shows that the staff complement increased from 43 to 65 over the past 12 months. The increase comprised both field staff and support staff. Head office and other support staff are now at a level where they will be able to support considerable growth in operations.

We are very pleased with the increase in active members from last year's figure of 3,642 to the current 6,144. This is made up of 5,243 clients in MCP and 901 in TCP.

At the same time the average loan disbursed also increased in both programs; in TCP from R409 to R556 and in MCP from R810 to R989. The combination of the 67% increase in the number of active members together with the strong increase in average loan size disbursed resulted in the 101% increase in principle outstanding. This in turn led to a 82% increase in loan interest income from R563,712 to R1,026,690.

MCP currently consists of four branches of 6 to 7 Field Workers per branch. During the coming year a fifth branch will be opened and each of the current branches expanded to 8 Field Workers. An MCP branch will then consist of a Branch Coordinator, a Senior Field Worker and 8 Field Workers. Each branch is being given the target of reaching in excess of 3,200 clients.

During the 2000 financial year a further two branches are planned for MCP.

At the beginning of the financial year it was hoped that TCP could be expanded as strongly as we are expanding MCP. It was, however, soon realised that TCP was experiencing a high drop-out rate of around 35%. This meant that 35% of clients left the program after completing a loan. This high drop-out rate together with the need to find ways of ensuring that TCP is able to achieve a higher level of sustainability led to the decision to keep that program at 4 branches with a total of 11 Field Workers until such time as the drop-out rate is reduced and improvements in efficiency are achieved.

By the end of the coming financial year the organisation is expected to grow to an active portfolio of 9,500 clients.

<u>Self-Sufficiency</u>

Financial Indicators for SEF (both MCP + TCP)			
	1998	1997	Percentage Change
Loan Interest Income	R1,026,690	R563,712	82%
Operational Expenses	R3,396,444	R2,207,119	54%
Interest Paid	R114,886	R121,138	(5%)
Investment Interest Income	R974,812	R1,548,470	(38%)
Investments/Cash	R5,067,755	R8,678,221	(42%)
Operational Self-Sufficiency	30%	26%	18%

The reasons for the strong increase in loan interest income have been dealt with in the above section on Growth.

The increase in operating costs is very much linked to the organisation's current expansion. This has meant building up head office and support staff capacity so that it is possible to greatly expand the field operations. The number of Field Workers was increased from 17 twelve months ago to the current 40. While the costs associated with new Field Workers are much the same as experienced staff with full portfolios, the income they generate is of course far less.

As it takes three years for Field Workers to build up full portfolios it is understandable that the capacity of the organisation is far greater than the size of current operations. For example, with the addition of only three more clerical staff the organisation would be able to comfortably service 14,000 clients as compared with the current 6,144. As the organisation is now structured for strong growth in the coming years it is no surprise that costs are high and that as a result the current self-sufficiency figures are low. For this financial year Operational Self-Sufficiency stood at 30% compared with 26% for 1997.

SEF's strategic plans will see the following progress towards self-sustainability:

Self-Sufficiency Indicators					
	1999	**2000**	**2001**	**2002**	**2003**
Operational Self-Sufficiency	46%	66%	86%	109%	121%
Financial Self-Sufficiency	45%	65%	80%	96%	103%

Interest paid decreased mainly due to the repayment of a loan of R435,145, at 13.5% per annum, from the Development Bank of Southern Africa.

During the year the organisation utilised its investments to cover operational shortfalls, to fund the loan book, the principle outstanding increasing from R 1,705,969 to 3,426,857, and to purchase a property in Tzaneen at which the head office is now located.

Funding

SEF received a grant of US$100,000 from the Ford Foundation towards the end of the financial year. The purpose of this grant is to support action research aimed at improving the impact of TCP and determining what strategies are needed to ensure that Tšhomišano will attain self-sustainability. The funding will cover the direct field expenses of three TCP branches through to January 2000 as well as part of the expenses of SEF's Development Advisor who will co-ordinate, document and publicise this work. On behalf of SEF's directors I would like to recognise the Ford Foundation for their understanding of the importance of establishing mechanisms for poverty elimination in the South African context and gratefully thank them for funding our work in this area.

Through the auspices of Calmeadow, a Canadian micro-finance support agency, the organisation submitted a grant application to USAID. This grant will cover operational losses over the next four years by which time SEF will attain self-sufficiency. Initial indications are that this application will be successful and that the organisation will be able to begin drawing down funds from USAID within the first half of the 1999 financial year.

Directors

It is with pleasure that I can report that SEF's board of directors was strengthened with the appointment of Mr Mutle Mogase to the Board. Mutle is well respected in the micro-finance sector in South Africa. He is the Operating Executive of NuBank, a division of ABSA Bank aimed at low income households. He is also a founding director of Real Africa Investments Limited, a listed company with a market capitalisation of just under R4 billion.

I would also like to thank all board members, Matome Malatji, Marie Kirsten, Daphne Motsepe, Nathaniel Ramalepe and Mutle Mogase for the continued guiding and supervisory role that they perform. SEF's directors work on an entirely voluntary basis and I certainly appreciate the time that they take from their own lives and from their families to assist us in our struggle to end poverty.

The Contribution of SEF's Staff

At the end of each year the organisation recognises the outstanding performances of staff in the field and in support functions. In TCP the outstanding field operations performers for 1997 were Reuben Ngobeni, Orgain Banyini and Agnes Rapau. The awards for outstanding field operations performers in MCP went to Dan Mashaba, Enny Mokgalaka, Rebecca Monyela and Nurseline Rababalela. Mary Zanetic and Violla Chagwiza were recognised as SEF's outstanding support staff performers. 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.

Mr Shaun Cook, the Financial Manager, has decided to retire and join his family in England. It is hard to summarise in just a few words Shaun's contribution to SEF. He has ensured that SEF's monthly accounts were produced on time and were of the highest standard. He ensured that the financial year-end was ready for audit within 3 weeks of year-end and it is notable that Shaun achieved "clean audits" for the past 3 financial years in succession.

When he joined the organisation SEF had only a rudimentary monthly budgeting system. Shaun ensured the implementation of well planned and sound budgets. This led to a marked change in performance throughout the organisation as we monitored our performance on a continuous basis and aimed to achieve the targets which we had established in our budgets. The high standard of accounting and budgeting are two pillars which Shaun leaves behind and for which he has now set the standard for the organisation to maintain.

Lastly I would like to thank him for his steadfast advice and for the honest and open way he worked with all of us at SEF. He will be sadly missed by all and we wish him and his wife all the best for their future in England.

As can be seen from this annual report the past 12 months was a time of considerable change and also strong growth for the organisation. Such a combination is normally very stressful. On behalf of SEF's directors I want to praise and thank all of SEF's staff for their positive approach, untiring hard work and commitment during this period. By the end of the financial year we can be proud of having implemented many operational changes while at the same time exceeding our growth budget, maintaining our almost perfect recovery record, and for keeping total costs below budget. For their contribution towards these achievements I thank all of SEF's staff.

John de Wit
Managing Director
21 July 1998

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ANNUAL FINANCIAL STATEMENTS
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ANNUAL FINANCIAL STATEMENTS
30 JUNE 1998

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The annual financial statements, set out on pages 2 to 13, were approved by the board of directors on 20 November 1998, and are signed on its behalf by:

____________)
)
) Directors
)
____________)

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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 of The Small Enterprise Foundation set out on pages 2 to 13 for the year ended 30 June 1998. 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 statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes:

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

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

Qualification

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

Audit opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 1998, 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.

Without qualifying our opinion above, we draw attention to the fact that an attendance register for directors' meetings, as required by Section 245 of the Companies Act, has not been maintained.

Deloitte & Touche

20 August 1998

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 JUNE 1998

The directors have pleasure in presenting their report on the company for the year ended 30 June 1998.

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 24 740 (1997: 16 541) loans to the value of R18 165 600 (1997: R11 268 000). The loans generated 59 695 (1997: 39 975) job opportunities, being 2,4 job opportunities per loan.

OPERATING RESULTS

Results for the year ended 30 June 1998 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-off's are classified as Death write-offs and are included under operating expenses. An amount of R13 141 (1997: R5 445) has been written off in this manner.

A debt is declared bad once it is 84 days in arrears. Bad debt write-offs amounted to R454 (1997: R191). In view of this, the general provision was reduced from 3% to 1,5% during the current year. A provision of R224 (1997: R7 883) was raised in the current year.

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.

FIXED ASSETS

In March 1998, the company acquired land and buildings at a cost of R410 000. Since the date of acquisitions improvement costing R62 873 were effected.

DIRECTORS AND SECRETARY

Mr Mutle C Mogase was appointed on 19 April 1998. 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 Daphne Ramaisela Motsepe
Mr Matome Nathaniel Ramalepe
Ms Marie Albertina Kirsten
Mr Matome Patrick Malatji
Mr Mutle C Mogase

Secretary - JR de Wit

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POST BALANCE SHEET EVENT

No events have occurred between the financial year end and 2 February 1999 that would have a material adverse effect on either the operations of the company or its financial position.

THE SMALL ENTERPRISE FOUNDATION
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INCOME STATEMENT
30 JUNE 1998

	Notes	1998 R	1997 R
OPERATING INCOME			
Loan interest earned		1 026 690	563 712
Interest on investment		974 812	1 370 776
Interest paid		(114 886)	(121 138)
Bad debts		(454)	(191)
MARGIN ON LENDING ACTIVITIES		1 886 162	1 813 159
Operating expenses		(2 276 718)	(1 443 648)
OPERATING (LOSS)/INCOME		(390 556)	369 511
Sundry income		1 349	1 526
Profit on disposal of fixed assets		500	-
(LOSS)/INCOME before head office expenses		(388 707)	371 037
HEAD OFFICE EXPENSES		(1 119 272)	(763 280)
LOSS before grants	1	(1 507 979)	(392 243)
Operational grants received	2	-	199 680
LOSS for the year		(1 507 979)	(192 563)
Transfer to non-distributable reserves	3	(94 546)	(94 546)
RETAINED INCOME at beginning of year		1 892 183	2 179 292
RETAINED INCOME at end of year		289 658	1 892 183

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BALANCE SHEET
30 JUNE 1998

	Notes	1998 R	1997 R
CAPITAL EMPLOYED			
NON-DISTRIBUTABLE RESERVE	3	366 788	272 240
GENERAL CAPITAL RESERVE	4	582 523	582 523
DEVELOPMENT RESERVE	5	6 654 460	6 654 460
EDUCATIONAL RESERVE	6	2 300	2 300
OPERATIONAL GRANT RESERVE	7	512 726	-
RETAINED INCOME		289 658	1 892 183
EQUITY FUNDS		8 408 455	9 403 706
LONG-TERM LOAN	8	-	531 905
TOTAL CAPITAL EMPLOYED		8 408 455	9 935 611
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	9	604 654	134 105
INVESTMENTS	10	1 413 732	1 298 957
CURRENT ASSETS			
Loans	11	3 375 454	1 654 790
Accounts receivable		96 349	82 878
Cash and short-term funds		3 811 396	7 470 422
Total current assets		7 283 199	9 208 090
CURRENT LIABILITIES			
Accounts payable		188 602	179 238
Bank overdraft	12	157 373	91 158
Current portion of long-term loan	8	547 155	435 145
Total current liabilities		893 130	705 541
NET CURRENT ASSETS		6 390 069	8 502 549
TOTAL EMPLOYMENT OF CAPITAL		8 408 455	9 935 611

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CASH FLOW STATEMENT
30 JUNE 1998

	Notes	1998 R	1997 R
CASH FLOW FROM OPERATING ACTIVITIES			
Loss for the year		(1 507 979)	(192 563)
Adjustments for:			
– Depreciation		36 303	31 588
– Profit on disposal of fixed assets		(500)	-
– Working capital changes		(1 724 771)	(450 963)
(Increase)/decrease in accounts receivable		(13 471)	11 551
Increase in accounts payable		9 364	86 656
Increase in operating assets - loans		(1 720 664)	(549 170)
Net cash outflow from operating activities		(3 196 946)	(611 938)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to fixed assets		(506 851)	(50 087)
Proceeds on disposal of fixed assets		500	400
Increase in investment		(114 775)	(112 013)
Net cash outflow from investing activities		(621 126)	(161 700)
CASH FLOWS FROM FINANCING ACTIVITIES			
Operational grant received		512 726	-
Capital grants received		-	7 300
Long-term loans repaid		(531 905)	(1 075 902)
Increase in short-term borrowings		112 010	41 162
Net cash inflow/(outflow) from financing activities		92 831	(1 027 440)
NET DECREASE IN CASH AND CASH EQUIVALENT		(3 725 241)	(1 801 078)
Cash and cash equivalent at beginning of period		7 379 264	9 180 342
CASH AND CASH EQUIVALENTS AT END OF PERIOD		3 654 023	7 379 264

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
ACCOUNTING POLICIES
30 JUNE 1998

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 loans book, interest earned on loans is suspended until received.

Other interest received

Other interest received is accrued on a daily basis.

Grants received

Operational grants received

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

Grants for loan capital

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

Investments

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

Fixed assets

Fixed assets are 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 1998

		1998	1997
		R	R
1.	LOSS BEFORE GRANTS		
	The loss before grants is arrived at after taking into account the following:		
	Depreciation	36 304	31 588
	Auditors remuneration		
	– underprovision in prior year	-	3 000
	– statutory audit	29 640	21 000
	– audit expenses	8 480	6 000
	– consulting fees	-	17 000
	Directors' emoluments		
	– For managerial duties	195 260	177 510
	– Expenses relating to managerial duties	38 456	8 180
2.	OPERATIONAL GRANTS RECEIVED		
	Independent Development Trust	-	199 680
		-	199 680
3.	NON-DISTRIBUTABLE RESERVE		
	Revaluation of guaranteed capital investment		
	Balance at beginning of the year	272 240	177 694
	Surplus on revaluation of investment	94 546	94 546
		366 786	272 240

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
30 JUNE 1998

	1998 R	1997 R

4. GENERAL CAPITAL RESERVE

The General Capital Reserve comprises grants received from donors other than USAID (see Development Reserve note 5). 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.

	1998 R	1997 R
Balance at beginning of the year	582 523	577 523
Grants for year	-	5 000
	582 523	582 523

5. DEVELOPMENT RESERVE

The Development Reserve is comprised solely of grants received from USAID in terms of a five 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.

	1998 R	1997 R
Balance at beginning and end of year	6 654 460	6 654 460

	1998 R	1997 R
6. EDUCATIONAL RESERVE		
The Educational Reserve comprises a single grant from a group of workers at LAPA, Toronto, Canada. The donors have requested the funds to be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998.		
Balance beginning and end of year	2 300	2 300
7. OPERATIONAL GRANT RESERVE		
Ford Foundation		
A grant of US$100 000 was approved to cover operational costs relating to action research aimed at improving the impact and sustainability of TCP. This research will take place through to January 2000.		
Grant for the year	512 726	-
8. LONG-TERM LOAN		
The Development Bank of Southern Africa has LOANd loans to SEF, which have been funded to the extent of 55% by the Independent Development Trust (IDT). The IDT portion of the loan was repaid in full in 1997.		
Loan 1		
Portion repayable in a single installment on 31 March 1998. Interest at a rate of 13.5% per annum is payable six monthly in arrears.	-	435 145
Less: current portion transferred to current liabilities	-	(435 145)
	-	-

	1998	1997
	R	R
8. LONG-TERM LOAN (continued)		
Loan 2		
Portion funded by DBSA is repayable in a single installment on 31 March 1999. Interest at a rate of 11.5% per annum is payable six monthly in arrears.	531 905	531 905
Less: current portion transferred to current liabilities	(531 905)	-
	-	531 905

9. FIXED ASSETS

1998

	Land & Buildings	Furniture & Fittings R	Office Equipment R	Computer Equipment R	Motor Vehicles R	Total
Cost						
At beginning of the year	-	50 623	83 457	65 867	11 623	211 570
Additions	472 873	16 673	-	17 305		506 851
Disposals	-	-	-	-	-	
At end of year	472 873	67 296	83 457	83 172	11 623	718 421
Accumulated depreciation						
At beginning of year	-	9 628	31 832	34 309	1 695	77 464
Additions	-	5 952	14 159	13 286	2 906	36 303
Disposals	-	-	-	-	-	-
At end of year	-	15 580	45 991	47 595	4 601	113 767
Net book value	472 873	51 716	37 466	35 577	7 022	604 654

9. FIXED ASSETS (continued)

	1998 R	1997 R
The land and buildings situated on Erf 199 in the township Of Tzaneen Extension 4, Registration Division LT, Northern Transvaal. The directors value the above property on open market basis at R500 000.		
Purchased on 10 March 1998	410 000	-
Improvements in 1998	62 873	-
	472 873	-

1997

	Cost R	Accumulated Depreciation R	Net Book Value R
Furniture and fittings	50 623	9 628	40 995
Office equipment	83 457	31 833	51 624
Computer equipment	65 867	34 309	31 558
Motor vehicles	11 623	1 695	9 928
	211 570	77 465	134 105

10. INVESTMENTS

	1998 R	1997 R
Listed		
Investec Bank Limited - Metfund Unit Trust Fund	259 613	247 624
- Norwich Unit Trust Fund	258 731	249 492
- Guarantee Capital Trust	896 388	801 841
	1 413 732	1 298 957

The market value of the investments held at Investec Bank Ltd on 30 June 1998 amounted to R1 801 012 (1997 : R1 575 809).

11. LOANS

	1998 R	1997 R
Loans outstanding	4 300 559	2 045 441
Unearned interest	(873 702)	(339 472)
Provision for bad debts	(51 403)	(51 179)
	3 375 454	1 654 790

12. BANK OVERDRAFT

The bank overdraft is made up of a R60 000 facility from Nedbank, which is secured by a personal surety by JR de Wit and a R100 000 facility from The Standard Bank which is unsecured.

13. TAXATION

No provision has been made for taxation as the company has an estimated tax loss of R2 079 141 (1997: R574 569).

14. 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 employee's contributions to the fund.

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