THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 2003

"I am very happy. SEF has made a difference because I can now regard myself as someone who is working and can provide for her family. I have been able to build a successful business. SEF has helped me both economically and socially. It has given me a loan, business advice and a sense of community".

Francina Malai (SEF Member)

THE SMALL ENTERPRISE FOUNDATION
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)
MANAGEMENT REVIEW
FOR THE YEAR ENDED 30 JUNE 2003

The Small Enterprise Foundation, SEF, is a non-profit, non-government organisation dedicated to ending poverty. The organisation was registered in July 1991 and disbursed its first loans in January 1992. The following is a summary of performance:

Indicator	June 2003	June 2002
Number of loans outstanding	18 812	13 387
% Women clients	99%	98%
Value of loans outstanding	R 13.5 million[1]	R 8.4 million
Current average loan size disbursed	R 1 158	R 1 033
Number of loans disbursed since inception	127 276	94 603
Amount disbursed since inception	R 124 million	R 91.5 million
Bad Debt rate	1.5 %	2.2 %
Portfolio at risk > 30 days	1.1 %	0.5 %
Since inception Re-scheduled loans (due to illness)	R 117 422	R 121 875
Death Write-Offs	R 51 377	R 38 695
Total Savings as held by clients	R 2,5 million	R 2,2 million
Average number of all staff	101	105
Average no. of operations staff	83	82
Average no of Development and Training, Loans Administration, and Head office staff	18	23
Clients per loan officer	301	209
Operational self sufficiency[2]	78 %	51 %
Financial self sufficiency[3]	76 %	51 %

[1] At the close of the financial year the Rand/US$ exchange rate stood at R7.59 = US$1.00

[2] Operational self sufficiency = Loan interest income / (total operating costs + loan loss provision)

[3] Financial self sufficiency = Total income / (total operating costs + total finance costs + loan loss provision)

Introduction

The Small Enterprise Foundation is a growing development organization.

Values

We believe in :

Respect for all

Having positive impact on the lives of our stakeholders

Striving for operational efficiency and self-sufficiency

Mission

To work aggressively towards the elimination of poverty by reaching the poor and very poor with a range of financial services to enable them to realise their potential.

Vision

A world free of poverty

BACKGROUND

SEF (The Small Enterprise Foundation) began operations in 1992 with the aim of alleviating poverty in a sustainable manner by enabling the poor to increase their income through microcredit and by assisting them in the accumulation of savings. The performance summary shows that since inception the organisation has disbursed 127 276 loans to the value of R124 million. SEF's recovery performance has been exceptional with cumulative bad debts since inception amounting to only R479 949 or 0.4% of the total amount disbursed[4]. In the past year the organisation has made strong improvements in self-sufficiency and is budgeting to attain operational self-sufficiency by April 2004 and financial self-sufficiency before December of that year.

Limpopo Province, in which SEF is located, is characterised by severe poverty. 60% of households live below the poverty line and 40% live below half that level[5]. As the organisation's mission statement suggests SEF works to reach the poor. In 1996 the organisation started a special program which targets the "very poor" – those in the poorest 30% of households in the province. The first program is known as MCP, the Microcredit Programme, and the specially targeted program is known as TCP, the Tšhomisano Credit Programme[6]. MCP currently has 9 652 active clients whereas TCP serves 8 406 clients.

BACKGROUND (continued)

[4] SEF writes off a loan when any part of any instalment is more than 84 days in arrears
[5] The "household subsistence" level is used as the poverty line. In 2001 this stood at R920 (US$121) per family of five per month. 40% of households in the Northern Province live below half this line.
[6] Tšhomisano is the Northern Sotho word meaning "Working together".

Both of SEF's operations, MCP and TCP, utilise a methodology that has been adapted from that of the Grameen Bank of Bangladesh[7]. In the case of TCP SEF starts working in a community by first conducting participatory wealth ranking or PWR. Thereafter field staff go to the poorest households to motivate the women of those households to start or resume an income generating enterprise. By definition the very poor do not have money and thus once motivated microcredit becomes the means by which the individual will start her business.

While the majority of MCP's clients are certainly poor, in fact some 20% are very poor, a requirement of this program is that the individual must have been operating a business for at least six months. In this case microcredit is used to change a business from being very fragile to being secure and to attain growth which can dramatically improve household income.

In both MCP and TCP once a client requests a loan she is required to form a group with four others whom she knows very well and trusts. Each of the five must also be interested in obtaining a loan for their own individual businesses. The five group members are then required to guarantee each others' payments. No other collateral is required. SEF's loans are only for enterprise and a series of checks are in place to ensure that loans are not diverted for other purposes.

While SEF may not take deposits it strongly encourages savings by the poor by training clients how to open and operate a formal savings account, ensuring that this is done, and then motivating clients to save at each of their fortnightly meetings. Due to its extensive outreach in rural areas SEF's clients utilise the Post Bank. As at the end of the financial year the cumulative sum of savings as held by clients in their Post Bank accounts amounted to R 2.52 million.

OPERATIONAL PERFORMANCE REVIEW

The 2003 financial year was a truly excellent year for SEF. Highlights include:

- Number of active client increased by 35% to 18 058
- Principal outstanding increased by 60% to R13.5 million
- Client retention improved from 74% to 80%
- Loan interest income increased by 58%
- Operational costs, including loan losses and excluding interest paid, were contained to an increase of just 4%
- Financial self-sufficiency for the year improved from 51% to 76%.

[7] Grameen Bank currently serves over 2.7 million clients. For more information go to www.grameen.com

All at SEF are also very proud of certain milestones that were achieved this year:

- Attaining 18 000 active clients
- Breaking through R100 million cumulative disbursements since inception
- Breaking through 100 000 loans disbursed since inception

The following graphs illustrate the organisation's performance in key areas:

Figure 1 - Portfolio at Risk

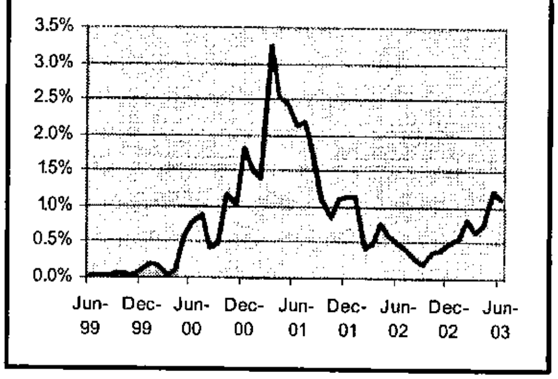


Figure 2 - Active Clients

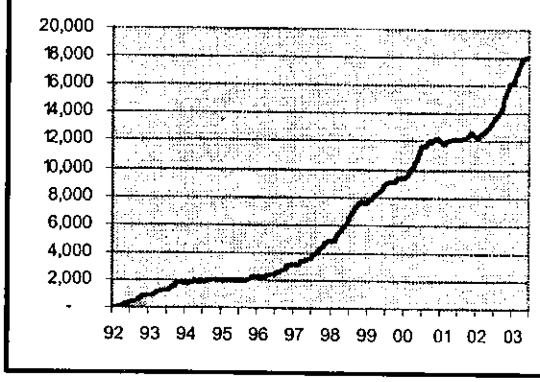


Figure 3 - Principal Outstanding

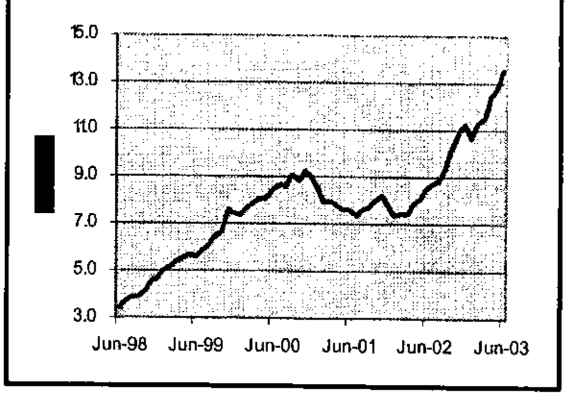
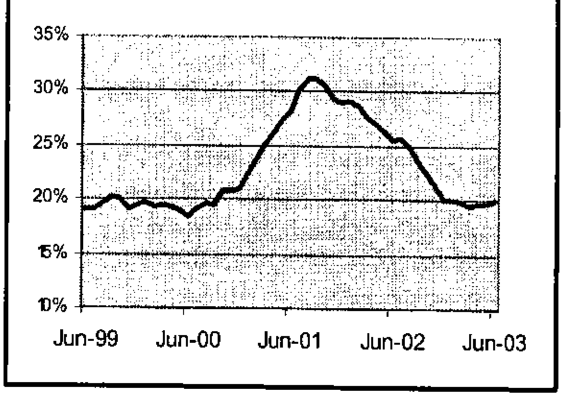


Figure 4 - Drop-Out Rate



REASONS FOR THE STRONG PERFORMANCE IN THE CURRENT YEAR

A review of our last two annual reports will show that the period from July 2000 to June 2002 was particularly difficult for SEF. This can be seen in the above graphs where it may be noted that during this time the portfolio in arrears reached record levels, the number of clients stagnated at the 12 000 level, the principal outstanding actually declined and the client drop-out rate increased to unacceptable levels.

In the 2001 and 2002 annual reports we outlined a whole series of corrective actions that were taken to address the declining performance. These measures improved SEF's current year performance.

We believe that the changes that contributed most to the turnaround in performance were those that related to leadership and management of the organisation. These included:

- a strong focus on our branch manager core; including recognition of their vital role, concentrated training and performance management;
- strong and clear communication to all staff that either we dramatically improved performance or would face a very uncertain future - including suspending wage negotiations while we put in place a plan to restructure the organisation so as to ensure sustainability;
- proper implementation of a rigorous performance management system;
- increasing staff training;
- creating an atmosphere in which all staff are encouraged to use their initiative and take on more responsibility;
- ensuring excellent management of our branch managers; and
- ensuring that the administration team is highly motivated, positive and efficient

ATTAINING SELF-SUFFICIENCY

Strategies are now in place which are expected to result in SEF attaining full financial self-sufficiency during the 2005 financial year. We expect April 2004 to be the last month in which operational expenses (not including interest payments) will exceed loan interest income and December 2004 to be the last month in which all expenses will exceed operating, loan and investment, income.

ATTAINING SELF-SUFFICIENCY (continued)

Over this period:

- the focus will be on the current 11 branches and no new branches will be opened;
- the number of Field Workers[8] will be increased to 73 as compared to the average of 65 for this year;
- the number of clients is expected to increase to 23 000;
- the average loan size in MCP is expected to grow by 4% per annum;
- as it is a younger program with many clients still graduating from first to higher loans the average loan size in TCP is expected to increase by 13% per annum; and

- costs will be contained, especially as an agreement is in place for wage increases in July 2003 and July 2004 to be at the inflation rate (64% of all non-interest costs consist of salary and related expenses)

The following have been identified as risks to these plans:

- Thus far the organisation has not seen any major impact of HIV/AIDS either on staff or on loan performance. Nevertheless the effects of this pandemic in South Africa are likely to be dramatically more noticeable in the coming three years. In terms of the organisation we have piloted a workplace HIV/AIDS program and will now roll this out. As illustrated below, SEF is also working on a large scale pilot to try to assist its clients, and their communities, to resist and cope with HIV/AIDS. In terms of financial sustainability factors such as the client drop-out rate and reasons for drop-out are being monitored.
- During the last quarter of the financial year SEF lost 11 of its Field Workers, including several top-performers, mainly due to misconduct in support of a strike by five employees. While their positions have been filled and much focus is being put into providing the replacements with training and support there is concern that there may be a decline in performance in the areas affected by the staff turnover in the next 6 to 12 months.

In summary SEF's business plan sees the organisation's progressing to self-sufficiency as follows:

Performance Factor	June 2003	June 2004	June 2005
Active Clients	18 100	22 400	23 100
Principal Outstanding	R 13.5 million	R 16 million	R 18 million
Operational Self-Sufficiency	78%	98%	112%
Financial Self-Sufficiency	76%	90%	100%[9]

HIV/AIDS AND MICROFINANCE PILOT PROJECT

[8] The SEF term for an extension or loan officer
[9] The last month in which SEF will experience an operating loss, including financial expenses, is expected to be December 2004.

Since 2001 SEF has been working in partnership with the Rural AIDS & Development Action Research Programme (RADAR) of the School of Public Health, University of the Witwatersrand, on a pilot programme to address HIV/AIDS. The programme, known as the IMAGE Study, the Intervention with Microfinance for AIDS & Gender Equity, is being conducted in one of SEF's new branches in the Sekhukhuneland area of the Limpopo Province. It combines poverty-focused microfinance with a curriculum on gender-based awareness and HIV/AIDS.

The first phase of the program involves 10 structured one-hour sessions that take place before SEF's regular fortnightly centre meetings. This is followed by the appointment of 'natural leaders' from each centre who participate in a one week workshop on leadership skills. The final phase uses these natural leaders and the skills that the centre has developed during the training to identify critical community issues and an action plan that centres can take forward in their villages. The goal of the initiative is to reduce the incidence of both HIV infection and gender-based violence.

This programme was initiated in September 2001 and is being conducted alongside an intensive evaluation that combines qualitative and quantitative methods, overseen by a joint SEF-RADAR team. Eight villages were selected to participate in the evaluation – four of whom received the IMAGE intervention while the other villages, similar in size and level of development, are being used to compare impacts at the level of individuals, households and the community at large.

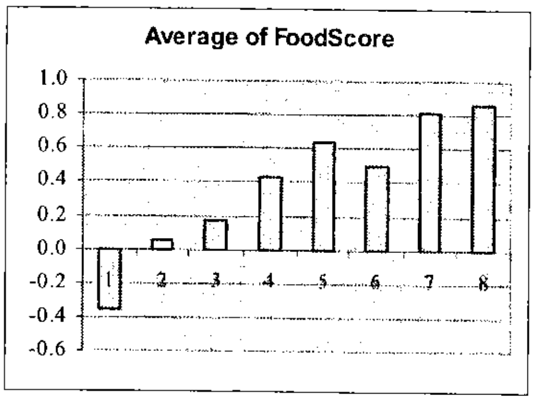
To date, 430 SEF clients have received the intervention. A similar number of 'potential clients' from non-SEF villages are being followed over a 3 year period. As part of the baseline quantitative evaluation, over 4000 interviews were conducted on various aspects of social and economic well-being, in addition to HIV knowledge, attitudes and risk behaviour, including a measure of HIV prevalence using an oral fluid collection device. The qualitative evaluation involves a team of anthropologists interrogating dynamics within client centres, households (including relationships with partners and children) and community level factors that may influence outcomes.

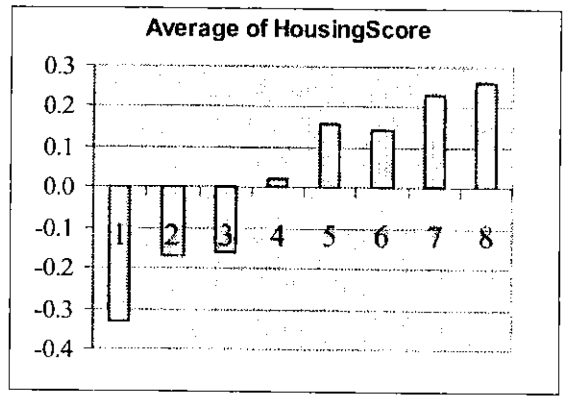
More information on this important work can be found at the RADAR website at www.wits.ac.za/radar. However, a selection of quantitative findings thus far reveals that:

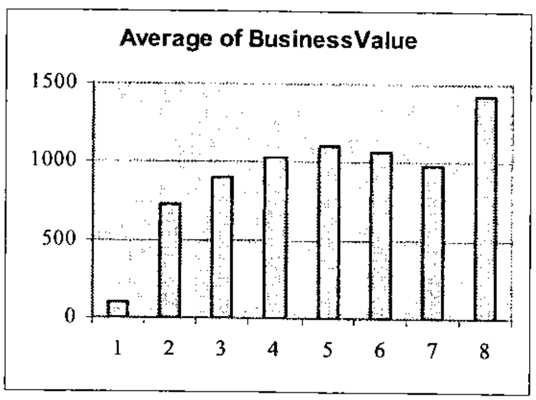
- Self-employment and unemployment is very high: 50% (males, 35-65 years of age), 82% (females, 35-65 years of age)
- 55% of households have at least one adult member who is a labour migrant, while 40% of households are headed by a female.
- The population structure in this rural area, thought to be early in the epidemic, is already beginning to feel the impact of HIV/AIDS as the number of young adults and children is being reduced as a consequence of premature death.
- High proportions of people still believe that a healthy looking person cannot be infected with the HIV virus: 52% (14-19 years old), 38% (20-24 years old), 32% (25-29 years old), 30% (30-35 years old).
- In this community only 15-18% of those 14-35 years old feel they are at 'high risk' of getting HIV. Most (40-60%) feel they are at 'no risk'.
- By 18 years of age 80% of boys and girls have had sex.
- Among women, their first sexual experience was something they felt was 'not wanted'.
- Patterns of condom use during the last sexual contact are low – reported to be 25% by female respondents and 32% by male respondents.
- Most men in relationships (70-80%) that are 'non-spousal' report providing some form of material support to that partner.

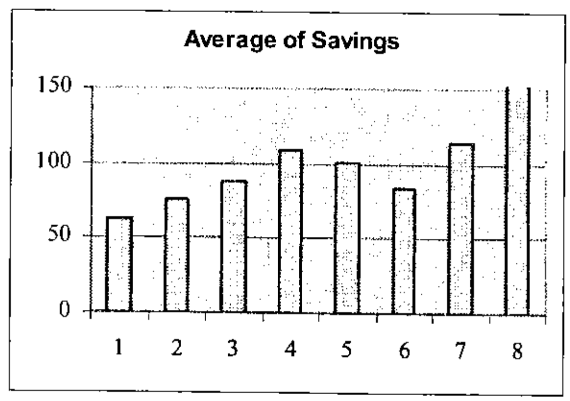
Microfinance is not simply a matter of whether people take and repay loans or use convenient, low cost savings instruments. Microfinance is about whether people utilise such opportunities to improve their lives and the lives of their families. Thus SEF is not only concerned about its own operational efficiency and sustainability but whether its work is having positive impact on the lives of those with whom it works.

SEF has an impact monitoring system which is used to understand the impact on clients on an ongoing basis. Using a participatory methodology each client in our TCP program is interviewed on a number of key impact indicators before each loan cycle. This understanding not only informs us of whether we are attaining our goals of positive impact but also provides information on how we need to improve our performance to ensure better impact, and consequently better operational and financial performance. The following graphs illustrate outputs from the impact monitoring system for the quarter ending 30 June 2003:









FUNDING

	2003 R	2002 R
A. CASH UTILISED BY OPERATIONS		
Loss before grants	(1 961 131)	(4 581 548)
Adjusted for:		
Investment income	(303 646)	(201 717)
Profit on sale of investments	(388 740)	-
Finance costs	649 210	407 589
Depreciation	130 626	92 009
Loss on disposal/scrapping of property and equipment	978	-
Movement in provision for bad debts	118 787	58 260
Operating loss before working capital changes	(1 753 916)	(4 225 407)
Decrease/(increase) in accounts receivable	226 847	(278 646)
Increase in accounts payable	99 338	57 191
Increase in operating assets – principal outstanding and accrued interest before movement in provision for bad debts	(5 496 568)	(742 950)
- As previously reported	(5 496 568)	(700 950)
- Change in accounting policy	-	(42 000)
Cash utilised by operations	(6 924 299)	(5 189 812)

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts:

	2003	2002
Cash and short-term funds	3 395 651	5 961 223

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
ACCOUNTING POLICIES
30 June 2003

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

Interest earned on advances

Interest earned on advances is recognised using the effective interest rate method over the term of the loans. Refer to note 5 "Change in accounting policy".

Other interest received

Other interest received is accrued on a daily basis.

Grants received

Operational grants received

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

Grants for loan capital

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

Investments

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

Property and equipment

Property and equipment are stated at historical cost and are depreciated using the straight-line method over the estimated useful lives of the assets. As from 1 July 2002 the company commenced depreciating its buildings. This resulted from a change in accounting estimate with regard to the useful life of the company's buildings.

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

Land is not depreciated.

As has been seen this, has been a splendidly successful year for the organisation. This year also brought into the spotlight the wonderful achievements of each and every staff member. In this year it became clear how important the contribution of each individual was, working to be as good as they could be in their own area of responsibility. The combination of all of these efforts resulted in the success of this year. On behalf of the Board of directors I would like to thank all of SEF's staff and to say how proud I am to work with each and every one of you.

John de Wit
Managing Director
26 August 2003

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

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2003

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
(Registration number: 1991/003485/08)
ANNUAL FINANCIAL STATEMENTS
30 June 2003

CONTENTS **PAGE**

DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for ensuring that the annual financial statements fairly present the financial position and operating results of the company. The annual financial statements have been compiled by management in terms of South African Statements of Generally Accepted Accounting Practice and are supported, where appropriate, by reasonable and prudent judgments and estimates.

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

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

The annual financial statements, set out on pages 6 to 21, were approved by the board of directors on 26 November 2003 and are signed on its behalf by:

NKursten

Director

Director

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 4 to 21 for the year ended 30 June 2003. These annual financial statements are the responsibility of the company's directors. Our responsibility is to report on these annual financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

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

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

Qualification

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

Audit opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2003, and the results of its operations and cash flow information for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (continued)

Funding of the business

Without further qualifying our opinion above, we draw attention to the fact that the company is not yet generating sufficient interest income to fund its operations and business activities, and is still dependent on grants in order to continue as a going concern in the foreseeable future.

Registered Accountants and Auditors
Chartered Accountants (CA) SA
Johannesburg
26 November 2003

The directors have pleasure in presenting their report on the company for the year ended 30 June 2003.

BUSINESS REVIEW

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

The Small Enterprise Foundation ("SEF"), has since inception, granted 127 276 (2002: 94 603) loans to the value of R124 million (2002: R91,5 million).

OPERATING RESULTS

Results for the year ended 30 June 2003 are set out on page 7 of the financial statements. The directors are pleased to report a 60% increase in loan advances as well as a 58% increase in loan interest income. At the same time expenses, excluding finance costs, increased by only 4%.

LOAN LOSS RESERVES

In cases where borrowers experience death amongst their members, the company will decrease the group's repayment and write-off the amount owed by the member. Such write-offs are classified as death write-offs and are included under operating expenses. During the year under review an amount of R51 378 (2002: R38 695) was written-off.

A debt is declared bad once it is 84 days in arrears. An amount of R195 432 (2002: R184 899) was written off during the year under review.

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

The only instance where the organisation allows the renegotiation of delinquent loans is where clients are able to provide medical evidence of long-term illness. Such amounts are not written off, and the respective clients are urged to continue with loan repayments when their condition improves. The accumulative amount renegotiated in this way since inception and still outstanding at year-end was R175 696 (2002: R121 875).

DIRECTORS AND SECRETARY

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

Ms Marie Albertina Kirsten (Chairperson)	
Mr Mutle Constantine Mogase (Non-executive)	
Mr John Robert de Wit (Managing Director)	
Ms Daphne Ramaisela Motsepe (Non-executive)	(Resigned March 2003)
Mr Matome Patrick Malatji (Non-executive)	
Mr Sanjay Doshi (Non-executive)	
Mr Ben Nkuna (Executive)	
Ms Sizeka Monica Rensburg (Non-executive)	(Appointed May 2003)

Secretary and Public Officer - J R de Wit

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

POST BALANCE SHEET EVENTS

No events have occurred between the financial year-end and the date of this report that are expected to have a material adverse effect on either the operations of the company or its financial position.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
at 30 June 2003

	Notes	2003 R	2002 R
ASSETS			
Non-current assets			
Property and equipment	1	1 030 732	779 510
Investments	2	-	603 348
Total non-current assets		1 030 732	1 382 858
Current assets			
Advances (Principal outstanding)	3	13 500 400	8 435 004
- As previously reported		13 500 400	8 018 004
- Change in accounting policy		-	417 000
Accrued interest on advances		592 385	280 000
- As previously reported		592 385	-
- Change in accounting policy		-	280 000
Accounts receivable	4	151 445	378 292
Cash and short-term funds		3 395 651	5 961 223
Total current assets		17 639 881	15 054 519
TOTAL ASSETS		18 670 613	16 437 377
FUNDS AND LIABILITIES			
Funds			
General capital reserve	6	587 953	587 953
Development reserve	7	6 709 676	6 699 213
Educational reserve	8	5 800	5 800
Operational grant reserve	9	35 602	1 964 058
Accumulated income		3 356 025	2 568 338
Total funds		10 695 056	11 825 362
Non-current liabilities			
Long term loans	10	4 124 939	1 000 000
Current liabilities			
Short term loans	11	3 110 709	2 971 444
Accounts payable		739 909	640 571
Total current liabilities		3 850 618	3 612 015
TOTAL FUNDS AND LIABILITIES		18 670 613	16 437 377

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 June 2003

	Notes	2003 R	2002 R
OPERATING INCOME			
Interest earned on advances		7 322 206	4 638 820
- As previously reported		7 322 206	4 596 820
- Change in accounting policy		-	42 000
Investment income		303 646	201 717
Realised profit on sale of investments		388 740	-
Finance costs		(649 210)	(407 589)
Bad debts		(195 432)	(184 899)
MARGIN ON LENDING ACTIVITIES		7 169 950	4 248 049
Operating expenses		(6 184 238)	(5 289 750)
OPERATING INCOME/(LOSS)/		985 712	(1 041 701)
Sundry income		34 358	7 539
Loss on disposal of property and equipment		(978)	-
INCOME/(LOSS) before head office expenses		1 019 092	(1 034 162)
Head office expenses		(2 980 223)	(3 547 386)
LOSS before grants	12	(1 961 131)	(4 581 548)
Operational grants utilised to cover expenses	13	2 748 818	4 403 257
NET INCOME/(LOSS) FOR THE YEAR		787 687	(178 291)

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2003

	Note	General capital reserve R	Development reserve R	Educational reserve R	Operational grant reserve R	Accumulated income R	T R
Balance as at 30 June 2001		587 953	6 654 460	5 300	1 287 027	2 746 629	11 281 3
- As previously reported		587 953	6 654 460	5 300	1 287 027	2 091 629	10 626 3
- Change in accounting policy	5	-	-	-	-	655 000	655 0
Operational grant reserve – utilised to cover expenses		-	44 753	500	(4 403 257)	-	(4 358 0
Net income for the year		-	-	-	-	(178 291)	(178 2
- As previously reported		-	-	-	-	(220 291)	(220 2
- Change in accounting policy	5	-	-	-	-	42 000	42
Operational grants received		-	-	-	5 080 288	-	5 080
Balance as at 30 June 2002		587 953	6 699 213	5 800	1 964 058	2 568 338	11 82
Operational grants refunded and other movements		-	-	-	(185 783)	-	(18
Operational grant reserve – utilised to cover costs		-	-	-	(2 748 818)	-	(2 74
Net income for the year		-	-	-	-	787 687	78
Operational grants received		-	10 463	-	1 006 145	-	1 0
Balance as at 30 June 2003		587 953	6 709 676	5 800	35 602	3 356 025	10 69

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 June 2003

	Notes	2003 R	2002 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	(6 924 299)	(5 189 812)
Investment income		303 646	201 717
Finance costs		(649 210)	(407 589)
Net cash outflow from operating activities		(7 269 863)	(5 395 684)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of investments		1 005 974	-
Additions to property and equipment		(387 313)	(197 707)
Proceeds on disposal of property and equipment		4 487	-
Increase in investments		(13 886)	(26 220)
Net cash inflow/(outflow) from investing activities		609 262	(223 927)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in long term loans		3 124 939	-
Developments grants returned and other movements		(185 783)	-
Development grants received		10 463	45 253
Operational grants received		1 006 145	5 080 288
Increase in short term loans		139 265	1 718 976
Net cash inflow from financing activities		4 095 029	6 844 517
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2 565 572)	1 224 906
Cash and cash equivalents at beginning of year		5 961 223	4 736 317
CASH AND CASH EQUIVALENTS AT END OF YEAR	B	3 395 651	5 961 223

The work of SEF would never have been possible if it were not for the support of several donors. These donors act as they believe in what SEF is trying to accomplish – the alleviation of poverty through microfinance. I wish to use this opportunity to recognise our donors and to sincerely thank them on behalf of the organisation and of our clients who have used this opportunity to transform their lives and the lives of their families.

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

SEF also funds its loan book through loan facilities with Khula Enterprise Finance Limited ("Khula") and the Hivos-Triodos Fonds. Furthermore Khula has also granted SEF a loan facility to support operational expenditure. Upon attainment of certain operational objectives this loan can be converted into a grant. The organisation wishes to thank these agencies for their excellent ongoing service and support.

Particular thanks are also due to individuals who have through their time, and often also by working with SEF at very much reduced rates, contributed greatly to whatever success we have achieved. Special mention must be made of Randal Godden of TEC South Africa who above all else taught us that the five key elements to success were "the Branch Manager, the Branch Manager, the Branch Manager, the Branch Manager and the Branch Manager" and of Barbara Calvin of Calmeadow and Vulindlela who put her passion into assisting SEF to work through its very difficult years of 2001 and 2002.

DIRECTORS

SEF's board conduct their work with the organisation on an entirely voluntary basis and yet are totally committed to ensuring that the organisation remains true to its mission and to achieving success in terms of that mission. This was a critical year in which the board had to ensure that the organisation moved out of a grave position of stagnation and declining sustainability. The board and in particular then Chairperson, Mutle Mogase, tackled this situation directly and this annual report is testimony to what they achieved.

I would like to place on record my sincere thanks to all of SEF's board. Again special recognition is due to Mutle Mogase who has just completed a two year term as Board Chairperson and to Marie Kirsten who takes over this responsibility. SEF's board has also been strengthened by the addition of Sizeka Rensburg, an Economic Development Consultant. Lastly on behalf of the board and all at SEF I wish to thank Daphne Motsepe who resigned from the board this year due to overwhelming work commitments. Ms Motsepe was one of SEF's founding board members and has been and continues to be one of SEF's most earnest supporters.

THE CONTRIBUTION OF SEF's STAFF

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

Best Branch Manager	Ernest Nkwashu
Best Field Worker	Kenneth Ntsieni
Best Field Worker – 1st runner up	Gabaza Mushwana
Best Field Worker – 2nd runner up	Stanley Mabuza
Best Support Staff performer	Jimmy Sape, Robert Neumangani

These individuals attained exceptional performance during the 2002 calendar year. On behalf of the Board of Directors and the organisation as a whole I would like to congratulate all of these staff members for their excellent achievements and contributions to our work.

Over the years we have been most fortunate to have many interns work with SEF. These individuals pay for their own costs to travel to South Africa and cover the majority of their expenses while working with the organisation. We have benefited considerably from their skills and enthusiasm and I would like to thank them for their contribution to our efforts.

1. PROPERTY AND EQUIPMENT

	Land & Buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
2003						
Cost						
At beginning of year	517 195	198 928	149 182	236 251	36 623	1 138 179
Additions	12 996	2 685	13 772	125 960	231 900	387 313
Disposals and scrappings	-	(11 333)	(13 939)	(71 224)	-	(96 496)
At end of year	530 191	190 280	149 015	290 987	268 523	1 428 996
Accumulated depreciation						
At beginning of year	-	104 491	94 412	142 288	17 478	358 669
Depreciation	13 011	30 392	18 292	50 925	18 006	130 626
Disposals and scrappings	-	(9 290)	(10 517)	(71 224)	-	(91 031)
At end of year	13 011	125 593	102 187	121 989	35 484	398 264
Net book value	517 180	64 687	46 828	168 998	233 039	1 030 732

1. **PROPERTY AND EQUIPMENT continued)**

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

		2003 R	2002 R

1. PROPERTY AND EQUIPMENT (continued)

The land and building is situated on Erf 199 in the township of Tzaneen Extension 4, Registration Division LT, Northern Transvaal. In the current year, P. Visser (MIVSA), a candidate valuer, independently estimated the market value of the property at R880 000. (2002 Directors valuation - R517 195).

2. INVESTMENTS

Listed

		2003 R	2002 R
Investec Bank Limited	- Investec Equity Fund	-	302 105
	- Fedsure General Equity Fund	-	301 243
		-	603 348

The market value of the investments on 30 June 2003 amounted to R nil (2002: R998 802).

3. ADVANCES (PRINCIPAL OUTSTANDING)

	2003 R	2002 R
Loans outstanding	13 827 964	8 643 781
Provision for bad debts	(327 564)	(208 777)
	13 500 400	8 435 004
Movement in the provision for doubtful debts		
Balance at beginning of year	208 777	150 517
Current year movement in provision for bad debts	118 787	58 260
Balance at end of year	327 564	208 777

The entity is operational in Tzaneen and the surrounding area in the Northern Province, South Africa. Individual loans do not exceed R10 000.

Effective interest rates, based on a declining balance, range from 70,1% p.a. to 82,1% p.a.

3. ADVANCES (PRINCIPAL OUTSTANDING) (continued)

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

A total amount of R163 044 (2002: R43 899) was in arrears at the financial year-end. An analysis of the arrears for the current year is presented below. The ratios presented are based on the arrears balance, divided by the gross advances amount as at year-end.

	R	%
30 days	50 097	0.4
60 days	31 322	0.2
90 days	81 625	0.6
Total	163 044	1.2

	2003 R	2002 R

4. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount for staff debtors. These constitute small loans available generally to all first time vehicle users. These loans are interest free. There were no arrears in respect of staff loans (2002: R Nil) at the financial year-end. Loans are normally repaid over a period of two years. No loans were issued to directors.

	2003 R	2002 R
Staff debtors and other accounts receivable	151 445	378 292

5. CHANGE IN ACCOUNTING POLICY

In the current year, the company changed its accounting policy with respect to the recognition of interest earned on advances. In prior years, interest was recognised on a straight-line basis over the terms of the advances. Interest earned on advances is now recognised using the effective interest rate method over the term of the advances.

		Gross	Taxation	Net
Increase in net profit due to calculating interest income using an effective interest rate	**2003**	571 604	-	571 604
	2002	42 000	-	42 000
Restatement of opening retained earnings in respect of prior year adjustment	**2003**	697 000	-	697 000
	2002	655 000	-	655 000

6. GENERAL CAPITAL RESERVE

	2003 R	2002 R

The General Capital Reserve comprises of grants received from donors other than USAID (see Development Reserve, note 7). Such grants are, for the most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by The Small Enterprise Foundation. All grants have been designated by the donors concerned as Loan Capital to be utilised for future disbursements of loans to members. No new grants were received during the year under review.

	2003 R	2002 R
Balance at the end of year	587 953	587 953

	2003 R	2002 R

7. DEVELOPMENT RESERVE

The Development Reserve comprises solely of grants received from USAID in terms of a five year agreement that expired in September 1995. Such funds were designated by USAID as Financial Structure support. As with General Capital reserve, all such grants are designated as Loan Capital to be used for future disbursements of loans to members.

	2003 R	2002 R
Balance at the end of year	6 709 676	6 699 213

8. EDUCATIONAL RESERVE

The Educational Reserve comprises of small grants. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998.

	2003 R	2002 R
Balance at the end of year	5 800	5 800

9. OPERATIONAL GRANT RESERVE

These grants are intended for institutional strengthening to enable SEF to obtain financial self-sufficiency.

	2003 R	2002 R
Grant at the beginning of year	1 964 058	1 287 027
Utilised to cover costs	(2 748 818)	(4 403 257)
Grants received during the year:	1 006 145	5 080 288
- Hivos Triodos	-	197 880
- Ford	-	2 238 874
- Institute development studies	80 372	119 993
- USAID	694 605	2 377 540
- HSDU	231 168	146 001
Grants refunded and other movements	(185 783)	-
Balance at the end of year	35 602	1 964 058

	2003 R	2002 R

10. LONG TERM LOANS

Hivos Triodos Bank of the Netherlands has approved a total loan facility of R1 million. The loan is redeemable in South African Rand, in two instalments of R500 000 each, on 1 July 2004 and 1 July 2005 respectively. No specific grace period is specified in the contract.

Interest is paid at a rate of 4% below prime, with a minimum of 14% and a maximum of 18% per annum, and is payable six monthly in arrears.

The purpose of the loan is to increase the working capital for onlending to micro entrepreneurs. The loan is secured by a first session of the advances to micro entrepreneurs financed by this loan facility.

	2003 R	2002 R
Balance at the beginning of year	1 000 000	1 000 000
Short-term portion transferred to current liabilities	(500 000)	-
Balance at the end of year	500 000	1 000 000

The average balance outstanding during the year, calculated on a straight-line basis, was R1 000 000 (2002: R1 000 000). Interest accrued and paid during the year amounted to R140 000 (2002: R140 000). There were no arrears in respect of this loan during the year under review (2002: R Nil).

In the current year, the company entered into a new business loan agreement with Khula Enterprise Finance Limited. The maximum loan facility under this new agreement is R10 million. Interest on loan drawdowns is calculated at prime base rate minus 3% and drawdowns are repayable over 36 months from the date of the specific drawdown.

	2003 R	2002 R
This loan is secured by a cession of the Khula end user loans.	5 363 428	-
Short-term portion transferred to current liabilities	(1 738 489)	-
	4 124 939	1 000 000

	2003 R	2002 R
11. SHORT TERM LOANS		
This loan represents a working capital loan from Khula Enterprises Finance Limited. The loan bears interest at a rate of 14.5% per annum. Interest is payable monthly in arrears. The capital portion of the loan is payable within ten months of receipt of the loan.		
This loan is secured by a cession of the Khula end user loans.	-	2 971 444
A seed loan of R872 220 was extended by Khula Enterprise Finance Limited in the current year. No interest is charged on this unsecured loan. The loan amount is repayable only if the company fails to reach certain performance targets by 30 June 2004.	872 220	-
Short-term portion of Hivos Triodos Bank loan	500 000	-
Current portion of Khula enterprises Finance Limited business loan	1 738 489	-
	3 110 709	2 971 444

12. LOSS BEFORE GRANTS

	2003 R	2002 R
The loss before grants is arrived at after taking into account the following:		
Depreciation	130 626	92 009
Staff costs	5 200 249	4 939 714
Legal fees	193 934	27 257
Auditors' remuneration		
– Statutory audit	55 000	49 515
– USAID recipient audit	-	28 294
– Audit expenses	16 934	12 191
Directors' emoluments		
– For managerial duties (paid by the Company)	698 070	646 037
– Expenses relating to managerial duties	24 572	64 564
Current year movement in provision for bad debts	118 787	58 260
Operating lease payments - Buildings	91 533	137 444

	2003 R	2002 R
13. OPERATIONAL GRANTS UTILISED TO COVER EXPENSES		
H.S.D.U.	243 335	146 001
Ford Foundation (Operations)	1 560 789	1 411 631
USAID	694 602	2 377 540
Ford (Aids)	3 163	10 887
Institute for development studies	101 433	97 697
Hivos Triodos	145 496	359 501
	2 748 818	4 403 257

No donations or subsidies in kind were received during the year under review (2002: R Nil).

14. TAXATION

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

15. RETIREMENT BENEFITS

All permanent employees of the company are members of the Old Mutual Orion Provident Fund. The provident fund is in the nature of a defined contribution plan, where the retirement benefits are determined with reference to the employer and employees' contributions to the fund. In 2003, the employer contributed R720 070 (2002: R738 452) towards to provident fund and group life premiums. Current contributions to the provident fund are charged against income as incurred.

16. FINANCIAL ASSETS AND LIABILITIES

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

At 30 June 2003, the company's principal financial assets included cash and short term funds, advances and accrued interest, and accounts receivable. These financial assets were measured at amortised cost.

At 30 June 2003, the company's principal financial liabilities included accounts payable, and short and long term loans. These financial liabilities were measured at amortised cost.

17. COMPARATIVE AMOUNTS

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

18. LEASE LIABILITIES

As the company's lease contracts are cancelable within 1 month, no future lease obligations were disclosed in the annual financial statements.

19. RISK MANAGEMENT

Credit Risk

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

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Company is still dependant on grants in order to continue as a going concern, the managing of this risk factor is critical to the Company's survival. The company does however have loan facilities available should funds be required to meet commitments.

Cash flow risk

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