

---

# THE SMALL ENTERPRISE FOUNDATION

## MANAGEMENT REVIEW

**30 JUNE 2010**

---

*“SEF found me very poor and brought so many good things into my life. I am now living a better life because of this organisation. I no longer beg for food from my relatives and neighbours. I am now able to provide the basic things my five children need.”*

*Mrs T R Molamu (SEF Client, Rustenburg Zone, Bojanala Branch)*

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

**Summary of Performance**

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

<b>Indicator</b>	<b>June 2010</b>	<b>June 2009</b>	<b>June 2008</b>
Number of active clients	64 030	57 425	50 319
% Women Clients	99%	99%	99%
Value of Loans Outstanding	R100.1 million <sup>1</sup>	R 90.0 million	R 70.8 million
Current Average Loan Size Disbursed	R1 563	R 2 023	R 1 815
Number of Loans disbursed since inception	732 983	592 013	468 705
Amount disbursed since inception	R 1.11 billion	R 853 million	R626 million
Bad Debts as % of annual disbursements	0.2%	0.3%	0.3%
Bad Debts as % of average Principal Outstanding	0.5%	1.0%	1.0%
Portfolio at risk > 30 days <sup>2</sup>	0.2%	0.3%	0.2%
Current Re-scheduled loans (due to illness)	R 278 065	R 306 785	R 320 422
Death write-offs	R537 892	R442 040	R 337 159
Total Savings held by clients	R 17.2 million	R 11.9 million	R 9.5 million
Total staff at year end	374	373	255
Total operations staff at year end	316	315	214
Clients per loan officer	245	213	284
Clients per staff member	171	154	199
Operational self-sufficiency <sup>3</sup>	88%	86%	96%
Financial self-sufficiency <sup>4</sup>	88%	86%	95%

<sup>1</sup> At the close of the financial year the Rand/US\$ exchange rate stood at R7.637 = US\$1.00

<sup>2</sup> Portfolio at risk > 30 days = Balance of all loans in which any part of any instalment is more than 30 days in arrears / Balance of all loans

<sup>3</sup> Operational self sufficiency = Total Financial Revenue / (Finance Expense + Loan Loss Provision + Operating Expense)

<sup>4</sup> Financial self sufficiency = Total Financial Revenue / (Finance Expense + Loan Loss Provision + Operating Expense + an adjustment which assumes all borrowings are at the prime lending rate)

**Introduction**

The Small Enterprise Foundation is a growing development organization.

**Values**

We believe in :

Respect for all

Having positive impact on the lives of our stakeholders

Striving for operational efficiency and self-sufficiency

**Mission**

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

**Vision**

A world free of poverty

## **Highlights 2010**

### **Cumulative loan disbursements since inception exceed R1 billion**

The cumulative amount disbursed in micro-business loans since SEF's inception in 1991 reached a total of over R1 billion in February 2010. Considering that the average first loan disbursed is still under R1000 and the average of all loans is only at the R2000 level this is an achievement we are particularly proud of.

### **SEF receives the 2009 Social Performance Reporting Award (MFIs) - Gold Category**

During the financial year CGAP<sup>5</sup>, together with the Michael & Susan Dell Foundation, the Ford Foundation and the Social Performance Task Force honoured institutions which are dedicated to providing financial services which improve the lives of poor people by presenting the first ever Social Performance Reporting Awards. These awards recognize transparency in social performance reporting as the critical first step in achieving social performance goals.

---

<sup>5</sup> CGAP is an independent policy and research centre dedicated to advancing financial access for the world's poor. Housed at the World Bank, it is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty.

## **BACKGROUND TO THE SMALL ENTERPRISE FOUNDATION**

The Small Enterprise Foundation, SEF, was established with a mission to fight poverty in a sustainable manner. This is done by enabling the poor to increase their income through microcredit for self-employment and by assisting them in the accumulation of savings. SEF began operations in 1992 and since then has cumulatively disbursed 732 983 loans to the value of R 1.1 billion to very poor people, 99% of whom were women.

The organisation is now located in four of South Africa's provinces, namely, Limpopo Province, the most northerly province, Mpumalanga Province to the east of Johannesburg, North West Province, and the coastal Eastern Cape Province. The Limpopo and Eastern Cape provinces have the highest proportion of poor in the country with 77% and 72% of their populations living below the poverty income line, respectively.<sup>6</sup> The areas of Mpumalanga and North West Province in which SEF works are characterised by similar poverty.

As the organisation's mission statement suggests, SEF works to reach the poor. In 1996, the organisation started a special program to target the *very poor* – those from households whose income is less than half the poverty line<sup>7</sup>. As a consequence the organisation now has two programs, MCP, which aims to work with poor people who have an existing micro-business and TCP which specifically targets women from households which are below half the poverty line. TCP makes up 77% and MCP 23% of SEF's total of 64 030 active clients.

### **Methodology**

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

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

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

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

The graph of Business Value in Figure 13 below illustrates how successful clients are at starting and growing their businesses. This graph shows the average business assets of clients before each loan cycle. For example, before the first loan the average business value of clients is less than R90 (\$12) whereas by the beginning of the fifth loan cycle this has grown to an average of R1 588 (\$208).

---

<sup>6</sup> "Fact Sheet, Poverty in South Africa", Fact Sheet No.1, 26 July 2004, Human Sciences Research Council

<sup>7</sup> The "household subsistence level" is used as the poverty line. In 2001, this stood at R920 (\$121) per family of five per month.

**SAVINGS**

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

Due to its extensive outreach in rural areas the majority of SEF’s clients deposit their savings at the Post Bank while the remainder utilize Nedbank. As at the end of the financial year the sum of savings as held by clients in their Post Bank or Nedbank accounts amounted to R 17.2 million.

**OPERATIONAL PERFORMANCE REVIEW**

**Global Recession**

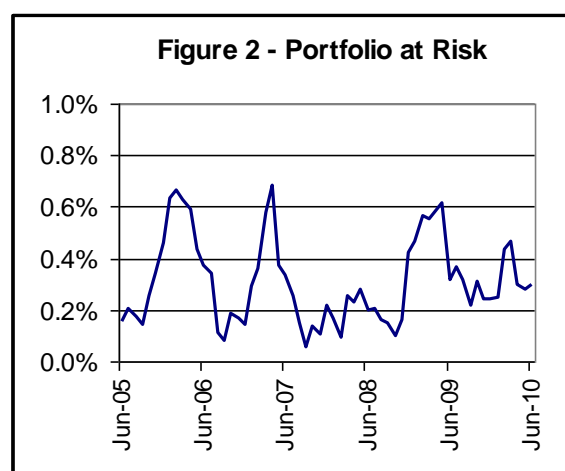
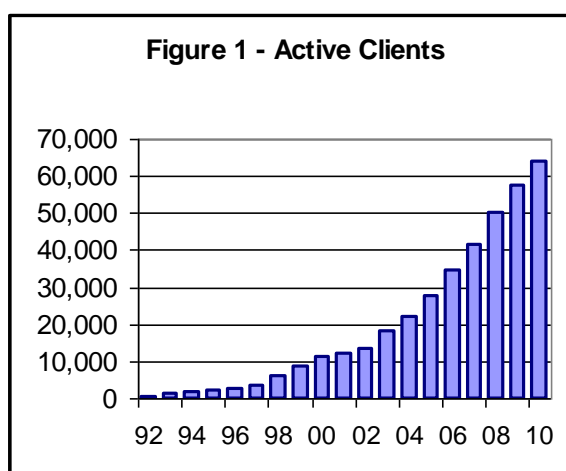
The global recession impacted on South Africa with the country entering its first recession in 17 years and unemployment increasing from 21.9% in the last quarter of 2008 to 25.3% by the second quarter of 2010. Since the beginning of the recession some 1 million jobs have been lost.

It is still not clear if SEF’s clients have been significantly affected by the recession or not.

**Growth**

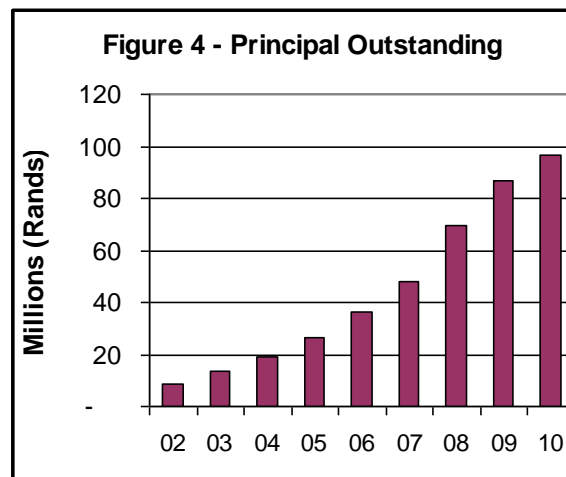
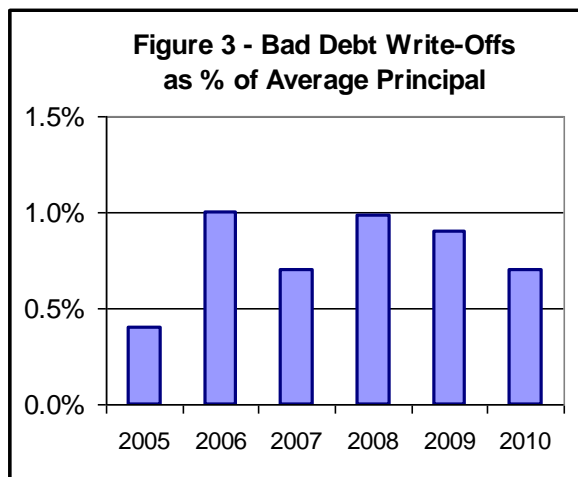
SEF now operates 38 branches. These include seven in the rural areas of the Eastern Cape between Butterworth and Mthatha, five in the North-West Province in the villages around Hammanskraal, Maubane, Winterveld, Moses Kotane Municipality, Marbieskraal and Sun City and three branches in Mpumalanga near Marble Hall, Groblersdal and Acornhoek.

By the end of the financial year the organisation was actively serving 64 030 clients, 11 526 of these clients are youth between 18 to 35 years old. The graph below illustrates the growth since inception. On a compounded basis SEF has cumulatively grown by 20 % per annum for each of the past 7 years.



**Portfolio at Risk**

I am pleased to report that this was once again a strong year in terms of the arrears and portfolio at risk performance. The portfolio at risk over 30 days remained below 0.5% throughout the financial year. This is illustrated in Figure 2 above.



**Bad debt Performance**

SEF has a very strict bad debt write-off policy with loans being declared not recoverable as soon as any part of any instalment is more than 90 days in arrears. Despite this tough approach Figure 3 illustrates how well the organisation has done in terms of bad debt performance. This year bad debts as a percentage of annual disbursements amounted to just 0.3%, or 0.7% when expressed as a percentage of the average principal outstanding for the year<sup>8</sup>.

**Principal Outstanding**

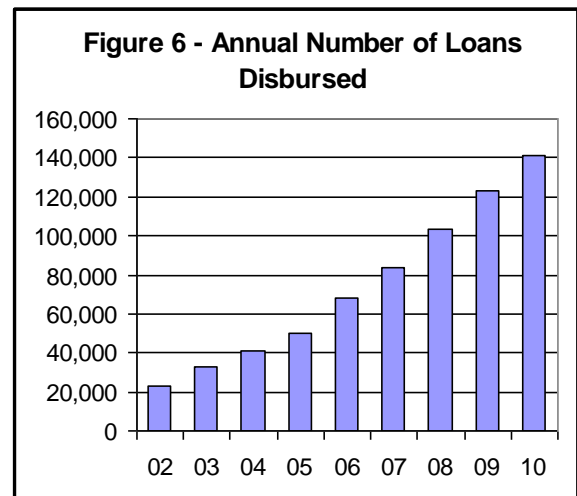
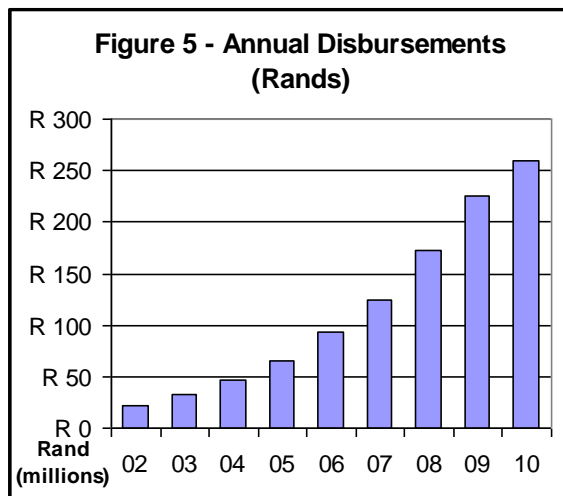
Over this financial year principal outstanding grew by 11% to R99.5 million. The growth in principal may be seen in Figure 4 above.

**Disbursement Activity**

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

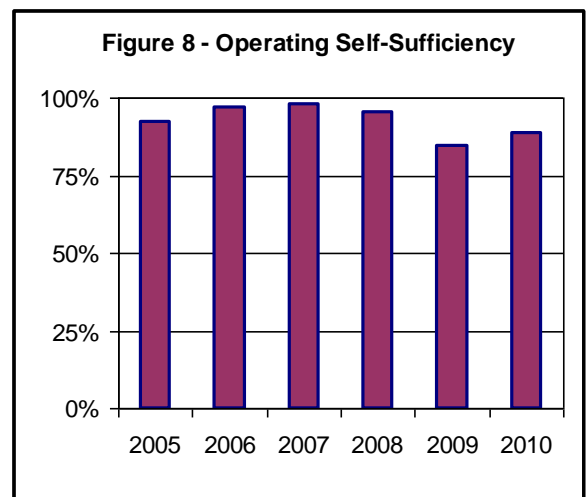
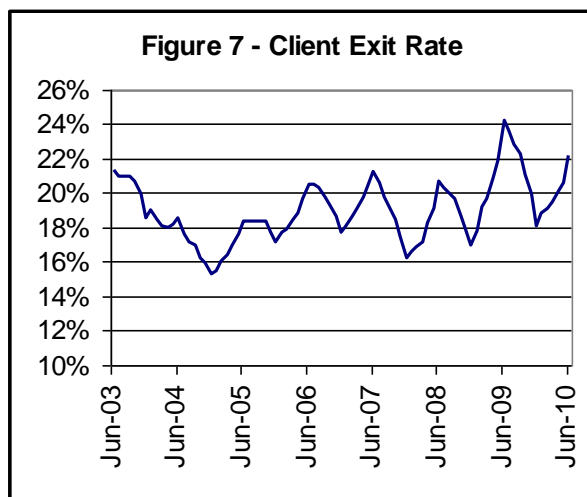
---

<sup>8</sup> "The Bad Debt ratios do not include Death Write-off losses. Should these have been included the ratios would have been 0.5% for Bad Debts as a % of annual disbursements and 1.4% for Bad Debts as a % of average Principal Outstanding".



**Client Exits**

Figure 7 below illustrates the client exit or drop-out rate. It will be seen that this has a cyclical nature with the highpoint coinciding with the financial year-end. The exit rate currently stands at 22%, a good improvement on the closing figure of 24% for the previous financial year.



**Operational Self-Sufficiency**

The organisation's financial performance in terms of operational self-sufficiency, the ratio of all operating income (loan plus investment income) to all operating expenses, including finance costs and loan loss provisions, stood at 88% for the year. See Figure 8 above. Financial self-sufficiency<sup>9</sup> also came to 88%.

<sup>9</sup> See definitions of these terms at the foot of page 1.

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

The organisation had budgeted to reach 95% self-sufficiency for the 2010 financial year and the main cause of falling short of this target was that the average loan size taken by clients did not grow as expected. Normally the average loan size will increase by around 10% year on year. This year the average actually declined by 1%.

While it is possible that the current recession is having some impact on clients businesses the biggest declines in the average loan size were seen in SEF's branches in northern Limpopo. Over the past two years another microfinance organisation expanded aggressively in this area and in several branches SEF's management became concerned that a percentage of clients were becoming over-indebted by taking loans from both SEF and this other organisation. More conservative loan policies were then introduced in those branches in an attempt to ensure that clients were only provided with manageable debt. This led to significant declines in the average loan size in those branches. This also was the major contributor to the 1% decline in the average loan size for SEF as a whole.

While we have taken a conservative approach to the loan size assumptions for the coming financial year it does appear as if the decline in average loan size has bottomed out.

In the coming financial year the organisation will take steps to ensure that self-sufficiency rises to 94%. In the 2011 financial year breakeven, or 100% self-sufficiency, is expected to be achieved or exceeded.

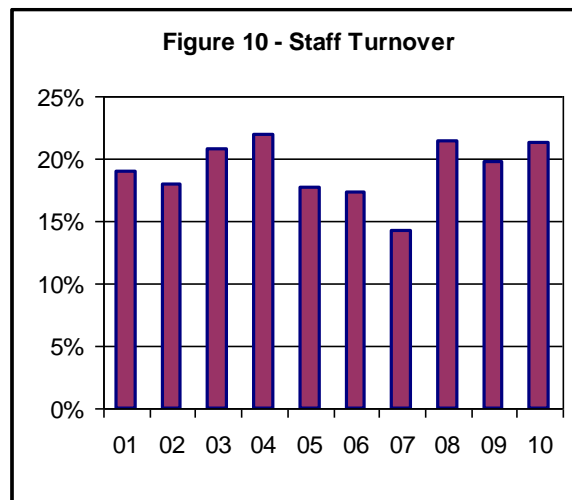
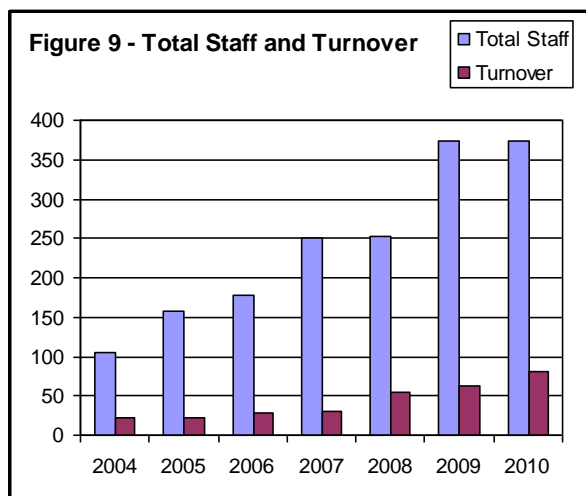
## **HUMAN RESOURCES AND TRAINING**

At the end of June 2010 SEF employed a total of 374 employees of which 316 were operations staff.

Figures 9 and 10 show the total number of staff as well as the staff turnover for past years. While the current staff turnover of 21% may look high it is worth noting that the main contributors to turnover were; misconduct (28%); poor performance (26%) and personal reasons (22%). Further studies and alternative employment made up the balance, with each contributing 12%. We continue to keep monitoring staff turnover closely and making all efforts to reduce this.

This year the Human Resources Department developed and rolled-out a strong leadership development program for all management and supervisors.

The department also recorded another success where fraud related terminations decreased by 50% compared to levels of the previous financial year.



## **PRIDE DEPARTMENT**

During the financial year SEF's PRIDE, or Research and Development, Department focussed on improving SEF's existing management systems and products so as to enhance its social impact. These included:

### **Review and improvement of the quality of poverty targeting**

During the 1990's Anton Simanowitz developed a new poverty targeting tool for SEF and named it Participatory Wealth Ranking (PWR). Since then this tool has become widely recognized and adopted internationally. PWR was one of the first two such tools to be officially promoted by the Microcredit Summit Campaign.

In 2008 SEF detected that the quality of its implementation of PWR had fallen. This had led to an increasing proportion of the communities in which SEF works qualifying for membership. Whereas in the past on average the percentage of people qualifying used to be around 50% this had moved up to 70 – 80%.

At the same time national specialists in poverty statistics had issued conflicting reports on whether the introduction of the child grant system and the increase in other social grants had led to a change in the country's poverty profile.

As a consequence PRIDE led a process to 1) tighten up on the quality of PWR implementation and management, 2) to use PWR to test if this could verify any changes in the nature of poverty in the communities in which SEF works and 3) to review the poverty targeting tools used by SEF to determine whether PWR is still a cost effective approach.

By year-end training capacity had been developed and PWR facilitators and supervisors were available in all zones. The review of the nature of poverty and poverty targeting is on-going.

### **Improving quality and consistency of the implementation of SEF's methodology**

Where this is well implemented, SEF generally has a positive impact on its clients but with its substantial expansion over the years the organisation has detected weaknesses in its ability to manage all field work effectively.

PRIDE has led a process to streamline the work of field staff and improve field management ability to focus on the most important aspects of work and so improve the quality of delivery. Notably this has included:

- Clearly defining key aspects of SEF's methodology into Key Operational Activities which were in turn detailed in check-lists to be used by operations management and Quality Assurance.
- Reorganisation of field staff working patterns including, establishing a uniform timetable for fortnightly client meetings and a more structured time-table for field staff activities, so as to improve time-management and efficiency.
- Reorganisation of Branch manager working patterns and more clearly defining expectations for their activities.

#### **Adding value to SEF's services**

A key function of the PRIDE Department is to identify opportunities for improving and expanding SEF's service to increase value for its clients. Whilst this year has focused primarily on getting the basics right – tightening up on the quality and management of the core methodology – an important initiative to improve the current client skills development process has been developed.

SEF recognises that access to credit and savings is often not enough to ensure client success. Outside 'experts', however, rarely have sufficient understanding of the lives of poor women in rural South Africa to provide meaningful training support. To-date SEF's approach has been to facilitate learning and sharing of experience between clients – they are the experts in their own lives. Whilst seen as useful we feel that there is a need to strengthen this process.

SEF has therefore partnered with the US based organisation Freedom from Hunger to develop a plan to integrate learning conversations into client meetings to replace the current skills development. This uses a series of adult education modules on business, financial skills and other topics and delivers them through a facilitated discussion between clients. The emphasis on clients' own expertise is retained but enhanced by carefully designed technical input. The development of the pilot training material for this project commenced towards the end of this financial year.

#### **INFORMATION TECHNOLOGY SYSTEMS**

During this financial year the main focus of SEF's IT Department has been preparing for and overseeing the design of an MIS system for all loans administration work.

This work commenced in the previous financial year and SEG Data (Pty) Ltd was selected as the solution provider to implement SEG Workflow.

The MIS project then underwent a detailed scoping and implementation planning stage in which SEF's existing processes were mapped and assessed for reworking in order to provide enhanced efficiency and stronger process controls. This stage took longer than anticipated and included upgrades to SEF's existing network infrastructure. These upgrades provided enhanced network security, support for additional network users and secure remote access. This stage concluded in November 2009 marking the beginning of the MIS configuration and software Alpha testing stage.

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

After several successful release testing cycles the project entered the software Beta testing stage in July 2010.

## **QUALITY ASSURANCE**

The purpose of the department is to ensure that:

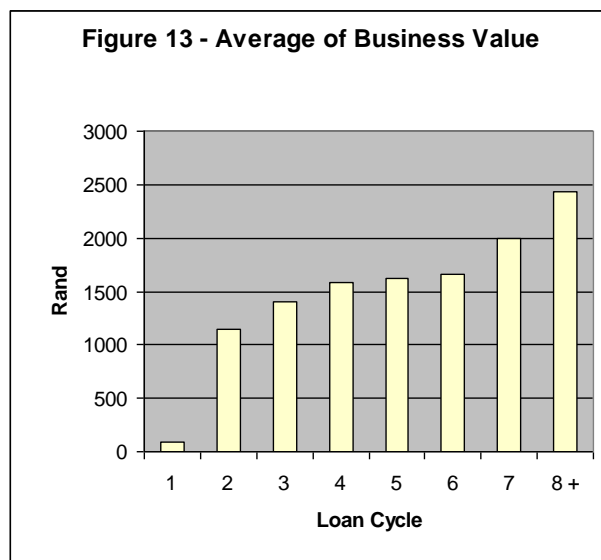
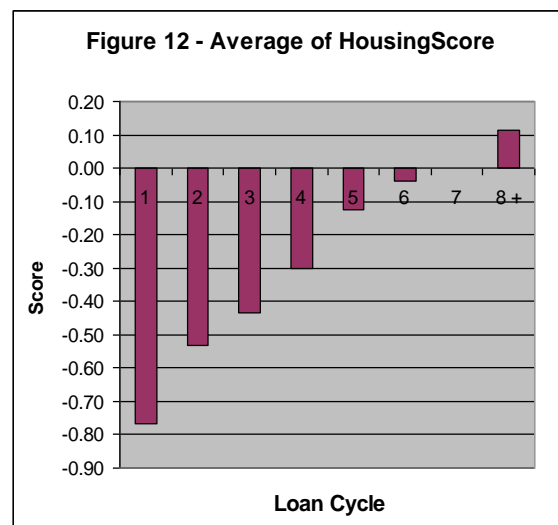
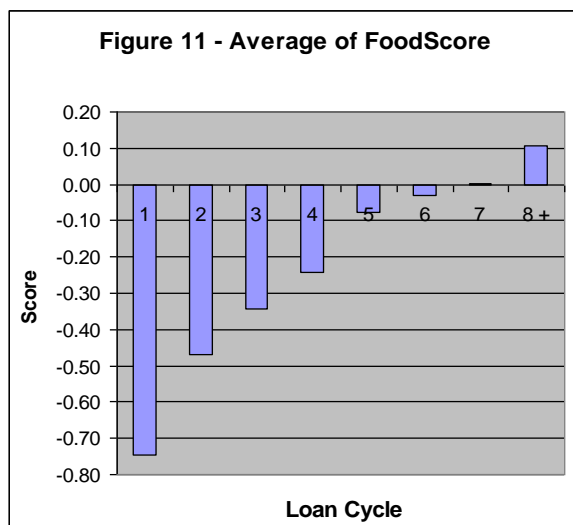
- All activities in the organisation are performed according to internal policies and procedures.
- Corrupt and/or fraudulent activities are prevented, identified and reported on.
- Special assignments as may be requested by senior managers are executed.
- Weaknesses/threats to the organization are identified,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

## **IMPACT**

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

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

The graphs in Figures 11, 12 and 13 below illustrate outputs from the impact monitoring system for the quarter ending 30 June 2010. The first graphs were compiled from interviews with clients about their own perceptions of the quality and quantity of food consumption in their households and the quality of their housing. Their responses are allocated scores on a scale of -2 to +2 and the graphs display the aggregate responses at the start of successive loan cycles. The third graph displays the actual measured value of business assets, again collected prior to successive loan cycles.



**HIV/AIDS AND MICROFINANCE PILOT PROJECT**

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

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

The training is divided into two phases. Phase I comprises of a structured series of 10 one-hour training sessions based on principles of Participatory Learning and Action (PLA). Topics include gender roles, gender inequality and cultural beliefs, sexuality and relationships, and domestic violence, as well as topics relating to HIV prevention. Specially trained facilitators implement

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

this phase. At the end of Phase I, women from each SEF centre are required to elect women whom they feel can make good leaders and can lead their centre in community mobilization to address gender-based violence and HIV. These leaders are then trained and during Phase II they lead an open-ended program that aims to support participants in developing and implementing responses to gender-based violence and HIV infection that are appropriate to their own communities.

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

- Shifts in economic well-being including consistent positive shifts in financial confidence, perceived household economic well-being, assets and expenditure.
- Changes in livelihood security including a 70% increase in the proportion of participants making improvements to their household, a 50% increase in food security, consistent improvements in the availability of resources for basic needs including clothing, basic household items, school fees/uniforms, and money for health care.
- Changes in numerous dimensions of empowerment including self confidence, autonomy in decision making, better relationships with partners and other household members, and improved communication.
- A 55% reduction in the levels of intimate partner violence.

All IMAGE publications may be accessed at: <http://www.sef.co.za/image-study>

During the financial year IMAGE operated in Mokapane, Greater Tubatse-Fetakgomo and Burgersfort. A total of 11 675 households have been trained to date and an additional 1 260 clients are currently in training.

Furthermore on a weekly basis IMAGE trainers visit community projects and provide gender and HIV/AIDS related training and information. Such projects and facilities include amongst others: clinics, hospitals, support groups for people living with HIV/AIDS, community income generating projects, home-based care projects, school/youth groups, women's groups, and churches. 5 597 participants from these projects have benefited from IMAGE training.

IMAGE has also been working with SEF's clients to facilitate delivery of community mobilisation activities including:

- The organisation of numerous public marches to raise awareness around issues of HIV/AIDS, rape and domestic violence, better access to anti-retroviral drugs and the supply of female condoms.
- The organisation of village workshops and meetings with local leaders.
- The creation of village committees to target crime and rape.

Such activities have reached over 19 783 community members.

## **FUNDING**

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

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

microfinance can assist the poorest to improve their livelihood and through their financial support they contribute to the alleviation of poverty through microfinance.

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

- Old Mutual, through its Masisizane Fund
- GiveWell
- Samaf
- The International Alliance of Women (TIAW)
- Tides Foundation

The following donors provided grants for loan capital:

- Old Mutual, through its Masisizane Fund
- Hivos
- The DT Hudson Charitable Trust
- The International Alliance for Women (TIAW)
- Genesis Steel

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

Table of borrowings:

<b><u>Name of Lender</u></b>	<b><u>Amount in Rand</u></b>	<b><u>% of total borrowings</u></b>
Hivos-Triodos and Triodos-Doen	13,810,000	18%
Khula Enterprise Finance	14,751,606	19%
Swedfund	7,335,690	9%
Oikocredit	6,312,500	8%
Standard Bank	7,000,000	9%
Tembeka Social Investment	251,979	1%
Genesis Steel	1,115,000	1%
SAMAF	3,517,260	4%
Sentinel Steel	635,000	1%
Dr GJO Marincowitz	592,117	1%
ABSA	4,956,541	6%
Cadiz Life	18,213,632	23%
<b>Total</b>	<b>78,239,346</b>	<b>100%</b>

The organisation wishes to thank these agencies and individuals for their excellent ongoing service and support. Without them the lives of 64 000 formerly very poor South Africans would not have been as hopeful as they are today.

## **EXPANSION PLANS**

Strategically SEF is determined to continue to take its services to all of South Africa's provinces and to reach 350,000 clients by 2019. It will also now focus on improving its operational self-sufficiency from the current 88% to 94% by June 2011 and thereafter ensure that self-sufficiency remains above 100%.

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

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

<b>KEY OBJECTIVES</b>	<b>June 2011</b>	<b>June 2012</b>	<b>June 2013</b>	<b>June 2014</b>
# Active Clients	72,000	84,000	97,000	120,000
Principal Outstanding	R 117 million	R152 million	R193 million	R263 million
Operational Self Sufficiency	94%	100%	107%	115%

## **DIRECTORS**

SEF's directors carry out their duties on an entirely voluntary basis. This makes their selflessness in giving their time to the organisation even more notable.

I take this opportunity to most sincerely thank SEF's Board members for carrying out their duties and for providing strategic leadership and oversight to SEF. All your hard work during the year was certainly highly valued and without you SEF would not have achieved the many milestones in our fight against poverty which have been reported here.

## **THE CONTRIBUTION OF SEF's STAFF**

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

Best Branch Manager:	Ernest Nkhwashu
Best Branch Manager- 1st runner up:	Oriel Mukwevho
Best Development Facilitators:	Thalitha Ntike Yvonne Maribe
Best Development Facilitators- 1st runner up:	Rachel Maimela
Best Support Staff	Gavaza Mushwana
Best Support Staff- 1st runner up:	Kgabo Lelahane

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.

To all the staff at SEF, please allow me to take this opportunity to thank you for your loyalty in serving the organisation and its mission of poverty alleviation. Because of your passion to serve all of us working together have been able to give so many tens of thousands of people a chance at a better life.

**THE SMALL ENTERPRISE FOUNDATION  
(AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)  
MANAGEMENT REVIEW  
FOR THE YEAR ENDED 30 JUNE 2010**

---

I look forward to working with you in the year ahead.

John de Wit  
Managing Director

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

**ANNUAL FINANCIAL STATEMENTS**  
**30 June 2010**

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**(Registration number: 1991/003485/08)**  
**ANNUAL FINANCIAL STATEMENTS**  
**30 June 2010**

<b>CONTENTS</b>	<b>PAGE</b>
Directors' responsibility statement and approval of the annual financial statements	2
Independent auditor's report	3 - 4
Report of the directors	5 - 6
Statement of financial position	7
Statement of comprehensive income	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the statement of cash flows	11
Notes to the annual financial statements	12 - 43

**DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

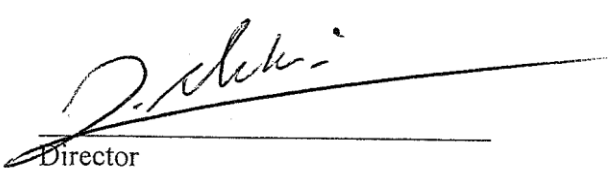
The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The annual financial statements have been compiled in terms of South African Statements of Generally Accepted Accounting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

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

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

The annual financial statements, set out on pages 5 to 43, were approved by the board of directors on 8 October 2010 and are signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

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

We have audited the annual financial statements of The Small Enterprise Foundation (An association incorporated under section 21 of the Companies Act), which comprise the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages 5 to 43.

### ***Directors' Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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

***Opinion***

In our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2010, 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 on Other Legal and Regulatory Requirements***

No directors' register of interest in contracts has been maintained as is required by section 240 of the Companies Act of South Africa.

*Deloitte & Touche*  
**Deloitte & Touche**  
Registered Auditors  
Per: J van Staden  
Partner  
14 October 2010

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**REPORT OF THE DIRECTORS**  
**30 June 2010**

The directors have pleasure in presenting their report on the organisation for the year ended 30 June 2010.

**Business review**

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

The Small Enterprise Foundation has, since inception, granted 732 983 (2009: 592 013) loans to the value of R 1.1 Billion (2009: R853 million). In the current year the organisation granted 140 970 (2009: 123 308) loans to the value of R 260 million (2009: R226 million).

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

**Operating results**

Results for the year ended 30 June 2010 are set out on pages 7 to 43 of the annual financial statements. The directors are pleased to report a 11.2% increase in loans and advances as well as a 13.5% increase in revenue. Expenses, excluding finance costs and impairment of advances, increased by 13%.

**Loan loss reserves**

In cases where borrowers experience death amongst their members, the company will decrease the borrower's repayment and write-off the amount owed by the member. Such write-offs are classified as provisions for claims not yet incurred. An amount of R 684 516 (2009: R 616 976) was provided for.

A debt is declared irrecoverable once it is 90 days in arrears. An amount of R 705 698 (2009: R 766 406) was written off during the year under review.

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

The only instance where the organisation allows the renegotiation of delinquent loans is where clients are able to provide medical evidence of long-term illness. Such amounts are not written off, and the respective clients are urged to continue with loan repayments when their condition improves. The accumulative amount renegotiated in this way since inception and still outstanding at year-end was R 278 065 (2009: R 306 785).

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**REPORT OF THE DIRECTORS (continued)**  
**30 June 2010**

**Loan loss reserves (continued)**

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

**Directors and secretary**

The directors of the company for the year under review were as follows:

Mr Matome Patrick Malatji (Chairperson)  
Mr Sanjay Doshi (Non-executive)  
Ms Olivia Henwood (Non-executive)  
Ms Marie Albertina Kirsten (Non-executive)  
Mr Mutle Constantine Mogase (Non-executive)  
Mr Modise Motloba (Non- executive - Resigned 8 October 2009)  
Ms Sizeka Monica Rensburg (Non-executive)  
Mr John Robert de Wit (Managing Director)

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

Auditors - Deloitte & Touche

**Business address and Domicile**

42 Boundary Street  
Tzaneen  
South Africa  
0850

**Postal address**

P O Box 212  
Tzaneen  
South Africa  
0850

Web site: [www.sef.co.za](http://www.sef.co.za)  
Email: [info@sef.co.za](mailto:info@sef.co.za)  
Telephone: +27 15 307 5837  
Fax: +27 15 307 2977

**Subsequent events**

Ms Charmaine Groves was appointed to the board of directors on 13 July 2010.

No other 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)**  
**STATEMENT OF FINANCIAL POSITION**  
**at 30 June 2010**

	<u>Notes</u>	<u>2010</u> R	<u>2009</u> R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	2	4 828 127	4 873 743
Intangible assets	3	<u>1 600 412</u>	<u>-</u>
<b>Total non-current assets</b>		6 428 539	4 873 743
<b>Current assets</b>			
Loans and advances	4	100 064 542	89 968 914
Other receivables	5	1 414 636	1 564 650
Cash and short term funds		<u>15 316 433</u>	<u>7 719 495</u>
<b>Total current assets</b>		116 795 611	99 253 059
<b>TOTAL ASSETS</b>		<u>123 224 150</u>	<u>104 126 802</u>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds</b>			
Non-distributable reserve		2 090 079	2 090 079
General capital reserve	6	24 696 779	11 372 099
Development reserve	7	6 654 459	6 654 459
Educational reserve	8	20 188	20 188
Retained earnings		431 365	4 855 666
<b>Total funds</b>		33 892 870	24 992 491
<b>Non-current liabilities</b>			
Long term loans	9	57 633 212	55 062 814
<b>Current liabilities</b>			
Short term loans	10	20 858 162	16 548 382
Trade and other payables		5 163 225	1 617 530
Provisions	11	3 584 300	2 900 401
Accruals		514 599	990 284
Unutilised grants	16	1 577 782	2 014 900
<b>Total current liabilities</b>		31 698 068	24 071 497
<b>TOTAL FUNDS AND LIABILITIES</b>		<u>123 224 150</u>	<u>104 126 802</u>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 30 June 2010**

	<u>Notes</u>	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Revenue	12	56 585 358	49 857 136
Finance costs	13	(7 771 362)	(8 203 405)
Impairment of advances	14	(1 061 355)	(1 140 020)
Provision for impairment of loans and advances	4	(124 636)	(297 688)
		<hr/>	<hr/>
<b>Margin on lending activities</b>		47 628 005	40 216 023
Operating expenses		(36 911 079)	(30 773 544)
		<hr/>	<hr/>
<b>Operating income</b>		10 716 926	9 442 479
Sundry income		74 930	558 033
Profit on disposal of property and equipment		1 145	842
		<hr/>	<hr/>
<b>Income before head office expenses</b>		10 793 001	10 001 354
Head office expenses	20	(18 507 692)	(18 245 355)
		<hr/>	<hr/>
<b>Loss before grants</b>	15	(7 714 691)	(8 244 001)
Operational grants utilised to cover expenses	16	3 290 390	2 950 457
Capital grants received	16	13 324 680	3 004 429
		<hr/>	<hr/>
<b>Net income / (loss) for the year</b>		8 900 379	(2 289 115)
Capital grants received*	16	(13 324 680)	(3 004 429)
		<hr/>	<hr/>
Loss for the year		(4 424 301)	(5 293 544)
Other comprehensive income		-	2 090 079
		<hr/>	<hr/>
Total comprehensive loss for the year		(4 424 301)	(3 203 465)
		<hr/> <hr/>	<hr/> <hr/>

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 30 June 2010**

	<u>Non-Distributable reserves</u> R	<u>General capital reserve</u> R	<u>Development reserve</u> R	<u>Educational reserve</u> R	<u>Retained earnings</u> R	<u>Total</u> R
<b>Balance as at 1 July 2008</b>	-	8 367 670	6 654 459	20 188	10 149 210	25 191 527
Net loss for the year	-	-	-	-	(2 289 115)	(2 289 115)
Other comprehensive income	2 090 079	-	-	-	-	2 090 079
Grants transferred from retained earnings*	-	3 004 429	-	-	(3 004 429)	-
	-----	-----	-----	-----	-----	-----
<b>Balance as at 1 July 2009</b>	<b>2 090 079</b>	<b>11 372 099</b>	<b>6 654 459</b>	<b>20 188</b>	<b>4 855 666</b>	<b>24 992 491</b>
	=====	=====	=====	=====	=====	=====
Net loss for the year	-	-	-	-	8 900 379	8 900 379
Other comprehensive income	-	-	-	-	-	-
Grants transferred from retained earnings *	-	13 324 680	-	-	(13 324 680)	-
	-----	-----	-----	-----	-----	-----
<b>Balance as at 30 June 2010</b>	<b>2 090 079</b>	<b>24 696 779</b>	<b>6 654 459</b>	<b>20 188</b>	<b>431 365</b>	<b>33 892 870</b>
	=====	=====	=====	=====	=====	=====

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**STATEMENT OF CASH FLOWS**  
**for the year ended 30 June 2010**

	<u>Notes</u>	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash utilised by operations	A	(61 814 807)	(68 606 232)
Revenue		56 585 358	49 857 136
Finance costs		(7 771 362)	(8 203 405)
		<hr/>	<hr/>
Net cash used in operating activities		(13 000 811)	(26 952 501)
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment		(861 358)	(1 216 619)
Additions to intangible assets		(1 603 145)	-
Proceeds on disposal of property and equipment		4 122	-
		<hr/>	<hr/>
Net cash used in investing activities		(2 460 381)	(1 214 619)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in long term loans		2 570 398	21 593 027
Increase / (decrease) in short terms loans		4 309 780	(1 845 946)
Grants received		16 615 070	5 954 886
Decrease in unutilised grants		(437 118)	(1 667 789)
		<hr/>	<hr/>
Net cash generated by financing activities		23 058 130	24 034 178
		<hr/>	<hr/>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		7 596 938	(4 132 942)
Cash and cash equivalents at beginning of the financial year		7 719 495	11 852 437
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	B	15 316 433	7 719 495
		<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE STATEMENT OF CASH FLOWS**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>A. CASH UTILISED BY OPERATIONS</b>		
Loss before grants	(7 714 691)	(8 244 001)
Adjusted for:		
- Revenue	(56 585 358)	(49 857 136)
- Finance costs	7 771 362	8 203 405
- Depreciation	903 997	636 183
- Amortisation of intangible assets	2 733	-
- Profit on disposal of property and equipment	(1 145)	(842)
- Provision for impairment on loans and advances	124 636	297 688
	<hr/>	<hr/>
Operating loss before working capital changes	(55 498 466)	(48 964 703)
Adjusted for changes in working capital:		
- Decrease / (increase) in other receivables	150 014	(767 679)
- Increase / (decrease) in trade and other payables	3 545 695	(229 086)
- Increase in other accruals	208 214	815 647
- Increase in loans and advances	(10 220 264)	(19 460 411)
	<hr/>	<hr/>
Cash utilised by operations	(61 814 807)	(68 606 232)
	<hr/> <hr/>	<hr/> <hr/>
<b>B. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents consist of		
Balances with banks	15 316 433	7 719 495
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2010**

**1. Accounting policies**

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

**1.1 Interest earned on advances**

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

**1.2 Other interest received**

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

**1.3 Initiation and service fees**

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

**1.4 Grants received**

*Operational grants received*

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

*Grants for loan capital*

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

**1.5 Property and equipment**

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

Furniture and fittings	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicles	4 years
Buildings	40 years
Land is not depreciated.	

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**1. Accounting policies (continued)**

**1.5 Property and equipment (continued)**

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

**1.6 Financial assets and financial liabilities**

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

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

At 30 June 2010, the company's principal financial assets included cash and short term funds, loans and advances and other receivables. Loans and advances are measured at amortised cost. Cash, short term funds and other receivables are stated at their nominal values which approximate fair values. All financial assets are reduced by appropriate allowances for estimated irrecoverable amounts where applicable.

At 30 June 2010, the company's principal financial liabilities included trade and other payables, short and long term loans. Short and long term loans are measured at amortised cost. Trade and other payables are stated at their nominal value which approximates fair value.

**1.7 Retirement benefits**

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

**1.8 Provisions**

Provisions for staff related expenses such as outstanding leave days not taken at year end and 13<sup>th</sup> cheques are made at total cost to the organisation as at 30 June 2010.

Provision for audit fees and workmen's compensation are based on estimates as at 30 June 2010.

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**2. Property and equipment**

	<u>Land &amp; buildings</u> R	<u>Furniture &amp; fittings</u> R	<u>Office equipment</u> R	<u>Computer equipment</u> R	<u>Motor vehicles</u> R	<u>Total</u> R
<b>2010</b>						
<b>Cost</b>						
At beginning of year	3 200 000	990 371	1 130 694	1 752 789	132 208	7 206 062
Additions	35 478	133 006	105 256	538 940	48 678	861 358
Revaluations	-	-	-	-	-	-
Disposals	-	-	-	(8 245)	-	(8 245)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	3 235 478	1 123 377	1 235 950	2 283 484	180 886	8 059 175
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>						
At beginning of year	131 041	481 803	655 619	1 046 213	17 643	2 332 319
Depreciation	77 046	171 431	207 321	404 534	43 665	903 997
Disposals	-	-	-	(5 268)	-	(5 268)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	208 087	653 234	862 940	1 445 479	61 308	3 231 048
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Carrying value</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	3 027 391	470 143	373 010	838 005	119 578	4 828 127

\*The Head Office premises at 42 Boundary Road, Tzaneen, South Africa, were revalued by an independent valuator, GJ Moller (MSAV No 376). The effective date of the valuation was 16 February 2009. The capitalisation rate valuation method was used. The company adopted a policy of revaluing their land and buildings once every 3 years. If the impact of revaluation is ignored, the carrying value of land and buildings as at 30 June 2010 would be R972 628 (2009: R996 582)

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**2. Property and equipment**

	<u>Land &amp; buildings</u> R	<u>Furniture &amp; fittings</u> R	<u>Office equipment</u> R	<u>Computer equipment</u> R	<u>Motor vehicles</u> R	<u>Total</u> R
<b>2009</b>						
<b>Cost</b>						
At beginning of year	1 088 158	663 872	997 018	1 143 651	13 611	3 906 310
Additions	21 763	326 499	133 676	609 138	125 541	1 216 617
Revaluations*	2 090 079	-	-	-	-	2 090 079
Disposals	-	-	-	-	(6 944)	(6 944)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	3 200 000	990 371	1 130 694	1 752 789	132 208	7 206 062
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>						
At beginning of year	89 204	360 187	475 820	768 026	8 685	1 701 922
Depreciation	41 837	121 616	179 799	278 187	14 744	636 183
Disposals	-	-	-	-	(5 786)	(5 786)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	131 041	481 803	655 619	1 046 213	17 643	2 332 319
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Carrying value</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	3 068 959	508 568	475 075	706 575	114 566	4 873 743

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**3. Intangible Assets**

	<u>2010</u>			<u>2009</u>		
	<u>Computer software</u> R	<u>Management information system</u> R	<u>Total</u> R	<u>Computer software</u> R	<u>Management information system</u> R	<u>Total</u> R
<b>Cost</b>						
At beginning of year	-	-	-	-	-	-
Additions	26 615	1 576 530	1 603 145	-	-	-
Revaluations	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At end of year	26 615	1 576 530	1 603 145	-	-	-
<b>Accumulated amortisation</b>						
At beginning of year	-	-	-	-	-	-
Amortisation	2 733	-	2 733	-	-	-
Disposals	-	-	-	-	-	-
At end of year	2 733	-	2 733	-	-	-
<b>Carrying value</b>	23 882	1 576 530	1 600 412	-	-	-

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>4. Loans and advances</b>		
Gross advances	99 456 136	89 388 212
Accrued interest on advances	1 956 641	1 804 301
Provision for bad debt	(663 719)	(606 623)
IBNR provision (death write offs)	(684 516)	(616 976)
	<hr/>	<hr/>
	100 064 542	89 968 914
	<hr/> <hr/>	<hr/> <hr/>
Movement in impairment provision:		
Balance at beginning of	1 223 599	925 911
Current year movement in provision	124 636	297 688
	<hr/>	<hr/>
Balance at end of year	1 348 235	1 223 599
	<hr/> <hr/>	<hr/> <hr/>

Advances have been funded out of loans received from the following institutions: Swedfund, Hivos Triodos Bank, Khula Enterprise Finance, Tembeka Social Investment Company, Teba Bank, ABSA Bank, Standard Bank, Oiko Credit, Sentinel Steel, Genesis Steel, SAMAF, Cadiz, Dr Marincowitz and Dr M Vintges.

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

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

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

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>4. Loans and advances (continued)</b>		
A total amount of R827 415 (2009: R999 144) of advances was in arrears at the financial year end. An analysis of the arrears for the current year is presented below.		
Rescheduled loans	278 065	306 785
1 – 30 days	341 800	415 306
31 – 60 days	105 144	149 503
61 – 90 days	102 406	127 550
	<u>827 415</u>	<u>999 144</u>

**5. Other receivables**

Included in accounts receivable is an amount for staff debtors of R246 062 (2009: R167 531). This constitutes small loans generally available for salary advances and study loans given to staff. These salary advances carry a market related interest rate while study loans are interest free. There were no arrears in respect of staff loans (2009: R nil) at the financial year end. Loans are normally repaid over a period of two years.

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

Other receivables and staff debtors	<u>1 414 636</u>	<u>1 564 650</u>
-------------------------------------	------------------	------------------

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>6. General capital reserve</b>		
<p>The General capital reserve consists of grants received from donors other than USAID (United States Agency for International Development - see note 7). Such grants are, for most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by the company. During the year grants were received from Old Mutual, Genesis Steel, The DT Hudson Trust, TIDES Foundation and The International Alliance of Women. All grants have been designated by the donors concerned as loan capital to be utilised for future disbursements of loans to clients.</p>		
Balance at beginning of year	11 372 099	8 367 670
Movement in General capital reserve	13 324 680	3 004 429
	<hr/>	<hr/>
Balance at end of year	24 696 779	11 372 099
	<hr/> <hr/>	<hr/> <hr/>
<b>7. Development reserve</b>		
<p>The development reserve comprises mainly of grants received from USAID (United States Agency for International Development). These grants are utilised for lending.</p>		
Balance at beginning of year	6 654 459	6 654 459
Movement in development reserve	-	-
	<hr/>	<hr/>
Balance at end of year	6 654 459	6 654 459
	<hr/> <hr/>	<hr/> <hr/>
<b>8. Educational reserve</b>		
<p>The educational reserve consists of small individual grants. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998. As from July 2007 these loans were discontinued.</p>		
Balance at beginning of year	20 188	20 188
Movement in educational reserve	-	-
	<hr/>	<hr/>
Balance at end of year	20 188	20 188
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

2010  
R

2009  
R

**9. Long term loans**

**Hivos Triodos Bank**

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

The first facility of R7 million is redeemable in South African Rand in one installment on 1 July 2010. This loan should have been paid July 2009 but has been renegotiated to be repaid in July 2010. Interest is paid at the prime rate with a minimum of 12% and a maximum of 18% per annum, and is payable six monthly in arrears. From 26 March 2010, this interest rate was changed to Prime +3%, limited to 18% per annum.

The agreement for the second facility of R4 million was signed in 2007 and the first R2 million was received in June 2007. The loan is redeemable in South African Rand in one installment of R2 million on 1 July 2010 and a final installment of R2 million on 1 July 2011. Interest payable on this loan facility is paid at prime with a minimum of 12% and a maximum of 18% per annum and is payable 6 monthly in arrears.

The agreement for the third facility of R3.25 million was signed in 2008 and the amount of R3.25 million was received in June 2008. The loan is redeemable in South African Rand in one instalment of R3.25 million on 1 July 2012. Interest payable on this loan facility is paid at prime with a minimum of 13.5% and a maximum of 18% per annum and is payable 6 monthly in arrears. From 26 March 2010, this interest rate was changed to Prime+3%, limited to 18% per annum

The agreement for the fourth facility of R7.5 million was signed in 2008 and the amount of R7.5 million was received in November 2008. The loan is redeemable in South African Rand in one instalment of R7.5 million in November 2012. Interest payable on this loan facility is paid at prime with a minimum of 13.5% and a maximum of 18% per annum and is payable 6 monthly in arrears. From 26 March 2010, this interest rate was changed to Prime+3%, limited to 18% per annum.

The loans are secured through a cession of advances financed by the loan facility.

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>9. Long term loans (continued)</b>		
Balance at beginning of year	21 750 000	14 325 000
Movement	(7 940 000)	7 425 000
Short term portion transferred to current liabilities	(1 060 000)	-
Balance at end of year	<u>12 750 000</u>	<u>21 750 000</u>

**Khula Enterprise Finance Limited**

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

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

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

In March 2009, the company entered into a new business loan agreement with Khula Enterprise Finance Limited. The maximum loan facility is R15 million. Interest on the loan is calculated at prime minus 3%.

The loans are secured through a cession of advances financed by the loan facility.

Balance at beginning of year	12 193 684	3 748 358
Movement	2 557 922	15 907 604
Short term portion transferred to current liabilities	(3 677 391)	(7 462 278)
Balance at end of year	<u>11 074 215</u>	<u>12 193 684</u>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>9. Long term loans (continued)</b>		
<b>Tembeka Social Investment Company Limited</b>		
Two loans of R1 million each were entered into in April 2007 and October 2007. These loans are each repayable in 4 bi-annual instalments of R250 000 starting in month 18 after initiation of the loan, with final repayments in May 2010 and November 2010. The loan that expired in May 2010 carried interest at a flat rate of 13% per annum, and the loan expiring in November 2010 carries interest at the repo rate plus 3%. Interest is payable quarterly in arrears.		
The loans are secured through a cession of advances financed by the loan facility.		
Balance at beginning of year	250 000	1 250 000
Movement	1 979	30 200
Short term portion transferred to current liabilities	(251 979)	(1030 200)
	<hr/>	<hr/>
Balance at end of year	-	250 000
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

2010                      2009  
R                                      R

**9. Long term loans (continued)**

**Teba Bank and Tembani International Guarantee Fund**

In February 2004, the company entered into a loan agreement with Tembani International Guarantee Fund and Teba Bank. The maximum loan facility under this agreement is R3 million. Interest is calculated at prime less 0.5% and is compounded monthly. The initial maturity date was 25 February 2009. An addendum was signed in February 2006 to increase the facility with R2 million to R5 million with final maturity due on 27 August 2009. The facility operates on a revolving fund basis.

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

Balance at beginning of year	-	-	
Movement	49	761 853	
Short term portion transferred to current liabilities	(49)	(761 853)	
	<hr/>	<hr/>	
Balance at end of year	-	-	
	<hr/> <hr/>	<hr/> <hr/>	

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u>	<u>2009</u>
	R	R
<b>9. Long term loans (continued)</b>		
<b>Oiko Credit</b>		
In March 2007 the company entered into a loan agreement with Oiko Credit. The maximum loan facility under this loan is R10.1 million. The interest is calculated at repo rate +3.75% with a minimum interest rate of 10.75% and is payable in 3 monthly instalments. The loan capital is payable in 16 equal half yearly payments starting 6 months after the initial drawdown and a final payment in March 2015. The loan is repayable in South African Rand.		
The loan is further secured by a cession of end user loans.		
Balance at beginning of year	6 312 500	7 575 000
Movement	-	-
Short term portion transferred to current liabilities	(1 262 500)	(1 262 500)
Balance at end of year	<u>5 050 000</u>	<u>6 312 500</u>

**Swedfund**

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

Balance at beginning of year	7 556 630	6 571 429
Movement	(220 940)	3 843 201
Short term portion transferred to current liabilities	(3 049 976)	(2 858 000)
Balance at end of year	<u>4 285 714</u>	<u>7 556 630</u>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

2010                      2009  
R                                      R

**9. Long term loans (continued)**

**Standard Bank Term Loan**

In October 2008, the Company entered into a loan agreement with Standard Bank for R7.5 million. This loan was received in 3 equal tranches in the 2009 financial year. The loan carries interest at prime, which is payable monthly. Capital is repaid in 15 bi-annual instalments of R500 000 commencing in month 18 after the date of the first draw down.

The loan is secured through a cession of advances financed by the loan facility, as well as the mortgage bond over Erf 199 Tzaneen, extension 4.

Balance at beginning of year	7 000 000	-
Movement	-	7 500 000
Short term portion transferred to current liabilities	(1 000 000)	(500 000)
	6 000 000	7 000 000
Balance at end of year	6 000 000	7 000 000

**SAMAF**

In October 2009 the company entered into a loan agreement with SAMAF (South African Micro-Finance Apex Fund). The maximum loan facility under this loan is R10 million. R3.5 million of this facility was drawn down during the period ended 30 June 2010. Interest is calculated at a fixed rate of 6% pa. The loan capital is payable in 48 monthly payments starting 12 months after the drawdown date. Interest is payable monthly, starting two months after the draw down.

The loans are secured through a cession of advances financed by the loan facility.

Balance at beginning of year	-	-
Movement	3 517 260	-
Short term portion transferred to current liabilities	(600 594)	-
	2 916 666	-
Balance at end of year	2 916 666	-

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**9. Long term loans (continued)**

**Cadiz**

In September 2009 the company entered into a loan agreements with Cadiz for R 20 million. The loan carries interest at Bond DB + 400 basis points (Bond DB – Bond Best Decency Rate as published by the Bond Exchange). Capital repayable no later than 60 months after the advance date. The facility that is outstanding will be repaid in 10 consecutive six monthly instalments commencing 3 months after the advance date of the loan. Interest accrues on a monthly basis and is payable every six months together with the capital repayment. At year end, the company had drawn the entire facility. The facility is unsecured.

Balance at beginning of year	-	-
Movement	18 213 632	-
Short term portion transferred to current liabilities	(2 657 015)	-
	<hr/>	<hr/>
Balance at end of year	15 556 617	-
	<hr/> <hr/>	<hr/> <hr/>
<b>Total long term loans</b>	<b>57 633 212</b>	<b>55 062 814</b>
	<hr/> <hr/>	<hr/> <hr/>

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>10. Short term loans</b>		
<b>M Vintges</b>	-	146 294
In the 2006 financial year the company entered into a loan agreement with Margaretha Vintges. The loan amount advanced was R100 000. Interest is calculated at prime less 4%. The full amount outstanding is repayable on short-term notice by the lender.		
<b>ABSA Bank and Tembani International Guarantee Fund revolving facility</b>	4 956 541	213 957
In April 2008, the company entered into a loan agreement with Tembani International Guarantee Fund and ABSA Bank. The maximum loan facility under this agreement is R5 million. Interest is calculated at prime less 1.5% and is payable monthly. Maturity date is November 2012. The facility operates on a revolving fund basis.		
This loan is secured by a cession of a fixed deposit of R500 000 held at ABSA Bank and a letter of credit for R3.75 million by City Bank New York on behalf of Tembani International Guarantee Fund. The loan is further secured by a cession of end user loans.		
<b>GJO Marincowitz</b>	592 117	563 300
In the 2007 financial year the company entered into a loan agreement with Gert Marincowitz. The loan amount advanced was R500 000. Interest is calculated at a fixed interest rate of 5% compounded monthly. The original loan repayment date was 36 months after receipt of the loan amount. This repayment date has been extended to 31 December 2010, but the lender has the right to recall the loan at any date up to the scheduled repayment date.		

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>10. Short term loans (continued)</b>		
Loan from Genesis Steel (no repayment terms)	1 115 000	1 115 000
Loan from Sentinel Steel (no repayment terms)	635 000	635 000
Current portion Hivos Triodos Bank loan	1 060 000	-
Current portion Khula Enterprise Finance Limited loan	3 677 391	7 462 278
Current portion Tembeka Social Investment Company loan	251 979	1 030 200
Current portion Teba Bank loan and Tembani International Guarantee Fund	49	761 853
Current portion Oiko Credit	1 262 500	1 262 500
Current portion Swedfund	3 049 976	2 858 000
Current portion Standard Bank Term loan	1 000 000	500 000
Current portion of SAMAF loan	600 594	-
Current portion of Cadiz loan	2 657 015	-
	<hr/>	<hr/>
	20 858 162	16 548 382
	<hr/> <hr/>	<hr/> <hr/>
<b>11. Provisions</b>		
Provision for accumulated leave	1 876 890	1 366 543
Provision for annual bonus	1 179 910	1 018 532
Provision for audit fee	527 500	515 326
	<hr/>	<hr/>
	3 584 300	2 900 401
	<hr/> <hr/>	<hr/> <hr/>
<b>12. Revenue</b>		
Interest received on advances	26 031 191	27 014 862
Interest received on cash balances	702 725	617 816
Initiation fees	28 881 925	21 387 028
Service fees	969 517	837 430
	<hr/>	<hr/>
	56 585 358	49 857 136
	<hr/> <hr/>	<hr/> <hr/>
<b>13. Finance costs</b>		
Finance costs in respect of loans	7 607 480	8 101 516
Administration cost on borrowings	163 882	101 889
	<hr/>	<hr/>
	7 771 362	8 203 405
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>14. Impairment of advances</b>		
Bad debts written off	705 698	766 406
Bad debts recovered	(182 235)	(68 426)
Death write-offs	537 892	442 040
	<u>1 061 355</u>	<u>1 140 020</u>
<b>15. Loss before grants</b>		
The loss before grants is arrived at after taking the following into account.		
Staff costs	37 861 431	31 306 717
Auditor's remuneration		
- Statutory audit – current year	527 500	455 323
– prior year under provision	77 375	61 654
- Disbursements	66 000	60 000
	<u>670 875</u>	<u>576 977</u>
Amortisation of intangible assets	2 733	-
Depreciation	903 997	636 183
Operating leases		
- Motor vehicles	1 019 857	964 625
- Buildings	1 211 034	970 690
	<u>2 230 891</u>	<u>1 935 315</u>
Death write offs	537 892	442 040
Legal fees	83 577	11 762
Directors' emoluments		
- For managerial duties (paid by the company)	988 931	1 201 401
- Expenses relating to managerial duties	44 023	37 545
	<u>1 032 954</u>	<u>1 238 946</u>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>16. Grants received</b>		
<b>Operational grants received – gross amount*</b>		
- H.S.D.U.	-	81 692
- Old Mutual Masisizane Fund	1 700 000	2 584 755
- Hivos Triodos	90 390	336 337
- Small Enterprise Education	-	38 063
- SAMAF	1 500 000	-
- Givewell	952 098	-
Total operational grants received	<u>4 242 488</u>	<u>3 040 847</u>
Unitilised portion of operational grants received		
- Hivos	-	(90 390)
- Givewell	(952 098)	-
	<u>3 290 390</u>	<u>2 950 457</u>
<b>Capital grants received – gross amount*</b>		
- Thusano Trust		100 000
- Old Mutual Masisizane Fund	11 401 971	1 812 239
- Hivos	1 924 510	2 492 552
- The International Alliance of Women	51 113	138 263
- Charities Aid Foundation	-	384 885
- R Gailey	-	1 000
-The DT Hudson Charitable Trust	200 000	-
- TIDES Foundation	72 770	-
- Genesis Steel	300 000	-
Total capital grants received	<u>13 950 364</u>	<u>4 928 939</u>
Unitilised portion of capital grants received		
- Hivos	-	(1 924 510)
- Old Mutual	(625 684)	-
Grants utilised	<u>13 324 680</u>	<u>3 004 429</u>
Total grants received	<u>16 615 070</u>	<u>5 954 886</u>
Total unutilised portion of grants received	<u>1 577 782</u>	<u>2 014 900</u>

All capital grants were received with the express condition that the funds be used for lending to customers and are therefore considered being capital in nature. \*Gross amount received represent grants available for use during the year, thus includes opening unutilised grants.

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

2010                      2009  
R                                      R

**17. Operating leases**

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

Amounts payable within 1 year	1 077 062	884 768
Amounts payable within 2 – 5 year	1 572 811	1 358 564
Amounts payable greater than 5 years	-	-
 Total	 2 649 873	 2 243 332

**18. Taxation**

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

**19. Retirement benefits**

All permanent employees of the company are members of the Old Mutual Orion Provident Fund. The Provident Fund is a defined contribution plan, where the retirement benefits are determined with reference to the employer and employees' contributions to the Provident Fund. In 2010, the company contributed R4 261 599 (2009: R3 426 638) towards the Provident Fund and group life premiums. Current contributions to the Provident Fund are charged against income as incurred.

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

	<u>2010</u> R	<u>2009</u> R
<b>20. Total head office cost</b>		
Training department	2 158 394	3 338 048
Human Resources department	1 393 493	1 348 808
Quality Assurance department	1 283 206	1 136 293
Loan administration	1 700 802	1 378 777
Research and development	1 101 247	1 155 667
Senior Management Finance and secretarial	9 988 571	9 182 362
Information Technology Department	711 560	582 714
U.S. Office	170 419	122 686
	<hr/>	<hr/>
	18 507 692	18 245 355
	<hr/> <hr/>	<hr/> <hr/>

**21. Encumbered assets and contingent liabilities**

The following securities have been ceded by the company:

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

The Standard Bank money market account has been ceded to Stannic as collateral of the leased vehicles to the value of R548 403.

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

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

**22. Related party balances and transactions**

The Small Enterprise Foundation entered into a related party transaction with a close family member of the Managing Director (John De Wit). The transaction involved renting of office space and use of telephone, water and electricity. The transaction was carried out on commercial terms at R30 817 (2009: R38 607).

The Small Enterprise Foundation has taken out loans with Genesis Steel and Sentinel Steel to the total value of R1 750 000 (refer note 10). These entities are controlled by a non-executive director, Mr S Doshi. These loans have no fixed repayment terms and do not carry interest.

The Small Enterprise Foundation received a grant to the value of R300 000 (2009: R0) from Genesis Steel. This entity is controlled by a non-executive director. This grant is non-refundable and at arm's-length.

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23. Risk management**

**Credit risk**

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

**Liquidity risk**

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

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

The table in (23.3) analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the discounted cash flows except if stated otherwise. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant

**Cash flow risk**

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

**Interest rate risk**

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

**Capital risk**

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

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.1 Statement of financial position - categories of financial instruments - 2010**

	<b>Total</b>	<b>Loans and receivables</b>	<b>Financial liabilities at amortised cost</b>	<b>Non financial assets and liabilities</b>
<b>Assets</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Property and equipment	4 828 127	-	-	4 828 127
Intangible assets	1 600 412	-	-	1 600 412
Loans and advances	100 064 542	100 064 542	-	-
Other receivables	1 414 636	1 414 636	-	-
Cash and short term funds	15 316 433	15 316 433	-	-
<b>Total assets</b>	<b>123 224 150</b>	<b>116 795 611</b>	<b>-</b>	<b>6 428 539</b>
<b>Funds and liabilities</b>				
General capital reserve	24 696 779	-	-	24 696 779
Development reserve	6 654 459	-	-	6 654 459
Educational reserve	20 188	-	-	20 188
Retained earnings	431 365	-	-	431 365
Non-distributable reserve	2 090 079	-	-	2 090 079
Long term loans	57 633 212	-	57 633 212	-
Short term loans	20 858 162	-	20 858 162	-
Trade and other payables	5 163 225	-	5 163 225	-
Accruals and Provisions	4 098 899	-	4 098 899	-
Unutilised grants	1 577 782	-	-	1 577 782
<b>Total funds and liabilities</b>	<b>123 224 150</b>	<b>-</b>	<b>87 753 498</b>	<b>35 470 652</b>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.1 Statement of financial position - categories of financial instruments - 2009**

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.2 Income and expenses per category of financial assets and financial liabilities - 2010**

	<b>Total</b>	<b>Loans and receivables</b>	<b>Financial liabilities at amortised cost</b>	<b>Non financial assets and liabilities</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Interest income	26 733 916	26 733 916	-	-
Finance cost	(7 771 362)	-	(7 771 362)	-
Initiation and service fees	29 851 442	29 851 442	-	-
Other income	3 366 465	-	-	3 366 465
Impairment and provision for impairment on loans and advances	(1 185 991)	(1 185 991)	-	-
Other operating expenses	(55 418 771)	-	-	(55 418 771)
<b>Loss for the year</b>	<b>(4 424 301)</b>	<b>55 399 367</b>	<b>(7 771 362)</b>	<b>(52 052 306)</b>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.2 Income and expenses per category of financial assets and financial liabilities - 2009**

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.3 Liquidity risk management -2010**

	<b>Total</b>	<b>&lt;1 year</b>	<b>&gt;1 year &lt;5 year</b>	<b>&gt; 5 year</b>	<b>Non - determined</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>Funds</b>					
Total funds	33 892 870	-	-	-	33 892 870
<b>Discounted liabilities</b>					
Long term loans	57 633 212	-	55 633 212	2 000 000	-
Short term loans	20 858 162	20 858 162	-	-	-
<b>Undiscounted liabilities</b>					
Trade and other payables	5 163 225	5 163 225	-	-	-
Accruals and Provisions	4 098 899	4 098 899	-	-	-
Unutilised grants	1 577 782	1 577 782	-	-	-
<b>Total funds and liabilities</b>	<b>123 224 150</b>	<b>31 698 068</b>	<b>55 633 212</b>	<b>2 000 000</b>	<b>33 892 870</b>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.3 Liquidity risk management -2009**

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.4 Credit risk management**

	<u>2010</u> R	<u>2009</u> R
<b>Financial assets whose terms have been renegotiated</b>		
These loans are termed rescheduled loans, as the terms have been renegotiated, due to the client's inability to pay. These loans are fully impaired.		
<b>Rescheduled loans - carrying amount</b>	278 065	306 785
<b>Loans and advances past due and impaired</b>	549 350	692 359
Past due up to 30 days	341 800	415 306
Past due up to 31-60 days	105 144	149 503
Past due up to 61-90 days	102 406	127 550
<b>Loan advances neither past due and nor impaired</b>	100 585 365	90 193 369
<b>Gross loans and advances</b>	101 412 780	90 192 513
<b>Impairments</b>	(1 348 238)	(1 223 599)
<b>Net loans and advances</b>	100 064 542	89 968 914

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.5 Interest rate risk – 2010**

	Total	Repricing period			Non-Interest bearing
		<1 year	>1 year <5 year	> 5year	
Assets	R	R	R	R	R
Property and equipment	4 828 127	-	-	-	4 828 127
Intangible assets	1 600 412	-	-	-	1 600 412
Loans and advances (fixed rate)	100 064 542	-	-	-	100 064 542
Other receivables	1 414 636	-	-	-	1 414 636
Cash and short terms funds	15 316 433	15 316 433	-	-	-
<b>Total assets</b>	<b>123 224 150</b>	<b>15 316 433</b>	-	-	<b>107 907 717</b>
<b>Funds</b>					
Total funds	33 892 870	-	-	-	33 892 870
<b>Discounted liabilities</b>	-	-	-	-	-
Long term loans	57 633 212	57 633 212	-	-	-
Short term loans	20 858 162	20 858 162	-	-	-
<b>Undiscounted liabilities</b>					
Accruals and Provisions	4 098 899	-	-	-	4 098 899
Trade and other payables	5 163 225	-	-	-	5 163 225
Unutilised grants	1 577 782	-	-	-	1 577 782
<b>Total funds and liabilities</b>	<b>123 224 150</b>	<b>78 491 374</b>	-	-	<b>44 732 776</b>
<b>Interest rate gap</b>	-	<b>(63 174 941)</b>	-	-	<b>63 174 941</b>

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**23.5 Interest rate risk – 2009**

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

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 June 2010**

**24. Interest rate sensitivity analysis**

As at 30 June 2010, if interest rates on floating rate assets and liabilities held at amortised cost has decreased/increased by 100 basis points with all other variables held constant, the impact on profit and loss would have been as set out below:

	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Decrease	544 184	592 455
Increase	(544 184)	(592 445)