

THE ENTERPRISE TRUST FUND
Annual Financial Statements
for the year ended 31 March 2000

THE ENTERPRISE TRUST FUND

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2000

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The annual financial statements which appear on pages 3 to 18 have been approved by the board of directors on _____ and are signed on its behalf by:

CHAIRMAN

CHIEF EXECUTIVE OFFICER

REPORT OF THE INDEPENDENT AUDITORS

**To the Minister of Finance
THE ENTERPRISE TRUST FUND**

We have audited the financial statements of Fund set out on pages 3 to 18. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

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

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

Audit opinion

In our opinion the financial statements fairly present, in all material respects, the financial position of the fund at 31 March 2000 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards, and in the manner required by the Notarial Deed of Trust.

DATE

**PRICewaterhouseCOOPERS
CHARTERED ACCOUNTANTS
(SWAZILAND)**

THE ENTERPRISE TRUST FUND

BOARD OF TRUSTEES

for the year ended 31 March 2000

1. BOARD OF TRUSTEES AND OFFICIALS

The members who acted in office during the year under review are:

Mr Leonard Sithebe-	- Chairman, retired 31 March 1999 and re-appointed 1 July 1999
Mr Vincent Mhlanga	- Chief Executive Officer, retired and re-appointed 1 July 1999
Mr Mike Shongwe	- Retired 31 March 1999 and re-appointed 1 July 1999
Mr Louis Nxumalo	- Retired 31 March 1999 and re-appointed 1 July 1999
Mrs Christabel Motsa	- Retired 31 March 1999 and re-appointed 1 July 1999
Mrs Nokukhanya Gamedze	- Retired 31 March 1999 and re-appointed 1 July 1999
Mr Cyril Kunene	- Retired 31 March 1999
Ms Dumisile Magagula	- Retired 31 March 1999 and re-appointed 1 July 1999
Mr Musa Sibandze	- Appointed 1 July 1999

2. SECRETARY OF THE FUND

The Secretary of the Fund is: Mr Vincent Mhlanga.

3. BANKERS

The Bankers of the Fund are First National Bank Swaziland Limited, P O Box 261, Eveni.

4. BUSINESS AND POSTAL ADDRESS OF THE FUND

Business address:

Allister Miller Street
First Floor, Sakhile House
Mbabane

Postal address:

P O Box 6099
Mbabane
Swaziland

5. AUDITORS

The auditors of the Fund are: PricewaterhouseCoopers Swaziland P O Box 569 Mbabane.

THE ENTERPRISE TRUST FUND

THE CHAIRMAN'S REPORT

for the year ended 31 March 2000

INTRODUCTION

The Enterprise Trust Fund (ETF) was created by His Majesty King Mswati III in November 1995, as a way of addressing the problem of the alleviation of rural poverty and unemployment. The primary goal of the Fund, which is based in Mbabane but operates nationwide, is to create jobs through support for rural and women-owned Micro, Small & Medium-sized Enterprises (SME's).

SOCIAL FACTORS

Although Swaziland is defined as a middle income country, social and economic indicators of household welfare confirm both fundamental inequalities in access to incomes and assets, and the existence of significant poverty and deprivation. The Swazi poor have therefore become a public policy priority. The previous gains of high growth have not benefited everyone equally, and poverty in rural Swaziland is worse than in the urban areas. Migrant labour opportunities have declined, and therefore labour-intensive growth in the rural areas is required. The poor are less able to afford education, and public education subsidies are biased to the tertiary level. There is considerable gender disparity in legal rights, and this exacerbates women's vulnerability, since legally women are considered to be minors and do not therefore control or own major assets. As a result, female-headed households have the highest core poverty levels of any household type, and yet, when support is provided to such households, the marginal improvements in nutritional status and in other poverty-associated indicators improve far more dramatically than in other households. Some basic themes associated with a poverty reduction strategy, and which are being developed nationwide are to enable the growth of rural manufacturing concerns and smallholder agriculture, to insure effective human development investments; to ensure the poor against major risks and shocks; and to strengthen institutions to increase the poverty impact of policies.

METHODOLOGY

The methodology of ETF is to provide wholesale loans and grants to intermediary organisations such as local business associations, farmers' groups and cooperatives. ETF has had considerable success in reaching large numbers of SMEs, whilst maintaining both high repayment rates and financial sustainability. From its seed capital of E44 million, the Fund has, to date, provided financial and non-financial support valued at E61 million to 143 intermediaries. The support has reached thousands of individual SME borrowers, and its repayment rate is presently 95%.

ETFs' objectives are:

To finance and promote the development of Swazi-owned SMEs through intermediary organisations;

To support the expansion of loan financing to SMEs through selected intermediary organisations;

THE CHAIRMAN'S REPORT (continued)

for the year ended 31 March 2000

THE ENTERPRISE TRUST FUND

To support the provision of business advisory services, training, monitoring, technical transfers and development of new products and services for SMEs;
To facilitate access to institutional development services and increase the long-term capacity of Swazi financial and non-financial SME support intermediaries.

In order to ensure that its programmes reach the poor, ETF has targeted two traditionally vulnerable groups – the rural poor and women. It provides credit and also training to groups which would otherwise not have access to these services.

It is noteworthy, and in line with the constraints of ETF's Trust Deed, that ETF is a wholesaler of credit. It does not lend to individuals, but ensures that such lending to individuals arises through its intermediaries. The reason for this can be stated as follows:

- The banking sector, which lends to individuals, depends upon the individuals arriving at the bank, and providing security for any loans provided. The people who borrow from banks very rarely fall into the category of the rural poor, since the rural poor, by their very definition, do not have security, and are thus denied loans. Instead of taking security, ETF specifically targets those without such security, but obtains its high levels of repayments through using peer pressure from intermediaries, and through the efforts of ETFs' loan officers visiting the intermediaries on a regular basis.
- If ETF was to provide unsecured loans to individuals, then it would require a much greater workforce to apply the pressure which is presently applied by the intermediaries, with all of the implications in terms of costs of operation, high transaction costs, substantially higher interest charges to the loanees, social difficulties, etc.

In order to reduce risks to its long term sustainability, ETF has committed itself to maintaining a strategic reserve of E15 million to assist in covering operational costs, and is trying to access additional funding for its activities to reach more loanees and to broaden its funding source base. In addition to this, ETF undertakes regular reviews of its interest rates, which are presently at a minimum of 10% for first loans and 12% for subsequent loans. The current inflation rate is 5.7%.

FINANCIAL HIGHLIGHTS

INCOME STATEMENT

This year the Fund recorded an income of E6.176 million which included E354 737 in bad debts recoveries. After providing for operational costs and bad debts provisions, the Fund made a net profit of E2.56 million. Since its inception in 1996, the Fund has made an accumulated profit of E11.7 million.

THE ENTERPRISE TRUST FUND**THE CHAIRMAN'S REPORT** (continued)
for the year ended 31 March 2000

In order to maintain a high quality loan portfolio, a large number of Loan Officers had to be recruited to strictly monitor the loan book, hence the large increase in staff costs including motor vehicle expenses. The Y2K scare had also a negative impact on our overheads. It is worth noting that all advances which are three months in arrears were provided for in full, per policy.

BALANCE SHEET**LOANS**

The Loans figure of E21 777 317 excludes E16 363 247 for loans approved but not yet disbursed. In line with our policy, we made general and specific provisions of E512 442.00 and E866 504.00 respectively. The interest on the specific bad loans was not accrued to the Income Statement.

CASH AT BANK

As already mentioned above, the cash figure of E30 313 043 includes E16 363 247 for loans approved but not yet disbursed. The true cash portion is E13 949 796 (30 313 043 – 16 363 247) which is below the required cash buffer of E15.0 million to cater for operational costs. The urgency for new cash injection cannot be over emphasised as any new advances will be dependent on repayments. This may result in reduced growth in new loans in 2000/2001.

POST –BALANCE SHEET EVENTS

No material events having an effect on the financial statements have occurred between 31 March 2000 and the date of this report.

NEW DEVELOPMENT**NEW ADVISOR**

Our founding Advisors Ebony Consulting International have been replaced by Deloitte & Touche since January 2000. I wish to welcome Deloitte & Touche to the Fund and hope they will enjoy working with us.

ACKNOWLEDGEMENTS**INTERMEDIARIES**

I would like to extend my sincere thanks to our individual small and medium entrepreneurs and their intermediaries for their exceptional co-operation. It is surely their integrity and commitment which has contributed to the good performance of the Fund. We humbly appreciate their efforts.

THE CHAIRMAN'S REPORT (continued)
for the year ended 31 March 2000

THE ENTERPRISE TRUST FUND

DONORS

I highly appreciate the generous support the Fund has received. To this end, I wish to extend my thanks to the Government of the Republic of China, Tibiyo Taka Ngwane, the British Government, the United Nations Development Programme and the European Union.

BOARD, MANAGEMENT STAFF AND ADVISOR

Most importantly, I want to take this opportunity to convey my humble thanks to Board of Directors, Management, staff and Advisors for their support and commitment. A special thanks goes to Ebony Consulting International, in particular Mr Roland Pearson Jr. who was instrumental in the establishment of the Fund.

Leonard Sithebe
CHAIRMAN

THE ENTERPRISE TRUST FUND

BALANCE SHEET

at 31 March 2000

	Notes	2000 E	1999 E
ASSETS			
Non-current assets			
Property, plant and equipment	1	1 033 279	418 046
Current assets			
Loans and advances	2	21 777 317	21 656 456
Staff loans		297 479	6 840
Sundry deposits		12 260	7 530
Interest accrued		715 342	2 018 920
Cash and cash equivalents	3	30 313 043	28 122 514
		53 115 441	51 812 260
Total assets		54 148 720	52 230 306
EQUITY AND LIABILITIES			
Capital and reserves			
Donor Funds	4	44 000 000	44 000 000
Training Grants	5	(1 696 862)	(1 046 289)
Capital Reserve	6	81 611	102 014
Accumulated surplus		11 688 037	9 127 275
		54 072 786	52 183 000
Current liabilities			
Provision for audit fees		30 000	30 000
Accounts payable		45 934	17 306
		75 934	47 306
		54 148 720	52 230 306

CHAIRMAN

CHIEF EXECUTIVE OFFICER

THE ENTERPRISE TRUST FUND

INCOME STATEMENT

for the year ended 31 March 2000

	Notes	2000 E	1999 E
Interest receivable	8	5 821 227	6 328 683
Bad debts recovered		354 737	-
		<u>6 175 964</u>	<u>6 328 683</u>
Operating expenses		(2 256 659)	(1 284 852)
Operating profit before provisions		3 919 305	5 043 831
Provisions for doubtful debts	9	(1 378 946)	(1 975 519)
Surplus for the year		<u>2 540 359</u>	<u>3 068 312</u>
Release from capital reserve	6	20 403	12 736
		<u>2 560 762</u>	<u>3 081 048</u>
Accumulated surplus at beginning of year		<u>9 127 275</u>	<u>6 046 227</u>
Accumulated surplus at 31 March 2000		<u><u>11 688 037</u></u>	<u><u>9 127 275</u></u>

THE ENTERPRISE TRUST FUND

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2000

	Donor Fund £	Training Grants £	Capital Reserve £	Retained Income £	Total £
Balance at 1 March 1998	44 00	(596 233)	-	6 046 227	49 449 994
Capital grant	-	-	114 700	-	114 750
Net profit for the year	-	-	-	3 068 312	3 068 312
Release from capital reserve	-	-	(12 700)	12 736	-
Grants issued	-	(450 056)	-	-	(450 056)
Balance at 31 March 1999	44 00	(1 046 289)	102 000	9 127 275	52 183 000
Balance at 1 March 1999	44 00	(1 046 289)	102 000	9 127 275	52 183 000
Net profit for the year	-	-	-	2 540 359	2 540 359
Release from capital reserve	-	-	(20 400)	20 403	-
Grants issued	-	(650 573)	-	-	(650 573)
Balance at 31 March 2000	44 00	(1 696 862)	81 600	11 688 037	54 072 786

THE ENTERPRISE TRUST FUND

CASH FLOW STATEMENT

for the year ended 31 March 2000

	Note	2000 E	1999 E
CASH FLOWS ACTIVITIES			
Cash generated from operations	10	2 942 184	(4 225 290)
INVESTING ACTIVITIES			
Sale of fixed assets		-	5 000
Additions to fixed assets	1	(751 655)	(299 054)
Net cash used in investing activities		(751 655)	(294 054)
FINANCING ACTIVITIES			
Capital grants received		-	114 750
Net cash generated by financing activities		-	114 750
Net increase/decrease in cash and cash equivalents		2 190 529	(4 404 594)
MOVEMENT IN CASH AND CASH EQUIVALENTS			
At start of year		28 122 514	32 527 108
Increase/(decrease)		2 190 529	(4 404 594)
At end of year	3	30 313 043	28 122 514

THE ENTERPRISE TRUST FUND

SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2000

The financial statements are prepared on the historical cost basis.

1. ACCOUNTING POLICIES

The more important accounting policies adopted by the Fund which are consistent with those of the previous year, are as follows

2. DEPRECIATION

Depreciation is calculated on the reducing balance basis by reference to the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:-

Computer Equipment	33 3 ¹ %
Furniture and fittings	10%
Office furniture	10%
Motor vehicle	20%

3. SPECIFIC AND GENERAL RISK PROVISION

The balance of advances is reduced by the balance of the specific and general risk provisions. All known bad debts are written off. Specific provisions are made for all debts identified as doubtful. The accrual of interest on an advance is suspended immediately if reasonable doubt exists with regard to the recoverability thereof. A general provision is maintained against potential losses which have not been specifically identified, as 2% per annum of advances to intermediaries.

3.1 CREDIT RISK

The Fund advances loans to various intermediaries in terms of section 3 of the Notarial Deed of Trust No. 5 of 1998. The Fund's policy is to select and approve an intermediary because of its proven successful record of credit administration or which can prove their capacity to administer credit funds after taking into account its capability to repay the loan.

Credit risk with respect to intermediaries is dispersed due to the geographical spread and diversity of sectors serviced. The Fund performs credit evaluations of its intermediaries as far as information is available. However, due to the inherent nature of the business it may not be possible to assess past credit history of some of the intermediaries which have been recently established and due to lack of formal financial information.

THE ENTERPRISE TRUST FUND

SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2000

It is the Fund's policy not to obtain security against advances made to intermediaries. The Fund is therefore exposed to credit risk in the event of non-performance by intermediaries on the amounts advanced.

THE ENTERPRISE TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2000

1 PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment E	Furniture & fittings E	Office Equipment E	Motor Vehicles E	Total E
Year ended 31 March 1999					
Opening net book amount	33 334	17 901	57 912	70 492	179 639
Additions	15 600	29 528	31 951	221 975	299 054
Disposals	-	-	(6 493)	-	(6 493)
Depreciation charge	(12 353)	(2 848)	(7 523)	(31 430)	(54 154)
Closing net book amount	36 581	44 581	75 847	261 037	418 046
At 31 March 1999					
Cost or valuation	70 420	49 341	88 780	310 090	518 631
Accumulated depreciation	(33 839)	(4 760)	(12 933)	(49 053)	(100 585)
Net book amount	36 581	44 581	75 847	261 037	418 046
Year ended 31 March 2000					
Opening net book amount	36 581	44 581	75 847	261 037	418 046
Additions	102 919	27 636	7 168	613 932	751 655
Disposals	-	-	-	-	-
Depreciation charge	(31 688)	(4 259)	(7 328)	(93 147)	(136 422)
Closing net book amount	107 812	67 958	75 687	781 822	1 033 279
At 31 March 2000					
Cost or valuation	173 339	76 977	95 948	924 022	1 270 286
Accumulated depreciation	(65 527)	(9 019)	(20 261)	(142 200)	(237 007)
Net book amount	107 812	67 958	75 687	781 822	1 033 279

	2000 E	1999 E
2 LOANS AND ADVANCES		
Amounts due within one year	14 655 776	12 516 426
Over a year and below two years	8 110 854	8 361 605
Over two years and below three years	2 174 277	6 670 269
Over three years	607 200	-
	<u>25 548 107</u>	<u>27 548 300</u>
Less: - general provision	(954 411)	(441 969)
- specific provisions	(2 816 379)	(1 949 875)
- write-off – SBT	-	(3 500 000)
	<u>21 777 317</u>	<u>21 656 456</u>

THE ENTERPRISE TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2000

	2000 E	1999 E
3 CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	1 366 832	1 953 177
Short-term bank deposits	28 946 211	26 169 337
	<u>30 313 043</u>	<u>28 122 514</u>
Amounts approved but not disbursed to Intermediaries	<u>16 363 247</u>	<u>6 151 712</u>
4 DONOR FUNDS		
Donated by:		
Republic of China	36 000 000	36 000 000
Tibiyo TakaNgwane	8 000 000	8 000 00
	<u>44 000 000</u>	<u>44 000 000</u>

The funds are in terms of the Notarial Deed of Trust No. 5 of 1998, which states that E8M will be received from Tibiyo Taka Ngwane and E36M bilateral assistance from friendly and supportive donor.

5 TRAINING GRANTS		
Accumulated grants at beginning of year	1 046 289	596 233
Grants issued	650 573	450 056
	<u>1 696 862</u>	<u>1 046 289</u>

Grants issued to intermediaries for training are in terms of section 2.1.6 of the Notarial Deed of Trust No. 5 of 1998 as may be determined by the Board of Trustees.

THE ENTERPRISE TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2000

	2000 E	1999 E
6 CAPITAL RESERVE		
Capital grant designated for capital expenditure	102 014	114 750
Less: Depreciation released to income statement	20 403	12 736
	<hr/>	<hr/>
Balance – 31 March 2000	81 611	102 014
	<hr/> <hr/>	<hr/> <hr/>
<p>The capital reserve represents a grant received from the British Department for International Development (DFID) specifically for the purchase of a motor vehicle to be owned by the Fund</p> <p>The related depreciation amount is released to the profit and loss statement on an annual basis.</p>		
7 COMMITMENTS		
Amounts approved but not disbursed to intermediaries	16 363 247	6 151 712
	<hr/> <hr/>	<hr/> <hr/>
8 SUPPLEMENTING INCOME STATEMENT INFORMATION		
Interest receivable		
Loans and advances	1 864 955	1 274 314
Investments	3 956 272	5 054 369
	<hr/>	<hr/>
	5 821 227	6 328 683
	<hr/> <hr/>	<hr/> <hr/>
9 PROVISION FOR DOUBTFUL DEBTS		
Specific provision		
At beginning of year	1 949 875	3 500 000
Charge to the income statement	866 504	1 949 875
Write off	-	(3 500 000)
	<hr/>	<hr/>
At end of year	2 816 379	1 949 875
	<hr/> <hr/>	<hr/> <hr/>

THE ENTERPRISE TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2000

9	PROVISION FOR DOUBTFUL DEBTS (continued)	2000 E	1999 E
	General provision		
	At beginning of year	441 969	416 325
	New provision charged to the income statement	512 442	25 644
		<u>954 411</u>	<u>441 969</u>
	Total provisions	<u>3 770 790</u>	<u>2 391 844</u>
	Interest in suspense		
	Net interest suspended during the year	<u>51 990</u>	<u>47 480</u>
10	CASH GENERATED BY OPERATIONS		
	Surplus for the year	2 540 359	3 068 312
	Adjustment for non-cash items:		
	Provision for doubtful debts	1 378 946	1 975 519
	Depreciation	136 422	54 154
	Loss on sale of asset	-	1 493
		<u>4 055 727</u>	<u>5 099 478</u>
	Decrease in working capital	(1 113 543)	(9 324 768)
	Loans to intermediaries	(1 499 807)	(8 495 568)
	Other current assets	1 008 209	(348 950)
	Current liabilities	28 628	(30 194)
	Training grants	(650 573)	(450 056)
		<u>2 942 184</u>	<u>4 225 290</u>

THE ENTERPRISE TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2000

	2000 E	1999 E
11 LOAN TO DIRECTOR		
Loan to a Director:		
Loan advanced during the year	296 234	-
Interest accrued during the year	26 915	-
Loan repayments during the year	(33 440)	-
	<hr/>	<hr/>
Balance at the end of the year	289 709	-
	<hr/> <hr/>	<hr/> <hr/>

The loan was advanced to the Chief Executive Officer as a property loan, repayable over 17 years, interest rate is based on the Swaziland Building Society mortgage rate, which is currently 13.5%. The underlying property has been secured by a first mortgage bond in favour of the Fund.

12 CONTINGENT LIABILITIES

a) There is a contingent liability in respect of taxation on interest earned on funds invested in the Republic of South Africa. The amount is estimated at E1 200 000, should the Fund be deemed liable by the Receiver of Revenue.

b) There is a further contingent liability in respect of Group Life Insurance which the Fund is required to provide for the Chief Executive Officer (CEO) in terms of his employment contract. The liability of the life insurance is five times the CEO's annual salary. The Fund has not formalised the group life and is currently in the process of addressing the issue.

13 FINANCIAL INSTRUMENTS

CREDIT RISK

Financial assets which potentially subject the company to concentrations of credit risk consist principally of loans intermediaries and trade receivables. The company's cash equivalents are placed with high credit quality financial institutions.

FAIR VALUES

At 31 March 2000 the carrying amounts of cash, accounts receivable and accounts payable approximated their fair values.

THE ENTERPRISE TRUST FUND

DETAILED INCOME STATEMENT
for the year ended 31 March 2000

	2000 E	1999 E
INCOME		
Interest receivable	5 821 227	6 328 683
Bad debts recovered	354 737	-
	<u>6 175 964</u>	<u>6 328 683</u>
EXPENSES		
Advertising	57 694	35 000
Audit fees	31 060	34 678
Bank charges	16 789	4 041
Board expenses	47 228	42 061
Computer expenses	123 337	-
Consulting fees	13 460	-
Depreciation	136 422	54 154
Insurance	59 322	34 958
Legal fees	10 996	40 257
Magazines and subscriptions	52 153	5 395
Motor vehicle expenses	125 547	23 512
Printing and stationery	32 639	22 306
Repairs and maintenance	25 348	20 148
Rent, rates and taxes	160 912	103 684
Salaries and wages	1 018 664	584 992
Security	36 160	33 680
Sundry expenses	22 173	23 760
Telephone and postage	67 829	58 438
Training	57 406	49 249
Travelling and entertainment	161 520	114 539
	<u>2 256 659</u>	<u>1 284 852</u>
Operating profit before provisions	<u><u>3 919 305</u></u>	<u><u>5 043 831</u></u>