Village Enterprise Fund

...where hope flourishes

ANNUAL REPORT

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Transforming lives in East Africa as we develop small businesses

Microenterprise: Funding Alone Is Not Enough

Number of businesses started in fiscal year **2009**

2,000

Village Enterprise Fund

A Simple Idea

We provide the rural poor in East Africa with the means to start income-generating small businesses, which in turn enable these families to eat more (and higher quality) meals, send their children to school, and improve their quality of life.

The Model

- Provide seed-capital, business training, and ongoing mentoring to micro-entrepreneurs in rural East Africa.
- Support the rural poor who are often not served by other microfinance institutions.
- Maximize the impact by using a group model to start businesses.
- Leverage the knowledge and skills of experienced local village business mentors.

Capacity to Deliver

VEF has been a pioneer in the microfinance field for over 20 years:

- Strong U.S. management and development team with significant private sector experience.
- Network of nearly 100 local East African staff and business mentors.

Our Impact

Improved the standard of living of 500,000 people, providing:

- Better nutrition (more high-quality meals)
- Improved health and access to medical care
- Expanded education for children
- Higher-quality housing
- Increased self-reliance
- A sense of hope for the future

Social Return on Investment

$200 starts a group-owned business that improves the standard of living of, on average, 25 people.

Brian Lehnen
Executive Director and Co-Founder

The VEF "Secret Sauce"

What makes a business successful? Why does one business succeed when others fail? Answers include engaging marketing, creative and talented management, products that deliver good value, a well-priced solution, hard work, intelligent planning and careful implementation, and smart hiring.

Silicon Valley venture capitalists know that an appealing idea and a sound business plan are necessary but insufficient pieces to the puzzle. Hence, most start-ups receive ongoing mentoring (in the form of board membership, often including informal coaching), along with a financial investment.

African start-ups are no different. When we at VEF first entered the microenterprise field, we focused on providing start-up capital. Unfortunately, our startup success rate was mixed. We quickly realized that mentoring would impart critical business skills, and we incorporated it into our program. Our success rates increased, and so our standard program now includes mentoring.

Feedback from our mentors and entrepreneurs indicated that additional business training—of both mentors and entrepreneurs—was necessary, however, if we were to reliably grow robust, sustainable small businesses. This discernment gave rise to the third leg of our program: formal business skills training. Starting in 2003, VEF began including business training as an adjunct to our long-standing mentoring and grant program. Since 2007, all new business groups have received a full day of training on how to identify and take advantage of market opportunities, make group decisions, and keep records, as well as sales methods and savings/investment strategies.

Fostering entrepreneurial success clearly involves more than seed capital. Our four-year success rate of over 75% testifies to the power of our multidimensional program. Our talented African business mentors work with budding entrepreneurs to form well-balanced five-person business groups (where members' skills complement one another), help the groups to craft thoughtful business plans (ones that anticipate marketing obstacles and opportunities), deliver training on management basics, and provide ongoing mentoring. Indeed, their actions constitute the VEF "secret sauce."

These extra steps not only go a long way toward putting our businesses on the road to success, but also set VEF apart from microlenders working with the poor in Africa. I know of no microloan organization that teaches its customers business skills and provides mentoring for a year or more.

The VEF secret sauce is pretty simple, when you think about it. You start with a network of highly talented mentors, support them with business training workshops, and provide educational concepts and materials they can pass on to our entrepreneurs.

Simple, perhaps, but it yields powerful, life-changing results.

Special Projects

The vast majority of the 2,000 new businesses VEF started this past year were established following our typical process: country offices worked with business mentors to qualify and bring together groups of five individuals who then received a day of business training, an initial grant of $100 to purchase start-up materials, and ongoing mentoring. This highly effective model was replicated in villages throughout Kenya, Uganda, and Tanzania and remains the cornerstone of the VEF program.

Some of our new businesses came about as a result of special projects, which garnered significant attention in fiscal year 2009. Indeed, we have highlighted a few of these partnerships in recent newsletters:

- A partnership with the **Jane Goodall Institute** in the Budongo Forest region of Uganda. In two years, we have started more than 250 new businesses that provide economic alternatives to forest encroachment. We extend our education program to include a second day of conservation training.
- A partnership with **Project Redwood** in Eastern Uganda. In two years, we have started more than 200 sunflower farms. Their seeds are sold to mills that press them for cooking oil, and the remaining seed cake is sold for animal feed, generating significant income. We are working with the farmers to form a collective to negotiate better prices.
- A grant from the **Boeing Foundation** to start 140 new businesses in Western Kenya. In place of the usual seed grant, we are providing these farmers with manually-operated irrigation pumps, a length of hose, and related supplies, along with a second day of training on the use and maintenance of these items and instruction on how to cultivate high-profit crops that will benefit from a regular source of irrigation.

We pursued these projects for several reasons:

- They are consistent with VEF's goals of using microenterprise to lift the rural poor out of poverty.
- Foundations (and individual donors) sometimes have an interest in a particular region of East Africa, or a passion for assisting a special demographic. These programs allow us to target our program to work in these areas or with these entrepreneurs.
- These projects provide a method for us to try out new technologies, new training materials and methods, and new ways of delivering our program.

They do incur additional management costs and obligations, however. In most instances, we include these added administration expenses in the project plan we prepare with our funders. We also specify the assessment process we will use to determine whether we are having the desired impact, and spell out our reporting responsibilities. Finally, in all cases, we carefully consider the management opportunity costs of each project.

Cypriano Opitto, Kasinye Bokwe, Uganda

In 1992, **Cypriano "Cypi" Opitto** caught his big break when ecotourism entered the Budongo Forest region of western Uganda. Cypi started as a compass reader and quickly advanced to trail cutter and then chimpanzee tracker. After completing a one-year training course, Cypi became one of the first certified guides in the Budongo Forest.

Cypi joined the Jane Goodall Institute (JGI) in 2006, when the organization assumed the ecotourism management of the forest, and discovered VEF a year later. VEF had come to the area to explore partnership opportunities to promote businesses as an alternative to encroaching on the forest. Cypi was impressed by VEF's approach: "They interviewed community members to learn about the problems they faced and what they were gaining from the forest."

In July 2007, Cypi became one of our first business mentors in the Budongo area. He initially identified and trained 100 community members (20 business groups) in business skills, while also promoting conservation practices. Since then, Cypi has trained and mentored 400 individuals and started 80 businesses.

Cypi impresses on entrepreneurs their role in protecting the forest. "I want the community to first know that the environment is theirs," Cypi explains. "When I train them, I say, 'You are the managers of the forest. You are part of Budongo, and you are responsible.'" The program is already having an effect. "In the areas where I operate, I see reductions in illegalities and poaching," Cypi reports.

"I love my work with VEF and JGI," Cypi explains. "It is improving the standard of living in the local villages, and it is bringing environmental awareness into these communities."

Chris Wuthmann
Board Treasurer

Financials

Despite a difficult financial climate, VEF posted a small increase of $8,237 in revenue in FY 2009.

For 2009, contributions from individuals totaled $656,943, a decrease of 21.4% (or $178,588) over the prior year's contributions. This decrease in donations is largely offset by individuals' contributions to the annual fundraising event, which for FY 2009 is recorded as a separate entry. When the annual fundraising event income is combined with contributions from individuals, individual giving decreased only 6%. Net income from the event was $127,579.

Foundation contributions increased 33.8% to $166,127. Other contributions, which primarily included corporate support, totaled $65,871.

Total expenses in fiscal year 2009 were $1,022,549, a slight increase of $3,095 from 2008.

Grants and program services expenses—as a percentage of total expenses—were 77.3%. This compares with 2008's 78.4%. Program services costs grew by almost 20%. This reflects a decision to provide additional support to our new businesses, along with increased personnel costs in our African offices, and a significant expansion in special projects and field interns.

U.S. management and fundraising costs increased slightly to 22.7% of overall expenses. Fund development and marketing expenses decreased by $13,196, while office administrative costs were $101,487, an increase of $25,009 over our 2008 costs. Significant contributors to this increase were added office space, the growth in health insurance premiums for U.S. staff, additional part-time help, and an increase in auditor's fees due to a field audit in East Africa.

Total assets at the end of fiscal 2009 were nearly flat over 2008: $274,563 vs. $274,106. Total liabilities increased by 6% from $107,812 to $114,298. This increase mirrors the increase in grants payable. Accordingly, net assets at the end of fiscal 2009 were $160,265, a decrease of 3.6% from 2008.

Statement of Financial Position as of June 30, 2009

Assets	2009	2008
Current Assets		
Cash and cash equivalents	$243,914	$241,033
Contributions receivable	$ 2,939	$ 15,000
Property and equipment	$ 27,710	$ 18,073
Total Assets	$274,563	$274,106

Liabilities and Net Assets	2009	2008
Current Liabilities		
Current portion of capital leases	$ 2,355	$ 2,828
Accounts payable	$ 25,143	$ 20,779
Grants payable	$ 86,800	$ 81,850
Total Current Liabilities	$114,298	$105,457
Long-term portion of capital leases	-	$ 2,355
Total Liabilities	$114,298	$107,812
Net Assets, Restricted	$ 43,510	$ 25,172
Net Assets, Unrestricted	$116,755	$141,122
Total Liabilities and Net Assets	$274,563	$274,106

VEF's financial statements have been audited by independent accountant PMB Helin Donovan LLP. A copy of the audit report is available on request.

Statement of Activities as of June 30, 2009

Income	2009	2008
Individuals	$ 656,943	$ 835,531
Foundations	$ 166,127	$ 124,200
Investments	$ -	$ 2,241
Fundraising Events	$ 127,579	($ 1,222)
Other	$ 65,871	$ 47,533
Total Income	**$1,016,520**	**$1,008,283**

Expenses	2009	2008
Program Services		
Business Grants	$ 324,552	$ 410,288
Business Operations & Training	$ 465,494	$ 388,476
Subtotal	$ 790,046	$ 798,764
Fund Development & Marketing	$ 131,016	$ 144,212
Management & General	$ 101,487	$ 76,478
Total Expenses	**$1,022,549**	**$1,019,454**
Net Income (Loss)	**($ 6,029)**	**($ 11,171)**

Statement of Cash Flows as of June 30, 2009

Cash Flow — Operation Activities	2009	2008
Excess (deficiency) of revenues over expenses	($ 6,029)	($ 11,171)
Adjustments to reconcile excess of revenue over expenses to net cash provided by operational activities:		
Increase (Decrease) in Accts Paybl	$ 4,364	$ 903
Increase (Decrease) in Grants Paybl	$ 4,950	$ 32,750
Depreciation	$ 12,396	$ 9,005
Contributions Receivable	$ 12,061	($ 15,000)
Net Cash Provided (Used) by Operating Activities	**($ 27,742)**	**$ 16,487**

Cash Flow — Investing Activities		
Acquisition of property and equipment	($ 22,033)	($ 3,433)
Payments on capital leases	($ 2,828)	($ 2,510)
Net increase (Decrease) in cash	**$ 2,881**	**$ 10,544**
Cash at beginning of year	**$241,033**	**$230,489**
Cash at end of year	**$243,914**	**$241,033**
Supplemental data: interest earned	$ 958	$ 958

Village Enterprise Fund

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VEF is a 501(c)3 nonprofit organization

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Foundation Director

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Director of Institutional Giving

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Martha Angulu
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Alice Mabeya
Nairobi Regional Manager

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Assistant Country Director
Herbert Okello
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Brian Lehnen
Village Enterprise Fund

Tracea Roman
VA Palo Alto Health Care System

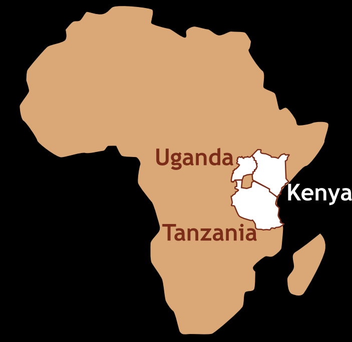
Tim Tight
M Squared

Chris Wuthmann
Renew Property Services

Staff & Board member lists are current as of 4/1/10.

Attendees of the international staff meeting in February 2009, in Jinga, Uganda:
[l-r] Linnet Lumbasi, Herbert Okello, Susan Young, Alice Mabaya, Michael Ewalu, Martha Angulu, Chris Young, Susan Robertson, Betty Iligo, Pat Brown, Lyndsay Holley, Brian Lehnen, Julia McWhirter, Wilson Peru, Rowland Amulyoto, Charles Erongot; and at front in yellow shirt is Joseph Ooja.

19,200
businesses funded



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