Revised Corporate Plan
Financial Years 2021 -2025

Official sign-off

It is hereby certified that this Corporate Plan:

1. Was developed by the management of the Small Enterprise Finance Agency (**sefa**) under the guidance of **sefa's** Board of Directors.

2. Considers all the relevant policies, legislation and other mandates for which **sefa** is responsible.

3. Accurately reflects the strategic outcome-oriented goals and objectives which **sefa** will endeavour to achieve over the period 2021 – 2025.

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Mr Alroy Dirks
Head of Strategy, Planning & Reporting

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Ms Shoki Ralebepa
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Mr Setlakalane Molepo
Acting Chief Executive Officer

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Mr Martin Mahosi
Chairperson of the Board of Directors

GLOSSARY OF TERMS

AI	**Artificial Intelligence**
AfCFTA	**African Continental Free Trade Area**
AGOA	**African Growth Opportunity Act**
COVID-19	**Coronavirus**
DFIs	**Development Finance Institutions**
DSBD	**Department of SmallBusiness Development**
ECSP	**Economic Competitiveness Support Programme**
ERM	**Enterprise Risk Management**
ESD	**Enterprise and Supplier Development**
EU	**European Union**
FY	**Financial Year**
FMP	**Fresh Produce Market**
GEM	**Global Entrepreneurship Monitor**
IDC	**Industrial Development Corporation of South Africa Limited**
IFC	**International Finance Corporation**
IGR	**Intergovernmental Review**
IMF	**International Monetary Fund**
IPAP	**Industrial Policy Action Plan**
JVs	**Joint Ventures**
LGD	**Loss Given Default**
MTEF	**Medium Expenditure Framework**
MTSF	**Medium Terms Strategic Framework**
NDP	**National Development Plan**
NGP	**National Growth Path**
PD	**Probability of Default**
PFIs	**Partner Financial Institutions**
PFMA	**Public Finance Management Act**

SA	**South Africa**
SACN	**South African Cities Network**
SARB	**South African Reserve Bank**
SARS	**South African Revenue Services**
SCM	**Supply Chain Management**
Sefa	**Small Enterprise Finance Agency**
Seda	**Small Enterprise Development Agency**
SMMEs	**Small, Medium and Micro Enterprises**
SOE/SOC	**State-Owned Enterprises/Companies**
TEF	**Township Enterprise Fund**
VRM	**Vendor Rotation Management**

Table Contents

EXECUTIVE SUMMARY

Small, Medium and Micro-enterprises (SMMEs) and Co-operatives represent critical components that are integral to addressing the triple challenges of job creation, poverty and inequality in South Africa. These critical levers play a pivotal role in driving economic growth, employment, innovation and competitiveness.

The **sefa** Corporate Plan is developed within the broader context of the government's economic policy and legislative framework (National Development Plan (NDP), government's Medium-Term Strategic Framework (MTSF), National Policies and the Broad-Based Black Economic Empowerment (B-BBEE) legislation and Codes of Good Practice).

This is a second reiteration of the Corporate Plan that was approved on February 25th 2020 and is based on the revised special adjustment budget tabled by the Minister of Finance on 23rd June 2020. The COVID-19 pandemic will impact on SMMEs and Co-operatives development and **sefa**'s organisational resources and performance. **sefa** has to adapt to ramifications of strained resources available for development purposes.

The Corporate Plan has been compiled in fulfilment of the provisions of section 52 of the Public Finance Management Act (PFMA), Act 1 of 1999 as amended; Treasury Regulation 29.1.3 requirements; and the Revised Guidelines on Strategic and Annual Performance Plans issued by the Department of Monitoring and Evaluation (DPME)

The development of the Corporate Plan was shaped by an extensive consultation process and organisational review that included:

- Ongoing engagements and consultation with the Executive Authority, the Department of Small Business Development (DSBD).
- Regular reporting and feedback from **sefa**'s shareholder, the Industrial Development Corporation of South Africa Limited (IDC).
- **sefa**'s Executive Committee strategic planning sessions.
- **sefa** Board Corporate Planning session – quarterly review of organisational performance and the identification of key strategic priorities.
- **sefa** Divisional Corporate Planning – assessment of year-to-date divisional performance and the identification of divisional priorities and targets.
- **sefa**'s critical analysis and scenario assessment of the COVID-19 pandemic impact on the broader South African economy and specifically the SMME sector.

Primarily, **sefa** aims to provide simple, efficient and sustainable access to finance to SMMEs and Co-operatives throughout South Africa. The organisation pursues the following Medium-Term Strategic Objectives as outlined in this Corporate Plan:

- Ensure **sefa** is a high impact, high-performance DFI that is responsive to the government's microeconomic policies and specifically the DSBD's MTEF plan
- Align **sefa**'s organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy
- Develop the **sefa** brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models
- Improve **sefa**'s sustainability, operational effectiveness, efficiency and service delivery by streamlining business processes and deploying technology solutions

The **sefa** Board of Directors and Management team recognises the need to balance the contradictory and sometimes competing priorities that come with meeting the unlimited demands of the organisation's mandate while deploying limited fiscal resources. This implies that **sefa** exercises critical care in taking key organisational and program decisions; making the necessary trade-offs and solving long-standing dilemma issues that would improve **sefa**'s impact and sustainability over the MTEF period and beyond.

To this end, **sefa** has developed a 2020 corporate planning rationale statement supported by the most recent qualitative and quantitative insights, the impact of the COVID-19 pandemic on the organisational resources and performance. Therefore, the corporate plan is based on a set of key strategic options and analysis as well as the isolation of key strategic issues from which our strategic choices are distilled.

The successful implementation of the Corporate Plan over the five years (2020/21 – 2024/25 financial years) will result in R13.2 billion loan approvals with the disbursement of R9.7 billion to 812 183 SMMEs and Co-operatives. The disbursements are expected to have the following developmental and economic impact:

No of Jobs Facilitated (#)	1 017 379
Disbursements to black-owned Enterprises (R'000)	7 754 864
Disbursements to women-owned Enterprises (R'000)	4 891 788
Disbursements to youth-owned Enterprises (R'000)	3 913 431
Disbursements to township-owned Enterprises (R'000)	3 805 433
Disbursements to enterprises owned by people with Disabilities (R'000)	293 507
Disbursements to enterprises located in rural towns and villages (R'000)	4 402 609

To ensure effective implementation of the Corporate Plan, the following programmes have been formulated and further articulated in the Annual Performance Plan:

- Programme 1: Increase access and provision of finance to SMMEs and Co-operatives:
  - Sub-programme: Informal Sector and Micro-Enterprises Finance.
  - Sub-programme: Direct Lending.
  - Sub-programme: Wholesale SME Lending.
  - Sub-programme: Co-operative Enterprise Lending.
  - Sub-programme: Khula Credit Guarantee.
- Programme 2: Post Investment/ Workout and Restructuring Management.
- Programme 3: Corporate Services
- Programme 4: Marketing and Stakeholder Management
- Programme 5: Governance, Risk and Compliance.
- Programme 6: Property Management.

1 STRATEGY OVERVIEW

1.1 Background

All over the world, it is recognised that access to finance is a key constraint in the development and growth of SMMEs. The need for the existence of an institution therefore that intervenes in the provision of access to finance for small business is consequently broadly acknowledged. The motivation remains strong for such an institution either as a patch to fill the gap because the private sector does not adequately cater for the sector, or because it is an imperative that a developing economy such as South Africa (SA) supports the growth of an emerging small business sector.

Additionally, it needs to be recognised that there are key SMME market segments that cannot be served profitably by commercial players in the micro-finance and formal banking sectors. This market failure requires government redress and the establishment of the likes of **sefa** is to address this failure, but equally to scale-up and rationalise government's SMME lending.

sefa was established in April 2012 as a result of a merger of Khula Enterprise Finance Agency (Khula) and the South African Micro Apex Fund (**samaf**). It was established to streamline the provision of access to finance to Small Medium and Micro Enterprises (SMMEs), inclusive of Co-operative enterprises. **sefa** functions as both a wholesale lender, capacitating SMME financial intermediaries, and as a direct lender to SMMEs and Co-operatives, in support of government economic policy.

sefa is a wholly owned subsidiary of the Industrial Development Corporation of South Africa Limited (IDC) and derives its legislative mandate from the IDC Act No. 22 of 1940 (as amended 2001). **sefa** reports to the Department of Small Business Development (DSBD).

sefa's has invested in the South African economy and impacted the small business sector. Since its inception up to the end of March 2020, **sefa** has financed 405 543 Small Medium Micro Enterprises (SMMEs) and Co-operatives and facilitated 530 745 jobs into the economy.

During the same period, **sefa** approved R7 billion and disbursed R8.1 billion into the South African economy. Over R5.7 billion was disbursed to Black-owned businesses, R3 billion to women-owned enterprises and rural towns and villages was supported with R3.4 billion. In supporting government policy to revitalise townships and support designated groups, R323 million was disbursed to township-based enterprises and R1.5 billion to Youth-owned enterprises.

1.2 sefa's Vision, Mission and Values

The table below provides a strategic overview of **sefa**'s vision, mission, values and core objectives.

Vision	**To be the leading catalyst for the development of sustainable Small Medium and Micro Enterprises and Co-operative Enterprises through the provision of finance.**
Mission	**sefa's** mission is to provide simple access to finance efficiently and sustainably to SMMEs throughout South Africa by: • providing loan and credit facilities to SMMEs and Co-operative enterprises; • providing credit guarantees to SMMEs and Co-operative Enterprises; • creating strategic partnerships with a range of institutions for sustainable SMME and Co-operative enterprise development and support; • developing, through partnerships, innovative finance products, tools and channels to catalyse increased market participation in the provision of affordable finance.
Values	**sefa**'s values and guiding principles to deepen institutional culture and organisational cohesion are: • Kuyasheshwa!: We act with speed and urgency • Passion for development: Solution-driven attitude, commitment to serve • Integrity: Dealing with clients and stakeholders in an honest and ethical manner • Transparency: Ensuring compliance with best practice on the dissemination and sharing of information with all stakeholders, and • Innovation: Continuously looking for new and better ways to serve our customers
Strategic Objectives	• Ensure **sefa** is a high impact, high-performance DFI that is responsive to the government's microeconomic policies and specifically the DSBD MTEF plan • Align **sefa**'s organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy • Develop the **sefa** brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models • Improve **sefa**'s sustainability, operational effectiveness, efficiency and service delivery by streamlining business processes and deploying technology solutions

1.3 Legislative and Policy Mandates

With regards to SMME development policies in South Africa, the government considers promoting SMMEs to be a shared task, involving a wide range of different national and provincial departments, as well as municipalities, non-governmental organisations (NGOs) and the private sector. As such, SMME policies are designed to fit within the national policy eco-system, considering the broader policy environment.

South Africa's SMME policy environment is based on different macroeconomic policies. These have provided a framework, as well as the mandate and rationale, for SMME development strategies and plans thus far.

These policies include the following:

- National Strategy for the Development and Promotion of Franchising in South Africa (released in 2000);
- The Micro-Economic Reform Strategy (published in 2002);
- The Broad-Based Black Economic Empowerment (B-BBEE) Legislation (Amended Act, 2013);
- The Accelerated and Shared Growth Initiative (published in 2006);
- Industrial Policy Action Plans (published in 2007);
- The National Industrial Policy Framework (issued in 2007); and
- The New Growth Path (published in 2011);

sefa's operations are governed and guided by a wide range of legislative requirements and government policies. The table below outlines the most prominent policies and Acts that guide and influence **sefa's** operations.

Policies and legislation that guides sefa Operations		
Foundational Policies	**Sector-Based Policies**	**Legislation**
The National Strategy on the Development and Promotion of Small Business in South Africa (1995)	Co-operatives Development Policy (2004)	National Small Business Act (1996; revised 2004)
Integrated Small Business Development Strategy (2004 – 2014)	Integrated Strategy on the Development and Promotion of Co-operatives (2012)	National Credit Act
The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005)	National Informal Business Upliftment Strategy (2013)	Industrial Development Act
	Youth Enterprise Development Strategy 2013-2023 (2014)	Financial Intelligence Centre Act (FICA)
		Consumer Protection Act, 2008
		Companies Act of 2011
		Co-operatives Act (No. 14 of 2005)
		Short Term Insurance Act

		Promotion of Access to Information Act, 2000
		Public Finance Management Act (1999 as amended)

1.4 sefa's Main Business and Funding Activities

sefa's main business and funding activities are aligned to the key activities of a development finance institution, namely: playing a catalytic role to attract other industry players; funding gaps in the market and risk funding aimed at the development of entrepreneurs and addressing market failures.

1.5 sefa's Target Market

sefa aims to address market failure in the provision of finance to SMMEs and Co-operative enterprises. In this regard, the organisation loan financing programme focusses on targeted groups such as women, black people, youth, township, rural communities and people with disabilities.

Its loan programmes are aligned and geared to the execution of governments' economic policy as outlined in the New Growth Path (NGP), Industrial Policy Action (IPAP) and the National Development Plan (NDP).

sefa provides funding to qualifying business ventures within the following SMME sectors:

- services (including retail, wholesale, IT and tourism, transport logistics);
- manufacturing (including agro-processing);
- agriculture (specifically land reform beneficiaries and micro-farming activities);
- construction;
- mining;
- green industries (renewable energy, waste and recycling management).

1.6 sefa's Loan Criteria

In granting loan financing to qualifying businesses, the applicants must comply with the following:

- be South African citizens and/or permanent residents;
- be a registered entity or sole proprietors and have a fixed physical address;
- able to meet the contractual capacity requirements;
- be registered within South Africa;
- be compliant with generally accepted corporate governance practices appropriate to the client's legal status;
- have a written proposal or business plan that meets the requirements of **sefa's** loan application criteria;
- demonstrate the character and ability to repay the loan;
- have provided personal and/or credit references (if available);
- be the majority shareholder and the owner-manager of the business;
- where possible, provide relevant securities/collateral; (**sefa** is not security backed lender; as a result, security is not a prerequisite for funding to be considered); and
- have a valid Tax Clearance Certificate.

1.7 sefa's Operating Model

sefa's operating model makes provision for financing and business support **directly** to SMMEs and Co-operatives through its regional office network and **indirectly** through its partnership with intermediary financial institutions such as Retail Finance Intermediaries (RFIs), Microfinance Finance Institutions (MFIs), Funds, Joint Ventures (JVs) and Co-operative Financial Institutions (CFIs). **sefa** has a property portfolio with 53 properties across the country. In these properties, small businesses have access to business premises at discounted rates. There are identified properties that are in the market for the entrepreneurs to buy, with the current occupants having the opportunity to buy.

In addition, **sefa** administers a Credit Guarantee Scheme that indemnifies banks and other non-financial institutions which provide credit facilities to small businesses against a possible default. **sefa** also manages Small Business Funds that support and promote SMME and Cooperative Enterprises participation in strategic value chains.

The diagram below gives an overview of **sefa's** operating model.

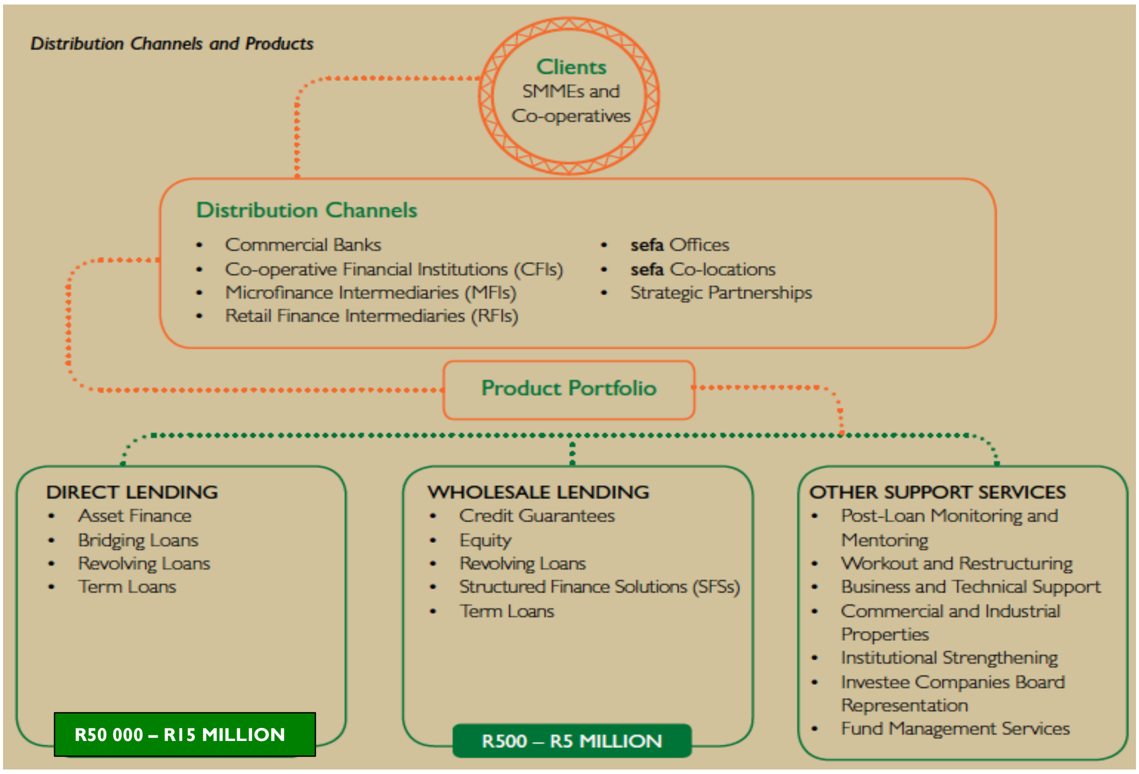


Figure 1: **sefa** *Operating Model:* Note: Wholesale intermediaries lending facilities go up to R100 million.

2 PERFORMANCE REVIEW

2.1 Reflection on sefa's Performance Over the Past 4 Years

sefa continues to play a catalytic role in providing financial support to SMMEs and Co-operatives in a challenging economic operating environment. In promoting financial inclusivity, **sefa** has formed various strategic relationships with the private sector and government to increase access to finance to SMMEs. The table below outlines **sefa**'s performance over the past three financial years against its predetermined performance targets and the unaudited 2019/20 financial year.

Performance Criteria	2016/17	2017/18	2018/19	*Actual 2019/20
Loan Book				
Approval (R'000)	827 000	446 345	703 263	1 411 431
Disbursements (R'000)	1 076 000	1 313 027	1 219 943	1 311 984
No of Enterprises Financed	43 211	45 141	72 897	74 472
Jobs Facilitated	55 997	54 389	88 632	87 828
Development Impact				
Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	222 000	204 476	197 689	211 932
Facilities disbursed to enterprises to rural towns and villages (R'000)	366 000	462 544	549 444	371 151
Facilities disbursed to women-owned businesses (R'000)	407 000	416 432	481 963	446 084
Facilities disbursed to black-owned businesses (R'000)	760 000	902 687	897 199	921 243
Disbursements to township-based enterprises (R'000)	80 000	45 679	107 475	124 627
Facilities to people with disabilities (R'000)	3 000	8 081	2 386	6 340
Loan Book Performance				
Impairments	47%	37%	47%	41%

- **Unaudited performance indicators**

Over the past four financial years (2016/17 – 2019/20) **sefa** approved over R3.3 billion and disbursed over R4.9 billion loan financing to 235 721 SMMEs and Co-operatives and in the process creating and maintaining 286 846 jobs.

Disbursements to the following targeted groups over the period were as follows:

- Youth-owned enterprises – R836 million
- Women-owned enterprises – R1.75 billion
- Black-owned enterprises – R3.48 billion
- Enterprises located in townships – R 358 million
- Enterprises located in rural towns and villages – R1.7 billion
- Enterprises owned by people with disabilities – R 19.8 million

2.2 IMPLEMENTATION OF ORGANISATIONAL KEY STRATEGIC INITIATIVES

During the 2019/20 FY, **sefa** implemented a number of strategic initiatives aimed at enhancing the organisational efficiencies, improving its loan programme accessibility and outreach as well as collaborating with other organisations to improve support services to SMMEs and Co-operatives. The list below indicates the progress made to date on these initiatives:

- **Review of the funding model: sefa,** DSBD and SEDA have been collaborating on the implementation and operationalisation of the Small Business and Innovation Fund (SBIF). With DSBD representatives as part of the investment committees, to date, **sefa** has committed grant funding across four Incubators to the value of R70 million. In addition, the SEDA monitoring framework has been incorporated in the agreements between **sefa** and the Incubators to ensure that there are satisfactory performance and support to the Incubatees. The SBIF has metamorphosed into the Township Entrepreneurship Fund (TEF), for implementation during the MTEF period under consideration.

- **Development of funding facility for township and village enterprises: sefa** has a clear target to fund enterprises based in townships and villages and as a result, it sets aside funding for this strategic priority across its various lending channels. This target is measured and reported quarterly to various stakeholders including DSBD. It is envisaged that further allocations through the TEF in FY2020/21 will facilitate a ring-fenced fund with a mandate for Township Revitalisation and will be conceptualised with DSBD.
- **Implementation of One Hundred Thousand Youth Fund: sefa** has since November 2019 implemented the Pitch for Funding sessions through the SBIF targeting primarily youth-owned businesses. Through these sessions as well as the other various **sefa** lending channels, **sefa** supported 17 622 number of youth-owned businesses as at the end of FY 2019/20. In addition to the aforementioned Pitch for Funding sessions, through its partnership with Incubators and RFIs, youth-owned businesses will be part of funding support given to SMMEs and Co-operatives. **sefa** will continue to contribute to the support of the 100 000 Youth owned businesses through a Youth Fund in FY 2020/21 under the Small Business and Innovation Fund. However, following the declaration of the state of disaster by President Ramaphosa, the Pitch for Funding sessions were suspended indefinitely in the quest to avoid the spread of the COVID-19.
- **Reduction of loan impairments** – impairment reduction is core to **sefa**'s financial sustainability. The Post Investment Monitoring, Workout and Restructuring Division has introduced the following initiatives to reduce loan impairments:
    - Pro-active analysis and monitoring of businesses that are in distress and providing timeous remedial measures in the form of restructuring of accounts (extension and re-scheduling of the repayment period and business mentorship support).
    - The monitoring of Top 20 investment exposures in the loan book.
    - Strengthening of the collections business unit.
- **Establishment of the Call Centre:** a joint project team between **sefa**, Seda and the Department was established. A functional specification for a national SMMEs call centre has been developed and discussions between the project team and the State Information Technology Agency (SITA) are underway on hosting the call centre on SITA's call centre platform.
- **One-Stop-Shop:** collaboration with DSBD resulted in the development of a new communications platform (www.mybindu.org.za) that is modern, linked to social media activity and mobile-friendly. The *Common Funding Template* was developed and digitised to create a single business plan framework that can be used in funding applications at various institutions. Seda and **sefa** are exploring physical shared services at the district level.
- **SMME Database**: Integration of **sefa** and Seda CRM data to the SMME Database and *Common Funding Template* was prioritised for the initial SMME Database being developed by DSBD.

2.3 KEY STRATEGIC CHALLENGES and OPPORTUNITIES

Notwithstanding the successes mentioned above, **sefa** is faced with significant strategic challenges and opportunities as outlined in the table below. These challenges and opportunities have been identified through various organisational assessments and engagement with different stakeholders.

Challenges	Interventions
Quality of the loan book: high levels of loan impairments, poor customer segmentation, high operating costs, compromising market perception (moral hazard) that is adversely affecting **sefa**'s ability to collect repayments timeously and employ consequence management.	• Actively diversify portfolio both within the MFI sector as well as in Direct Lending. • Develop customer intelligence for existing and target clients incorporating internal and external data sources, Leverage technology to optimise the pre-decision stage of the loan application process –*decision in principle'.* • Develop collection culture and processes to increase the propensity of customer repayment. • Balance portfolio to enhance the impact and reach while managing concentration risk (i.e. smaller loans, higher volumes). • Partnerships and performance management to better drive acquisition and service strategies. • Actively help build key client sectors, e.g. in microfinance.
Financial sustainability (Budget allocations to **sefa** have been declining)	• **sefa** needs to diversify sources of funding and revenue streams. • A focus on greater cost management, loan repayments and collections. • Quality loan book to grow income. • Need to sweat existing assets and capabilities. • Dispose of or transfer of the loss-making property portfolio • Develop a capital/funding strategy for Direct Lending and Wholesale Lending.
Lack of customer-centricity (lack of an active sales culture, investment officers are reactive, lack of proactive customer relationship management strategy, customer communication post application)	• Introduce a proactive deal acquisition culture through strategic partnerships that will provide a steady quality deal flow. • Partner with corporates to generate leads – their suppliers • Ease the application process or make it 2-stage: pre-screening and full review (not to lose many application leads). • Consider industry campaigns to attract new clientele.
Risk Management (I) Enterprise Risk Management (ERM) mostly focused on Operational Risk Management, Risk culture still not entirely embedded in the	• Expand the scope of the Risk Management Unit to ensure sufficient coverage and attention to all risks

Challenges	Interventions
organisation, new/revised policy and procedures not yet implemented. (2) Credit Risk Management – lack of documented risk acceptance triggers by product and segment, limited sector and industry analysis, lack of a risk rating model for wholesale lending, no credit risk appetite statement, no credit system automation.	• Ensure that all credit risk management reports-activities are reported to the Board Audit and Risk Committees. • Ensure that all staff clearly understands the risk. • Establish credit risk acceptance triggers, i.e., descriptions of quantitative and qualitative parameters by segment. • Conduct detailed industry analyses for key industry sectors within the portfolio; risk acceptance trigger should be set up based on industry/sector analysis, and red flag/early warning signals monitored with these triggers. • Better utilise customer scoring for decision making, pricing, provisioning, monitoring and Early Warning (EW) systems, NPL classification. • Define risk rating for Wholesale Clients • Establish differentiated credit processes based on specific criteria, e.g. establish fast track analysis and approval for low amounts and particular products (taking into consideration compliance, regulatory requirements). • Establish a separate process to monitor related party exposure.
Post Investment and collections – lack of post-investment and collections policy including early warning signals, lack of detailed analysis of customer behaviour by customer segment or product, NPLs not written-off promptly due to the protracted external litigation processes and the majority of the clients are in the start-up phase of the business life cycle with little or no collateral.	• Enhance the Post Investment Collection Procedure and early warning signals by using technology. • Use of external data to monitor clients and offer adequate business support for sustainability. • The utilisation of credit Bureau information, customer visits and intelligence reports to proactively identify possible high-risk clients and potential defaulters. • Review the loan book and segment the book in terms of an active and a legacy loan book. The legacy loan book will refer to non-

Challenges	Interventions
	performing loans and advances up to 31st March 2016. • Different collection strategies will be applied to the respective books
Data Analytics - There is functioning MIS and a lack of system integration, no electronic customer relationship management strategy, IT runs ad-hoc reports as per the requests of the business, but there's no dedicated Business Intelligence (BI) unit, no automated analytics introduced yet.	• Prioritise CRM development and ensure it has a full 360 customer view (volume of business, customer value, wallet, history, profitability). • Segment existing customers based on their wallet/value and repayment history. • Consider digitisation of the credit files. **RISK ANALYTICS** • Create Early Warning Signals models based on the past repayment behaviour • Develop models for the analysis of portfolios of intermediaries. • Analyse historical data of the non-performing customers to identify those who have higher propensity to move back to performing status and work individually with them.

3 SITUATIONAL ANALYSIS

3.1 Economic Overview

The South African economy continues to operate under pressure and struggle to recover in an increasingly difficult global environment. During the past 5 years the South African economy grew on average by about 0.9%. Consequently, this had led to high unemployment rate, increased poverty and inequality. The South African economy entered a recession in 2019 due the economic contraction which was experienced by struggling consumers and businesses.

Both South Africa and the world at large, are experiencing a global crash due to the COVID-19 pandemic. The SARB expects a GDP contraction of 7% in 2020, the first full-year growth decline since 2009. The anticipated decline represents a substantial shock to the economy, as the worst full-year GDP growth performance in South Africa since the World War II history. The collapse in the global economy is expected to reduce foreign income (exports and tourism will be particularly affected). The South African high-end tourism industry faces immense challenges because it relies heavily on international travel. Furthermore, consumer spending is expected to decline due the lockdown, fear of exposure and due to retrenchments because of lack of demand in the economy. The severity of the lockdown has varying consequences for businesses across various sectors. The industries that present the greatest difficulties for physical distancing are services and retail. These industries represent the largest employers of the South African economy.

The Banking Association estimate that bad debts can reach 10% of the total bank lending during 2020 when compared to 6% during the global financial crisis in 2008/9. The lockdown has imposed huge financial losses and liquidity pressures on the business industry. Due to the slowed demand and reduction in production by businesses and escalating fixed costs during the lockdown period. Furthermore, businesses that were in trouble before the pandemic now face the prospect of downsizing or bankruptcy. The lockdown stopped or substantially reduced sales for most businesses, including some in essential services. Many businesses had limited reserves going into the lockdown because of the 2019 recession.

Economic recovery will be slow due to the fragile state of the international and South African economies as a result of factors present before the pandemic. The demand will likely remain low as a result of reduced consumer incomes. Small businesses are likely to lag in the recovery because the challenges facing them at present are enormous and will impact on the sector growth. Reopening the economy will take time and will provide opportunities unevenly by industry and region.

It will remain critical that government need to continue using public procurement of locally produced goods to stimulate the economy and open market opportunities for the small business sector. In the medium to long run, government will need to develop more coherent plans to support key value chains pro-actively for small businesses. There is an opportunity for government to drive structural changes to diversify the economy more strongly away from dependence on mining exports and focus on value chains that can generate employment and support more equitable incomes and wealth for South Africans.

3.2 SMME Stagnant Growth

The small business sector remains a critical component of the South African economy and a lever and catalyst for economic recovery; despite the recent COVID-19 shock still reverberating throughout various sectors. Structurally, the SMME sector is a vital cog in the government's job creation and poverty eradication engine. Post-1994 policies had until now, contributed to growth in the small business sector in SA estimated at 2.3

million enterprises (IFC, 2019). Undoubtedly, the economy will shed a significant proportion of these enterprises post the pandemic; policy moves and implementation effort will be needed to recover lost ground and get SMMEs back on their feet and get job creation supported once again. The growth of the SMMEs since 2008 is estimated at 2%, and this suggests that even without unexpected shocks like the pandemic, it has been stagnant over the last decade (Table 1).

	2008	2010	2013	2015	2017
StatsSA PALMS estimate	2,019,000	1,926,000	2,059,000	2,155,000	2,309,000
Annual growth estimate		-2.33%	2.25%	2.3%	3.51%

Table 1: Total SMME count using StatsSA QLFS data

Adapted Source (IFC, 2019)

The limited growth in SMMEs numbers creates the impression that the sector is not contributing enough as is expected. In addition, the Global Entrepreneurship Monitor (GEM) study on South Africa indicates that South Africa has a low rate of established enterprises and a poor rate of sustainability of start-ups (GEM, 2018). As a result, South Africa has a few start-ups and low survival rates therefore there are few SMMEs with a high chance of growing. The COVID-19 pandemic has effectively reversed the gains of the government policies of the last few years which were meant to support the growth of the SMME sector. While statistical data of the first quarter contraction of the economy is yet to be released, we can safely conclude that there would be a significant drop in the total universe of active SMMEs as we move into subsequent quarters of the 2020/21 financial year. Following the negative growth trend of the economy, we expect to see a net negative SMME sector growth trend possibly from now until 2022 as the post-pandemic recovery measures start to take effect.

Therefore, the challenges facing the South African economy were already enormous prior to the pandemic striking globally; it has now dealt a devastating blow on the small business sector's performance and growth. While government has sprung to action in passing stimulus packages necessary to keep SMMEs afloat, we are cognisant of the protracted demand weakness that will persist long after the epicentre of the pandemic has passed, and this is likely to keep weakening SMMEs for the foreseeable future. As **sefa**, we have to come up with innovative measures to catalyse growth and rejuvenate businesses of the surviving pool of our customers, facilitating their participation in public procurement of locally produced goods to stimulate the economy and open market opportunities for the small business sector. Importantly, we have an obligation to aggressively support those businesses that would survive the scourge of the pandemic to avoid further haemorrhaging of jobs.

In line with the Government's commitment to improve the regulatory framework as well as the coordination and alignment of policies, it is anticipated that these will contribute towards restoring business and investor confidence.

3.3 Challenges facing SMMES and Co-operatives in South Africa

Compared to big business in South Africa and other countries, small businesses face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. The small business sector struggles to advance the inclusive growth and development required

(World bank, 2018) by the South African economy. This is despite the different policies and programmes that the government has put in place.

Research studies on SMMEs in South Africa (GEM,2018; Seda, 2016; BER, 2016, SME landscape survey, 2018) indicate that lack of finance, increased operating costs and inconsistent cash flow, excessive competition and lack of adequate premises and equipment are the significant challenges facing formal and informal businesses. The pandemic lockdown that the economy has and continues to grapple with has exacerbated these challenges for SMMEs particularly cash flows directly impacting sustainability and survival. Protracted business closures or gradual opening for sectors like tourism and hospitality could be terminal for small enterprises, most of whom do not have even a month's cover worth of savings to see their businesses through a tough period. Even in normal trading times however, access to markets, red tape and burdensome regulations, technology adoption and skills development continue to inhibit SMMEs. The SMMEs landscape survey (2018) indicates that SMMEs in the start-up phase are often neglected and do not receive enough support and funding they need. As a result, they struggle to generate enough revenue to keep afloat in tandem with employing more people.

The table below identifies the key challenges facing the SMME sector within the maturity stages of business life cycle.

Start-up issues	**Growth issues**
Sourcing/raising funds	Lack of funding / Access to or cost of finance
Finding customers	Poor sales or inadequate technology
Competition from other firms	Competition from large businesses
Internal market burdens	Local economic conditions
Wearing too many hats	
Lack of guidance	
Government policies: tax and bureaucracy	Burdensome regulations
Entrepreneurship education: primary and secondary level, as well as government entrepreneurship programs	Lack of adequate skills
	Cost of labour
Inadequate equipment	Growth and scale to meet client needs Space to operate Crime and theft

Source: International Finance Corporation (IFC) -2019

3.4 The impact of COVID-19 on SMME Development

The coronavirus pandemic is the largest public health crisis in living memory, causing large-scale loss of life and severe human suffering globally. It has also generated a major economic crisis, with a halt in production in affected countries, a collapse in consumption and confidence, and stock exchanges responding negatively to heightened uncertainties. (OECD, 2020)

To respond to- and manage the COVID-19 pandemic, government introduced lock-down measures and associated trade restrictions, labour relief measures and the government disaster fund to mitigate the severity of the pandemic. In providing policy assistance government is attempting to mitigate and balance the negative effects of the pandemic on the SA people, health services and economy, including SMMEs. The duration of the lock-down and associated trade restrictions has a severe impact on SMMEs and their employees.

Overall the government's policy response included the following three phases to position the economy for stronger growth post the COVID-19 pandemic. These phases include:

- Phase 1 – Preserve the economy
- Phase 2 – Recover from the crisis
- Phase 3 – Position the economy for faster growth (National Treasury, 2020)

The pandemic has affected SMMEs disproportionately and has revealed their vulnerability to supply and demand shocks (in particular regarding their liquidity) with a serious risk that over 50% of SMME will not survive the next few months (Nedbank COVID-19 Survey, May 2020).

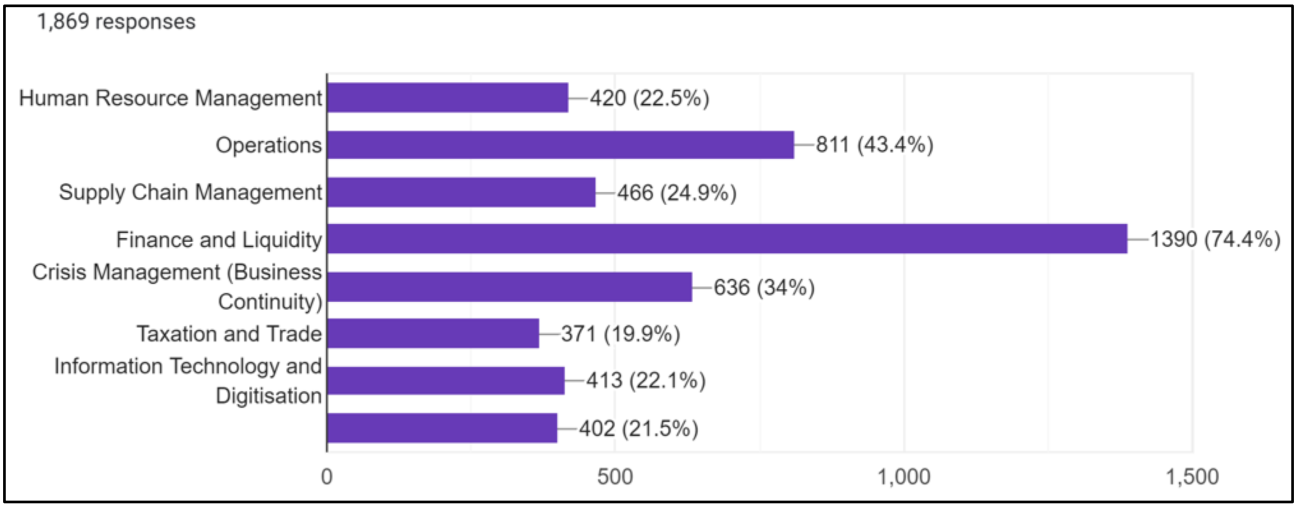
The Small Enterprise Development Agency (Seda) undertook a survey of 1869 respondents to understand the effect of COVID-19 on SMMEs.

The results indicated that finance and liquidity is the biggest issue for most SMMEs. Ninety percent (90%) SMMEs were unable to service debts due to COVID-19 and stringent credit policies by funders. SMMEs believed they were on the verge of closure if no intervention was made by the government. Key needs raised included:

- Government ring-fencing procurement for SMMEs
- Prompt payment for services provided by SMMEs
- Reduction of red tape when accessing UIF, Relief Fund and other COVID-19 relief measures
- Focussing on rural and township SMMEs (SEDA, 2020).

The figure below depicts the main areas where SMMEs required assistance – the top needs being:

- Finance and Liquidity
- Operations
- Business continuity – crisis management
-



SMME assistance required Source: (SEDA, 2020)

3.5 Interventions to address COVID-19 Pandemic and Stimulate Township and Rural Entrepreneurship

To address the impact of COVID-19 on the small business sector, DSBD in conjunction with its agencies, **sefa** and Seda, introduced a set of interventions aimed at providing financial relief and economic recovery. These instruments include the following:

Programme	Description	Amount
SMME Relief Fund	To provide cashflow support (salaries, rent and utilities) to enterprises that were negatively impacted during the lockdown period.	R513 million
Business Growth/ Resilience Facility	To provide support to enterprises that will produce and provide services to fight and contain the spread of COVID-19.	R50 million
Payment Holiday for **sefa**-funded clients	The rescheduling of **sefa**'s clients' loans obligations whose businesses have been adversely impacted by COVID-19, **sefa** deferred these loan instalments:	R170.6 million

The total value of the intervention in the table above amount to R733.6 million.

To support and encourage entrepreneurship and SMME development in townships and rural communities, DSBD through **sefa** will introduce the following targeted sector focused programmes to the value of R1.23 billion:

Programme	Description	Amount
Spaza Shops Support Programme	It's a cashflow facility in the form of credit guarantee administered via the commercial banks that enabled SA's spaza shop owners with a valid operating permit to buy stock at accredited wholesalers	R175 million
Small Scale Manufacturing	Support to small-scale manufacturers via blended financing with clients required to create a minimum of 10 jobs	R350 million
Informal Clothing & Textiles	A joint sefa-Seda programme initiative focusing on skills enhancements and upgrading machinery and equipment of informal clothing and textile manufacturers.	R105 million
Bakeries & Confectionaries	To provide access to markets through spaza shops, school nutrition schemes, hospitals, military & other social relief programmes. This will be in the form of working capital investment that includes bulk buying facility on pre-approved products through pre-selected wholesalers, which would be leveraged on the Spaza & General Dealers Support Facility	R100 million
Autobody Repairers & Mechanics	A credit guarantee facility in the form of supplier guarantee to informal autobody repairers and mechanics to purchase stock and other relevant equipment in execution of their business activities	R225 million
Fruit & Vegetables Hawkers	Micro-credit and business support to Fruit & Vegetable hawkers across the country	R135 million
Hairdressers & Personal Care	Micro-credit and business support to Hairdressers & Personal Care entrepreneurs across the country	R90 million
Tshisanyama & Cooked Food Vendors	To provide business relief support through start-up stock for cooked food businesses that were unable to operate during the lockdown period.	R50 million

3.6 Access to finance for SMMEs in South Africa

Access to finance remains one of the primary challenges for start-ups, micro, small and medium enterprises in South Africa. (GEM, 2018). Contribution to this is because the majority of the entrepreneurs do not know how to prepare business plans that are acceptable to potential funders and the funders are offering support based only upon asset-based lending. (GEM, 2018).

The Finfind 2017 report on the South African SMMEs access to finance study estimates the SMME credit gap[1] in South Africa to be between R86 billion and R346 billion. Furthermore, the study states that start-ups and micro-businesses are the most underserved by the formal commercial finance market and represent the most significant funding gap. Traditional credit risk assessment requirements continue to play a key role in excluding early-stage SMMEs and low skills of SMMEs owners and data gaps.

The contributing factors are as a result of the following challenges inherent in SMMEs:

- the high failure rates
- high transactional costs
- high risks associated with small businesses in the early stages of development.

Finfind (2017) indicates that 62.4% of funding requests by SMEs relates to start-up capital, buying equipment, expanding businesses and working capital. 73% of SMMEs funding requests are below R1 million made up with 44% of loan requests below R250k and 29% between R250k- R1 million. In the midst of the pandemic, we can expect the immediate needs of SMMEs to gravitate more towards short-term sustainability funding to smooth cash flows following a post-pandemic wave of revitalisation (working capital type) product solutions. The high failure rate is likely to increase further in a subdued economy; a sector-by-sector view is necessary for sefa to take in allocating relief funding for businesses that can stay afloat and save jobs in the long run.

To address this funding gap, there is a need to develop new and innovative models which consider factors inherent in the operations of microenterprises. The advent of technology and the high penetration of mobile technology present an opportunity to increase financial inclusion for microenterprises. The pandemic climate and social distancing provisions have implications on the entire sefa value chain as well as the SMMEs themselves in terms of how they can be serviced. The launch of fintech product platforms by sefa must be fast tracked as a matter of urgency. While fintechs present sefa with alternative, safer and social-distancing-compliant means to keep engaging, evaluating and funding qualifying SMMEs, they are vital to bringing operational efficiencies to the work of the agency. Finfind (2017) argues that digital SMMEs lenders will play an important role in improving financial access to microenterprises and is gaining traction in South Africa. The FinTech start-ups are encroaching on traditional financial services, leading with customer-friendly solutions with more value for money. This is driven by new technologies that revolutionise the ability to collect and analyse information.

The above-mentioned factors provide context of **sefa**'s operational environment and the target market financial needs. **sefa** needs to work on enabling access to finance for the SMMEs, especially the microenterprises as they are the majority of enterprises excluded.

[1] SMME credit gap refers to an estimated number of SMMEs which are either underserved or unserved, that is cannot access finance.

3.7 SWOT and PESTLE Analysis

This environmental scan follows a PESTEL structure – investigating the Political, Economic, Social, Technical, Environmental and Legal aspects – as defined below:

- **Political**. Political decisions affect all businesses. Government attitudes towards private and state-owned enterprises, international politics, and the impact of conflicts and variations in the price of oil and raw material supplies are among the many factors that can alter the future performance of an organisation.

- **Economic**. Economic factors are closely related to political influences. Interest rates and currency exchange rates will affect the home and international markets. Consumer expenditure is related to inflation and the amount of disposable income present within the different economic groups within a society. This, too, affects long-term planning. The profitability of the organisation, its market share and the predictions about these will also influence the planning process.

- **Social**. Social aspects may include demographic changes and the changing perceptions of the population, lifestyle changes, and changes in working conditions. Education, transport and family responsibilities are all examples of social issues that can impact on an organisation. An ageing population offers an opportunity to the healthcare sector yet threatens the capability of an economy's welfare structures.

- **Technology**. Technological factors include the availability of new ways of delivering service through the use of technology, the use of technology to obtain and exploit marketing information, and the ability to extend choice and communicate readily with suppliers, customers and other agencies through the use of internetworking technology.

- **Environmental**. Climate change and the impact of pollution come under the environmental heading. Sustainability of raw material supplies, the use of energy, regional variations of climate, and the impact of the environment on the individual's lifestyle will also affect the way the organisation plans its growth.

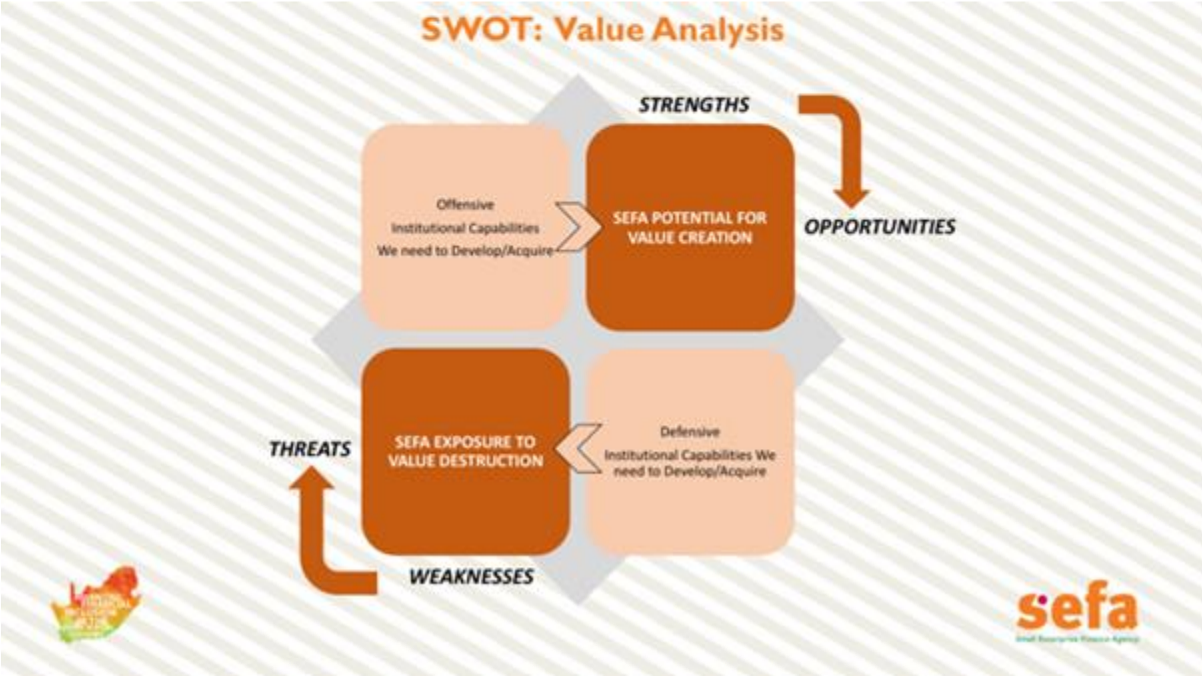
- **Legal**. Legal issues link closely with the political, social and environmental aspects of the PESTEL analysis, as the constraints that occur under these headings are enforced through law

Situational Variable	Strengths	Weaknesses	Opportunities	Threats
Political	• Uniqueness and relevance of **sefa**'s mandate encompassing its role as a 'market intervention' agency and expanded to a 'economic stimulus' agency • Political and national consensus on the importance of small business development as a critical component for the development of the South African economy. • Availability of National Voted Funds to support the operations of **sefa** in its development interventions. • Capacity to convene and mobilise strategic partners and alliances • National presence of **sefa** – Regional office network and its partner institutions	• Organisational capabilities & culture • Organisational architecture and distribution network not geared for remote servicing of clients • Sefa internal loan processing and decision processes do not lend themselves to remotely functioning teams – productivity levels are affected	• Expanded role of sefa in distributing stimulus relief funding – opportunities to grow sefa loan book and enhanced stature as a DFI • Political support to grow **sefa**'s loan book • **sefa** can further entrench relationships with stakeholders (IDC, DSBD & NT) through engagements that unlock mutual value	• Inability to meet high key stakeholder expectations (IDC, DSBD & NT) can result in low financial support • **sefa**'s delivery model is not well understood, notably, the use of intermediaries and their pricing of loans to end-users
Economic	• IDC institutional and financial support • Government economic policies and programmes creating opportunities for SMMEs (30% procurement set-aside, local content, etc) • Sefa distribution systems and infrastructure readily available to gear-up and respond to the nation's dire need to support SMMEs during Covid-19	• The high cost of lending to SMMEs & Co-operatives • Quality of the Loan Book resulting in high impairments • Low uptake of the Credit Indemnity Scheme • Weak economy in the short-to-medium term will impact the sefa loan book negatively	• Huge demand for SMME & Co-operative finance • Public sector 30% procurement set aside • Private sector enterprise development (ED) activities and BEE code alignment • Leveraging of R15,5 billion allocation to SMMEs & Co-operatives across government departments • Leveraging of the COVID-19 relief packages • Grant funding opportunities & Fund Management	• Low levels of capitalisation resulting in an unfunded mandate • High-risk target market • Lacklustre recovery in macro-economic conditions • Sub-optimal entrepreneurial eco-system • Fiscal constraints and reduced fiscal grant allocation • The unwillingness of individual entities to provide cessions • COVID-19 impacted Negative GDP

			• Relationship with public sector and DFIs • Local Economic Development opportunities through relationships with municipalities & traditional authorities.	growth is bound to affect the SMME sector prospects and increases the rate of impairments
Social		• Suspicions of workers about the work environment safety could delay further rate of recovery of businesses	• Opportunity for digital education platforms • Utilise social media for promotions of SMMEs goods and services	• The potential loss of capacity as a result of the susceptibility of older persons (who possess skills and experience) could hamper the productivity of SMMEs • Retrenchments will likely reduce the disposal income of consumers and thus this will impact on the sales of goods and services. Also, crime could increase
Technological	• In-house loan administration system (**sefa**LAS).	• No standardised business processes making system development tedious and cumbersome • Tech penetration in sefa market engagement and delivery processes • Fintech is not yet a core part of product solutions	• Fintech industry representing a new delivery method to reach SMMEs at a cheaper cost • Increase in bandwidth and uptake of mobile and smartphone technology • Application of technology to broaden access and increase speed of service to SMMEs	
Legal	• Good governance (7 years of clean and unqualified audit performance)			
Environment	• Secure managed printing to monitor	Credit risk profiling not incorporating environmental risks	• Developing a formal	• Generation of waste packaging

	organisational paper usage.	of business financed (impacts on default)	environmental policy statement Corporate ecology-set measurable objectives for Green initiatives (office automation to reduce paper, waste management and use of video conferencing to cut down on unnecessary travel, smart boards)	as a result of increased home deliveries of food and other goods could create waste recycling opportunities for SMMEs and sectoral funding opportunities

SWOT Value Analysis



sefa's most significant potential to create value is the combination of its inherent strengths and the best opportunities presented by the external environment. Similarly, **sefa**'s exposure to value destruction is highest in instances where the institution's weaknesses are directly subjected to the environment's most threatening developments. In both situations, **sefa** must develop coping mechanisms; capabilities needed to take advantage of opportunities, as well as capabilities to defend against threats.

POTENTIAL FOR VALUE CREATION	OFFENSIVE CAPABILITIES TO BE DEVELOPED
• Mandate perfectly fits the government agenda on small business growth as a driver of economic rejuvenation. • **sefa** geographic footprint enables national partnerships, funding support and stakeholder networks position **sefa** to perform its mandate. • **sefa**'s clean and unqualified audit history and role in unlocking the ecosystem of Government SMME policies, IDC institutional support and sector-based funding combined with private sector funding, grants and LED opportunities with local authorities. • **sefa**'s in-house loan administration system interfacing with and unlocking value from fintech platforms to reach	• A business model that is focused on the 'sweet spot' market segments for funding. • Partnership (public-private) strategies that unlock value. • A proactive, stakeholder-based offensive fundraising strategy that is segment focused, supported by a **sefa**-wide stakeholder engagement strategy. Specifically, **sefa** must engage role players, facilitators and channels responsible for the R200bn business guarantee relief fund to facilitate SMME participation in various business value chains

more customers cost-effectively than our traditional channels.	• Product and channel innovation workstreams established to look at how **sefa** can find new ways of servicing its markets efficiently.
EXPOSURE TO VALUE DESTRUCTION	**DEFENSIVE CAPABILITIES TO BE DEPLOYED**
• **sefa**'s operating costs remain high; a challenge given SA's constrained economic climate. • **sefa**'s high impairments and poor-quality loan book weaken its ability to deliver on its mandate. This may have a negative impact on sefa's financial sustainability. • **sefa**'s funding focuses on a high-risk market with limited funding in a lacklustre economic environment; the institution impact is negatively affected.	• A tech-backed cost optimisation model to be developed and applied across **sefa** on the back of a cost-cutting strategy and efficient route-to-market approach in the era of social distancing. • A comprehensive pre- and post-investment strategy that gives **sefa** better control of the quality of deals as well as the collection of loans. • A loan product portfolio that is informed by SMME needs and value chain and a clear choice of where **sefa** must play to drive maximum development impact. A deeper understanding of loan portfolio can be enhanced by big data analytics and predictive modelling systems if deployed by **sefa** as part of improving operational decision-making.

4 SEFA'S STRATEGIC FOCUS AREAS – 2021 - 2025

4.1 sefa Corporate Plan 2020 Rationale

The **sefa** management team recognises the need to balance the contradictory and sometimes competing priorities that come with meeting the unlimited demands of the organisation's mandate while deploying limited fiscal resources. The pandemic has drastically altered the status quo, not only is government resources severely limited, the SMME sector is likely to be distressed as business failures increase with more facing uncertainty. This implies that **sefa** exercises critical care in taking key organisational and program decisions; making the necessary trade-offs and solving long-standing dilemma issues that would improve **sefa**'s impact and sustainability over the MTEF period and beyond. To this end, **sefa** has developed a 2020 corporate planning rationale statement supported by the most recent qualitative and quantitative insights, a scenario development methodology that spells out key strategic options and analysis there-of, as well as isolation of key strategic decision issues from which our strategic choices are distilled.

In keeping with our view that **sefa** faces unlimited demands of supporting SMME's with limited fiscal resources, we have phased the implementation scope of our strategic choices over the MTEF period, starting with the most urgent and critical strategic agenda issues in the first 12 to 18 months of the MTEF period.

4.2 Management Insights, MTEF Implications

Strategic Dialogue Insights	MTEF Implications for sefa
Economic • Weak global and domestic growth • Fiscal pressure to support NDP job creation	• Funding levels will decline in the course of the MTEF; we must find efficiencies in the utilisation of **sefa** funding to drive more impact
SMME Sector • Stagnant growth in the SMME sector, widening the unfunded mandate	• **sefa** must explore innovative ways to source alternative funding channels and other revenue streams beyond the MTEF allocation
Loan Book Performance • Disbursements outstrip approvals over the last three years • The targeted number of SMME's lower than planned in the previous three years • Disbursements to youth and people with disabilities were lower than expected; disbursements to black-owned and women-owned were consistent with the plan	• **sefa** must strengthen its deal pipeline to avoid declining levels of impact • **sefa** must implement accurate channel and market segment targeting while improving overall operational performance • A deliberate targeted youth, as well as entrepreneurs with disabilities marketing strategy, must be formulated and implemented • **sefa** must proactively monitor the performance of the recently approved loans for COVID-19 relief programmes
Financial Driver Performance • Declining interest income • MTEF allocation declining Y/Y • The decrease in cash reserves • Impairments levels deteriorating • Headcount costs remain high • Weak cost-to-income ratio • Inefficient collections • Intermediary concentration • Declining income from SMME Wholesale	• **sefa** not only faces the task of achieving more with less; we must also mitigate the risks that limited cash reserves can threaten the institution's long-term sustainability • **sefa** needs a detailed understanding of its cost drivers and make the hard choices to manage costs down
Market Performance • Intermediary level measurement inadequate • Our microfinance focus limits job creation • Market targeting and channel risk appetite not matched • Product portfolio mix and profit quality not matched	• **sefa** must be a customer-centric organisation; customer research and relationship management capabilities must be developed and implemented • The question/balance between **sefa** as a 'lender' and its 'facilitation' role must be

• The **sefa** institutional funding model is overly-dependant on government • **sefa** still supports a high number of entrepreneurs annually, relative to other institutions **Other Organisational Aspects** • Highly centralised, cumbersome process (no automation) and decision system, inadequate information management and decision support systems	resolved. **sefa** must refocus on its niche markets that better serve its mandate • There are opportunities to improve **sefa**'s overall performance and delivery of its goals with improvement in internal systems, processes and the introduction of targeted automation. This, in turn, will improve decision-making and turnaround times • The digitisation of **sefa**'s operational processes must be a strategic project given the customer contact challenges brought about by the pandemic • Digitisation is also key in ensuring that we deliver our products and services optimally to our target market

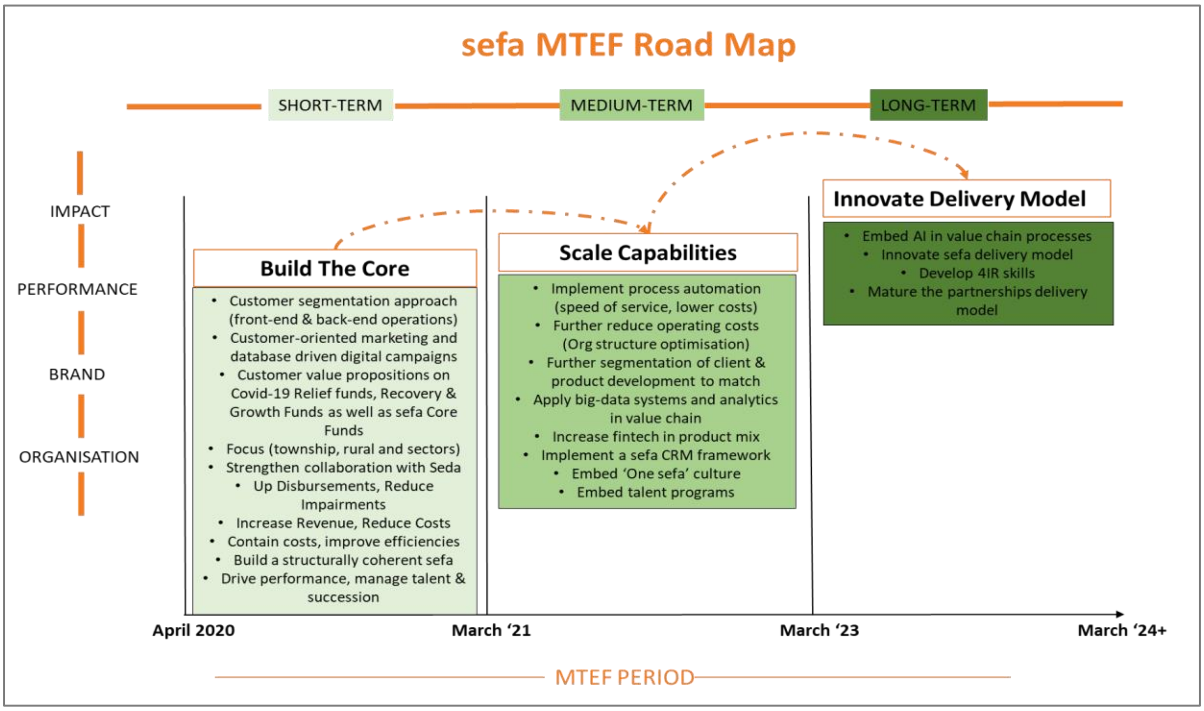
4.3 MTEF Scenarios, Assumptions & Strategic Issues

Scenario Variable	Base Case	Best Case
GDP Growth	GDP contraction estimated at 7% in 2020 due to COVID-19, R500bn Stimulus spending funded on debt, ever-widening balance of payments, business failures leading to declining tax revenue, constraints to fund the NDP, increasing pressures on social spending, stunted SMME sector growth	Economic growth averaging 1.5%, government revenue improves and more funding for NDP programs
CPI	Sub-investment economic rating, domestic economic pressures push the CPI towards the upper end of the SARB target CPI range, strain on consumer spending, business revenues and thus taxable income declines, overall costs of borrowing spiral higher, straining funded SMME's	SA achieves investment-grade rating, and inflation reigns into the mid-point of the SARB target range, cost of borrowing eased
Interest Rates	SARB lowers interest rates as Covid-19 stimulus support for consumer debt relief and spending, favourable conditions for SMME funding affordability	Lower interest rates continued post-Covid-19, still providing a spending stimulus for the domestic economy, positive knock-on for SMME funding and growth
MTEF Allocation	MTEF allocation has been declining year-on-year in real	Government likely to increase economic stimulus spending

	terms as government balances competing for spending priorities to stimulate economic growth	generally and SMME funding support specifically, due to COVID-19. Higher levels of support for **sefa** and other DFI's; **sefa** becomes the core investment engine for the government to stimulate economic growth through creation and growth of SMME's
Other Sources of Funding	**sefa** kick-starts public-private partnerships to generate new lines to fund its mandate focuses on revenue generation to fund its operations and improve financial sustainability (cost-to-income ratio at 100% and lower)	Mature value-chain-based private sector partnerships start to become the primary source of revenue expansion strategies for **sefa**, broader and deeper program impact is achieved
Cost-to-Income	cost-to-income ratio deterioration in the short-term unavoidable due to SMME pandemic failures; recovery to 100% only in the 4th year and beyond (of the planning period)	Further reduction of **sefa** cost-to-income ratio driven by both cost reduction strategies and improved revenues (MTEF and partnerships) for **sefa**
Policy Framework	Stimulus spending (DSBD-led SMME Relief, Growth and Recovery Funds intensified in COVID-19 period and more planned for post-pandemic support efforts). DSBD intensifies policies in support of small business and job creation initiatives, better co-ordination of cross-sector policies aimed at stimulating small business growth, stronger engagement of national treasury and IDC in supporting **sefa** capital requirements, better co-ordination of DFI's operating in the small business sector.	DSBD strengthens both policy and legislative framework for small business development giving **sefa** more financial capacity and scope to drive high impact programs. Overall scope of sefa's mandate is expanded due to 'stimulus' dimension and credit guarantee solutions growth
Public-private collaboration	**sefa**-Seda and private sector co-ordinate and collaborate at resource and program levels to drive job creation. Stronger collaboration between **sefa** and municipalities.	Mature collaboration programs with municipalities giving **sefa** full national coverage and reach, stronger presence and brand equity in the DFI space
Capabilities investment	**sefa** achieves significant investments in process automation, fintech solutions, and CRM systems	Mature investments now directly impacting **sefa**'s effectiveness, efficiencies, and breakeven

Business Model	**sefa** refines and refocuses its business model to be less capital intensive, focus on 'facilitation' vs 'funding' balance and builds a revenue engine to fund its operations	**sefa**'s business model for lower value loans becomes fintech-driven mainly, which is more cost-effective and improves **sefa**'s cost position and its sustainability.
Key Assumptions	IDC loan is increased, loan repayment terms are relaxed, internally measures are taken to reduce operational and headcount costs, impairment rates are reduced across, KCG capitalisation is reduced, non-performing investment properties are disposed of collections are increased, overall revenue position is therefore improved.	IDC loan is converted to equity and **sefa** has no loan repayments to honour, and impairments rates are further reduced, the SBIF line of funding is clawed back, an optimised **sefa** structure and headcount is achieved
Strategic Issues to Deliver On during the MTEF period	• Commit to cost reduction program in the short-term • Review **sefa** business and operating model, achieve better efficiencies • Advance the positioning of **sefa**' status as a 'lender' and 'facilitator' of SMME funding – COVID-19 impact calls for more public-private partnerships in key industries and sectors; **sefa** can forge relationships and facilitate entry of SMMEs into key value chains • Choose **sefa**'s niche focus in the SMME value chain best suited to its mandate	

4.4 Mapping Priorities over the MTEF Horizon



-Figure 4. MTEF Strategy Road Map

From the series of internal strategic dialogues deliberating on the corporate plan, **sefa** management identified four key themes to focus strategic goals and implementation programs, namely 'Impact', 'Performance', 'Brand' and 'Organisation'. The themes are also an internal framework to align divisions and teams around the core priorities as well as to evaluate **sefa**-wide progress towards meeting its mandate. Further, the themes will be executed in three phases of work-streams to be driven over the planning period; the target is to achieve short-term gains in the most pressing areas of **sefa**'s business around its core operational backbone, moving on to scale up what the organisation does well in the medium term and to achieve wholesale business model improvement in the long-term. The three phases of work will enable **sefa** to simultaneously work towards institutional improvements and be financially sustainable as well as focus its mandate delivery by making product and distribution channel choices and impacting jobs in the designated demographic groups.

***Building the Core*: sefa** will focus the first-year efforts to taking the organisation back to basics, placing the customer at the centre of what it does. This implies that marketing, brand and stakeholder functions will need to be strengthened in support of operational programs and the specific loan products they distribute. Increased understanding of the **sefa** clients, the market and the SMME sector as a whole will require that **sefa** builds and strengthens its market research capacity and capability. The impact of COVID-19 on SMMEs has prompted a raft of relief measures by government, underlined by various relief funds launched in the recent past. Such funds make up the bulk of **sefa**'s new business pipeline in the short-term, and the organisation's focus on market intervention-type solutions will have to be marketed and distributed simultaneously with DSBD-supported stimulus-type solutions. The expanded scope of products make it even more imperative that sefa pays attention to its customer management capabilities and practices. Social distancing guidelines are likely to remain in force for most of the first year of the MTEF; **sefa** digital marketing, product marketing and promotion efforts will be technology driven, more than face-to-face.

Financial constraints have deepened and will be the most acute in the first year of the MTEF period given the high likelihood of a negative revenue correction due to SMME business survival struggles and in some cases, total failures. **sefa** therefore requires a cost reduction program, a relentless focus on reducing impairments, the risk of which has increased significantly due to the pandemic, a drive towards efficiency gains and a revenue growth focus. A high-performance culture led by committed leadership will be necessary to position **sefa** well for building a long-term sustainable future.

Scaling Capabilities: The gains of the first phase program will enable **sefa** to start focusing on scaling up its capabilities that support the core, particularly those with cost and efficiency dimensions. Digitising **sefa**'s channels and introducing market interface and engagement tools is vital in the current pandemic reality, conditions of which are likely to persist long into the MTEF period. Customer prospecting and engagement technologies are now an urgent area of capability investment for **sefa**. In line with a broader **sefa**-wide digitisation program, process automation scoping is an early phase start project with full implementation gains (cost and turnaround improvements) to be achieved in the mid-point of the MTEF. The **sefa** structural optimisation is a big focus over the MTEF's cost management considerations. The phase will intensify **sefa**'s understanding of its clients on the back of stronger research capabilities, product development and market segmentation and targeting improvements. Fintech in the lower threshold loan sizes where there is high demand will become the core of how **sefa** broadens its reach and impact, cost-effectively. With this development, the institution will have faster access to customer data which will require big data analytics capabilities to support management decision making. A stable culture and leadership team will enable **sefa** to focus its people processes on retention and succession programs.

Innovating the Delivery Model: As new, tech-driven platforms take shape in **sefa**'s operations, the need to maintain the innovation momentum will be key towards the tail end of the MTEF. **sefa** will look to intensify its usage of 4IR tools such as machine learning and artificial intelligence (AI) helping to improve decision-making all along the operational value chain. AI will expand **sefa**'s war chest of customer behavioural data and through predictive modelling, be in a better position to pre-empt and act on various aspects relating to customer decisions, predicted loan performance and collections success probabilities.

4.5 sefa-Seda Collaboration

To enhance business support services to SMMEs and Co-operatives, **sefa** and Seda will collaborate on the following strategic initiatives over the planning period:

Access to Information

To ensure that SMMEs have access to information across the SMME ecosystem, the agencies will support the establishment of the National SMME database spearheaded by DSBD as well as the related support provided to SMMEs.

sefa and Seda will support the District Development model by partnering with a municipality in each district through the capacitation and training of their Local Economic Development (LED) offices on the products and services of each agency. This partnership will also foster a referral system through an information desk at the LED offices.

Business Development Support Services

The agencies will collaborate to develop a central database of business advisors and mentors that will suit the criteria of both entities for the provision of business support services to SMMEs.

This intervention will strengthen the managerial, business and technical skills of SMMEs through pre and post-funding support.

A central database will also ensure that the quality of the business advisors and mentors is enhanced to meet the requirements of SMMEs.

Access to Finance

A common business plan template has been developed and launched so that SMMEs have access to a business plan template that would meet the requirements of DFIs. Seda is managing the business plan common template and will ensure that applications for funding are channelled to **sefa** and other relevant DFIs. Should an SMME not be funding ready, Seda will implement interventions to assist the SMME to prepare for funding. It is envisaged that the common business plan template will also provide insights into the demand in the SMME market that will inform the design of new products and services for SMMEs.

sefa and Seda will develop an efficient and seamless referral process for SMMEs that require funding. This will cater for SMMEs that approach Seda for business support and post the Seda interventions, and they need financing. This referral process will be embedded in the CRM systems of both agencies.

Access to Markets

The agencies will seek to strengthen access to markets through procurement and business linkages. These will be driven through a sector approach focusing on the job absorptive sectors of the economy.

Seda will focus on preparing SMMEs to be export-ready through various interventions including training whilst **sefa** will finance those SMMEs through appropriate products.

4.6 Townships Enterprise Fund

South Africa's townships remain the remnants of the country's apartheid systems. It was never designed to have viable local economies but rather dormitory settlements for black workers who provided cheap labour to white-owned industries.

The impact of past abandonment, poor investment, overpopulation and isolation from urban areas is still evident, particularly represented by the lack of infrastructure and necessary resources and the high levels of unemployment.

There is a growing policy interest in the strengthening and development of the township economies. The South African government has made some effort to invest in townships since the end of apartheid.

The most visible improvements have been in housing, basic infrastructure and social grants (HSRC, 2019).

Township economies differ in terms of their history, location, current dynamics, constraints and future potential, but they all share a few common characteristics (McGaffin et al., 2015:10):

•Serving the dual purpose of providing cheap labour to established nodes cities and the ability to absorb surplus labour;

•Poorly located and disadvantaged in terms of facilitating economic activity and retrieving other economic nodes and job opportunities; and

•The unequal concentration of lower-income households and lower skill levels.

The South African Cities Network (SACN) and Urban Landmark distinguish between three categories of townships, namely:

•**Apartheid Townships** – created during apartheid as dormitory settlements for black labour to serve white industries and economic activities in these townships were largely prohibited (Examples include Tokoza in Johannesburg, Gugulethu in Cape Town)

•**Post-Apartheid Townships** – largely shaped by the national housing programme (mass delivery of free-standing RDP/BNG houses on cheap, peripheral land. Examples include parts of Tembisa in Johannesburg and Delft in Cape Town.

- **Informal Settlements** – Shacks that is developed on formally developed land and informally occupied land not designated for residential purposes. Examples will include Diepsloot in Johannesburg and Kosovo/Phillipi in Cape Town.

The widespread transformation of the township economy is expected through the development of SMMEs. SMMEs play an important role in the development of the economy through its contribution to the country's GDP and its impact on job creation. While townships seem full of enterprising activity, most entities are informal, survivalist and involve circulating local resources rather than value addition and the production of distinctive goods and services. (HSRC). A research report from the University of Johannesburg (2015) stated that less than 10% of SMMEs in townships have a turnover of more than 1 million and employs more than five people. The majority of township enterprise activity comprise of liquor, grocery and food services (54%), services such as hair salons/barber shops, traditional healers, mechanical and electrical repairs and churches and early childhood care (34%) and micro manufacturing (2%). There exist also a large percentage of illegal enterprise activity such as drug-dealing, counterfeit goods and sex work that is not reflected in official statistics.

Products sold by township enterprises are almost exclusively produced by large corporations outside of townships.

Several challenges have been identified constraining the development of small and microenterprises. They include a lack of available land to conduct business, inadequate services and infrastructure (water, electricity, sanitation, waste and internet), lack of connectivity and thus high transport costs, limited access to finance, inappropriate regulations, limited government support and profitable markets, negative social attitudes and strong competition from more established businesses (Fourie, 2018; Rogerson, 2019).

Therefore, emphasis needs to be placed on the provision of infrastructure in townships and spatial transformation in order to create opportunities for SMMEs and enable them to participate meaningfully in the market which would ultimately reinforce the value chains, both downstream and upstream.

Revitalising township economies require an integrated approach, rather than a piecemeal approach. Townships are extremely diverse, so a tailored approach in each area is essential. Furthermore, to develop township businesses will require organisations to have the willingness to experiment and lasting commitment to continuous learning and improvement.

To strengthen township economies will require targeted investment in activities with high potential and the creation of stronger partnerships between the public sector, private enterprises, NGOs and civil society.

It is the strategic intention of sefa over the planning period to implement a Township Enterprise Fund (TEF). The TEF will a multi-pronged intervention that will facilitate

- access to finance (developing innovative and tailored financing solutions that respond to the needs of the various segments of the township enterprises;
- access to non-financial and technical business support
- access to markets – investment in township markets that can serve as an outlet for locally produced products and linking township enterprises to corporates and different value chains.
- access to business facilities – to coordinate, consolidate and refurbish the government business facilities portfolio in various townships for use by SMMEs and Co-operatives.

4.7 MTEF Strategic Objectives

1. Ensure **sefa** is a high impact, high-performance DFI that is responsive to the government's microeconomic policies and specifically the DSBD MTEF plan

2. Align **sefa**'s organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy

3. Develop the **sefa** brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models

4. Improve **sefa**'s sustainability, operational effectiveness, efficiencies and service delivery by streamlining business processes and deploying technology solutions

4.7 sefa's Contribution to MTSF 2019-2024 and DSBD Outcomes

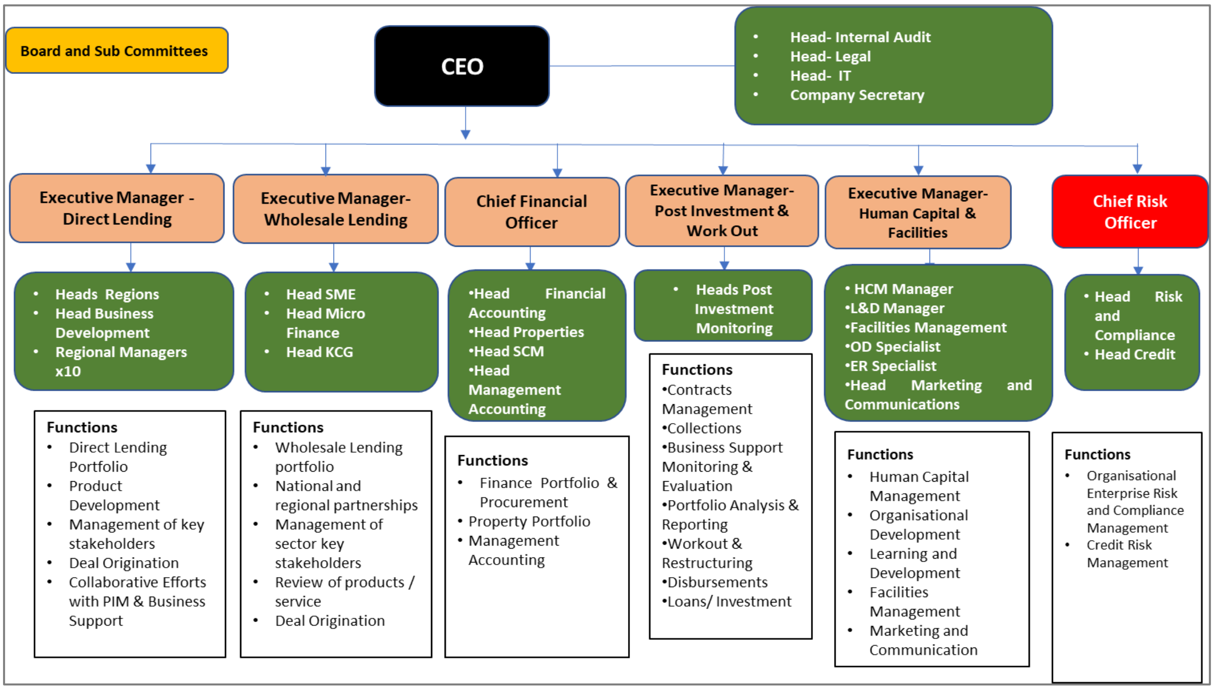
The table below depicts **sefa**'s proposed interventions and contributions aligned to the MTSF and DSBD's Strategic Outcomes

MTSF/ DSBD Focus	MTSF Intervention	sefa Intervention	sefa's Contribution over the MTSF Period (2021 -2025)
Priority 2: Economic Transformation and Job Creation			
Competitive & accessible markets	Strengthen development finance towards SMME development	Implementation of Direct Lending, Wholesale Lending & Credit Guarantee loan programmes	• Loan approvals: **R13.2 billion** • Loan disbursements: **R9.7 billion** • Numbers of Enterprises financed: **1 017 379** • Number of jobs facilitated: **1 485 374**
	Facilitate the increase in the number of competitive small businesses with a focus on township and rural development	Targeted loan programme interventions focusing on townships and rural villages Targeted relief fund and growth and recovery fund programmes for SMMEs impacted by COVID-19. (Support survival of SMMEs and saving of jobs)	• Total disbursements to townships: **R3.8 billion** • Total disbursement to rural towns and villages: **R4.4 billion** • Total COVID-19 linked Stimulus Funding **R2.1 billion**
Increased economic participation, ownership and access to resources and opportunities by women, youth and persons with disabilities	Programmes to expand access to finance, incentives and opportunities for women, youth and persons with disabilities-led and owned businesses, including those in the informal sector	Targeted loan programme interventions focusing on women, youth and persons with disabilities	• Total disbursements to women: **R4.8 billion** • Total disbursements to youth: **R3.9 billion** • Total disbursements to people with disabilities: **R293 million**
Rural economy, Implementation Plan: Sustainable land reform	Land acquired for redistribution, restitution and tenure reform	Implementation of Land Reform Empowerment Fund	Total approvals: R86 million

Priority 6: Capable, Ethical and Development State			
Functional, efficient and integrated government	Modernise business processes in the public sector	Over the planning period, **sefa**'s end-to-end business processes (lending business process, employee, corporate governance, finance, facilities & IT, performance management and reporting) will be automated	• Improved turnaround times • Reduced operating costs & improved organisational efficiencies • Increased customer satisfaction

5 Organisational Structure

The diagram below depicts high level organisational and functional structure.



As at 31st December 2019, **sefa**'s staff complement was 249. The headcount comprises of 2% Executive Management, 9.6% senior management and 88.4% comprised of professional and administrative staff.

During the MTEF period, **sefa** has embarked on a business model, business process and organisational review to achieve greater organisational efficiencies and customer alignment. In addition to this the Executive Authority made sefa aware of a cabinet decision to re-purpose **sefa** and Seda. This may end-up in a new entity with a different mandate to what sefa currently has.

6 PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Measurement Indicator	FY 2020/21	2021/22	2022/23	2023/24	2024/25	5-year Target
Objective 1 -Ensure Sefa is a high impact, high performance DFI that is responsive to government's microeconomic policies and specifically the DSBD MTEF plan						
Loan Book Performance						
Total Approvals - sefa and TEF (R'000)	2 770 611	2 862 170	2 437 522	2 516 561	2 613 808	13 200 672
Total disbursements to SMMEs and Co-operatives (R'000)	1 986 559	2 199 856	1 803 602	1 856 972	1 936 588	9 735 577
Number of SMMEs and Co-operatives financed	106 883	177 043	163 860	175 000	189 397	812 183
Number of jobs facilitated	164 210	204 515	203 463	215 092	230 100	1 017 379
Development Impact						
Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	794 623	879 942	721 441	742 789	774 635	3 913 431
Facilities disbursed to enterprises to rural towns and villages (R'000)	893 951	989 935	811 621	835 637	871 465	4 402 609
Facilities disbursed to women-owned businesses (R'000)	993 279	1 099 928	901 801	928 486	968 294	4 891 788
Facilities disbursed to black-owned businesses (R'000)	1 494 924	1 716 925	1 459 357	1 506 533	1 577 125	7 754 864
Disbursements to township-based enterprises (R'000)	653 138	815 502	746 154	774 222	816 417	3 805 433
Facilities to people with disabilities (R'000)	59 597	65 996	54 108	55 709	58 098	293 507

Objective 2 - Align sefa's organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy						
Human Capital Management						
Employee Satisfaction Index	70%		75%		85%	85%
Percentage of staff (P – Band and above) that scores 3.1 or more in the annual performance assessment.	80.00%	80.00%	80.00%	80.00%	80.00%	80%
Objective 3 - Develop the sefa brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models						
Organisational Collaboration						
Level of Customer Satisfaction		80%		80%		80%

sefa/seda collaboration	National SMME Database: **sefa** customer data available for reporting purposes - Central database of business mentors & advisors: **sefa** mentorship activities integrated with Seda business advisors -Common application template: Additional integrations to available sources. Implement business plan quality rating					
Collaborative partnerships with the private and non-governmental sector	Central database of business mentors & advisors: **sefa** mentorship activities	5	5	5	5	20
Objective 4 - Improve **sefa**'s sustainability, operational effectiveness, efficiency and service delivery by streamlining business processes and deploying technology solutions						
Financial Sustainability						
Cost to Income Ratio	122%	130%	130%	100%	100%	100%
Accumulated Impairment provision as a percentage of total loans and advances	40%	38%	36%	34%	34%	34%
Collection Rate	85%	85%	85%	85%	85%	85%

Level of Organisational process automation	20%	40%	60%	80%	100%	

Annexure 1 – provides an outline of the description of the performance indicators, data collection processes and the accountable process owners

*** Total Approvals include sefa's funding as well as the Township Enterprise Fund**

****sefa will be implementing the government's district development model and quarterly reports will indicate the level (the number of SMMEs financed & associated developmental impact) of support provided in the 44 districts.**

*** *Employee Engagement and Customer Satisfaction will be measured every alternative year.*

See Annexure 4 for the explanatory details on sefa's initiatives and alignment in relation to SMMEs and Co-operative support.

Loan Programme Strategies and Outcomes – Financial Years 2020/21 – 2024/25

Loan Programme	Direct Lending	Wholesale Lending	Informal and Micro Enterprise	Khula Credit Guarantee
Strategic Focus	• Lending to job/labour absorptive enterprises and sectors • Re-position positioning of loan programmes – efficiency and customer front • Economic Recovery Lending programmes (SMME Debt Relief, Bakeries & Confectionaries Support Programme, Informal Clothing and Textile businesses, Tshisanyama and Cooked Food Vendors, Small Enterprise Manufacturing Support Programme	• Sector-based lending programmes - heavy and light manufacturing, green industries, telecommunications, infrastructure development, tourism, agro-processing	• Expanding the micro-enterprise loan programme footprint; • New lending programme to Personal Care Providers and Fruit and vegetable Vendors; • Introduction of Fintech Lending model to increase access and reduce the cost of lending	• To expand the utilization of the Credit Indemnity Scheme by increasing the number of participating institutions, introduction of new products, and the streamlining of business processes and systems. • Increase the capitalisation of the scheme to broaden its impact by reaching out to more participating institutions
Loan Book Outcomes				
Approval	R 3.7 billion	R 2.2 billion	R2.6 billion	R 4.7 billion
Disbursement to End-user	R 3.1 billion	R 2 billion	R 3.0 billion	R 1.6 billion
No of Enterprises Finances	16378	1 621	658 565	135 619
Jobs Facilitated	92 742	25 512	658 565	241 000
Development Impact – Disbursements				
Black-owned Enterprises	R2.2 billion	R 1.4 billion	R 3.0 billion	R 1.1 billion
Women-owned Enterprises	R1.6 billion	R 1 billion	R 1.5 billion	R 818 million

Loan Programme	Direct Lending	Wholesale Lending	Informal and Micro Enterprise	Khula Credit Guarantee
Youth-owned Enterprises	R1.2 billion	R 816 million	R 1.2 billion	R 654 million
Township Based Enterprises	R771 million	R 510 million	R 2.1 billion	R 409 million
Enterprises Located in Rural Towns and Villages	R1.4 billion	R 918 million	R 1.4 billion	R 736 million
Enterprises owned by people with Disability	R92 million	R 61 million	R 90 million	R52 million

Note: For detailed outline and discussion of the loan implementation programmes please refer to Section 11 of this document.

7 FINANCIAL IMPLICATIONS

sefa's initial capitalisation was derived from:

1. the balance sheet of the merged institutions (Khula and **samaf**),
2. annual transfers from the fiscus (MTEF allocation), and
3. the long-term interest-free loan from the IDC

sefa receives a MTEF allocation through the Economic Development Department (EDD) ,now the Department of Trade, Industry and Competition (DTIC), on an annual basis. This MTEF allocation is received via our shareholder, the IDC, and accounted for by **sefa** as a shareholder loan in terms of the signed IDC Annual Grant Through Shareholder Loan Agreement.

For the MTEF period, R777.6 million MTEF allocation, which is a reduction of R24.5 million (an equivalent of R8 million annually over 3 years). The MTEF allocation is utilised to subsidise the interest rate, funding of support services to clients, the Khula Credit Guarantee Fund and shortfalls incurred in operations of **sefa**. A projected inflationary increase was calculated for the remaining 2 years of the 5-year planning period.

sefa strives to raise funds through donor funding and thus maximising on job creation and developmental impact. R450 million has been raised in the last 2 years with the European Union, and R300 000 of that amount will be received in the financial year 2021.

In response to the COVID-19 pandemic, **sefa** through initiatives with the DSBD set up various instruments /facilities.

a) SMME Debt Relief Finance Facility (R513 million)
b) Business Growth and Resilience Facility (R50 million)
c) Spaza Shops Support Programmes (R175 million)
d) Restructuring of sefa-funded loans
e) Informal Clothing and Textile (R105 million)
f) Small Enterprise Manufacturing Programme (R350 million)
g) Additional New programmes (R600 million) through reprioritization of TEF.

The Instruments/Facilities above will be funded partially by **sefa's** current budget allocated funds through reprioritisation of funds from Small Business and Innovation Fund (SBIF), Blended Finance and Township Entrepreneurship Fund (TEF). The rest of the funds will be sourced externally from the DSBD, Department of Trade, Industry and Competition (DTIC) and **Seda**. By end of March 2020, virements totalling R280 million had already been approved by National Treasury for **sefa's** COVID-19 instruments/facilities. A total of R1.793 billion in funding to SMMEs will emanate from this programmes in the 2021 financial year.

R2.8 billion Township Entrepreneurship Fund (TEF) had initially been allocated to **sefa**, over the MTEF period, with additional R1 billion per year budgeted for 2024 and 2025 Financial Years (FY), adding to a total of R4.8 billion over 5 years. An amount of R200 million was reprioritized to fund abovementioned new facilities and programmes created in response to the emergence of the COVID-19 pandemic, leaving a remaining amount of R600 million.
For 2020/21 financial year, R600m was budgeted for additional new programmes as follows:

a) Bakeries and confectionaries (R100 million)
b) Autobody repairers and mechanics (R225 million)
c) Fruit and Vegetable Hawkers (R135 million)
d) Hairdressers and Personal Care (R90 million)

e) Tshisanyama and Cooked Food (R50 million)

This fund will be used for end user loans and grants under Micro, Direct and KCG portfolios at discretionary rates to SMME's, and will allow **sefa** to facilitate in the creation and maintenance of 1485 374 jobs, loan book approvals of R13.2 billion and loon book disbursements of R10.6 billion with roll over effect over 5 years.

(R'000s)	2020/21	2021/22	2022/23	2023/24	2024/25	**Total over MTEF**
MTEF Allocation	246 908	260 541	270 164	283 672	297 855	777 613
TEF Allocation	800 000	1 000 000	1 000 000	1 000 000	1 000 000	4 800 000

sefa currently has a signed facility letter with IDC for an interest-free loan and 5-year capital moratorium of R921 million. During the 2019 financial year, **sefa** signed an R640 million loan agreement with IDC and an R150 million loan drawdown was made in 2019 financial year. The budget assumptions for the drawdowns are as follows:

	2018/19 (the amount is already drawn)	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Drawdowns (R'000s)	150 000	290 000	200 000	0	0	0	640 000

Since inception, **sefa's** financial performance has been under pressure due to low growth economic environment which had a negative impact on the performance of **sefa** funded clients and the related effect of **sefa** loan book performance. Negative revenue growth as a result of the erosion of capital and the declining loan book emanating from high impairments, non-profitable properties, high staff cost structure and the direct lending expensive operating model, which had an adverse effect on **sefa** cost to income ratio, cash reserves and overall **sefa's** financial sustainability.

The MTEF reductions will have a significant impact on **sefa's** financial sustainability, business performance (loan book outcomes), cash balances and reserves. To achieve some positive financial outcomes, **sefa** will introduce financial measures and initiatives to counter the reduction in the allocation from fiscus and funding deficit.

The budget assumes that the IDC interest-free loan will be fully drawn down by the end of year five at R640 million.

COVID-19 is forecasted to have an impact on **sefa's** financial projections, in particular:

a) Interest Income earned on the COVID-19 funds will attract concessionary interest rates of prime minus 5%. The other new programmes are also anticipated to be at concessionary rates. This is exacerbated by the impact of the reduction in repo rate by the SARB which has an overall impact of **sefa** earning lower interest in 2020/2021 than originally anticipated.
b) Rental Income
The impact of the rental income interventions (6-month rental holiday) on **sefa's** property book will reduce original budgeted rental income by R9.5 million.

c) Impairments
The overall impairment rate is forecasted to end at 36% for the year FY2021 in the revised budgets, mainly due to payment and interest holidays given to qualifying clients, increased credit risk as a result of COVID-19 and reprioritising of existing funds towards riskier clients.

d) Payroll Costs:
We estimate that **sefa**'s payroll costs will increase due to additional human resources required by various departments that will be involved in the administration and execution of the various COVID-19 facilities to SMMEs.
The impact of the lower income and increased expenses in the 2021 financial year will result in **sefa** having higher than 100% cost-to-income ratio.

Cost containment remains a priority for **sefa** together with operational efficiency. **sefa** continues to aim to operate within available resources whilst working towards:

- attaining a 100% cost to Income ratio (generate adequate income to cover costs),
- maintain positive cash balances throughout the budget period,
- maximise the use of donor funding to enable job creation and developmental impact,
- implement targeted impairment reduction initiatives; and
- the utilisation of optimal product mix to create jobs.

sefa is factoring in a possible change to its operational cost structure in the short term due to COVID-19 remote working and social distancing provisions. These are likely to impact staff overhead cost as well as customer reach and servicing costs, which we believe will negatively impact the cost to income ratio.

Over the MTEF period, the focus is on **sefa's** ability to operate within the available sources of funding whilst maintaining positive cash balances, operational efficiency and the cost-to-income ratio of 100%. The following measures will be implemented:

a) Re-engineering and optimise the organisational structure to achieve the projected outcomes of strategic planning.

b) The repositioning and sale of non-strategic and non-profitable making properties with R63m cost savings over the five years. Relevant approval will be sought as per DOA, materially and significance framework and as per section of 54 of the PFMA in relation to any sale of significant assets.

c) The repositioning of the KCG programme based on the loan multiplier effect and accessing private sector resources for SMME lending through Supplier Credit Agreements and banking institutions.

d) Renegotiation of the IDC loan through accessing the un-allocated R281 million of the IDC loan and though not applied possible renegotiations of extended repayment terms.

e) A strengthened and dedicated post-investment programme to support client sustainability.

f) Re-align funding criteria to maximise the jobs impact.

Impairments are inherent to the lending business, added to that are micro and macro-economic challenges and the moral hazard of lending to SMMEs and Co-operatives. Historically **sefa** has suffered high impairment losses. The following tables illustrate the historical (2018/19 to 2019/20) actuals and budget assumptions.

Measure	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Accumulated impairment % (Including equities but excluding DL legacy	47%	41%	40%	38%	36%	34%	34%
Increase in expected credit losses on loans and advances	(129 333)	(168 594)	(596 201)	(180 903)	(180 716)	(184 638	(190 385)

sefa's objective is to remain focused on financial sustainability and to support the business. The outputs of the above will result in total income including MTEF and other grants allocation over the period of R9.0 billion, compared to total expenditure inclusive of impairments of R7.3 billion, resulting in a surplus of R1.7 billion. The business remains cash positive; however, the group cash balances at 2025 financial year are mainly attributable to high cash balances in TEF, SBIF, COVID-19 programmes and **sefa's** subsidiaries KCG. **sefa** (the company) may have an issue in the last two years of the forecast periods if we are not allowed to keep re-flows from the respective funds.

7.1 Income Statement

STATEMENTS OF COMPREHENSIVE INCOME R'000	2019 AUDITED	2020 Actual Unaudited	2021 FORECAST	2022 FORECAST	2023 FORECAST	2024 FORECAST	2025 FORECAST
Interest from lending operations	66 709	64 348	50 063	106 070	104 282	110 616	114 817
Increase in expected credit losses on loans and advances	(129 333)	(168 594)	(596 201)	(182 903)	(180 716)	(184 638)	(190 385)
Loss from lending activities	**(62 624)**	**(104 246)**	**(546 138)**	**(76 833)**	**(76 434)**	**(74 022)**	**(75 568)**
Fee income from loans	5 493	8 124	7 725	12 279	12 720	13 181	13 666
Indemnity fees	2 074	2 823	3 017	2 774	2 411	2 531	2 658
Investment property rental income	27 635	23 874	17 463	28 806	30 823	32 981	35 289
Interest on overdue rental debtors	1 719	1 321	-	-	-	-	-
Investment income	42 816	40 851	59 883	33 941	53 391	66 481	75 214
Other income	16 855	22 666	7 616	7 748	1 298	1 729	5 203
Interest on related party loans	-	-	-	-	-	-	-
Interest expense on shareholder's loan	(41 171)	(46 484)	(52 409)	(67 139)	(74 865)	(78 482)	(33 197)
Gross loss after finance costs	**(7 203)**	**(51 071)**	**(502 843)**	**(58 424)**	**(50 656)**	**(35 601)**	**23 265**
Net fair value (loss)/gain on investment properties	5 254	-	-	-	-	-	-
Increase in impairments on investments	(3 777)	-	-	-	-	-	-
Investment property expenses	(53 524)	(50 302)	(58 671)	(62 823)	(68 719)	(63 911)	(68 385)
Personnel expenses	(177 180)	(201 966)	(312 104)	(300 210)	(280 833)	(297 063)	(313 859)
Other operating expenses	(76 965)	(90 394)	(113 853)	(83 353)	(78 277)	(86 025)	(92 507)
Operating loss	**(313 395)**	**(393 733)**	**(987 471)**	**(504 810)**	**(478 485)**	**(482 600)**	**(451 486)**
Profit from equity accounted investments, net of tax	13 738	27 742	48 000	56 599	59 331	62 196	62 207
Grant paid	-	(28 524)	(900 976)	(639 375)	(639 375)	(639 375)	(639 375)
Grant Income Received	-	28 524	1 675 282	1 540 967	1 589 340	1 513 386	1 435 990
Loss before tax	**(299 657)**	**(365 991)**	**(165 165)**	**453 381**	**530 811**	**453 607**	**407 336**
Income tax credit/(charge)	3 535	-	(2)	-	1	(1)	-
Net Profit/(loss) for the year	**(296 122)**	**(365 991)**	**(165 167)**	**453 381**	**530 812**	**453 606**	**407 336**

7.2 Balance sheet

STATEMENTS OF FINANCIAL POSITION R'000	2019 AUDITED	2020 Actual Unaudited	2021 FORECAST	2022 FORECAST	2023 FORECAST	2024 FORECAST	2025 FORECAST
ASSETS							
Cash and cash equivalents (Group)	593 368	564 929	838 816	1 087 481	1 122 017	1 065 837	1 034 921
Cash and cash equivalents (SBIF)	-	669 772	47 139	88 672	157 130	228 155	301 844
Cash and cash equivalents (TEF)	-	-	5 463	26 278	76 556	149 484	232 082
Cash and cash equivalents (COVID-19)	-	79 000	37 977	189 406	363 453	475 954	537 174
Cash and cash equivalents (EU)	-	149 998	6 082	27 743	52 757	78 726	105 686
Cash and cash equivalents (Managed Funds)	71 594	66 918	66 918	66 918	66 918	66 918	66 918
Trade and other receivables	32 569	63 536	48 746	50 970	29 194	31 881	34 827
Current tax asset	579	579	579	579	579	579	579
Loans and advances	389 441	420 471	577 347	615 753	736 729	867 908	965 910
Loans and advances (SBIF)	-	0	231 470	203 424	147 976	89 473	27 748
Loans and advances (TEF)	-	0	39 939	91 050	117 243	125 310	128 503
Loans and advances (EU)	-	0	102 529	81 434	57 887	34 340	10 792
Loans and advances (COVID-19)	-	0	446 973	320 585	172 145	85 177	48 391
Investment properties	187 469	187 469	151 070	151 070	151 070	151 070	151 070
Equipment, furniture and other tangible assets	5 532	7 772	12 905	10 756	8 044	5 359	3 787
Intangible assets	588	2 507	19 946	17 472	14 564	11 201	7 703
Right-of-use assets	-	-	28 820	20 358	14 150	4 810	50 499
Deferred tax asset	4 454	4 454	4 454	4 454	4 454	4 454	4 454
Equity investments	926 184	934 625	977 270	1 020 966	1 061 768	1 105 964	1 154 170
TOTAL ASSETS	**2 211 778**	**3 152 030**	**3 644 443**	**4 075 369**	**4 354 635**	**4 582 601**	**4 867 058**
EQUITY AND LIABILITIES							
Share capital	308 300	308 300	308 300	308 300	308 300	308 300	308 300
Shareholder reserves	1 862 543	2 103 996	2 234 570	2 315 495	2 315 495	2 315 495	2 315 495
Retained earnings and other reserves	(708 860)	(1 079 819)	(1 250 653)	(797 270)	(266 459)	187 144	595 482
Equity attributable to owners of the parent	**1 461 983**	**1 332 477**	**1 292 217**	**1 826 525**	**2 357 336**	**2 810 939**	**3 219 277**
Non-controlling interest	11	11	11	11	11	11	11
Total equity	**1 461 994**	**1 332 488**	**1 292 228**	**1 826 536**	**2 357 347**	**2 810 950**	**3 219 288**
Liabilities							
Trade and other payables/	145 565	153 983	180 665	184 755	188 731	192 515	196 421
Grants Received in Advance	-	1 000 476	1 253 103	972 677	653 501	420 248	274 728
Lease Liabilities	-	-	30 562	22 802	16 201	4 168	51 250
Outstanding claims reserve	8 123	6 698	9 342	7 960	6 834	7 171	7 525
Unearned risk reserve	12 962	28 880	37 050	32 779	29 300	30 342	31 436
Post-retirement medical liability	554	443	594	751	750	754	754
Shareholder's loans	582 580	629 062	840 899	1 027 109	1 101 971	1 116 453	1 085 656
Total liabilities	**749 784**	**1 819 542**	**2 352 215**	**2 248 833**	**1 997 288**	**1 771 651**	**1 647 770**
TOTAL EQUITY AND LIABILITIES	**2 211 778**	**3 152 030**	**3 644 443**	**4 075 369**	**4 354 635**	**4 582 601**	**4 867 058**

7.3 Cash Flow Statement

	2019 AUDITED	2020 Actual Unaudited	2021 FORECAST	2022 FORECAST	2023 FORECAST	2024 FORECAST	2025 FORECAST
Cash flows from operating activities							
Cash utilised by operations	(198 951)	(241 400)	(1 733 024)	(1 077 567)	(1 038 602)	(1 073 085)	(1 088 338)
Loans and advances awarded to customers or investees	(61 784)	(209 948)	(1 563 665)	(96 890)	(100 450)	(154 866)	(169 521)
Tax paid	(25)	-	-	-	-	-	-
Net cash utilised by operating activities	**(260 760)**	**(451 348)**	**(3 296 689)**	**(1 174 457)**	**(1 139 052)**	**(1 227 951)**	**(1 257 859)**
Cash flows from investing activities							
Purchase of equipment, furniture and other tangible assets	(2 674)	(5 574)	(9 100)	(2 881)	(3 025)	(3 176)	(3 335)
Purchase of intangible assets	(44)	(3 354)	(20 650)	(2 785)	(2 917)	(3 067)	(3 220)
Improvements on investment properties	-	-	-	-	-	-	-
Investment income	52 740	49 429	59 883	33 941	53 391	66 481	75 214
Grant income received	-	1 029 000	1 927 908	1 260 541	1 270 164	1 280 133	1 290 470
Acquisition of investments	2 771	5 757	5 354	12 905	18 528	18 000	15 000
Proceeds from sale of property and equipment	35	294	1	-	-	-	-
Proceeds from sale of investment properties	1 659	-	29 899	(7 000)	(7 000)	-	-
Net cash generated by investing activities	**54 487**	**1 075 552**	**1 993 295**	**1 294 721**	**1 329 141**	**1 358 371**	**1 374 129**
Cash flows from financing activities							
Dividends paid	-	-	-	-	-	-	-
Repayment of the lease liabilities	-	-	(14 826)	(10 536)	(12 126)	(14 551)	(13 094)
Capital funding received from shareholders	378 837	241 453	790 000	374 375	174 375	110 375	110 375
Net cash from financing activities	**378 837**	**241 453**	**775 174**	**363 839**	**162 249**	**95 824**	**97 281**
Net increase/(decrease) in cash and cash equivalents	172 564	865 657	(528 220)	484 105	352 336	226 244	213 550
Cash and cash equivalents at beginning of year	492 398	664 962	1 530 617	1 002 395	1 486 498	1 838 831	2 065 074
Cash and cash equivalents at end of year	**664 962**	**1 530 619**	**1 002 397**	**1 486 500**	**1 838 834**	**2 065 075**	**2 278 624**
Cash held on behalf of managed funds	(71 594)	(66 918)	(66 918)	(66 918)	(66 918)	(66 918)	(66 918)
Cash attributable to the Group	**593 368**	**1 463 701**	**935 479**	**1 419 582**	**1 771 913**	**1 998 157**	**2 211 706**

7.4 Key Ratios

Outcome	Outputs	Output Indicators	Audited Performance			Estimated Performance	Projected 2021/22	Projected 2022/23
			2017/18	2018/19	2019/20	2020/21		
Ensure the financial sustainability of the entity and contain costs	Financial sustainability	Cost to income ratio (excluding impairments, TEF, EU results, COVID-19 SBIF results, and blended finance,) The cost to income ratios in the 2018 and 2019 financial years included impairments	102%*	105%*	79%	122%	130%	130%
Cash and capital preservation	Capital Preservation and financial sustainability	Accumulated Impairment provision as a percentage of total loans and advances (excluding Direct Lending disbursement before 1 April 2016) The accumulated impairments ratios in the 2018 financial years included disbursements prior to 1 April 2016	37*	47%	41%	40%	38%	36%
Operational Efficiency		Personnel costs/ loans and advances and equities	11%	13%	15%	20%	18%	16%

8 Risk MANAGEMENT

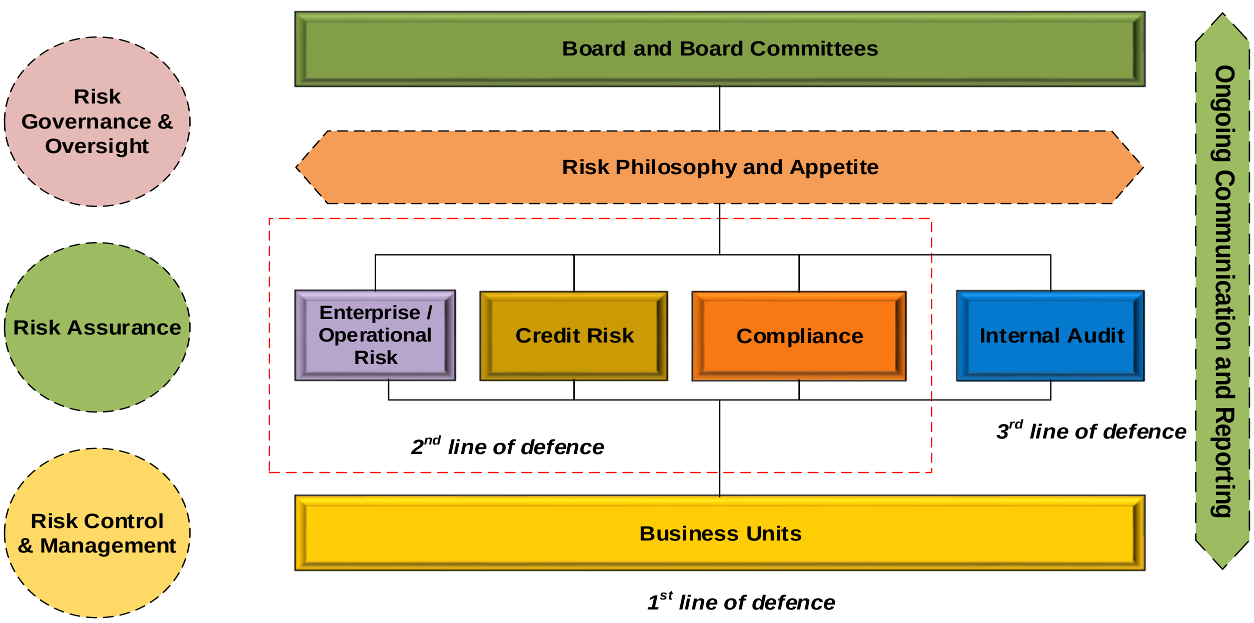
In line with best practice and as required by the PFMA, King IV as well as the National Treasury Regulations, **sefa** will undertake an assessment of the risks it faces on an annual basis to identify emerging and critical risks. The results of this assessment will enable **sefa** to build and maintain its risk register continuously.

8.1 Risk management strategy

sefa adopted an integrated risk management strategy, based on international best practice, to ensure the achievement of its stated objectives.

This strategy incorporates an integrated model for risk management roles and responsibilities which were adapted from the internationally recognised three lines of defence model, as depicted in the diagram below:

sefa ERM Framework



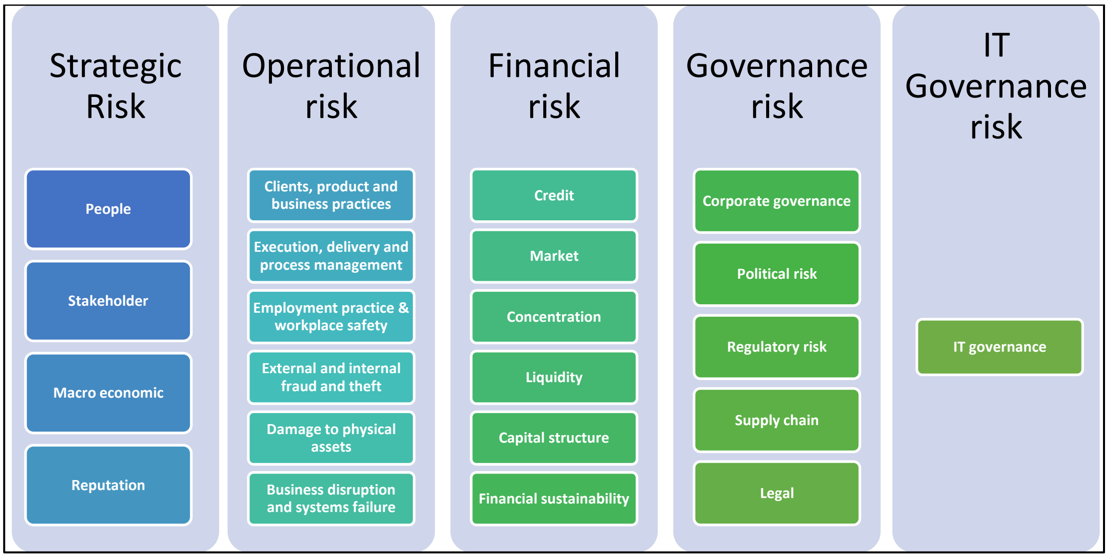
Risk management strategy

8.2 sefa's Risk Universe

As a development finance institution, **sefa's** operating environment exposes it to many risks which are inherent in its business activities.

The universe of risk categories which have been identified as core to **sefa** is reflected in the diagram below.

sefa's Risk Universe



From these risk categories, the following key strategic risks were identified and assessed as potentially having a strategic impact on the overall achievement of the **sefa** objectives:

- **Organisational Strategic Balance** - The inherent tension between the developmental mandate and financial sustainability objectives which may disrupt the organisational strategic focus and balance;
- **People-** Insufficient levels of adequately skilled, motivated and performance-driven human resources to execute on the mandate of the organisation;
- **Financial (Collections) -** Inability of **sefa** to collect on the loans and other investments resulting in high levels of impairments and losses;
- **Performance Reporting -** Inadequate monitoring of and timeous reporting on the performance of the organisation;
- **Governance and Compliance -** Ineffective corporate governance and compliance structures and processes to ensure that the organisation is effectively governed within all regulatory requirements;
- **Customer -** Inability to effectively and efficiently deliver products and services that respond to the needs of the clients of **sefa**;
- **Talent Management -** Ineffective harnessing of the skills through an effective talent management strategy and
- **Organisational Sustainability -** Inability to define and secure the long-term sustainability of **sefa** to continue delivering developmental solutions to its stakeholders.

The above-identified strategic risks are subject to annual review to assess its relevance and identify new risks. Specific mitigating actions were identified and will form the basis of the monitoring of and reporting on **sefa**'s strategic risk profile throughout the financial year.

8.3 Transaction and Counterparty Limit

sefa's transaction and counterparty limit for direct lending is set at R 15 million for identified strategic sectors and will be reviewed on an ongoing basis in line with the delegation of authority.

Investment in intermediaries, funds and joint ventures via the wholesale lending products are limited to R150 million.

8.4 Improvement of risk management capability

In 2020/21, the organisation will focus on the improvement of risk management capability, whilst ensuring that critical risk exposures assumed are adequately assessed and managed. This will include:

- Embedding a risk awareness and responsive culture and practice to enable **sefa** to respond appropriately through targeted awareness and training interventions;
- Creating a centre of excellence in risk management to serve the business areas in the identification, assessment, treatment, monitoring and reporting of risks through the appropriate acquisition and deployment of people with the right level of risk management knowledge, skills and experience;
- Developing technological solutions to dynamically record, monitor and report on risks, including risk models which provide information on the behaviour of the risks, specifically credit risk;
- Enhanced measurement and accountability for the monitoring and reporting of key risk exposures through the implementation of reporting formats and structures which feed into the respective governance structures of the organisation;
- Integrating strategy planning and reporting with risk management, monitoring and reporting; and
- Improving governance processes, including policies, procedures, tools and templates to create a standard that will ensure uniformity, efficiency and effectiveness in the management of risks.

8.5 Key Organisational Risks

As a development finance institution, **sefa's** operating environment is exposed to many risks which are inherent in its business activities. **sefa'** risk universe entails the following categories of risk:

- Strategic risk
- Operational risk
- Financial risk
- Credit risk
- Governance risk and;
- Information Technology Governance risk

From these risk categories, strategic risks were identified and assessed in order to be managed in pursuit of **sefa**'s mandate and objectives. The identified strategic risks are subject to annual review to assess its relevance and identify emerging risks. Specific mitigating actions were identified and will form the basis of the monitoring of and reporting on **sefa**'s strategic risk profile throughout the financial year.

A key risk consideration for **sefa** on its business is the COVID-19 pandemic, which constitutes an unprecedented global macro-economic shock of uncertain magnitude and duration. Activity in a number of sectors, including tourism, transportation, automotive and services, has collapsed in the economies most affected by the pandemic and is spreading to the other parts of the economy as demand is falling. The depth of the downturn, and the timing and shape of the recovery remain uncertain. Small businesses are affected by these challenging macroeconomic conditions and as a result, impacting on **sefa**'s ability to achieve its mandate and strategic objectives due to low product uptake and high impairments. Some small businesses experienced difficulties operating during the national lockdown and would not have managed to see through the national lockdown, impacting on **sefa**'s ability to recover invested funds as the collection rate lowered.

Table: 1 - Strategic Risk Register

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
Ensure **sefa** is a high impact, high-performance DFI that is responsive to the government's macroeconomic policies and	Credit default risk originating from the quality of loan book.	High-risk target market – as a DFI, **sefa** provides loans to clients which exposes it to credit risks i.e. clients may fail to make required payments	Develop customer intelligence for existing and target clients incorporating internal and external data sources. Leverage technology to optimise the pre-decision stage to the loan application process. Develop a business model that is focused on the market segment for funding

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
specifically the DSBD MTEF plan			Product and channel innovation workstreams established to look at how **sefa** can find new ways of serving its market efficiently.
	Shift in **sefa's** financial position which could potentially lead to financial unsustainability	• Weakening of South African fiscal and macroeconomic environment due to global instability • Increased impairments due to SMMEs failure as a result of low economic activity and prolonged COVID-19 pandemic	• Strong focus on developing alternative sources of income i.e. donor funds, implementation of Corporate ESD programmes, • Building a robust post-loan support programme to enhance client sustainability •
		• Moral hazard that is adversely affecting **sefa**'s ability to collect repayments timeously.	• Develop a collection of culture and processes to increase the propensity of customer collections • Enhancement of the PIM collections process to include early warning signals by using technology. Workout and restructuring to be carried out once clients are flagged through the systems.
	A risk arising from challenging macroeconomic conditions impacting on **sefa**'s ability to achieve its mandate and strategic objectives	• State of the economy and its negative impact on SMMEs – low product uptake and high impairments.	• Dedicated market analysis, continuous assessments of alternative sources of financing; • Review and improvement of pricing model;
		• Weak GDP growth negatively affecting SMME sector prospects and impact on sefa due to reduced government funding	• Proactive monitoring of the credit portfolio • Use of data analytics for client's acquisition, portfolio diversification and post loan management. Top 20 watchlist developed and monitored.
	Credit risk management	• Lack of documented risk acceptance triggers by product and segment.	• Conduct detailed industry analysis for key sectors within the Portfolio. The risk acceptance triggers should be set up based on industry/sector analysis and early warning signals monitored with triggers identified.

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
		• Lack of sector and industry-based benchmarking systems leading to inadequate risk assessments. • Enterprise risk management mostly focused on operational risk management. The risk culture is still not entirely embedded in the organisation. • Credit risk profiling not incorporating environmental risks for business financed.	• Development of risk tolerance parameters by product, market segment and Channel. • Expand the role of the risk management unit to ensure sufficient coverage and attention to all risks, proactive risk management applying to new deals.
	Recovery of invested funds – low collections and high impairments particularly on old debt book	• Capacity and capability within **sefa** – structural and resourcing capabilities • Low levels of collections and high impairments • Possible loss of potential recoveries due to failure of small business impacted by COVID 19	• Review the current client on-boarding process and introduction enhanced system • Investment monitoring system – early warning systems to improve the monitoring process • Improved working collaborations with Wholesale SME and Direct Lending to enhance portfolio performance • Top 20 client reporting and interventions • Skills acquisition and development of PIM resources • COVID 19 Debt relief fund and business growth
	Risk of lower than expected developmental impact on projects financed and implemented	• Stagnant growth in the SMME sector • Some funded intermediaries are not fit for purpose • **sefa** product portfolio not well-targeted	• Portfolio diversification incorporating longer-term investments with more significant impact and more sustainable jobs. • Development of an in-house sector specialist skills that will ensure improved quality investments

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
			• Prioritise CRM development and ensure that it has a full 360 customer view (volume of business, customer value, history, profitability). Consider digitisation of the credit files.
Improve **sefa**'s sustainability, operational effectiveness, efficiencies and service delivery by streamlining business processes and deploying technology solutions	Lack of standardised business processes limits the value add **sefa** can derive from **sefa**Las.	• There is currently no automated processes and inadequate information management systems to bring efficiencies and effectiveness and decision making.	• Implement value-add solutions – automate processes to improve operational efficiencies. • Employ data analysis capabilities to create early warning signal models based on the past repayment behaviour of clients. • Develop models for the analysis of portfolios of intermediaries.
	Compliance to laws and regulations	• There has been an increasing regulation within the financial services and focus of risks by regulators	• Compliance monitoring and reporting to regulatory bodies regularly • Governance risks and Compliance monitoring regularly • Internal controls reviewed regularly
Develop the **sefa** brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models	Lack of customer centricity and lack of stakeholder focus	• There is a lack of pro-active customer relations strategy • Electronic communication (e.g. through cell phones) not optimised customer feedback/feedback post application process. • Non-adherence to loan applications turnaround times. • Extensive deal-making requirements clients are unable to meet.	• Customer relationship management system to be developed • Post investment customer support with Marketing and PIM collaboration

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
	Lack of brand visibility and weak level of brand equity for **sefa**	• Limited accessibility of **sefa** to its target market (physical and electronic infrastructure) • Inadequate marketing funding • Resourcing of the marketing function	• **Sefa** corporate brand program activated as part of the marketing strategy • Local brand-building campaigns activated quarterly • Conduct Client education on **sefa**'s products. Update on websites and outreach on products offered by **sefa**.
Align **sefa**'s organisational structure, culture and innovative delivery model to be responsive to its mandate and strategy	Inability to attract, retain and develop a skilled workforce	• Lack of clearly defined institutionalised culture • Inadequate employee value proposition	• Leadership development – design **sefa** leadership brand and Promise "servant leadership." • Enhancement of employee value proposition • Culture transformation – implement culture change project • Launch and integrated internal **sefa** brand strategy focusing on values and culture • Implementation of talent management framework and implement with career pathing • Enhancement of change management capability • Implementation of targeted learning programmes aimed at developing "fit for purpose" employees
COVID-19 Emerging Risk	Accessibility of government relief schemes	• Government COVID-19 assistance and aid packages are likely to benefit formal businesses more than informal	• Focusing on rural and township SMMEs

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
		• Barriers to funding access due to formalization of processes e.g. Most funding platforms require businesses to be registered and tax and UIF compliant. Further requirement being 6-month bank statement and financial projections	• Simplify application process to facilitate formalisation through existing registration databases
		• Entrepreneurs do not know where to find assistance. Funding requirements are often ambiguous, and many schemes are misunderstood to be grants when they are actually loans	• Targeted business development and marketing campaign aimed at qualifying enterprises to ensure that the product fulfils the financial needs of the applicants
		• Waiting period between funding application and disbursement of funds is too long for businesses in distress	• Investment in the automation of the loan origination and disbursement process.
	Inability to effectively achieve Corporate plan Targets due to uncontrolled remote working arrangements imposed by COVID 19	• Low productivity caused by events/household activities and lack of focus at a personal confined area	• Weekly monitoring of departmental activities and deliverables
		• Connectivity disruption due to network inconsistencies at different locations and data limitations	• Increased data limits on an *ad hoc* basis.
		• Reduced access to information from other departments. Every consultation has financial costs compared to times when staff can move from department to department	• Continuous virtual engagements in pursuit for required information
		• Economic collapse of emerging markets	• Business support and Mentorship programmes
		• Reduced team building & collaboration, knowledge sharing and accountability	• Establish a robust internal communication platform to support COVID-19 work arrangements and keep employees informed about organizational developments

Strategic Objectives	Risk Description	Root causes/Contributing Factors	Risk Mitigation
		• Cyber-attacks and data integrity due to sustained shift in working patterns	• *Ad hoc* IT penetration tests
	Supply and demand disruption to **sefa** business	• Trade disruptions - Failure and closure of small businesses affected by COVID-19 impacting on sefa's ability to lend and collect	• Improved ways to best serve the needs of informal and micro-enterprises with an emphasis on relief funding during the pandemic
		• Travelling restrictions affecting operations	• Approved COVID-19 regulations with strict measures for COVID-19
		• An updated Technological interactive platforms - Inability to reach out to intended target market virtually due to lack of adaptation and improvements on the **sefa** website	• Establish the customer liaison centre to act as the key client interface across the sefa value chain

9 Annexure I – Technical Indicator Descriptions

The tables below outline the description of the performance indicators, data collection processes and the accountable process owners.

Indicator Title	**Approvals**
Definitions	A measurement, against the set target, of the Rand amount of application approvals for the different loan types? Approval is recognised when the delegated committee approves the application. Please see footnote of loan programmes at the bottom.
Target for Strategic over the Planning Period	R 5.8 billon
Calculation Method	Cumulative Rand value
Calculation/Formula	CCYY-YY Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Approvals through Wholesale and Direct Lending portfolios.
Purpose/Importance	Measures **sefa** contribution to government policy (MTSF, nine-point plan, NDP, NGP) Facilitate access to credit to targeted groups and build inclusive growth
Limitations	**sefa's** level of capitalisation and organisational footprint are a constraint in the growth of its approval levels and growth of its loan book.
Indicator Type[2]	Performance - Economy
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative year-to-date (YTD)
Source	**sefa**LAS Modules: 1) Applications management
Role	• Ensure that approvals information is captured accurately and timeously. • Conduct an audit on a sample of approvals and check for data correctness /accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) or NPD Manager **Review**: Line Manager **Approve**: Committee
Accountable (Designation)	WL SME: Head WL MFI: Head Strategy: Head Credit: Head KCG: Head DL: Operations Manager DL: Head of Operations
Accountable (Person)	Thoba Vokwana Evans Maphenduka Alroy Dirks Eric Kwadjo Letlatsa Lehana Anneline Keyser Bonga Mchunu

[2] *Indicator type is defined as: It identifies whether the indicator is measuring inputs, activities, outputs, outcomes or impact, or some other dimension of performance such as efficiency, economy or equity*

Indicator Title	**Disbursements**
Definitions	A measurement, against the set target, of the Rand amount of disbursements, through the different loan types and credit guarantees issued to end-users (beneficiaries) through direct lending and intermediaries' channels. The disbursement amount is the amount approved as per the decision record exclusive of the client initiation fees and VAT
Calculation Method	Cumulative Rand value
Calculation/Formula	CCYY-YY Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Disbursements through Wholesale and Direct Lending portfolios.
Purpose/Importance	Measures the investment that the **sefa** loan disbursement value chain invest in the economy through investment individual SMMEs and Co-operative Enterprises
Limitations	Completeness of the disbursements is dependent on accurate reporting by funded intermediaries and timeous capturing of disbursement information onto **sefa**LAS
Indicator Type	Performance - Economy
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS Modules: 1) Applications management
Role	• Ensure that disbursements information is captured on time and correctly. • Conduct an audit on a sample of disbursements and check for data correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Portfolio Manager (PM) or NPD Manager **Review**: Line Manager **Approve**: Committee
Accountable (Designation)	WL: PIM Head KCG: Head DL: Operations Manager DL: Head of Operations Strategy: Head
Accountable (Person)	Bettina Mokete Letlatsa Lehana Anneline Keyser Alroy Dirks Bonga Mchunu

Indicator Title	**Number of SMMEs and Co-operatives financed**
Definitions	A measurement, against the set target, of the number of SMMEs and Co-operatives financed through all loan programmes and credit guarantees. NOTE: Count first disbursement to or first instance of each SMME or Co-operative (i.e. unique ID number and unique company registration number of the beneficiary or end-user) per financial year.
Calculation Method	Cumulative value
Calculation	CCYY-YY Achievement = Count (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Number of SMMEs and Co-operatives Financed (first disbursements)
Purpose/Importance	Measures the progress that the organisation is making with its core mandate
Limitations	Funding SMMEs that are not viable and non-sustainability of intermediaries
Indicator Type	Impact
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to the SMMEs or Co-operatives financed for the first time by **sefa** is correctly captured. • Conduct an audit on a sample of number of SMMEs or co-operatives financed for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) **Review**: Line Manager **Approve**: Committee
Accountable (Designation)	WL SME: Head WL MFI: Head DL: Head WL PIM: Head DL PIM: Head KCG: Head
Accountable (Person)	Thoba Vokwana Bonga Mchunu Evans Maphenduka Henderson Matope Bettina Mokete Letlatsa Lehana

Indicator Title	**Number of Jobs Facilitated**
Definitions	A measurement, against the set target, of the number of jobs that are facilitated via the **sefa** loan programmes and credit guarantees. Jobs facilitated relate to new and maintained jobs as a result of the funding intervention. Measurement include - informal and formal sector jobs. Rules: 1. Jobs Facilitated for Direct Lending are based on approvals and information captured must align with the decision record 2. Jobs Facilitated for Wholesale Lending are based on disbursements. 3. Only consider the first instance of each SMME or Co-operative (i.e. unique ID number and unique company registration number of the beneficiary or end-user) per financial year. 4. Actual jobs Facilitated must to be verified
Calculation Method	Total number of facilitated jobs
Calculation/Formula	Jobs Facilitated = Maintained Jobs + New Jobs (at approval stage) Jobs Facilitated$_{WL}$ = Maintained Jobs + New Jobs (at disbursement stage) **Number of Jobs Facilitated** = Jobs Facilitated$_{DL}$ + Jobs Facilitated$_{WL}$
Purpose/Importance	**sefa** contributes to one of the key objectives of the NDP to create 11 million jobs by 2030. **sefa** through its financing of the SMMEs creates and maintains jobs
Limitations	Seasonal and temporary jobs
Indicator Type	Impact
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to jobs created/maintained for enterprises financed is correctly captured. • Conduct an audit on a sample of job created/maintained for enterprises for correctness/accuracy for each reporting cycle
Responsibility	Capture: Investment Officer (IO) or Relationship Manager (RM) Review: Line Manager Approve: Committee
Accountable (Designation)	WL SME: Head WL MFI: Head WL PIM: Head KCG: Head DL: Head DL PIM: Head
Accountable (Person)	Kgalalelo Nazo Evans Maphenduka Bettina Mokete Letlatsa Lehana Bonga Mchunu Henderson Matope

Indicator Title	**Facilities disbursed must be youth-owned**
Definitions	A measurement, against the set target, of disbursements to youth-owned enterprises where the majority of shareholding percentage (50+1) is owned by individuals between the ages of 18 – 35
Calculation Method	Cumulative Rand value
Calculation / Formula	CCYY-YY Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Disbursements to Youth-owned Enterprises through Wholesale and Direct Lending portfolios.
Purpose/Importance	The development impact targets are important in fulfilling the goals of the National Development Plan (NDP) which amongst others are: • Contribute to alleviation of poverty and reduction of inequality. • Growing an all-inclusive economy, building capabilities, and enhancing the capacity of the state in promoting the development of SMMEs • Broaden ownership of assets to historically disadvantaged groups.
Limitations	• Lack of sufficient, viable applications from youth-owned enterprises • Lack of skills in business management and entrepreneurship
Indicator Type	Performance - Economy
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to the youth-owned enterprises financed is correctly captured. • Conduct an audit on a sample of youth-owned enterprises for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) **Review**: Line Manager **Approve**: Committee **Calculation**: system
Accountable (Designation)	WL SME: Head WL MFI: Head WL PIM: Head KCG: Head DL: Head DL PIM: Head IT: Head
Accountable (Person)	Thoba Vokwana Evans Maphenduka Bettina Mokete Letlatsa Lehana Bonga Mchunu Henderson Matope Deon Vermeulen

Indicator Title	**Facilities disbursed to enterprises in rural towns and villages**
Definitions	A measurement, against the set target, of disbursements to enterprises in priority rural provinces (Mpumalanga, Limpopo, Northern Cape, North West, Eastern Cape and Northern Cape).
Calculation Method	Cumulative
Calculation / Formula	CCYY-YY Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Disbursements to rural towns and villages through Wholesale and Direct Lending portfolios.
Purpose/Importance	The development impact targets are important in fulfilling the goals of the National Development Plan (NDP) which amongst others are: • Contribute to alleviation of poverty and reduction of inequality. • Growing an all-inclusive economy, building capabilities, and enhancing the capacity of the state in promoting the development of SMMEs • Broaden ownership of assets to historically disadvantaged groups.
Limitations	Low economic activity • Geographical location of potential clients • Visibility of **sefa**
Indicator Type	Performance - Economy
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to disbursements to enterprises in priority rural provinces is correctly captured. • Conduct an audit on a sample of disbursements to priority rural provinces for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) **Review**: Line Manager **Approve**: Committee

Accountable (Designation)	WL SME: Head WL MFI: Head WL PIM: Head KCG: Head DL: Head DL PIM: Head
Accountable (Person)	Thoba Vokwana Evans Maphenduka Bettina Mokete Letlatsa Lehana Bonga Mchunu Henderson Matope

Indicator Title	**Facilities disbursed to women-owned enterprises**
Definitions	A measurement, against the set target, of women-owned enterprises where the majority of shareholding percentage (50+1) is owned by females.
Calculation Method	Cumulative Rand value
Calculation	CCYY-YY Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Disbursements to Women-owned Enterprises through Wholesale and Direct Lending portfolios.
Purpose/Importance	The development impact targets are important in fulfilling the goals of the National Development Plan (NDP) which amongst others are: • Contribute to alleviation of poverty and reduction of inequality. • Growing an all-inclusive economy, building capabilities, and enhancing the capacity of the state in promoting the development of SMMEs • Broaden ownership of assets to historically disadvantaged groups.
Limitations	Women-owned enterprises are traditionally focused on certain industries such as health & beauty, catering, clothing, retail etc.
Indicator Type	Impact
Calculation Type	Cumulative Rand value
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to the women-owned enterprises financed is correctly captured. • Conduct an audit on a sample of women-owned enterprises for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) **Review**: Line Manager **Approve**: Committee
Accountable (Designation)	WL SME: Head

	WL MFI: Head WL PIM: Head KCG: Head DL: Head DL PIM: Head
Accountable (Person)	Thoba Vokwana Evans Maphenduka Bettina Mokete Letlatsa Lehana Bonga Mchunu Henderson Matope

Indicator Title	**Facilities disbursed must be black-owned businesses**
Definitions	A measurement, against the set target, of black-owned enterprises where the majority of shareholding percentage (50+1) is owned by previously disadvantage individuals (PDIs). PDI is defined in terms of the B-BBEE Act (African, Indian and Coloured)
Calculation Method	Cumulative Rand value
Calculation / Formula	CCYY-YY Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Disbursements to Black-owned Enterprises through Wholesale and Direct Lending portfolios.
Purpose/Importance	The development impact targets are important in fulfilling the goals of the National Development Plan (NDP) which amongst others are: • Contribute to alleviation of poverty and reduction of inequality. • Growing an all-inclusive economy, building capabilities, and enhancing the capacity of the state in promoting the development of SMMEs • Broaden ownership of assets to historically disadvantaged groups.
Limitations	Black-owned enterprises often lack business management and entrepreneurial skills
Indicator Type	Impact
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to the black-owned enterprises financed is correctly captured. • Conduct an audit on a sample of black-owned enterprises for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM)

	Review: Line Manager **Approve**: Committee
Accountable (Designation)	WL SME: Head WL MFI: Head DL: Head WL PIM: Head DL PIM: Head KCG: Head
Accountable (Person)	Thoba Vokwana Evans Maphenduka Bonga Mchunu Bettina Mokete Henderson Matope Letlatsa Lehana

Indicator Title	**Disbursements to township-owned enterprises**
Definitions	A measurement, against the set target, of the Rand amount of the predetermined percentage of disbursements to enterprises located in townships as per **sefa** approved definition of a township.
Calculation Method	Cumulative Rand value
Calculation/Formula	Achievement = (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Total Disbursements to Township-owned Enterprises through Wholesale and Direct Lending portfolios.
Purpose/Importance	A measurement, against the set target, of the Rand amount of the predetermined percentage of disbursements to enterprises located in townships as per **sefa** approved definition of a township.
Limitations	Township-owned enterprises often do not have access to other market. The location prohibits them from being accessible to potential clients across all races.
Indicator Type	Impact
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	Ensure that information related to the township-owned enterprises financed is correctly captured. • Conduct an audit on a sample of township-owned enterprises for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) **Review**: Line Manager **Approve**: Committee
Accountable (Designation)	WL SME: Head KCG: Head WL MFI: Head WL PIM: Head DL: Head DL PIM: Head
Accountable (Person)	Thoba Vokwana Letlatsa Lehana Evans Maphenduka Bettina Mokete Bonga Mchunu Henderson Matope

Indicator Title	**Facilities Disbursed to Enterprises Owned by Entrepreneurs Living with Disabilities**
Definitions	• A measurement, against the set target, of facilities disbursed to enterprises where disability shareholding is 25% or more. • Disabilities are defined as per the Department of Labour codes and the individual(s) must be declared by a medical doctor as disabled.
Calculation Method	Cumulative Rand value
Calculation/Formula	CCYY-YY Achievement = Count (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual) of Disbursements to Enterprises owned by Entrepreneurs with Disabilities (where disability shareholding is 25% or more)
Purpose/Importance	The development impact targets are important in fulfilling the goals of the National Development Plan (NDP) which amongst others are: • Contribute to alleviation of poverty and reduction of inequality. • Growing an all-inclusive economy, building capabilities, and enhancing the capacity of the state in promoting the development of SMMEs • Increase the share of national income of the bottom 40 percent from 6 percent to 10 percent. • Broaden ownership of assets to historically disadvantaged groups.
Limitations	The lower number of enterprises owned by people living with disabilities are often due to the fact that they are generally disadvantaged in access to education and business opportunities
Indicator Type	Impact
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	**sefa**LAS
Role	• Ensure that information related to disbursements to enterprises owned by entrepreneurs living with disabilities is correctly captured. • Conduct an audit on a sample of disbursements to enterprises owned by entrepreneurs living with disabilities for correctness/accuracy for each reporting cycle
Responsibility	**Capture**: Investment Officer (IO) or Relationship Manager (RM) **Review**: Line Manager **Approve**: Committee
Accountable (Designation)	WL SME: Head WL MFI: Head — DL: Head WL PIM: Head — DL PIM: Head KCG: Head
Accountable (Person)	Thoba Vokwana — Anneline Keyser Evans Maphenduka — Bonga Mchunu

	Bettina Mokete Letlatsa Lehana	Henderson Matope

Indicator Title	**Level of Customer Satisfaction**
Definitions	A measurement, against the set target, of the level of customer satisfaction. The annual customer satisfaction survey will be undertaken by an independent external party.
Target for Financial Year (2017-18)	75%
Stretch Target	105%
Calculation Method	No calculation done by **sefa**
Calculation/Formula	N/A
Purpose/Importance	Provides **sefa** management with a metric on the customer experiences. Information can then be used to improve business processes and ultimately the customer journey and operational efficiency.
Limitations	Dedicated measurable action plans to improve customer experience
Indicator Type	Performance - Efficiency
Calculation Type	Survey report at the end of the FY
Reporting Cycle	Annually
Source	Customer Satisfaction Survey (conducted by an independent service provider)
Role	Survey is conducted by an independent service provider timeously.
Responsibility	**Facilitates conducting of the survey:** Head: Marketing & Comms
Accountable (Designation)	Head: Marketing & Communication
Accountable (Person)	Nothemba Gqiba

Indicator Title	**Cost to income ratio (excluding impairments & finance charges and the effects of the grant subsidy)**
Definitions	A measurement, against the set target, of the amount of operating expenses incurred in generating operating income. The ratio measurement excludes impairments, capital gains/losses, dividend income from Business Partners Ltd, government grants, and finance charges). ***sefa*** *must strive to achieve a lowest rate possible.*
Calculation Method	It is calculated by dividing operating income by operating expenses
Calculation/Formula	turnaround Times = Average Number of Working Days of (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual)
Purpose/Importance	• Measures the efficiency of the **sefa** business operations • Financial objectives and monitoring thereof is important to drive down costs, increase revenues, and reduce **sefa**'s dependence on government grants. • The financial health of an organisation is a critical for managers to track.
Limitations	Timeous and accurate reporting of the indicator
Indicator Type	Performance - Efficiency
Calculation Type	Cumulative indicator
Reporting Cycle	Monthly, cumulative YTD
Source	ACCPAC
Role	Track costs against income
Responsibility	**Calculate & Capture**: Management Accounts General **Review**: Line Manager
Accountable (Designation)	Head: Financial Management Management Accounts General
Accountable (Person)	Carel Wolfaardt Neo Seloro

Indicator Title	**Accumulated Impairments provision as a percentage of total loans and advances**
Definitions	A measurement, against the set target, of the accumulated impairments. This is the loan loss provision, or an expense set aside as an allowance for bad loans expressed in a percentage form.
Calculation Method	It is calculated by dividing accumulated impairment by cost of loans outstanding.
Calculation/Formula	Accumulated Impairments provision = (accumulated impairment ÷ cost of loans outstanding) x 100
Purpose/Importance	• Measures the efficiency of the **sefa** business operations • Financial objectives and monitoring thereof is important to drive down costs, increase revenues, and reduce **sefa**'s dependence on government grants. • The financial health of an organisation is a critical for managers to track.
Limitations	Timeous and accurate reporting of the indicator
Indicator Type	Performance - Efficiency
Calculation Type	Cumulative indicator
Reporting Cycle	Monthly, cumulative YTD
Source	ACCPAC
Role	Track costs against income
Responsibility	**Calculate & Capture**: Management Accounts General **Review**: Line Manager
Accountable (Designation)	Head: Financial Management Management Accounts General
Accountable (Person)	Carel Wolfaardt Neo Seloro

Indicator Title	**Improve turnaround times for application approvals: Number of days term loans**
Definitions	A measurement, against the set target, of number of working days spent processing an application for finance, from Due Diligence to Committee Approval stage
Target for Financial Year (2017-18)	30 days
Stretch Target	21 days
Calculation Method	Calculate business days from capture to approval stage
Calculation/Formula	Turnaround Times Average Number of Working Days of (Q1 Actual + Q2 Actual + Q3 Actual + Q4 Actual)
Purpose/Importance	Turnaround times measures the efficiency of the **sefa** loan operations, customer centricity, identifies bottlenecks in the business process and establish accountability.
Limitations	• Turnaround times might be accurately captured by investment officers • Organisationally not structured optimally for efficiency • Low process optimisation • Silo mentality
Indicator Type	Performance - Efficiency
Calculation Type	Non-cumulative
Reporting Cycle	Quarterly
Source	**sefa**LAS
Role	System calculates the turnaround times for Direct Lending, from loan application capture to approval
Responsibility	**Calculation**: system
Accountable (Designation)	DL: Operations Manager
Accountable (Person)	Anneline Keyser

Indicator Title	**Level of Organisational Process Automation**
Definitions	Analysis, improvement and digitation and **sefa** core, management and support process via automated workflows
Calculation Method	Count of the number of processes
Calculation/Formula	CCYY-YY Achievement Number of Processes = Count of Automated Processes
Purpose/Importance	Introduces automated systems to fast track internal processes to increase efficiency and effectiveness and thus reduce operational costs
Limitations	Lack of sufficient IT resources
Indicator Type	Performance - Efficiency
Calculation Type	Non-cumulative
Reporting Cycle	Quarterly
Source	Sign-off by Process owner post automation implementation
Role	Count the number of automated processes that are key in the organisational core/primary functions
Responsibility	Head of Project Office – Marleen Lewis
Accountable (Designation)	Head of Strategy
Accountable (Person)	Alroy Dirks

Indicator Title	**Labour Turn Over rate of critical/strategic positions**
Definitions	The ratio of the number of employees in critical/strategic positions that leave a company through attrition, dismissal, or period to the number of employees on payroll during the same period. Critical positions refer to employees in management (M band)
Target for Financial Year (2017-18)	7%
Stretch Target	5%
Calculation Method	Terminations for critical positions divided by annual average headcount
Calculation/Formula	Labour Turn Over rate = (number of employees in critical/strategic positions ÷ terminations in critical/strategic positions) x 100
Purpose/Importance	Management of LTO rate is important to attain and maintain stability within the management and leadership levels. Too high and frequent turnover in leadership affects the organisational environment.
Limitations	**sefa**'s challenging mandate and operating environment
Indicator Type	Performance - Efficiency
Calculation Type	Cumulative
Reporting Cycle	Quarterly, cumulative YTD
Source	ESS VIP
Role	Number of termination/total number of employees in the M & E bands
Responsibility	Calculate & capture HCM: Senior Manager
Accountable (Designation)	Senior: HCM
Accountable (Person)	Esther Gruindelingh

Indicator Title	**Investor in People Measurement Index**
Definitions	• A measurement, against the set target, of the level of employee satisfaction. • The annual employee satisfaction survey will be undertaken by an independent external party.
Calculation Method	N/A
Calculation/Formula	N/A
Purpose/Importance	• Track and measure staff engagement levels. If they are low, they are not committed to the organisation • The survey assists employers to measure and understand their employees' attitude, feedback, motivation, and satisfaction. • It helps the organisation to identify and introduce interventions to increase staff engagement.
Limitations	• Lack of staff engagement • Lower quality feedback
Indicator Type	Impact
Calculation Type	N/A
Reporting Cycle	Annual
Source	Employee Satisfaction Survey (conducted by an independent service provider)
Role	Survey is conducted by an independent service provider timeously.
Responsibility	**Facilitate the conduct of the survey:** OD Specialist
Accountable (Designation)	OD Specialist
Accountable (Person)	Gugu Moyo

Indicator Title	**Percentage of staff (P band and above) that scores 3.1 or more in the annual performance assessment**
Definitions	A measurement of performance of employee in the P-band and above, who have attained a final performance score of a 3.1 and above
Calculation Method	Staff Performance (in P-band and above) = (Total Number of employees ÷ Number of employees with Performance Score of 3.1 or above) x 100
Calculation/Formula	Same as above
Purpose/Importance	To drive a culture of high performance
Limitations	Timeous measurement and feedback to staff on performance
Indicator Type	Performance - Efficiency
Calculation Type	Bi-annually and Annually
Reporting Cycle	Bi-annually and Annually
Source	VIP
Role	Calculate the number of employees in the P-Band and above.
Responsibility	**Calculate & capture** HCM: Senior Manager
Accountable (Designation)	Head: HCM
Accountable (Person)	Esther Gruindelingh

10 Annexure 2 – Material and Significance Framework

PFMA requires that an entity must on request, disclose to its executive authority, all material facts that may influence decisions made by the executive authority.

PFMA states that Treasury approval is required before entering into significant or material transactions. The act also requires that material irregular expenditure and fruitless and wasteful expenditure be reported in the annual report. The act does not define material and significant as such; an entity is required to develop a materiality framework that is applied to both significant transactions and irregular expenditure.

Materiality levels for significant and material transactions:

The practice notes on the applications under section 54 of the PFMA provides the following parameters for calculating materiality:

Element

Element	% range to be applied against R value
Total assets	1% - 2%
Total revenue	0.5% - 1%
Profit after tax	2% - 5%

The materiality and significance framework of **sefa** is based on Total Assets due to the nature of **sefa**'s business being asset-based.

Total group assets as per 2018/9 audited annual financial statements: R2,211,778,000, 2% of total assets: R44,235,560.

The materiality is in line with materiality used for external audit purposes.

In addition to the above, section 17 of the Shareholder compact requires that:

- The Accounting Authority will develop and agree on a framework of acceptable levels of materiality and significance with the Shareholder and the Executive Authority.
- The Accounting Authority will promptly and in writing request approval from the Shareholder and the Executive Authority for each funding transaction where its total exposure to the company being funded will increase to above R150 million or where **sefa** equity stake in the company will exceed 50%.
- Section 54(2) of the PFMA considers the following transactions to be significant, and an entity must inform the relevant treasury of the transaction and submit relevant of the transaction to its executive authority for approval concluding the transaction;
- The establishment or participation in establishing a company (this type of transaction is significant by nature);
- Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement (significance is determined by the value of the transaction);

- Acquisition or disposal of a significant shareholding in a company (this will be significant where ownership control is affected or where the entity's control over a special resolution is affected, or the change in shareholding exceeds 20% or any transaction that will result in an ultimate shareholding exceeding 20%);
- Acquisition or disposal of a significant asset (significance is determined by the value of the transaction);
- Commencement or cessation of significant business activity (This applies to activities that are non-core in nature and the amount thereof must be significant);
- A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement (this will be significantly based on the amount or where the nature of the relationship changes or where the cumulative interest exceeds 20% or any transaction that results in an aggregate interest of 10%).

Materiality levels for irregular expenditure:

Materiality levels for reporting irregular expenditure are set at 0.5% of materiality levels for significant and material transactions, hence amounting to R221,178 (2017/18: R234,142) on a transactional level.

Borrowing Limitations

sefa has the following borrowing limitations imposed:

- Funds may only be borrowed or guarantees issued through the Accounting Authority.
- The Memorandum of Incorporation prescribes that Shareholder's approval is required before concluding a transaction where the entity borrows funds or issue guarantees.
- **sefa** may not borrow money in a foreign currency above a prescribed limit.

11 Annexure 3 – Fraud Prevention Plan

In the efforts to ensure appropriate Fraud Risk Management, **sefa** has the following policies and systems in place: -

- Fraud Risk Policy
- Fraud Response and Prevention Plan
- Anonymous Tip-Off Hotline Robust Fraud

Awareness will be done within **sefa** to ensure the effectiveness of **sefa**'s mechanisms in the combatting of fraud and corruption.

12 Annexure 4 – Strategic Initiatives in support of SMME Plan

sefa will be implementing the government's District Development Model across the 44 districts in the country. To that end, dedicated interventions will be rolled out through the following initiatives and the impact will be reported, quarterly to demonstrate the number of SMMEs supported in each district per quarter.

- **100 Thousand Young Entrepreneurs:** Direct Lending will continue to host provincial **Youth Pitch for Funding Sessions** in various districts across the country through the Small Business and Innovation Fund (SBIF) in support of the target of the **100 000 Youth owned enterprises** to be support over 3 years. In addition, sefa will further collaborate with NYDA and SEDA to develop further support to Youth entrepreneurs. These will supplement the Youth owned Businesses that sefa supports through its various lending channels.

- **SMME Expansion/ Scale-Up:** sefa supports SMMEs that have been in existence for 4 years or more with at least 5 employees across all its product channels. Increased emphasis will be placed on ensuring that this support is spread and measured across all 44 districts in order to contribute to the SMME Support Plan.

- **Township and Rural Entrepreneurship:** As indicated sefa Corporate Performance Scorecard above, sefa has set targets to support SMMEs in Townships and Rural towns & villages. Increased emphasis will be placed on ensuring that this support is spread and measured across all 44 districts in order to contribute to the SMME Support Plan. In addition, through the SBIF, sefa will dedicatee further funds to the support of SMMEs in Townships and Rural areas in the FY2020/21.

- **Start-Up Nation:** sefa has committed funding to Incubators for the purposes of supporting start-up SMMEs across the country. sefa will measure the impact of the funding and report on it to ensure that the funding is spread across the 44 districts.