SEF

Freeing the world of poverty.

THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 2011

“My family and I were very excited when SEF opened a branch in our area. We were hoping it would close the financial gap in our lives and move us out of poverty. SEF did as we expected. Our lives have changed so much now.”
Ms Y Makhubedu (SEF Client, Bushbuckridge)

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 its performance:

Indicator	June 2011	June 2010	June 2009
Number of active clients	74 345	64 030	57 425
% Women Clients	99%	99%	99%
Value of Loans Outstanding	R123 million[1]	R 100 million	R 90.0 million
Current Average Loan Size Disbursed	R 2 143	R 1 998	R 2 023
Number of Loans disbursed since inception	897 068	732 983	592 013
Amount disbursed since inception	R 1.4 billion	R 1.1 billion	R 853 million
Bad Debts as % of annual disbursements	0.3%	0.2%	0.3%
Bad Debts as % of average Principal Outstanding	0.8%	1.0%	1.0%
Portfolio at risk > 30 days[2]	0.2%	0.2%	0.3%
Current Re-scheduled loans (due to illness)	R 306 051	R 278 065	R 306 785
Death write-offs	R 596 996	R 537 892	R 442 040
Total Savings held by clients	R 23.3 million	R 17.2 million	R 11.9 million
Total staff at year end	392	374	373
Total operations staff at year end	329	316	315
Clients per loan officer	268	245	213
Clients per staff member	190	171	154
Operational self-sufficiency[3]	94%	88%	86%
Financial self-sufficiency[4]	94%	88%	86%

[1] At the close of the financial year the Rand/US$ exchange rate stood at R6.774 = US$1.0

[2] 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

[3] Operational self sufficiency = Total Financial Revenue /(Finance Expense + Loan Loss Provision + Operating Expense)

[4] 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)

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 2011

Operational Highlights

- As at the end of the financial year client retention was at its best year-end level in 13 years!
- The portfolio at risk at year-end stood at its best level for this time of the year since June 2005.

SEF is top microfinance organisation to give donations to

In September 2010 SEF was rated by GiveWell as the top microfinance organisation to give donations to! GiveWell is an independent, non-profit, charity evaluator based in New York.

SEF receives the 2010 Social Performance Reporting Award (MFIs) - Gold Category

SEF was awarded the highest level of the 2010 Social Performance Reporting Award by CGAP together with the Michael & Susan Dell Foundation, the Ford Foundation and the Social Performance Task Force. This award recognizes transparency in social performance reporting as the critical first step in achieving social performance goals.

Finalist in Giordano Dell'Amore Microfinance Best Practices International Award

For its work on its quality management system SEF was selected as one of the five finalists for the Giordano Dell'Amore Microfinance Best Practices International Award. The winner of this award will be announced in late October 2011.

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 897 068 loans to the value of R 1.4 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.[5] The areas of Mpumalanga and North West Province in which SEF works are characterised by similar poverty.

As our mission statement suggests, SEF works to reach the poor. In 1996, the organisation started a special effort to reach not just the poor but the *very poor* – those from households whose income is less than half the poverty line[6]. Since that time SEF has emphasised reaching the *very poor*. Today, 34 of the organisation's 41 branches use a poverty targeting methodology, called the participatory wealth ranking or PWR, to ensure that the organisation reaches the *very poor*.

Methodology

The following is a brief summary of our credit, savings and support methodology:

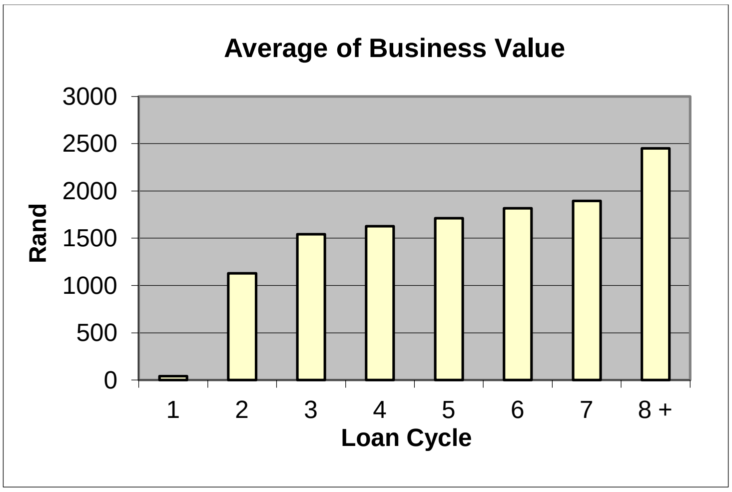
SEF starts working in a community by identifying the poorest households through Participatory Wealth Ranking, PWR. Thereafter, field staff go to these households to motivate the women to start an income generating activity. In other cases where a previous micro-business had collapsed, the women are encouraged to resume that enterprise. The motivation provided by our 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 he/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 as far as possible loans are not diverted for other purposes.

The graph of Business Value below illustrates clients' success in starting and growing their businesses. This graph shows the average value of business assets of clients before each loan cycle. For example, before the first loan the average business value of clients is less than R45 ($7) whereas by the beginning of the fifth loan cycle this has grown to an average of R1 713 ($253).

[5] "*Fact Sheet, Poverty in South Africa*", Fact Sheet No.1, 26 July 2004, Human Sciences Research Council
[6] 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. Therefore, 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 23.3 million.

OPERATIONAL PERFORMANCE REVIEW

Growth

SEF now operates 41 branches. These include seven in the rural areas of the Eastern Cape between Butterworth and Mthatha, six in the North-West Province and five branches in the eastern and western parts of Mpumalanga. The remaining branches cover all of the rural areas of Limpopo Province.

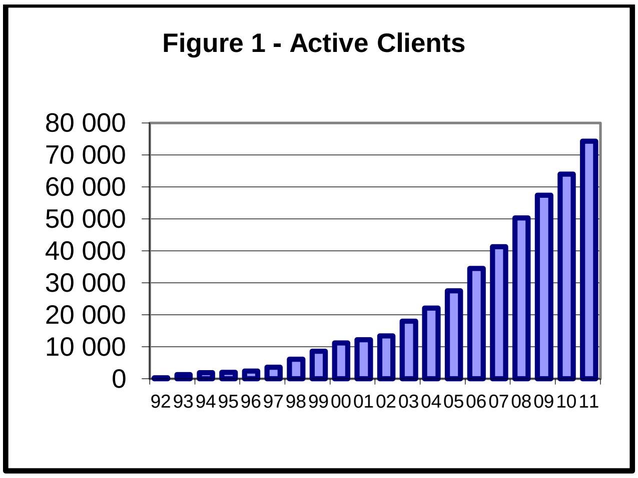
Annual Performance

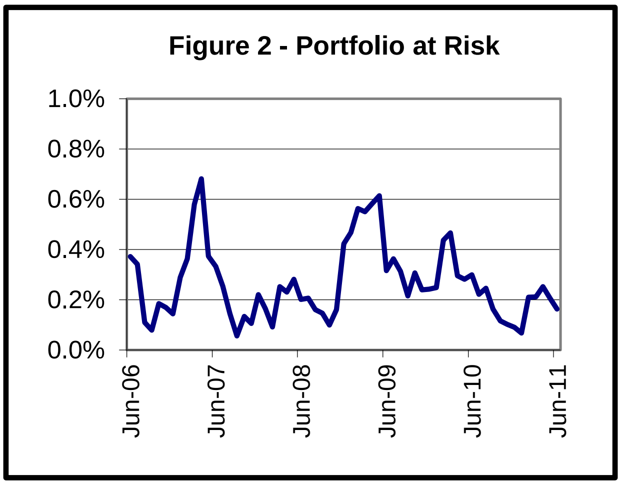
This was an exceptional year for SEF with all performance measures coming in above budget and some indicators reflecting their best levels of performance in many years. SEF's Regional Managers, Moses Ngamba and Sydwell Tshimbana, led by Chief Operating Officer, Mateo Zanetic, deserve full credit and praise for this exceptional performance.

Client Growth

By the end of the financial year the organisation was actively serving 74 345 clients, 11 291 of these clients were youth between 18 to 35 years of age[7]. The graph below illustrates the growth since inception. On a compounded basis SEF has cumulatively grown by 19% per annum for each of the past 7 years.

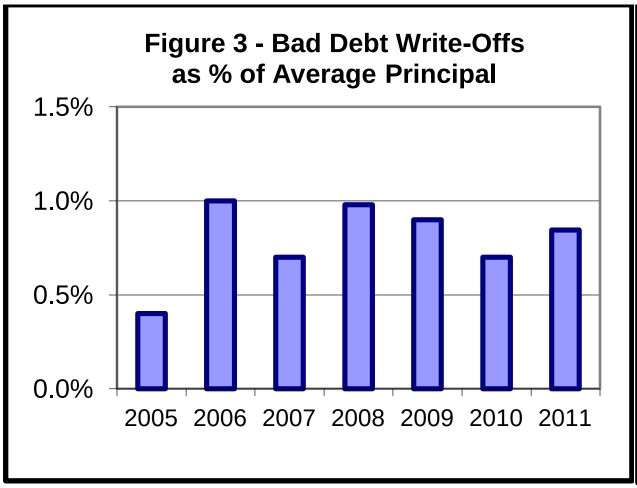
[7] In South Africa various organisations, including political structures and government bodies, use a definition of youth as being those up to age 35.

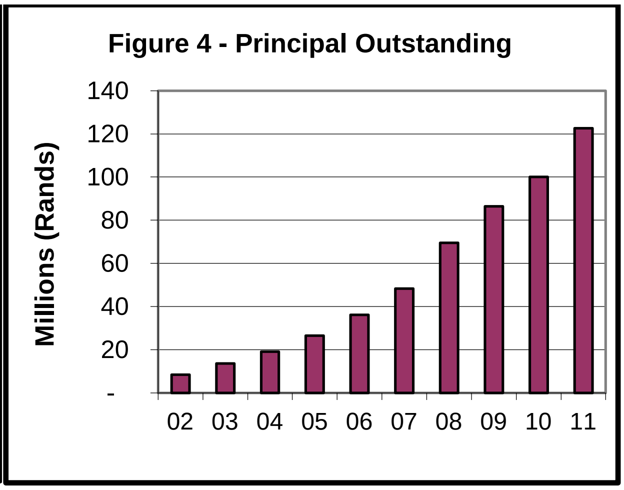




Portfolio at Risk

This was an outstanding year in terms of the quality of the portfolio. Throughout the year the portfolio at risk over 30 days remained below 0.3%. This is illustrated in Figure 2 above. The portfolio at risk as at year-end, 30 June 2011, stood at its best level for this time of the year since June 2005.





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 we have done in terms of bad debt performance. This year bad debts as a percentage of annual disbursements amounted to just 0.3%, or 0.8% when expressed as a percentage of the average principal outstanding for the year[8].

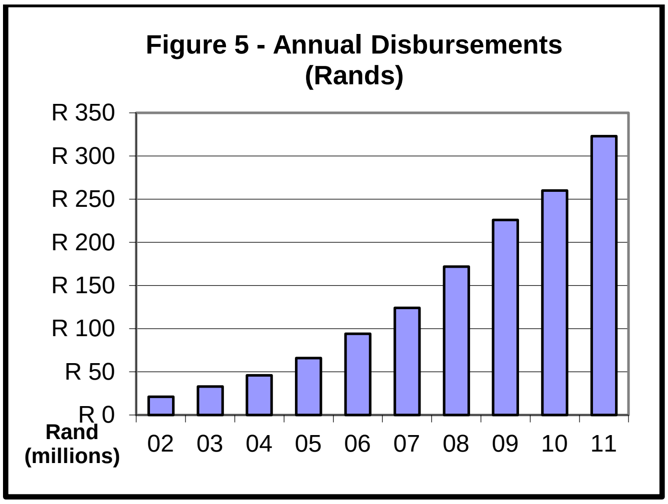
[8] "The Bad Debt ratios do not include Death Write-off losses. Should these have been included the ratios would have been 0.5% for Bad Debts as a % of annual disbursements and 1.4% for Bad Debts as a % of average Principal Outstanding".

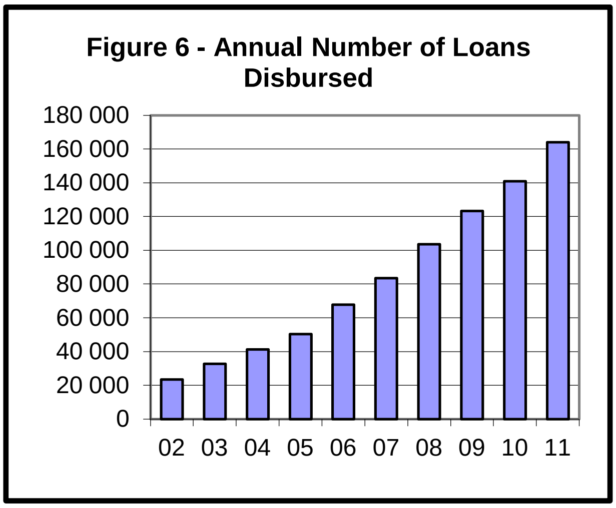
Principal Outstanding

Over this financial year principal outstanding grew by 23% to R123 million. Again this was very pleasing as this performance exceeded the annual budget target by 4%. The growth in principal may be seen in Figure 4 above.

Disbursement Activity

The majority of SEF's loans are repaid over six months. Thus when considering performance it is useful 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.

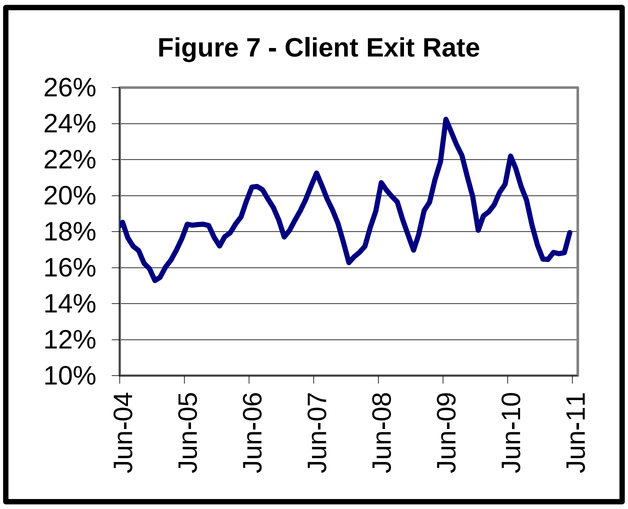


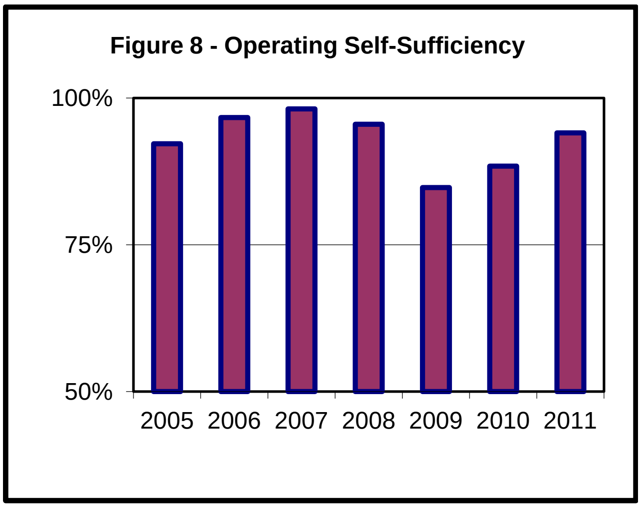


Client Exits

Another area of outstanding performance in 2011 has been client retention. 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 18.1%. **This is the best year-end drop-out rate in 13 years!**

SEF sees client retention as a robust proxy for social performance, for whether SEF is having a positive social impact. These strong results are a firm indication that the organisation did exceptionally well in this area in the 2011 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 94% for the year. See Figure 8 above. Financial self-sufficiency[9] also came to 94%.

The organisation is set to break even in 2012 and has set a budget to achieve 100% operational self-sufficiency for the financial year to June 2012.

HUMAN RESOURCES AND TRAINING

At the end of June 2011 SEF employed a total of 392 staff members of which 329 were operations staff and 63 support staff.

Figures 9 and 10 show the total number of staff and the staff turnover for past years. **We are most pleased with our performance on the latter indicator, which at 12% achieved its best level of performance in 11 years.** Amongst various contributors to this success were a successful leadership programme and an effective staff wellness programme. The latter programme is presented to all employees in conjunction with Discovery Health and focuses on individual health issues such as cholesterol, blood pressure, glucose levels, body mass index and HIV/AIDs testing and counselling. This programme will continue to be presented each year going forward.

One of South Africa's greatest challenges is the scarcity of highly trained people. Over the years SEF has tried many approaches to overcome this difficulty and in this year launched an initiative that appears to be producing positive results. This involved targeted graduate recruitment at several of South Africa's top universities together with a one year graduate training program which began in January 2011. At this point the organisation is most encouraged with the results of these efforts and must recognize the strong work of its Human Resource Managers, Ian Swanepoel and Kgabo Lelahane, in making this happen.

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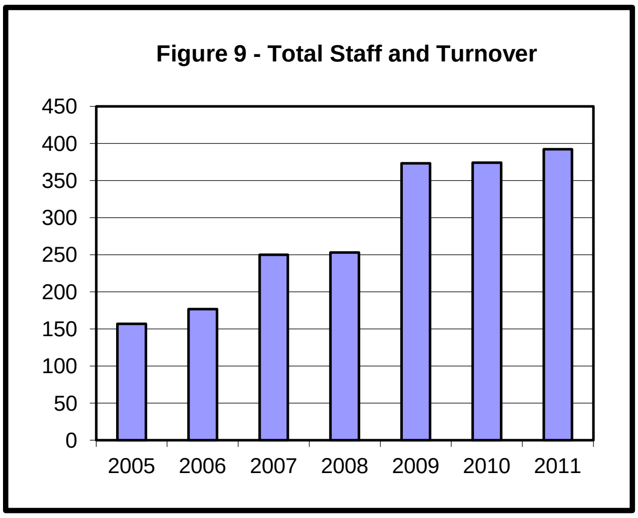
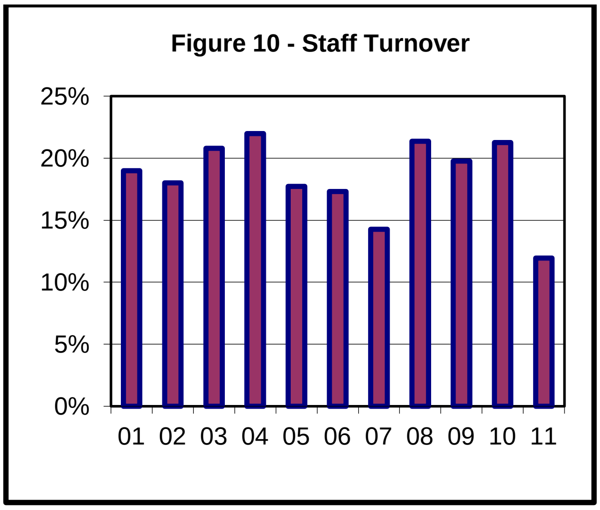
[9] See definitions of these terms at the foot of page 1.





PRIDE DEPARTMENT – RESEARCH AND DEVELOPMENT

During this financial year SEF's PRIDE, or research and development department, focussed its work on four major areas:

- Improving operational effectiveness through the development of a quality management system
- Improving client financial and business skills
- Developing new indicators to track client progress
- Researching ways to refine products and processes to improve SEF's responsiveness to clients' broad financial needs.

Quality management

In order to address the monitoring of the quality of work in the field PRIDE identified key processes in the operational methodology which are essential for the success of clients and for the organisation's financial performance. These Key Operational Activities or KOAs were then summarised into checklists which are to be used by operations management as a coaching tool as well as by the quality assurance department as they conduct field audit work.

We are also pleased to highlight that for its work on this quality management system the Fondazone Giordano Dell'Amore has selected SEF as one of the five finalists for the Giordano Dell'Amore Microfinance Best Practices International Award. The winner of this award will be announced in late October 2011. I wish to especially recognize and thank Anton Simanowitz for his work in conceptualising this initiative and managing the process of making it a reality.

Improving client financial and business skills

One of the key functions of SEF's PRIDE department is to look for opportunities to improve and expand SEF's services so as to increase value for its clients. In one initiative SEF has partnered with the US based organisation Freedom from Hunger to integrate structured learning conversations into client meetings. This will replace the skills development sessions that are currently conducted at client meetings.

Towards the end of 2010 a pre-test of the pilot module "Control your debt" was carried out so as to allow adaptations of the module to better fit into SEF's context. In April 2011 a seven month pilot was implemented involving all staff from two branches. Preliminary results showed excitement from both sides, staff and clients, about the new service.

Progress monitoring

Following a long period of research and development the operational testing of a new progress monitoring tool started in two branches. The tool captures the poverty status of new clients using the Progress out of Poverty Index, or PPI, together with indicators of education, food quality and housing. This instrument will allow the progress of clients to be tracked and analysed.

Better meeting clients' financial needs

While SEF continues to emphasise the importance of investing in a business we recognise that, especially in later loan cycles, if clients can demonstrate their capacity to repay a loan (and thus avoid becoming over-indebted) then the organisation must respect their decision to apply part of their loan for needs other than business. Where such funds are not used for business, they are generally directed toward important needs such as improving housing or dealing with medical emergencies and other types of financial shock.

We have, therefore, been piloting a new method to assess clients' capacity to repay based on their demonstrating their cash flow by saving regularly.

This approach also has the potential to save significant time for field staff who currently must travel to clients' enterprises on each loan cycle in order to conduct a business evaluation as part of the loan application process.

Marketing

Since its inception SEF has delayed designing an official logo. This was done as the organisation wanted its clients to be involved in the crafting of the logo. This year an intern, Melanie Paul, took on the project of creating SEF's logo. Melanie secured the pro-bono services of the German public relations agency, Ketchum Pleon, to assist in the design of the logo and then worked with them and with SEF clients and staff to develop the final design. Special thanks to Melanie Paul and Ketchum Pleon for making this happen. The official SEF logo is presented here:

SEF
THE SMALL ENTERPRISE FOUNDATION
Freeing the world of poverty.

INFORMATION TECHNOLOGY SYSTEMS

During this financial year the main focus of SEF's IT Department has been the development and Beta testing of the new MIS system provided by SEG Data (Pty) Ltd.

During the Beta testing stage a small team of dedicated staff tested the core functionality of the MIS and custom workflow processes to ensure reliable operation while at the same time providing feedback on the user experience of the system. This feedback enabled further improvements to the system.

Beta testing concluded at the end of the financial year and this marked the beginning of the parallel-run stage of the project where both the existing and new MIS are used to capture and process loan data. The purpose of this stage is to monitor and evaluate the efficacy of processes and the accuracy of data processed and reports as generated by the new MIS in comparison to the old system.

This is expected to be an extended stage of the project as it presents an additional workload to existing staff who need to divide their time between old and new systems. The old MIS is expected to be fully decommissioned by March 2012, once the new MIS has proven itself to be efficient, accurate and reliable.

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 or fraudulent activities are prevented or identified and reported on
- Special audit assignments as requested by senior managers are executed
- Weaknesses/threats to the organization are identified, and preventative measures recommended
- SEF's overall service to clients is of high quality.

By the end of June 2011 the Quality Assurance department had completed 39 routine audits and 6 special assignments.

A branch rating system has been introduced which will seek to evaluate and compare the compliance levels of branch activities against the internal policies and procedures. This will in the long run help managers in dealing with quality issues. To further enhance the quality of work in the field this system has also been built into the incentive scheme for Branch Managers.

The rating system also ranks the branches against each other on the basis of their quality scores.

A new coaching function has also been piloted. This seeks to clarify policies and procedures to Operations staff and where necessary to provide additional training. This is a preventative strategy to enhance high compliance with policies and procedures.

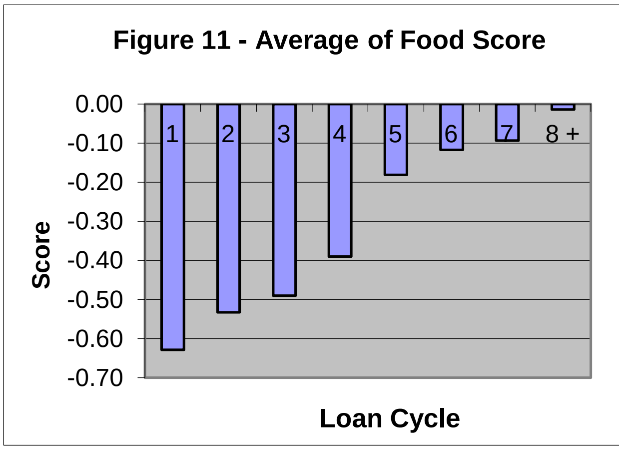
IMPACT

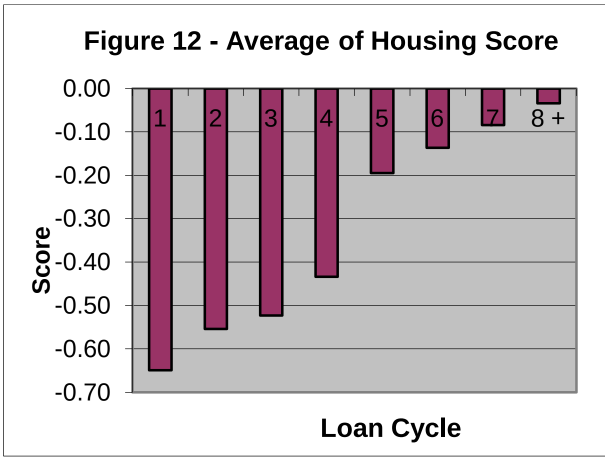
SEF does not just see microfinance as a simple process of people taking and repaying loans or using convenient, low cost savings instruments. For SEF microfinance is about whether people utilise such opportunities to improve the lives of their families and ultimately move out of poverty. Thus SEF is 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.

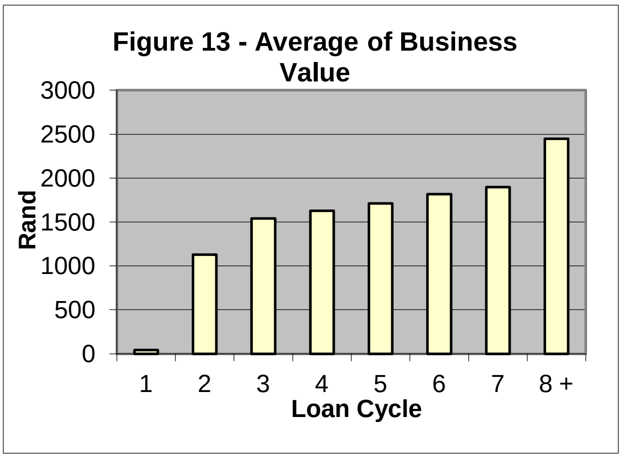
To this end an impact monitoring system is used to check, measure and understand changes in the lives of clients over time. Using a participatory methodology, each client is interviewed on a number of key impact indicators before each loan cycle. This understanding not only informs SEF whether the lives of its clients are improving but also provides information on how to enhance 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 2011.

The first two 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. We are now entering our 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 this phase. At the end of Phase I clients 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.

A large scale impact assessment of the IMAGE pilot programme carried out from 2001 to 2004 demonstrated that after two years of exposure the intervention had the following positive 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.

The results of this study were widely reported in various international scientific journals including The Lancet. All IMAGE publications may be accessed at: http://www.sef.co.za/image-study

Since inception IMAGE has trained a total of 13 595 clients and an additional 5 565 clients are currently in training in three branches.

We are most grateful to the IMAGE team led by Lufuno Muvhango for the excellent and crucial training which they provide to our clients.

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

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

- GiveWell
- SAMAF
- T Solomon
- G Thomas

The following donors provided grants for loan capital:

- Old Mutual, through its Masisizane Fund
- Whole Planet Foundation
- Charities Aid Foundation
- Genesis Steel
- Sentinel Steel and Service Centre
- The International Alliance for Women (TIAW)
- Lannie Motors

Loans

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:

Name of Lender	Amount in Rand	% of total borrowings
Hivos-Triodos and Triodos-Doen	12,750,000	14%
Swedfund	4,394,155	5%
Tembeka Social Investment	1,000,000	1%
Khula Enterprise Finance	10,298,884	11%
Dr GJO Marincowitz	10,104,932	11%
Oikocredit	5,076,773	5%
Sentinel Steel	405,000	0%
ABSA	17,985	0%
Standard Bank	6,000,000	6%
SAMAF	8,547,682	9%
Cadiz	14,890,031	16%
Government Employees Pension Fund	20,000,000	21%
Total	**93,485,442**	**100%**

The organisation wishes to thank these agencies and individuals for their ongoing service and support. Without them the lives of 74 000 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. While doing so the organisation will also focus on its operational self-sufficiency to ensure that this reaches the 100% level (full self-sufficiency) in the 2012 financial year and improves beyond that level thereafter.

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 would like to take this opportunity to extend my deepest gratitude to SEF Board members for performing their duties and for providing strategic leadership and oversight to SEF. All your dedication and hard work during the year was highly appreciated and without you SEF could not have accomplished 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:	Goodluck Ngobeni
Best Branch Manager- 1st runner up:	Matsetsi Matlala
Best Development Facilitators:	Yvonne Seloane Dorah Mafumo
Best Development Facilitators- 1st runner up:	Dinah Matjipa Charles Phokongwana
Best Support Staff	Dalton Lebepe
Best Support Staff- 1st runner up:	Elmarie Holm

On behalf of the Board of Directors and the organisation as a whole, I would like to applaud 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 dedication to the organisation and its mission of poverty alleviation. Because of your passion to serve all, we have been able to give so many tens of thousands of people a chance at a better life.

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

John de Wit
Managing Director

THE SMALL ENTERPRISE FOUNDATION
(NON-PROFIT COMPANY)
(Registration number: 1991/003485/08)

AUDITED FINANCIAL STATEMENTS
30 June 2011

THE SMALL ENTERPRISE FOUNDATION
(NON-PROFIT COMPANY)
(Registration number: 1991/003485/08)
ANNUAL FINANCIAL STATEMENTS
30 June 2011

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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 4 to 42, were approved by the board of directors on 6 October 2011 and are signed on its behalf by:

Director

Director

The financial statements were prepared by Wyonne van der Westhuizen (Senior Accountant).

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (NON-PROFIT COMPANY)

We have audited the annual financial statements of The Small Enterprise Foundation (Non-Profit Company), which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, the 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 4 to 42.

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 the South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 management, 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.

Opinion

In our opinion, these annual financial statements present fairly, in all material respects, the financial position of the company at 30 June 2011, and the results of its operations and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per: J van Staden
Partner
6 October 2011

THE SMALL ENTERPRISE FOUNDATION
(Non-Profit Company)
REPORT OF THE DIRECTORS
30 June 2011

The directors have pleasure in presenting their report on the organisation for the year ended 30 June 2011.

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 897 068 (2010: 732 983) loans to the value of R1.4 billion (2010: R1.1billion). In the current year the organisation granted 164 085 (2010: 140 970) loans to the value of R323 million (2010: R260 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 2011 are set out on pages 6 to 42 of the annual financial statements. The directors are pleased to report a 22.5% increase in loans and advances as well as a 17.9% increase in revenue. Expenses, excluding finance costs and impairment of advances, increased by 11.7%.

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 R860 305 (2010: R684 516) was provided for.

A debt is declared irrecoverable once it is 90 days in arrears. An amount of R883 531 (2010: R705 698) 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 R306 051 (2010: R278 065).

A loan loss reserve is created for all current and loans in arrears 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:

Loan loss reserves (continued)

Current	– MCP 0.04% and TCP 0.06% of the outstanding group loan amount is provided
1 - 30 days in arrears	– MCP 16.62% and TCP 12.22% of the outstanding group loan amount is provided
31 - 60 days in arrears	– MCP 50.36% and TCP 45.74% of the outstanding group loan amount is provided
61 - 90 days in arrears	– MCP 54.86% and TCP 51.72% 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)
Ms Sizeka Monica Rensburg (Non-executive)
Ms Charmaine Groves (Non-executive)
Mr John Robert de Wit (Managing Director)

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

Auditors - Deloitte & Touche

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Subsequent events

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
(Non-Profit Company)
STATEMENT OF FINANCIAL POSITION
at 30 June 2011

	Notes	2011 R	2010 R
ASSETS			
Non-current assets			
Property and equipment	2	4 447 999	4 828 127
Intangible assets	3	1 462 204	1 600 412
Total non-current assets		5 910 203	6 428 539
Current assets			
Loans and advances	4	122 579 721	100 064 542
Other receivables	5	1 519 137	1 414 636
Cash and short term funds		9 982 481	15 316 433
Total current assets		134 081 339	116 795 611
TOTAL ASSETS		139 991 542	123 224 150
FUNDS AND LIABILITIES			
Funds			
Non-distributable reserve		2 090 079	2 090 079
General capital reserve	6	29 919 789	24 696 779
Development reserve	7	6 654 459	6 654 459
Educational reserve	8	20 188	20 188
Retained earnings		635 183	431 365
Total funds		39 319 698	33 892 870
Non-current liabilities			
Long term loans	9	73 030 794	57 633 212
Current liabilities			
Short term loans	10	20 454 648	20 858 162
Trade and other payables		1 262 146	5 163 225
Provisions	11	3 395 771	3 584 300
Accruals		1 987 721	514 599
Unutilised grants	16	540 764	1 577 782
Total current liabilities		27 641 050	31 698 068
TOTAL FUNDS AND LIABILITIES		139 991 542	123 224 150

THE SMALL ENTERPRISE FOUNDATION
(Non-Profit Company)
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011

	Notes	2011 R	2010 R
Revenue	12	66 714 706	56 585 358
Finance costs	13	(7 598 730)	(7 771 362)
Impairment of advances	14	(1 382 250)	(1 061 355)
Provision for impairment of loans and advances	4	(39 301)	(124 636)
Margin on lending activities		**57 694 425**	**47 628 005**
Operating expenses		(40 174 430)	(36 911 079)
Operating income		**17 519 995**	**10 716 926**
Sundry income		9 558	74 930
Profit on disposal of property and equipment		-	1 145
Income before head office expenses		**17 529 553**	**10 793 001**
Head office expenses	20	(21 736 106)	(18 507 692)
Loss before grants	15	**(4 206 553)**	**(7 714 691)**
Operational grants utilised to cover expenses	16	4 410 371	3 290 390
Capital grants received	16	5 223 010	13 324 680
Net profit for the year		**5 426 828**	**8 900 379**
Capital grants received*	16	(5 223 010)	(13 324 680)
Profit / (deficit) for the year		**203 818**	**(4 424 301)**
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		**203 818**	**(4 424 301)**

* 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
(Non-Profit Company)
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011

	Non-Distributable reserve R	General capital reserve R	Development reserve R	Educational reserve R	Retained earnings R	Total R
Balance as at 1 July 2009	**2 090 079**	**11 372 099**	**6 654 459**	**20 188**	**4 855 666**	**24 992 490**
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)	-
Balance as at 1 July 2010	**2 090 079**	**24 696 779**	**6 654 459**	**20 188**	**431 365**	**33 892 870**
Net profit for the year	-	-	-	-	5 426 828	5 426 828
Other comprehensive income	-	-	-	-	-	-
Grants transferred from retained earnings *	-	5 223 010	-	-	(5 223 010)	-
Balance as at 30 June 2011	**2 090 079**	**29 919 789**	**6 654 459**	**20 188**	**635 183**	**39 319 698**

*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
(Non-Profit Company)
STATEMENT OF CASH FLOWS
for the year ended 30 June 2011

	Notes	2011 R	2010 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	(87 693 973)	(61 814 807)
Revenue		66 714 706	56 585 358
Finance costs		(7 598 730)	(7 771 362)
Net cash used in operating activities		(28 577 997)	(13 000 811)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(467 333)	(861 358)
Disposal/(additions) of/(to) intangible assets		120 947	(1 603 145)
Proceeds on disposal of property and equipment		-	4 122
Net cash used in investing activities		(346 386)	(2 460 381)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in long term loans		15 397 582	2 570 398
(Decrease) / increase in short terms loans		(403 514)	4 309 780
Grants received		9 633 381	16 615 070
Decrease in unutilised grants		(1 037 018)	(437 118)
Net cash generated by financing activities		23 590 431	23 058 130
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(5 333 952)	7 596 938
Cash and cash equivalents at beginning of the financial year		15 316 433	7 719 495
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	B	9 982 481	15 316 433

THE SMALL ENTERPRISE FOUNDATION
(Non-Profit Company)
NOTES TO THE STATEMENT OF CASH FLOWS
for the year ended 30 June 2011

	2011	**2010**
	R	**R**

A. CASH UTILISED BY OPERATIONS

	2011 R	2010 R
Loss before grants	(4 206 553)	(7 714 691)
Adjusted for:		
- Revenue	(66 714 706)	(56 585 358)
- Finance costs	7 598 730	7 771 362
- Depreciation	847 461	903 997
- Amortisation of intangible assets	17 261	2 733
- Profit on disposal of property and equipment	-	(1 145)
- Provision for impairment on loans and advances	39 301	124 636
Operating loss before working capital changes	(62 418 506)	(55 498 466)
Adjusted for changes in working capital:		
- (Increase) / decrease in other receivables	(104 501)	150 014
- (Decrease) / increase in trade and other payables	(3 901 079)	3 545 695
- Increase in other accruals and provisions	1 284 593	208 214
- Increase in loans and advances	(22 554 480)	(10 220 264)
Cash utilised by operations	(87 693 973)	(61 814 807)

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of

	2011 R	2010 R
Balances with banks	9 982 481	15 316 433

1. Accounting policies

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice. The annual financial statements are prepared on the historical cost 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.

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 the 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 2011, 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 2011, 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 income when they are incurred.

1.8 Provisions

Provisions for staff related expenses such as outstanding leave days not taken at year end and 13th cheques are made at total cost to the organisation as at 30 June 2011.

Provision for audit fees and workmen's compensation are based on estimates as at 30 June 2011.

2. Property and equipment

2011	**Land & buildings**	**Furniture & fittings**	**Office equipment**	**Computer equipment**	**Motor vehicles**	**Total**
	R	**R**	**R**	**R**	**R**	**R**
Cost						
At beginning of year	3 235 478	1 123 377	1 235 950	2 283 484	180 886	8 059 175
Additions	-	85 889	77 214	304 230	-	467 333
Revaluations*	-	-	-	-	-	-
At end of year	3 235 478	1 209 266	1 313 164	2 587 714	180 886	8 526 508
Accumulated depreciation						
At beginning of year	208 087	653 234	862 940	1 445 479	61 308	3 231 048
Depreciation	77 637	164 154	153 148	408 532	43 990	847 461
At end of year	285 724	817 388	1 016 088	1 854 011	105 298	4 078 509
Carrying value	**2 949 754**	**391 878**	**297 076**	**733 703**	**75 588**	**4 447 999**

*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 2011 would be R943 986 (2010: R972 628)

2. Property and equipment (continued)

2010	**Land & buildings** R	**Furniture & fittings** R	**Office equipment** R	**Computer equipment** R	**Motor vehicles** R	**Total** R
Cost						
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)
At end of year	**3 235 478**	**1 123 377**	**1 235 950**	**2 283 484**	**180 886**	**8 059 175**
Accumulated depreciation						
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)
At end of year	208 087	653 234	862 940	1 445 479	61 308	3 231 048
Carrying value	**3 027 391**	**470 143**	**373 010**	**838 005**	**119 578**	**4 828 127**

3. Intangible Assets

	2011			2010		
	Computer software R	Management information system R	Total R	Computer software R	Management information system R	Total R
Cost						
At beginning of year	26 615	1 576 530	1 603 145	-	-	-
Additions	43 316	540 931	584 247	26 615	1 576 530	1 603 145
Revaluations	-	-	-	-	-	-
Transfer	-	(705 194)	(705 194)	-	-	-
At end of year	69 931	1 412 267	1 482 198	26 615	1 576 530	1 603 145
Accumulated amortisation						
At beginning of year	2 733	-	2 733	-	-	-
Amortisation	17 261	-	17 261	2 733	-	2 733
Disposals	-	-	-	-	-	-
At end of year	19 994	-	19 994	2 733	-	2 733
Carrying value	49 937	1 412 267	1 462 204	23 882	1 576 530	1 600 412

4. Loans and advances

	2011 R	2010 R
Gross advances	121 715 029	99 456 136
Accrued interest on advances	2 252 228	1 956 641
Provision for bad debt	(527 231)	(663 719)
IBNR provision (death write offs)	(860 305)	(684 516)
	122 579 721	100 064 542

	2011 R	2010 R
Movement in impairment provision:		
Balance at beginning of	1 348 235	1 223 599
Current year movement in provision	39 301	124 636
Balance at end of year	1 387 536	1 348 235

Advances are funded out of loans and capital grants received.

The company's Head Office is in Tzaneen and is operational in the surrounding areas of the Limpopo Province, Mpumalanga Province, Eastern Cape Province and North West Province of South Africa. Individual loans do not exceed R15 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.

4. Loans and advances (continued)

A total amount of R914 655 (2010: R827 415) of advances was in arrears at the financial year end. An analysis of the arrears for the current year is presented below.

	2011 R	2010 R
Rescheduled loans	306 051	278 065
1 – 30 days	409 466	341 800
31 – 60 days	131 747	105 144
61 – 90 days	67 391	102 406
	914 655	827 415

5. Other receivables

Included in accounts receivable is an amount for staff debtors of R241 425 (2010: R246 062). 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 (2010: 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.

	2011 R	2010 R
Other receivables and staff debtors	1 519 137	1 414 636

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

	2011	**2010**
	R	**R**

6. General capital reserve

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 International Alliance of Women, Charities Aid Foundation, Sentinel Steel, Lannie Motors and Whole Planet. All grants have been designated by the donors concerned as loan capital to be utilised for future disbursements of loans to clients.

	2011 R	2010 R
Balance at beginning of year	24 696 779	11 372 099
Movement in General capital reserve	5 223 010	13 324 680
Balance at end of year	29 919 789	24 696 779

7. Development reserve

The development reserve comprises mainly of grants received from USAID (United States Agency for International Development). These grants are utilised for lending.

	2011 R	2010 R
Balance at beginning of year	6 654 459	6 654 459
Movement in development reserve	-	-
Balance at end of year	6 654 459	6 654 459

8. Educational reserve

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.

	2011 R	2010 R
Balance at beginning of year	20 188	20 188
Movement in educational reserve	-	-
Balance at end of year	20 188	20 188

9. Long term loans

Hivos Triodos Bank

The balance owing to Hivos Triodos Bank at 30 June 2011 consists of 3 facilities namely:

R4 million facility was signed in 2007. R2 million was paid in June 2010 while a final installment of R2 million is due in June 2012. Interest is paid at prime with a minimum of 12% and a maximum of 18% per annum.

R3.25 million facility was signed in 2008 and the amount of R3.25 million was received in June 2008. R3.25 is payable in June 2012 in one instalment. Interest is paid at prime plus 3% with a maximum of 18% per annum.

R7.5 million facility was signed in 2008 and the amount of R7.5 million was received in November 2008. R7.5 million is repayable in November 2012 in one instalment. Interest is paid at prime plus 3% with a maximum of 18% per annum.

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

	2011 R	2010 R
Balance	12 750 000	13 810 000
Short term portion transferred to current liabilities	(5 250 000)	(1 060 000)
Long term portion	7 500 000	12 750 000

	2011 R	2010 R

9. Long term loans (continued)

Khula Enterprise Finance Limited

In the 2004 year, the company entered into two 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%. The R2.1 million facility was settled during the previous financial year.

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.

	2011 R	2010 R
Balance	10 298 884	14 751 606
Short term portion transferred to current liabilities	(3 745 302)	(3 677 391)
Long term portion	6 553 582	11 074 215

	2011	**2010**
	R	**R**

9. Long term loans (continued)

Tembeka Social Investment Company Limited

In September 2010 the company entered into a R1 million loan agreement with Tembeka Social Investment. The term of this loan is 60 months and the capital is repayable in one instalment at the end of the loan period. Annual interest is calculated at a flat rate of 10% per annum on the capital amount outstanding. Interest is paid monthly. The loan is secured through a cession of advances financed by the loan facility.

In September 2010 the company also entered into another new overdraft facility with Tembeka Social Investment for R2 million. Interest is calculated at Prime plus 1.5% per annum payable monthly. To guarantee the availability of this facility, the company is also expected to pay 2% of the value of the facility when the approved funds lie dormant. This facility will be reviewed in September 2011. The facility is secured through a cession of advances financed by the loan facility.

	2011 R	2010 R
Balance	1 000 000	251 979
Short term portion transferred to current liabilities	-	(251 979)
Long term portion	1 000 000	-

Government Employees Pension Fund (GEPF)

In January 2011 the company entered into a R20 million loan agreement with GEPF. The term of this loan is 5 years. Interest is calculated at Prime less 1% and payable monthly. Repayment of capital will commence 3 years after the date of the first drawdown. Capital will be paid over 2 years in equal quarterly instalments of R2.5 million. The facility is secured through a session of the loan book to the value of 110% of drawdowns.

	2011 R	2010 R
Balance	20 000 000	-
Short term portion transferred to current liabilities	-	-
Long term portion	20 000 000	-

	2011 R	2010 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.

	2011 R	2010 R
Balance	-	49
Short term portion transferred to current liabilities	-	(49)
Long term portion	-	-

	2011	**2010**
	R	**R**

9. Long term loans (continued)

Oiko Credit

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 plus 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.

	2011 R	2010 R
Balance	5 076 773	6 312 500
Short term portion transferred to current liabilities	(1 289 272)	(1 262 500)
Long term portion	3 787 501	5 050 000

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 September 2012. The loan is repayable in South African Rand. The loan is unsecured.

	2011 R	2010 R
Balance	4 394 155	7 335 690
Short term portion transferred to current liabilities	(2 965 583)	(3 049 976)
Long term portion	1 428 572	4 285 714

	2011	**2010**
	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.

	2011 R	2010 R
Balance	6 000 000	7 000 000
Short term portion transferred to current liabilities	(1 000 000)	(1 000 000)
Long term portion	5 000 000	6 000 000

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 while the balance was drawn during the financial year under review. Interest is calculated at prime less 5% pa (Minimum of 6% pa and not exceeding 10% 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.

	2011 R	2010 R
Balance	8 547 682	3 517 260
Short term portion transferred to current liabilities	(2 402 208)	(600 594)
Long term portion	6 145 474	2 916 666

	2011 R	2010 R

9. Long term loans (continued)

Cadiz

In September 2009 the company entered into a loan agreement with Cadiz for R20 million. The loan carries interest at Bond DB plus 400 basis points (Bond DB – Bond Best Decency Rate as published by the Bond Exchange). Capital is repayable no later than 60 months after the advance date. The R20 million was drawn in two instalments of R10 million each during the previous financial year. Each 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.

	2011 R	2010 R
Balance	14 890 031	-
Short term portion transferred to current liabilities	(3 274 366)	(2 657 015)
Long term portion	11 615 665	15 556 617

GJO Marincowitz

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 loan was settled in December 2010.

During this financial year the company entered into a loan agreement with "The Freddie Marincowitz Family Trust". The loan amount advanced was R10 million. Interest is calculated at a flat rate of 5% compounded monthly. The loan repayment date is 24 months after advance date.

	2011 R	2010 R
Balance	10 104 932	592 117
Short term portion transferred to current liabilities	(104 932)	(592 117)
Long term portion	10 000 000	-
Total long term loans	73 030 794	57 633 212

	2011 R	**2010** R
10. Short term loans		
ABSA Bank and Tembani International Guarantee Fund revolving facility	17 985	4 956 541
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.		
Genesis Steel (no repayment terms)	-	1 115 000
During this financial year the loan from Genesis Steel was converted to a capital grant. Also refer to note 22 as Genesis Steel is a related party.		
Sentinel Steel (no repayment terms)	405 000	635 000
During this financial year a portion of the loan from Sentinel Steel was converted to a capital grant. Also refer to note 22 as Sentinel Steel is a related party.		

	2011 R	**2010** R
10. Short term loans (continued)		
Current portion Hivos Triodos Bank loan	5 250 000	1 060 000
Current portion Khula Enterprise Finance Limited loan	3 745 302	3 677 391
Current portion Tembeka Social Investment Company loan	-	251 979
Current portion Teba Bank loan and Tembani International	-	49
Current portion Oiko Credit	1 289 272	1 262 500
Current portion Swedfund	2 965 583	3 049 976
Current portion Standard Bank Term loan	1 000 000	1 000 000
Current portion of SAMAF loan	2 402 208	600 594
Current portion of Cadiz loan	3 274 366	2 657 015
Current portion of Marincowitz loan	104 932	592 117
	20 454 648	20 858 162
11. Provisions		
Provision for accumulated leave	1 566 535	1 876 890
Provision for annual bonus	1 300 413	1 179 910
Provision for audit fee	528 823	527 500
	3 395 771	3 584 300
12. Revenue		
Interest received on advances	28 991 313	26 031 191
Interest received on cash balances	574 144	702 725
Initiation fees	36 652 772	28 881 925
Service fees	496 477	969 517
	66 714 706	56 585 358
13. Finance costs		
Finance costs in respect of loans	7 463 939	7 607 480
Administration cost on borrowings	134 791	163 882
	7 598 730	7 771 362

	2011 R	2010 R
14. Impairment of advances		
Bad debts written off	883 531	705 698
Bad debts recovered	(98 277)	(182 235)
Death write-offs	596 996	537 892
	1 382 250	1 061 355

15. Loss before grants

The loss before grants is arrived at after taking the following into account.

	2011 R	2010 R
Staff costs	41 147 024	37 861 431
Auditor's remuneration		
- Statutory audit – current year	580 250	527 500
– prior year under provision	20 000	77 375
- Disbursements	72 600	66 000
	672 850	670 875
Amortisation of intangible assets	17 261	2 733
Depreciation	847 461	903 997
Operating leases		
- Motor vehicles	832 957	1 019 857
- Buildings	1 239 806	1 211 034
	2 072 763	2 230 891
Death write offs	596 996	537 892
Legal fees	20 878	83 577
Directors' emoluments		
- For managerial duties (paid by the company)	1 060 501	988 931
- Expenses relating to managerial duties	76 092	44 023
	1 136 593	1 032 954

	2011 R	2010 R
16. Grants received		
Operational grants received – gross amount*		
- G Thomas	161 037	-
- Old Mutual Masisizane Fund	-	1 700 000
- Hivos Triodos	-	90 390
- T Solomon	55 000	-
- SAMAF	3 500 000	1 500 000
- Givewell	1 198 598	952 098
Total operational grants received	4 914 635	4 242 488
Unitilised portion of operational grants received		
- Hivos	-	-
- Givewell	(504 264)	(952 098)
	4 410 371	3 290 390
Capital grants received – gross amount*		
- Sentinel Steel	284 000	-
- Old Mutual Masisizane Fund	1 982 257	11 401 971
- Hivos	-	1 924 510
- The International Alliance of Women	7 520	51 113
- Charities Aid Foundation	386 963	-
- Lannie Motors	70 500	-
-The DT Hudson Charitable Trust	-	200 000
- TIDES Foundation	-	72 770
- Genesis Steel	1 511 000	300 000
- Whole Planet	1 017 270	-
Total capital grants received	5 259 510	13 950 364
Unitilised portion of capital grants received		
- Whole Planet	(36 500)	-
- Old Mutual	-	(625 684)
Grants utilised	5 223 010	13 324 680
Total grants received	9 633 381	16 615 070
Total unutilised portion of grants received	540 764	1 577 782

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, therefore it includes opening unutilised grants*.*

	2011 R	2010 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:

	2011 R	2010 R
Amounts payable within 1 year	752 887	1 077 062
Amounts payable within 2 – 5 year	1 028 110	1 572 811
Amounts payable greater than 5 years	-	-
Total	1 780 997	2 649 873

18. Taxation

No provision has been made for taxation as the organisation was approved as a Public Benefit Organisation in terms of section 30 of the Income Tax Act and is therefore exempt from taxes and duties.

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 2011, the company contributed R5 328 849 (2010: R4 261 599) towards the Provident Fund and group life premiums. Current contributions to the Provident Fund are charged against income as incurred.

20. Total head office cost

	2011 R	2010 R
Training department	2 901 599	2 158 394
Human Resources department	2 005 600	1 393 493
Quality Assurance department	1 446 543	1 283 206
Loan administration	1 741 151	1 700 802
Research and development	1 599 700	1 101 247
Senior Management Finance and secretarial	10 918 498	9 988 571
Information Technology Department	907 577	711 560
U.S. Office	215 438	170 419
	21 736 106	18 507 692

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 R500 000.

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 R600 000.

Cession of dedicated Post Office bank accounts up to GEPF loan amount.

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 R32 737 (2010: R30 817).

The Small Enterprise Foundation has taken out loans with Sentinel Steel to the total value of R405 000 (refer note 10). This entity is controlled by a non-executive director, Mr S Doshi. The loan has no fixed repayment terms and do not carry interest.

The Small Enterprise Foundation received a grant to the value of R1 511 000 (2010: R300 000) from Genesis Steel and R284 000 (2010: nil) from Sentinel Steel. These entities are controlled by a non-executive director. These grants are non-refundable and at arm’s-length.

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.

23.1 Statement of financial position - categories of financial instruments - 2011

	Total	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities
Assets	**R**	**R**	**R**	**R**
Property and equipment	4 447 999	-	-	4 447 999
Intangible assets	1 462 204	-		1 462 204
Loans and advances	122 579 721	122 579 721	-	-
Other receivables	1 519 137	1 519 137	-	
Cash and short term funds	9 982 481	9 982 481	-	-
Total assets	**139 991 542**	**134 081 339**	**-**	**5 910 203**
Funds and liabilities				
General capital reserve	29 919 789	-	-	29 919 789
Developmental reserve	6 654 459	-	-	6 654 459
Educational reserve	20 188	-	-	20 188
Retained earnings	635 183	-	-	635 183
Non – distributable reserve	2 090 079	-	-	2 090 079
Long term loans	73 030 794	-	73 030 794	-
Short term loans	20 454 648	-	20 454 648	-
Trade and other payables	1 262 146	-	1 262 146	-
Accruals and Provisions	5 383 492	-	5 383 492	-
Unutilised grants	540 764	-	-	540 764
Total funds and liabilities	**139 991 542**	**-**	**100 131 080**	**39 860 462**

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

Assets	Total R	Loans and receivables R	Financial liabilities at amortised cost R	Non financial assets and liabilities R
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	-	-
Total assets	**123 224 150**	**116 795 611**	**-**	**6 428 539**
Funds and liabilities				
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
Total funds and liabilities	**123 224 150**	**-**	**87 753 498**	**35 470 652**

23.2 Income and expenses per category of financial assets and financial liabilities - 2011

	Total R	Loans and receivables R	Financial liabilities at amortised cost R	Non financial assets and liabilities R
Interest income	29 565 457	29 565 457	-	-
Finance cost	(7 598 730)	-	(7 598 730)	-
Initiation and service fees	37 149 249	37 149 249	-	-
Other income	4 419 929	-	-	4 419 929
Impairment and provision for impairment on loans and advances	(1 421 551)	(1 421 551)	-	-
Other operating expenses	(61 910 536)	-	-	(61 910 536)
Profit for the year	**203 818**	**65 293 155**	**(7 598 730)**	**(57 490 607)**

23.2 Income and expenses per category of financial assets and financial liabilities – 2010

	Total R	Loans and receivables R	Financial liabilities at amortised cost R	Non financial assets and liabilities R
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)
Loss for the year	**(4 424 301)**	**55 399 367**	**(7 771 362)**	**(52 052 306)**

23.3 Liquidity risk management -2011

	Total R	<1 year R	>1 year <5 year R	> 5 year R	Non - determined R
Funds					
Total funds	39 319 698	-	-	-	39 319 698
Discounted liabilities					
Long term loans	73 030 794	-	73 030 794	-	-
Short term loans	20 454 648	20 454 648	-	-	-
Undiscounted liabilities					
Trade and other payables	1 262 146	1 262 146	-	-	-
Accruals and Provisions	5 383 492	5 383 492		-	-
Unutilised grants	540 764	540 764	-	-	-
Total funds and liabilities	**139 991 542**	**30 445 719**	**73 030 794**	**-**	**39 319 698**

23.3 Liquidity risk management -2010

	Total R	<1 year R	>1 year <5 year R	> 5 year R	Non - determined R
Funds					
Total funds	33 892 870	-	-	-	33 892 870
Discounted liabilities					
Long term loans	57 633 212	-	55 633 212	2 000 000	-
Short term loans	20 858 162	20 858 162	-	-	-
Undiscounted liabilities					
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	-	-	-
Total funds and liabilities	**123 224 150**	**31 698 068**	**55 633 212**	**2 000 000**	**33 892 870**

23.4 Credit risk management

	2011 R	2010 R
Financial assets whose terms have been renegotiated		
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.		
Rescheduled loans - carrying amount	306 051	278 065
Loans and advances past due and impaired	608 604	549 350
Past due up to 30 days	409 466	341 800
Past due up to 31-60 days	131 747	105 144
Past due up to 61-90 days	67 391	102 406
Loan advances neither past due and nor impaired	123 052 602	100 585 365
Gross loans and advances	123 967 257	101 412 780
Impairments	(1 387 536)	(1 348 238)
Net loans and advances	122 579 721	100 064 542

23.5 Interest rate risk – 2011

		Repricing period			
	Total	**<1 year**	**>1 year <5 year**	**>5 year**	**Non-Interest bearing / Fixed rate**
Assets	**R**	**R**	**R**	**R**	**R**
Property and equipment	4 447 999	-	-	-	4 447 999
Intangible Assets	1 462 204				1 462 204
Loans and advances (fixed rate)	122 579 721	-	-	-	122 579 721
Other receivables	1 519 137	-	-	-	1 519 137
Cash and short term funds	9 982 481	9 982 481	-	-	-
Total assets	**139 991 542**	**9 982 481**	**-**	**-**	**130 009 061**
Funds					
Total funds	39 319 698	-	-	-	39 319 698
Discounted liabilities					
Long term loans	73 030 794	63 030 794	-	-	10 000 000
Short term loans	20 454 648	20 349 716	-	-	104 932
Undiscounted liabilities					
Trade and other payables	1 262 146	-	-	-	1 262 146
Accruals and Provisions	5 383 492	-	-	-	5 383 492
Unutilised grants	540 764	-	-	-	540 764
Total funds and liabilities	**139 991 542**	**83 380 510**	**-**	**-**	**56 611 032**
Interest rate gap	**-**	**(73 398 029)**	**-**	**-**	**73 398 029**

23.5 Interest rate risk – 2010

		Reprising period			
	Total	**<1 year**	**>1 year <5 year**	**> 5year**	**Non-Interest bearing / Fixed rate**
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	-	-	-
Total assets	**123 224 150**	**15 316 433**	**-**	**-**	**107 907 717**
Funds					
Total funds	33 892 870	-	-		33 892 870
Discounted liabilities	-	-	-		
Long term loans	57 633 212	57 633 212	-	-	-
Short term loans	20 858 162	20 858 162	-	-	-
Undiscounted liabilities					
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
Total funds and liabilities	**123 224 150**	**78 491 374**	**-**	**-**	**44 732 776**
Interest rate gap	**-**	**(63 174 941)**	**-**	**-**	**63 174 941**

24. Interest rate sensitivity analysis

As at 30 June 2010, if interest rates on floating rate assets and liabilities held at amortised cost have 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:

	2011 R	2010 R
Decrease	833 805	544 184
Increase	(833 805)	(544 184)

25. Directors' and prescribed officer's emoluments

Included in staff expenditure and other operating expenditure are the following payments made to directors and prescribed officers for services rendered during the year are as follows:

	2011 R	2010 R
Director's emoluments		
JR de Wit		
Cash Package	884 784	838 351
Retirement and Medical Aid contributions	175 717	150 580
Total	**1 060 501**	**988 931**
Prescribed Officer's emoluments		
M Zanetic		
Cash Package	765 750	715 944
Retirement and Medical Aid contributions	161 769	147 810
Total	**927 519**	**863 754**

Non-executive directors do not earn any material fees or expense reimbursement related to their directorship.
All the executive directors and prescribed officers have a notice period of one month.
A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of The Small Enterprise Foundation.