sefa

Small Enterprise Finance Agency

Annual Report | 2022

Ashleigh Barlow, ARCL Enterprises, Northern Cape

Contents

List of Acronyms

AA	Automotive Aftermarket
ABSA	Amalgamated Banks of South Africa
AC	Audit Committee
AIDC	Automotive Industry Development Centre
Agri-ED	Agriculture Enterprise Development
BBC	Black Business Council
B-BBEE	Broad-Based Black Economic Empowerment
BDSP	Business Development Service Providers
BEE	Black Economic Empowerment
BPS	Business Pulse Survey
BRI	Barnes Reinforcing Industries
BRP	Business Recovery Programme
BVP	Business Viability Programme
CAR	Capital Adequacy Ratios/Requirements
CA(SA)	Chartered Accountant South Africa
CEO	Chief Executive Officer
CBDA	Co-operative Banks Development Agency
CCBSA	Coca-Cola Beverages South Africa
CIC	Credit and Investment Committee
CIDB	Construction Industry Development Board
CFIs	Co-operative Financial Institutions
CLC	Client Liaison Centre
COVID-19	Coronavirus Disease 2019
CRMPs	Compliance Regulatory Management Plans
CTA	Cumulative Translation Adjustment
DFDC	Deciduous Fruit Development Chamber
DFI	Development Financial Institution
DL	Direct Lending
DoA	Delegation of Authority
DSBD	Department of Small Business Development
ECDC	Eastern Cape Development Corporation
ECL	Expected Credit Loss
ERM	Enterprise Risk Management
ESD	Enterprise and Supplier Development
EWP	Employee Wellness Programme
EXCO	Executive Committee
FNB	First National Bank
FY	Financial Year
GACP	Generally Accepted Compliance Practice Framework
GDP	Gross Domestic Product
GIBS	Gordon Institute of Business Science
HCE	Household Consumption Expenditure
HCM	Human Capital Management
HPO	High-Performance Organisation
IDC	Industrial Development Corporation of South Africa
IFRS	International Financial Reporting Standards
IoDSA	The Institute of Directors in South Africa
IPAP	Industry Policy Action Plan
ISA	Instalment Sale Agreement
JVs	Joint Ventures
LED	Local Economic Development
LOD	Loan Origination System
MRPG	Mr Price Group
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NCA	National Credit Act
NCR	National Credit Regulator
NDP	National Development Plan
NPC	Non-Profit Company
NGP	New Growth Path
NPL	Non-Performing Loans
OHS	Occupational Health and Safety
PA	Prudential Authority
PCG	Partial Credit Guarantee
PD	Probability of Default
PFIs	Partner Financial Institutions
PFMA	Public Finance Management Act
PIMW	Post Investment Monitoring and Workout
PIMC	Post Investment Monitoring Committee
QRR	Qualitative Regulatory Return
QRT	Quantitative Reporting Template
RC	Risk Committee
RFIs	Retail Finance Intermediaries
SAB	South African Breweries
SAICA	South African Institute of Chartered Accountants
SAITA	South African Informal Traders Association
SARB	South African Reserve Bank
SBIF	Small Business and Innovation Fund
SBL	School of Business Leadership
SBSA	Standard Bank of South Africa
SEF	Small Enterprise Foundation
sefa	Small Enterprise Finance Agency (SOC) Ltd
sefaLAS	**sefa** Loan Application System
SEMSP	Small Enterprise Manufacturing Support Programme
SFSs	Structured Finance Solutions
SICR	Significant Increase in Credit Risk
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
SSSP	Spaza Shop Support Programme
TCBS	Transaction Capital Business Solutions
TEP	Tourism Equity Fund
TREP	Township and Rural Entrepreneurship Programme
UKZN	University of KwaZulu-Natal
UNISA	University of South Africa
Wits	University of the Witwatersrand
WL	Wholesale Lending
YCF	Youth Challenge Fund
YEP	Youth Empowerment Programme
ZAR	South African Rand

ARCL Enterprises, Northern Cape

Foreword by the Honourable Minister of Small Business Development

Ms Stella Ndabeni-Abrahams
Member of Parliament
Honourable Minister of Small Business Development

Small, medium, micro enterprises (SMMEs) and cooperatives are facing compounding challenges. The COVID-19 pandemic had a severe impact on them, the full extent of which we are just beginning to comprehend. The number of SMMEs in South Africa (SA) declined by 11% (or 289 000) year-on-year (y-o-y) from 2.61 million to 2.33 million in 2021Q1 and jobs declined by 6.2% over the same period.

The South African economy recovered somewhat in 2021 growing at 4.9% after the previous year's contraction of 6.4%. This recovery was driven in the main by the surge in commodity exports and prices. Unfortunately, the pace of recovery has slowed with the War in Ukraine and related global volatility, supply chain disruptions, and oil and food price inflation.

Government is currently implementing its Economic Reconstruction and Recovery Plan, aimed at building back better. This means an economy that is greener, more digital, more diversified, and more inclusive. Government is also implementing its re-imagined industrial strategy, and associated industry-masterplans.

The growth of the small enterprise sector features strongly in the ERRP and masterplans. Our future prosperity as a country depends upon whether we can grow the SMME sector. The National Development Plan sees between 60% and 80% of future economic value being created through SMMEs. The NDP is also clear that 90% of the 11 million jobs we need to create by 2030 (now 13 million after COVID) will have to come from SMMEs. It goes without saying that the majority of these SMMEs will be black-owned. This means that by growing the SMME sector, we will derive the growth, employment, and transformation outcomes we need as a country.

A core strategy to grow SMMEs and co-operatives is to get the small enterprise and entrepreneurship eco-system working in a more coordinated and coherent manner, so that all resources and capabilities within the eco-system can be aligned to the country's growth drivers and directed to where they will have the greatest impact. To this end we have developed our National Integrated Small Enterprise Development Masterplan and are forging partnerships with eco-system role-players to address challenges of red-tape, market access, business development support, and access to finance.

The SMME credit gap in South Africa is estimated to be around R350 billion, with start-ups and micro businesses being the most underserved. To address this credit gap, we need to de-risk lending to SMMEs through credit guarantees, rethinking forms of collateral, and improving credit information systems that currently disadvantage underserved communities. Complementary measures to de-risk lending and increase take-up include providing pre-investment support to improve the bankability of financial submissions, as well as post-investment support through ongoing business development support to ensure business sustainability. This is now starting to happen with Seda and **sefa** working in a more integrated way, and which will be cemented through the planned merger. Despite the constrained economic climate, **sefa** continued to stimulate business formation and growth by approving R2.494 billion to SMMEs and co- operatives during the 2021/22 financial year. During the year under review, **sefa** disbursed R2.322 billion to 76 129 SMMEs, which facilitated 96 589 jobs in the economy.

sefa had a particular focus on underserved communities and disbursed just under R1 billion to enterprises operating in rural towns and villages; R700 million to township enterprises; R 500 million to youth-owned enterprises; R1 billion to women-owned enterprises; and R2.1 billion to black-owned enterprises.

In the year ahead, **sefa** will continue to play a core role in the DSBD portfolio, supporting flagship programmes such as the Township and Rural Empowerment Programmes (TREP), the Youth Challenge Fund (YCF), and the Small Enterprise Manufacturing Support programme (SEMSP).

sefa will prioritise building a sustainable loan book through the expansion of credit and decreasing impairments. Additionally, the utilisation of the success of our credit guarantees will be used to leverage additional monies from private banking and non-banking financial intermediaries.

I wish to thank the outgone **sefa** Board, whose term ended on 30 April 2022. Your oversight role, guidance, and support to **sefa** is highly appreciated. I would also like to welcome the new Board of Directors and look forward to working with them.

A word of thanks goes to management and employees of **sefa** at large for your dedication and continued commitment in building a sustainable organisation. Above all, for doing your best to accommodate the demands and requirements of our clients and prospective clients. This is the reason we wake up each day, to fulfil our mandate in improving the lives of countless South Africans.

The Ministry, the Department and **sefa** value the oversight and inputs of the Portfolio Committee on Small Business and want to thank the Portfolio Committee for its role in holding us accountable.

Ms Stella Ndabeni-Abrahams, MP
Minister for Small Business Development

Section I

Strategic Overview

Abigail Thulare, PBSA Logistics (Pty) Ltd, Limpopo

Strategic Overview

Mission

sefa's mission is to provide accessible financing in an efficient and sustainable manner to SMMEs and co-operatives throughout South Africa by:

- Providing loan and credit facilities to SMMEs and co-operative enterprises;
- Providing credit guarantees;
- Supporting the institutional strengthening of financial intermediaries so that they can effectively assist SMMEs and co-operatives;
- 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 speed up increased market participation in the provision of finance; and
- Monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities.

Values

sefa's values and guiding principles to deepen institutional culture and organisational cohesion are:

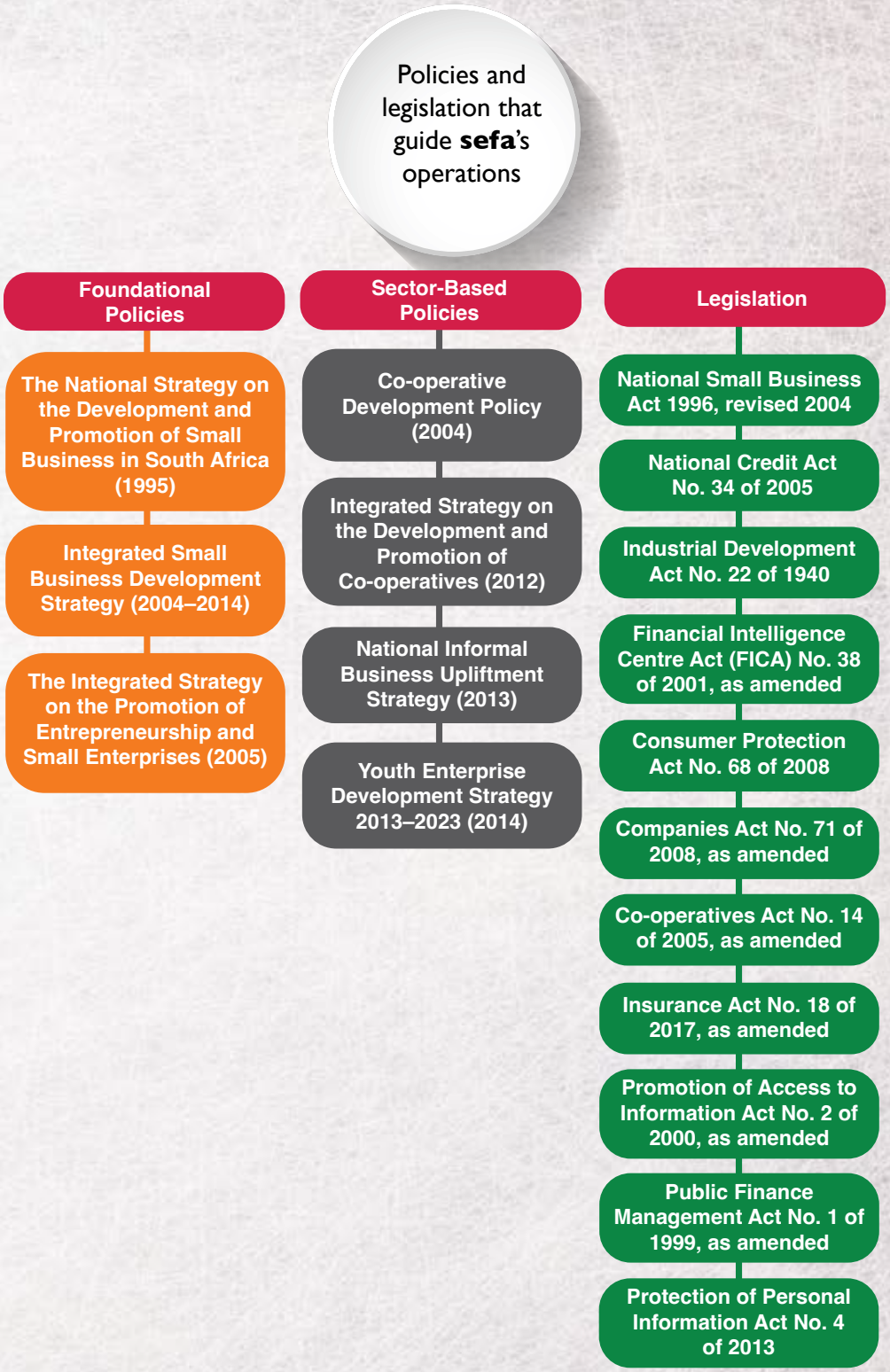
- **Kuyasheshwa!:** We act with speed and urgency;
- **Passion for development:** Solution-driven attitude, commitment to serve;
- **Integrity:** Dealing with clients and stakeholders in an honest and ethical manner;
- **Transparency:** Ensuring compliance with best practices on the dissemination and sharing of information with all stakeholders; and
- **Innovation:** Continuously seeking new and better ways to serve our clients.

Vision

sefa's vision is to be a leading catalyst for the development of sustainable small, medium and micro enterprises and co-operatives through finance.

Policies and Legislation

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.



Group Structure

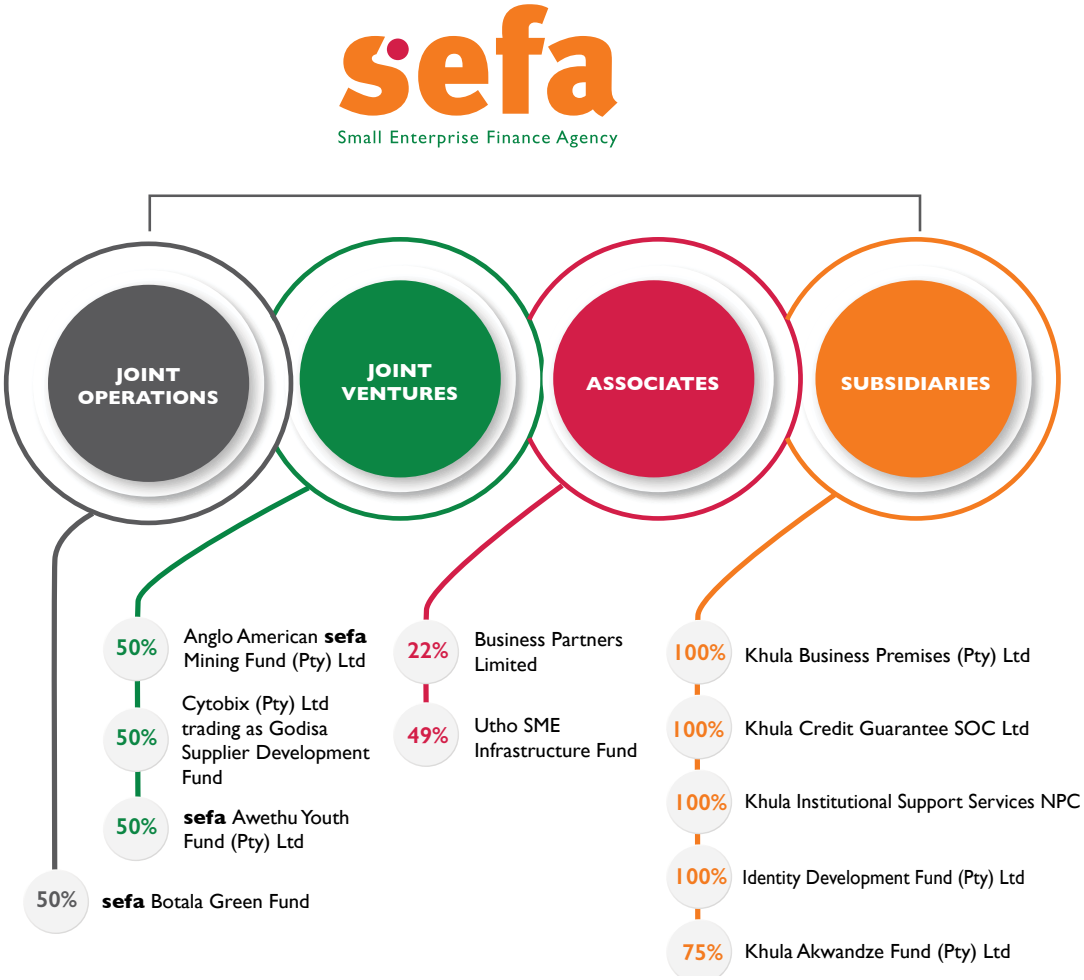


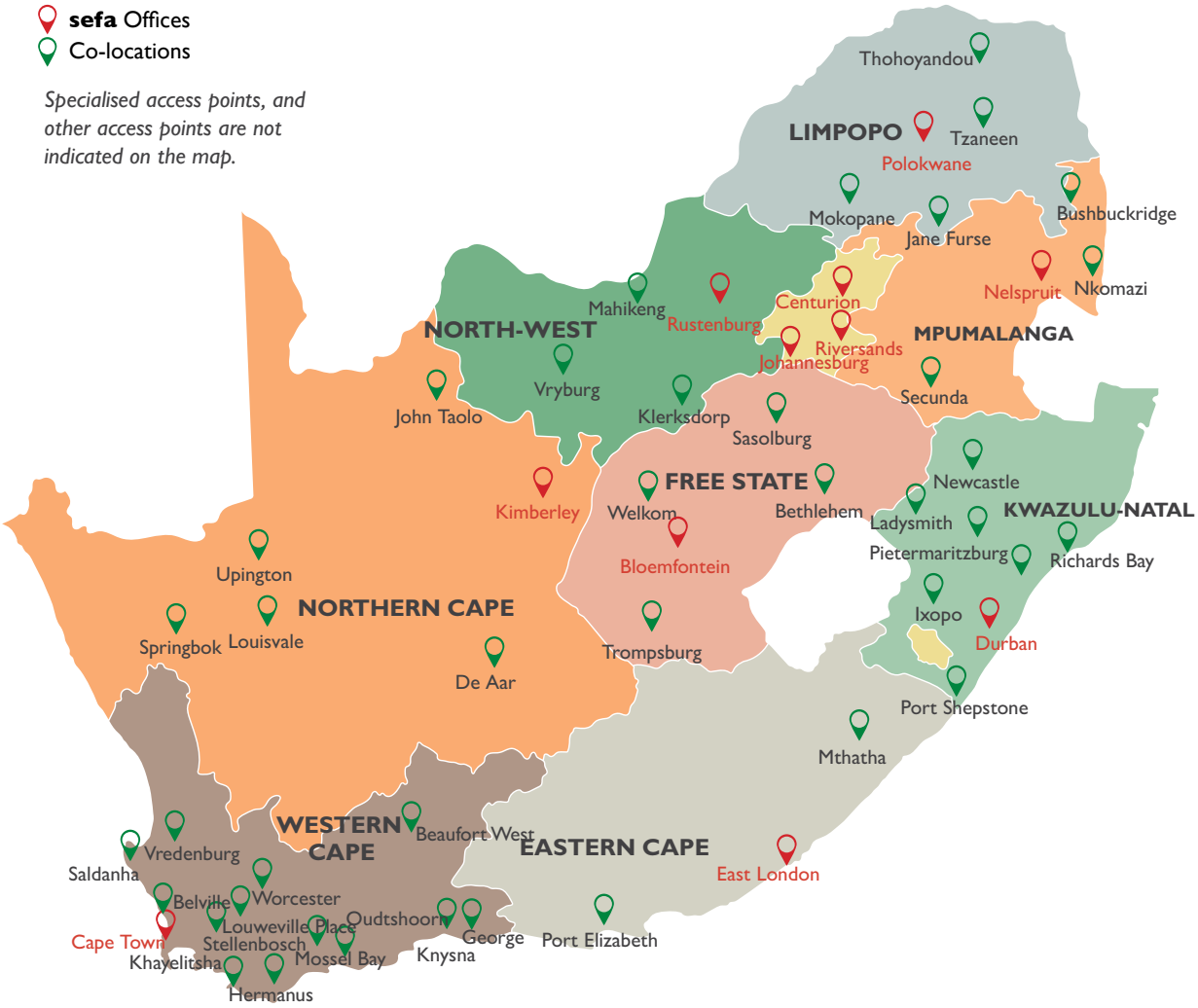
Figure 1: Group Structure

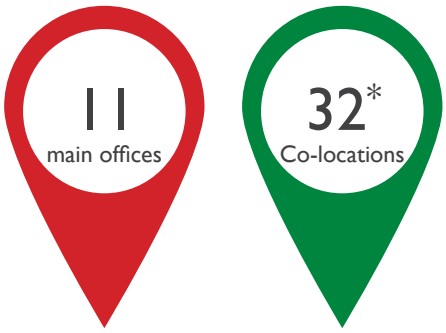
Triton Pharmaceuticals, Gauteng

Geographic Footprint

sefa Offices
Co-locations

Specialised access points, and other access points are not indicated on the map.





**Co-locations: shared front office with Seda and IDC to facilitate application origination*

sefa's Financial Intermediary Structure

8 Strategic Partners	5 Microfinance Institutions	7 Khula Credit Guarantee (SOC) Ltd (KCG) partners
9 Retail Finance Intermediaries	3 Land Reform Empowerment Fund (LREF) Partners	

Figure 2: Geographic Footprint and Financial Intermediary Structure

Loan Eligibility Criteria

Direct Lending Channel

- Natural persons: Applicants must be South African citizens, with valid South African identity documents or naturalised South Africans as defined in terms of BBBEE Act No 53 of 2003.
- Juristic persons: Applicants must be legally constituted including sole traders with a fixed physical address, partnerships, co-operatives, non-profit organisations that function as social enterprises, close corporations, private companies (PTY LTD) and public companies (LTD).
- The financed operations must be conducted within the borders of South Africa, and the controlling interest (100%) of the business enterprise must be held by a South African citizen with a valid South African identity document.
- The applicant shall ensure that the business maintains a staff complement consisting of at least 95% South African citizens with a valid South African identity document throughout the duration of the loan tenure.
- At least one member/shareholder should be operationally involved in the business.
- The project must demonstrate an ability to generate the level of development impact as stated in the **sefa** Corporate Plan such as job maintenance and/or creation and economic empowerment.
- The business should be sustainable and commercially viable with specific reference to loan repayability.
- For direct lending loan facilities, qualifying criteria will be > or = to 51% black ownership.
- Risk taking by the entrepreneur can be reflected in own financial contribution, equity and personal sureties.

Wholesale Lending Channel

- The applicant must be a juristic person legally constituted with a fixed physical address, partnerships, co-operatives, non-profit organisations that function as social enterprises, private companies (PTY LTD) and public companies (LTD).
- The business model should be sustainable and commercially viable, i.e., profit/surplus and performance.
- The entity should have a strong SMME and/or co-operative focus, with a strong developmental agenda, a bias towards women, youth, people with disability and rural development, and where possible co-operatives and micro/informal business.
- The wholesale lender shall ensure that the businesses funded shall maintain a staff compliment consisting of at least 95% South African citizens with a valid South African identity document throughout the duration of the loan tenure.
- The project must demonstrate an ability to generate the level of development impact as stated in the **sefa** Corporate Plan such as job maintenance and/or creation and economic empowerment.
- Preference will be given to intermediaries with > or = to 51% black ownership.
- The financed operations must be conducted within the borders of South Africa; and
- The business must have a clearly defined target market in line with **sefa**'s strategic objectives.

Target Market

sefa's loan financing programmes primarily focus on black people, women, the youth, rural communities and people with disabilities. These programmes are aligned with the New Growth Path (NGP), Industrial Policy Action Plan (IPAP) and the National Development Plan (NDP).

sefa funds qualifying business ventures primarily in the following sectors:

- services (including retail, wholesale and tourism);
- manufacturing (including agro processing);
- agriculture (specifically land reform beneficiaries and contract-farming activities);
- construction (small construction contractors);
- mining (specifically small-scale miners); and
- green industries (renewable energy, waste, and recycling management).

*Figure 3: Sectors that **sefa** funds*

Operating Model, Distribution Channels and Products

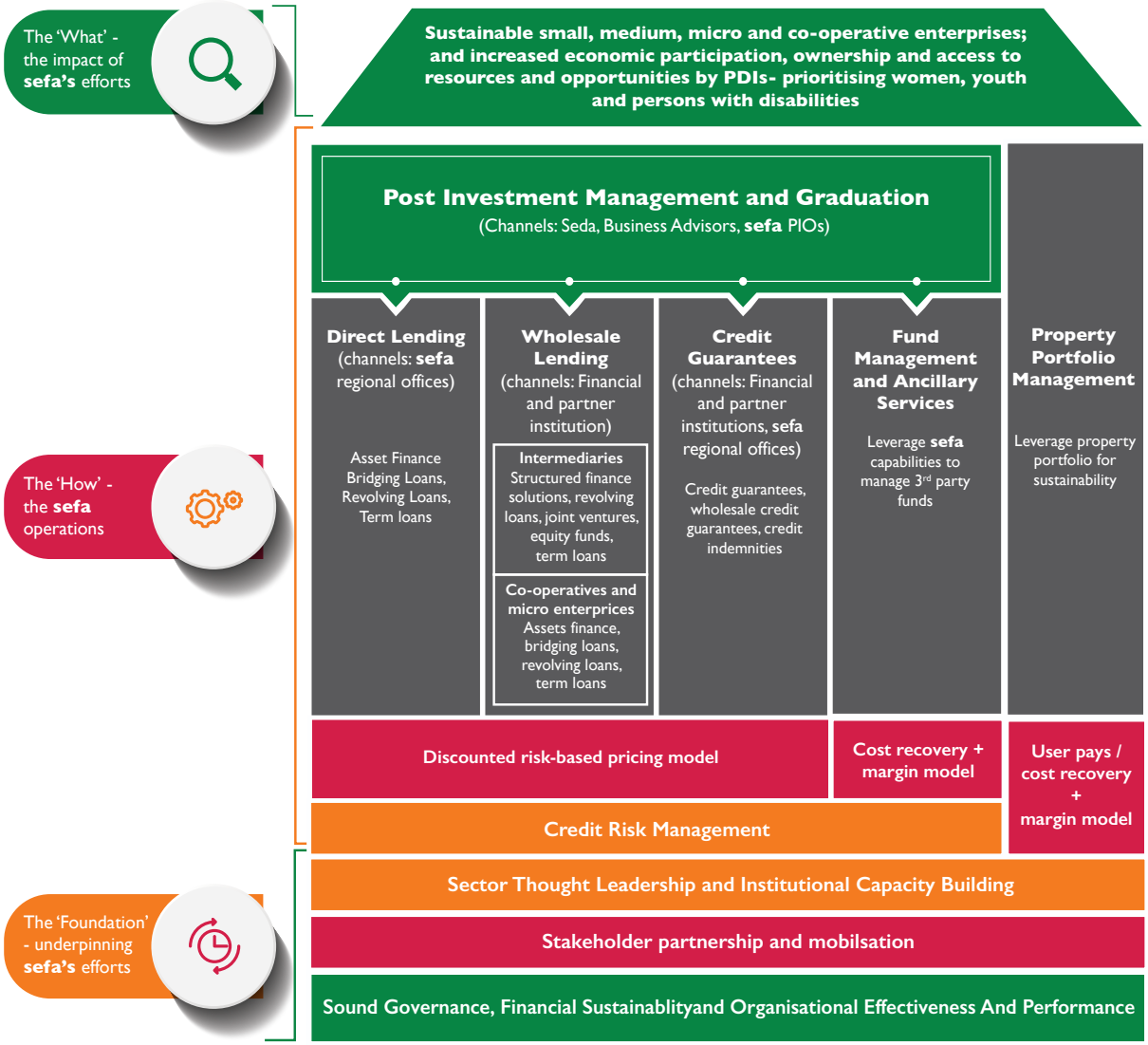


Figure 4: Operating Model, Distribution Channels and Products

Lekka Pies, Western Cape

Section 2

Corporate Performance Overview

First Choice Butchery, Limpopo


First Choice
BUTCHERY

Corporate Performance Overview

Small, medium and micro-enterprises (SMMEs) and co-operatives represent critical sectors of the economy that are integral to addressing the challenge of job creation, poverty alleviation and addressing inequality in South Africa.

sefa's operating model makes provision for financing and business support to SMMEs and co-operatives directly through its regional office network and indirectly through its partnership with intermediary financial institutions such as retail finance intermediaries (RFIs), microfinance institutions (MFIs), Joint Venture Funds (JVs), subsidiaries, and Co-operative Financial Institutions (CFIs). **sefa**'s value proposition is underpinned by its offering of concessionary and risk-adjusted pricing to deliver its developmental mandate for both its SMME wholesale and direct lending clients. The majority of **sefa**'s target market is financially excluded from formal financial institutions. Through its product offering, the organisation has identified its primary customers as SMMEs and co-operatives and its secondary customers as financial intermediaries that facilitate finance to SMMEs. Core to **sefa**'s product offering is to increase access to finance for SMMEs and co-operatives.

As the economy entered the cycle of recovery after the COVID-19 pandemic, small businesses and co-operatives were finding both opportunities and challenges in the market.

Small businesses and co-operatives experienced supply chain disruptions, financial shocks, declining sales and business closures. The financial situation of businesses in South Africa and across the world worsened because of the pandemic.

The DSBD-World Bank Business Pulse Survey (BPS) (2022) indicates that 78% of businesses' sales were down, some experienced cashflow issues and the majority needed adjustments to loans. Many SMMEs and co-operatives are not reaching their full potential. Commercial finance institutions are finding it difficult to meet the needs of SMMEs and co-operatives, particularly those that are in the start-up phase of the business life cycle. Contributing factors are that many commercial finance institutions still use old business models, rely on legacy processes, and even view small, medium and micro businesses (SMMEs) as too risky. The banks often struggle to create the right lending solutions for the SMME customers and cut the cost of serving them.

Boitumelo Pitso, Tumi Pitso Company, North West

ARCL Enterprises, Northern Cape

Access to finance remains one of the primary challenges for SMMEs and co-operatives. As a result, **sefa** continued to reimagine and modernise its lending processes, so that it can take advantage of new opportunities for financing SMMEs and capture more of the forecast growth. During the year under review, **sefa** approved loans to the value of R2,494 billion representing 116% of the annual target and disbursed R2,332 billion into the economy representing 86% of the annual disbursement target for the year. The finance supported 76 129 businesses and facilitated 96 589 jobs in the economy. The number of businesses supported represented 40% of the target and 46% of jobs target. The underperformance on the number of SMMEs financed and jobs primarily relates to aggressive planning targets for the Township and Rural Entrepreneurship Programme (TREP). The implementation challenges experienced were programme design and institutional capacity.

The organisation focused on automating its lending processes to enable wider reach and increased impact. A detailed business analysis and specification have been developed and a new automated application front-end will be introduced in the first quarter of the 2022/23 financial year.

Accelerating financial inclusion for SMMEs remains critical in helping the South African economy to develop and grow. During the 2021/22 financial year, **sefa** strove to increase diversity in its intermediary base and sought to increase the capacity of black-owned financial institutions that it works with.

Increasing financial diversity in financial intermediaries is important in creating an equitable environment for small businesses and co-operatives owned by marginalised groups and can go a long way towards ensuring finance is accessible. The organisation managed to onboard 14 intermediaries in its role as a policy maker and a developer of financial infrastructure. **sefa** understands that there is no magic bullet that will single-handedly lead to financial inclusion. Hence, its approach is to remain a catalyst and work through coordinated efforts with ecosystem partners to create an inclusive financial environment that will benefit the small business sector.

In response to the July 2021 social unrest that some parts of the country experienced, which led to some businesses being permanently closed, **sefa** implemented the Business Recovery programme to support businesses affected by the riots in Gauteng and KwaZulu-Natal. The intention was to accelerate business and economic recovery, with a view to curbing job losses as well as business closure.

The management of the COVID-19 pandemic remains a strategic challenge for both its employees and customers. For the year under review, a total of 55 COVID-19 cases have been reported by **sefa** employees with one employee succumbing to the virus. To mitigate the potential adverse impact of COVID-19 on the organisational activities, **sefa** introduced a hybrid working environment. Most of our customer interactions take place via the online medium and employees' attendance is split between physical office attendance and online.

Medium Term Expenditure Framework

The pandemic has drastically altered the status quo with declining GDP growth, tax revenue collection, increase in business closures and unemployment.

Over the medium-term expenditure framework (MTEF) period, **sefa** will improve the organisation's performance and market position by focusing on the following phases:

Phase 1 – Building the Core: sefa will focus on taking the organisation back to basics, placing the customer at the centre of what it does.

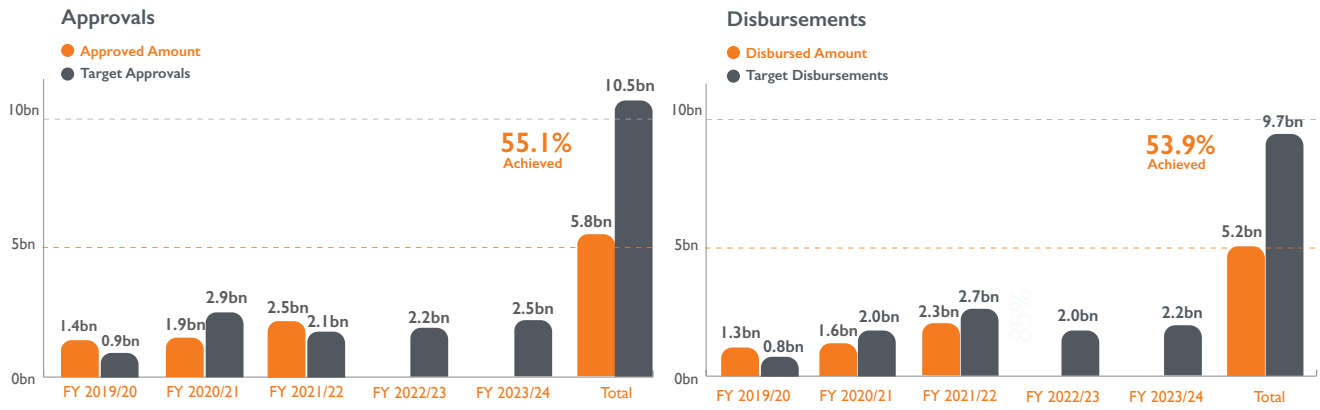
Phase 2 – Scaling up Capabilities: sefa will focus on cost and efficiency dimensions through digitisation of its channels and introducing market interface and engagement tools. This is vital in the current pandemic reality, which is likely to persist long into the MTEF period.

Phase 3 – Innovating the Delivery Model: As new, tech-driven platforms take shape in sefa's operations, the need to maintain the innovation momentum will be fundamental towards the tail end of the MTEF. sefa will intensify its usage of 4IR tools such as machine learning and artificial intelligence (AI), improving decision-making all along the operational value chain.

Figure 5: MTEF Phase Development

Loan Book Performance Trends over the Medium-Term Strategic Framework Period

The dashboard below depicts **sefa** performance over the Medium-Term Strategic Framework (MTSF) period and what the organisation has managed to achieve thus far and how much effort is required to achieve the targets set for the period.



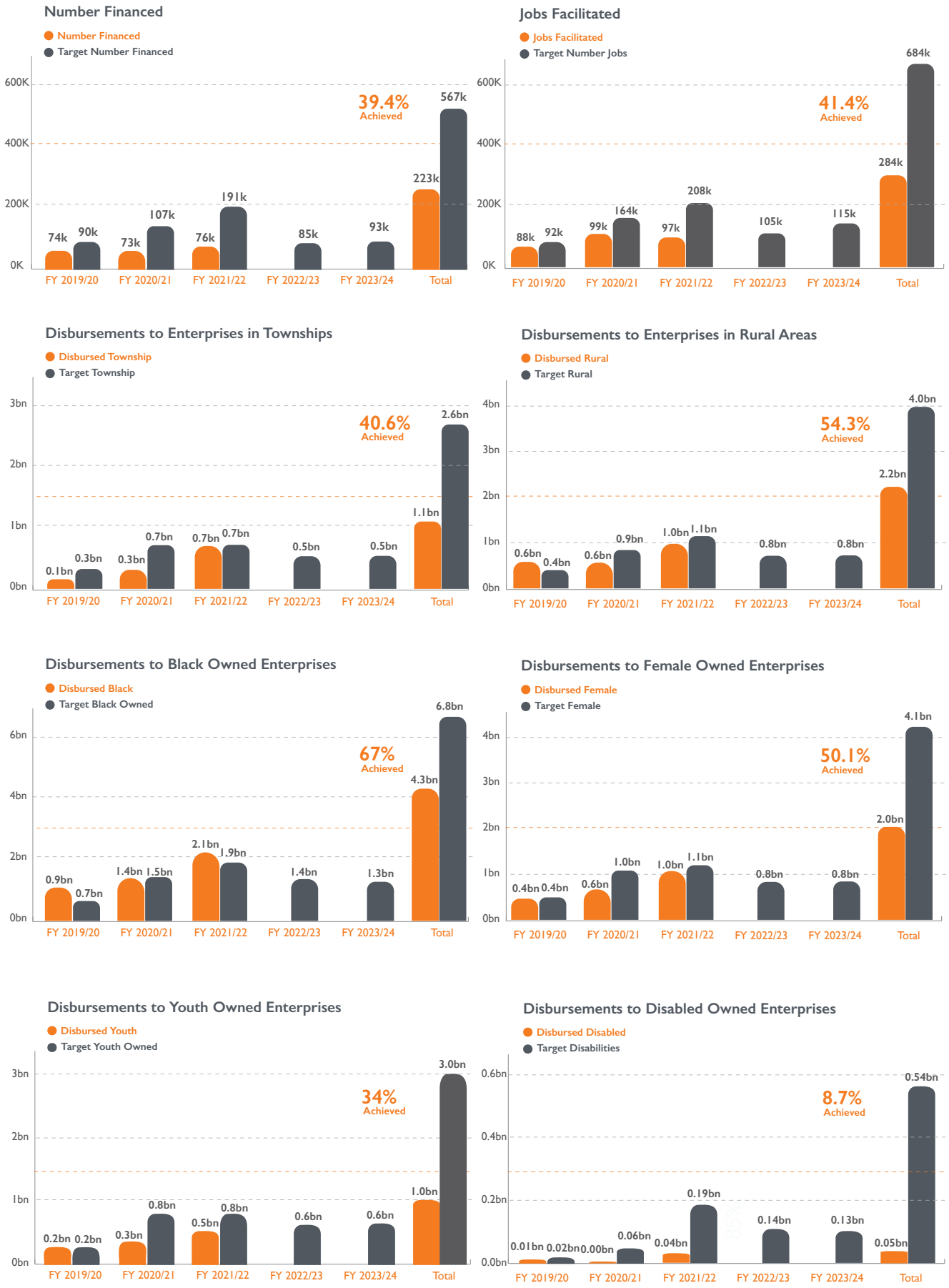


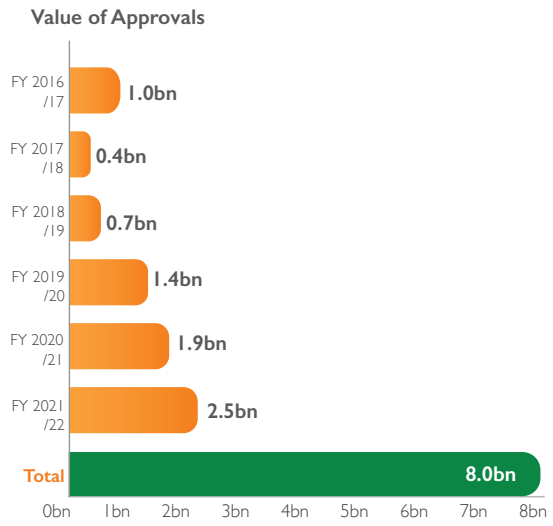
*Figure 6: **sefa** performance dashboard over the Medium-Term Strategic Framework (MTSF) period*

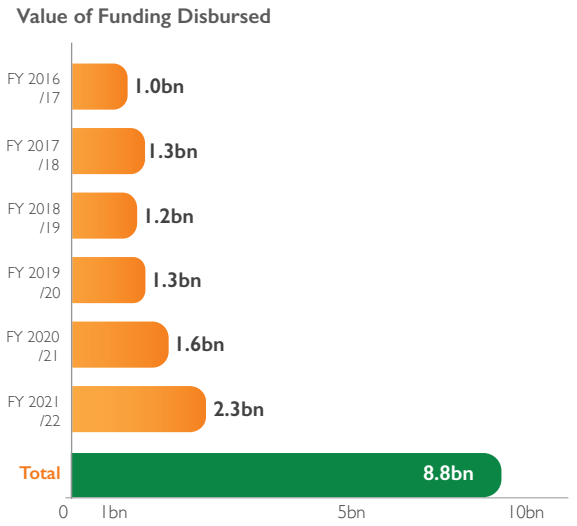
NB: The above figures are rounded for display purposes only. The actual figures are used to calculate totals and percentages achieved.

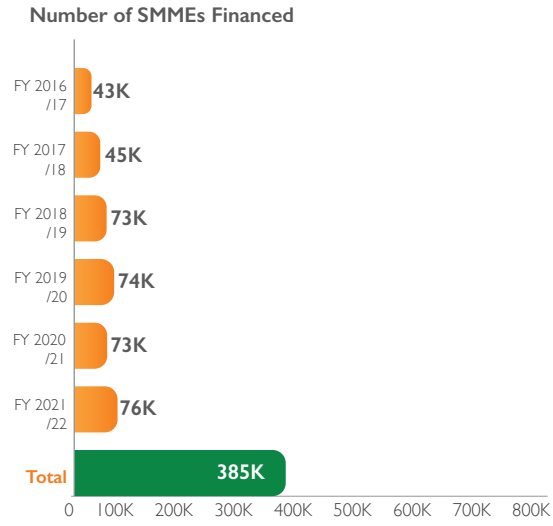
Noel Hobyane, Pie City, Gauteng

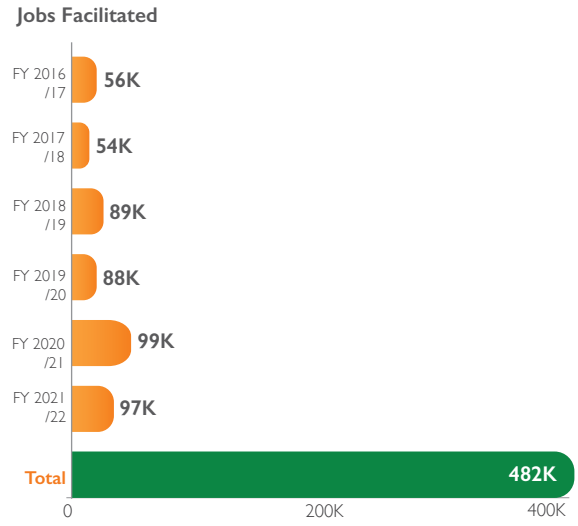
Loan Book Performance Trends

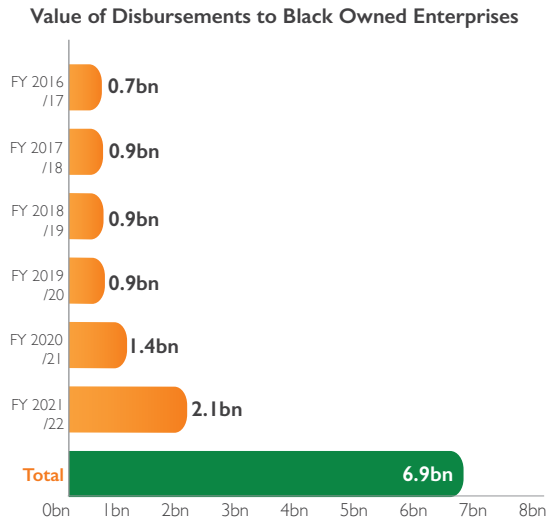
The **sefa** management team recognises the need to balance the contradictory and sometimes competing priorities that fulfil the unlimited demands of the organisation's mandate while deploying limited fiscal resources. Figure 7 below provides an analysis of **sefa**'s loan book performance against key metrics.

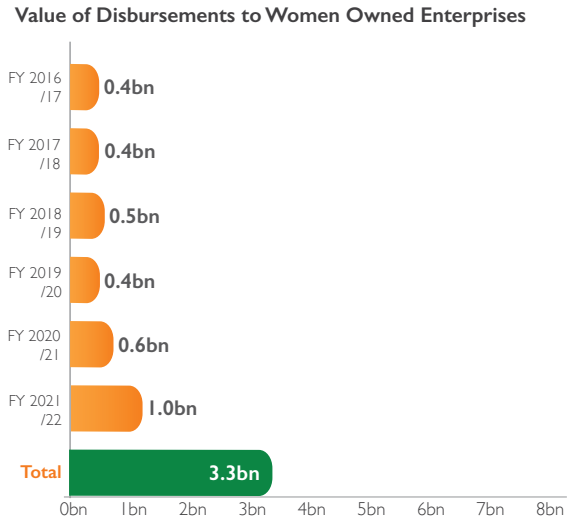


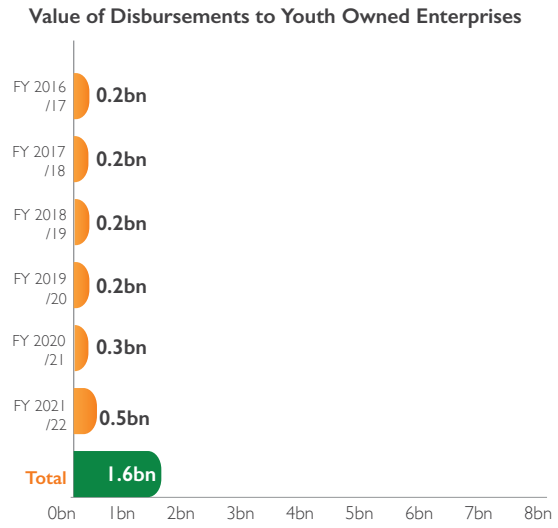


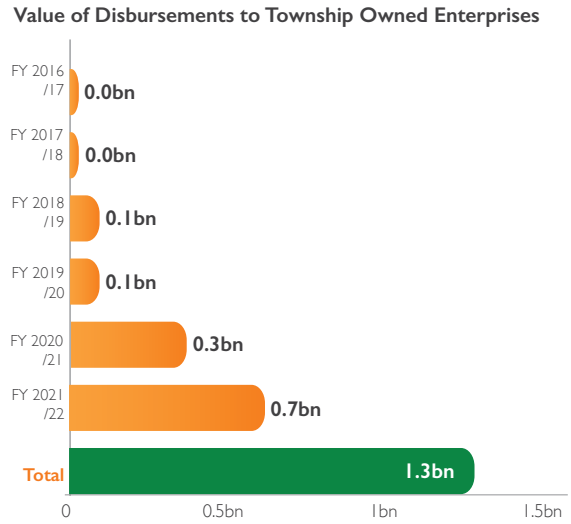


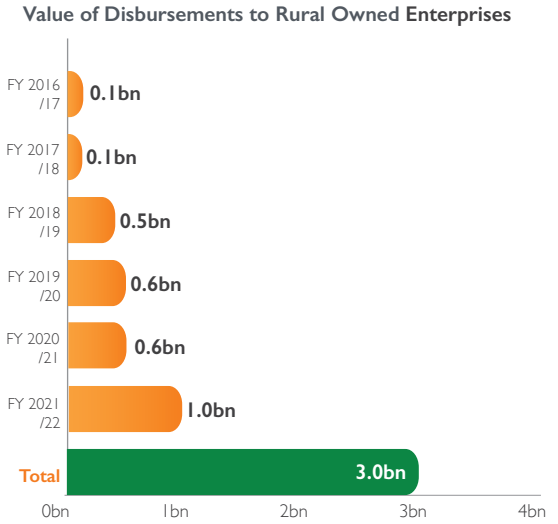












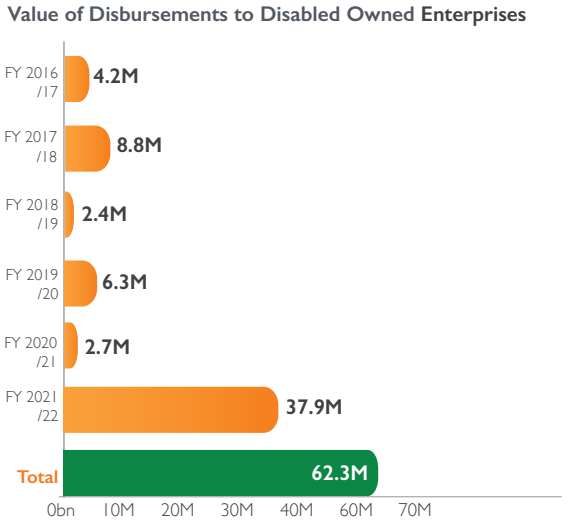


*Figure 7: **sefa** loan book performance against key metrics dashboard*

Luvuyo Sume, Prosthetic Engineering Technologies, Eastern Cape

sefa's Provincial Spread

The diagram below depicts **sefa**'s provincial disbursements, number of SMMEs financed and jobs facilitated for the financial year 2021/22.

Northern Cape Regional Offices

Kimberley

Co-Locations

John Taolo
Upington
De Aar
Springbok

328
SMME's Financed

R36M
Disbursements

652
Jobs Facilitated

North West Regional Offices

Rustenburg

Co-Locations

Klerksdorp
Vryburg
Mahikeng

4,314
SMMEs Financed

R175M
Disbursements

5,078
Jobs Facilitated

Western Cape Regional Offices

Cape Town

Co-Locations

Belville
Khayelitsha
Mossel Bay
Knysna
George
Oudtshoorn
Beaufort West
Hermanus
Stellenbosch
Worcester
Vredenberg
Saldanha

749
SMMEs Financed

R211M
Disbursements

3,160
Jobs Facilitated

Eastern Cape Regional Offices

East London

Co-Locations

Port Elizabeth
Mthatha

16,249
SMMEs Financed

R186M
Disbursements

17,700
Jobs Facilitated

Free State Regional Offices

Bloemfontein

Co-Locations

Welkom
Trompsburg
Bethlehem
Sasolburg

726
SMMEs Financed

R66M
Disbursements

1,429
Jobs Facilitated

Gauteng Regional Offices

Johannesburg

Co-Locations

Riversands

1,999
SMMEs Financed

R747M
Disbursements

11,587
Jobs Facilitated

KwaZulu-Natal Regional Offices

Durban

Co-Locations

Port Shepstone
Ladysmith
Richards Bay
Newcastle
Pietermaritzburg
Ixopo

19,093
SMMEs Financed

R354M
Disbursements

22,158
Jobs Facilitated

Limpopo Regional Offices

Polokwane

Co-Locations

Thohoyandou
Tzaneen
Mokopane
Jane Furse

22,471
SMMEs Financed

R355M
Disbursements

23,648
Jobs Facilitated

Mpumalanga Regional Offices

Nelspruit

Co-Locations

Secunda
Nkomazi
Bushbuckridge

10,125
SMMEs Financed

R205M
Disbursements

11,117
Jobs Facilitated

*Figure 8: **sefa**'s Provincial Disbursements Dashboard*

Corporate Performance against Pre-Determined Targets

The 2021/22 financial year was a year of recovery from the COVID pandemic and the resultant lockdowns. There was an increase in the approvals and disbursements when compared to the financial year ending 2020/21. For the year under review, **sefa** performance against targets was as follows: 57% of measurement indicators achieved (100% and above), 26% achieved (75% - 99%), and 17% (below 75%).

The underperformance can be attributed largely to the late approval of the credit guarantee Automotive Aftermarket (AA) programme and Spaza Shop Support Programme (SSSP) being behind with the take-up of the facilities. Also, the capacity and availability of microfinance institutions to take up programme funds for on-lending to informal enterprises contributed to underperformance.

Impact		
Objective	**Measure**	
Access to finance by SMEs & Cooperatives	Total Approvals (R'000)	
	Total Disbursements to SMMEs and Co-operatives (R'000)	
	Number of SMMEs and Co-operatives financed	
	Number of jobs facilitated	
	Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	
	Facilities to people with disabilities (R'000)	
	Facilities disbursed to women-owned businesses (R'000)	
	Facilities disbursed to black-owned businesses (R'000)	
	Facilities disbursed to enterprises in villages and rural communities (R'000)	
	Disbursements to township-based enterprises (R'000)	
Financial Perspective		
Building **sefa** financial sustainability	Cost-to-income ratio (2016/17 = Measure excluded impairments, finance charges & grants)	
	Accumulated Impairment provision as a percentage of total loans and advances	
	Collection Rate (All in cash)	
	Percentage Growth in Revenue (excl. Grant income and MTEF)	
	Capital Leverage (KCG)	
Organisational Business Processes		
Develop the sefa brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models	Level of Organisational process automation	
	Direct Lending (Avg Days)	
	Wholesale Lending (Avg Days)	
	sefa/ seda collaboration (National SMME database , Central database of business)	
Customer Perspective		
Improve financial access and distribution reach through, and establish a relevant value proposition and winning collaborative models	Annual Level of Customer Satisfaction	
	Number of Strategic Partnerships	
	Customer Growth - Number of **sefa** customers improving turnover with 5% or more in the financial year	
People, Learning and Growth		
Alignment, Development and Motivation of Human Capital	Labour turnover Rate (LTO) of critical strategic positions	
	Employee Satisfaction Index	
	Percentage of staff that scores 3.5 or more in the annual performance assessment	


Mpilo Kheswa, Mangadini Enterprises, KwaZulu-Natal

	FY2020/21			FY2021/22		
	Annual Target	Annual Achievement	% of Annual Target Achieved	Annual Target	Annual Achievement	% of Annual Target Achieved
	2 770 611	1 900 667	69%	2 147 999	2 494 642	116%
	1 986 559	1 590 616	80%	2 712 999	2 322 121	86%
	106 883	72 799	68%	191 433	76 129	40%
	164 210	99 112	60%	207 729	96 589	46%
	794 623	315 104	40%	813 900	494 399	61%
	59 597	2 682	4%	189 210	37 872	20%
	993 279	604 177	61%	1 085 200	990 258	91%
	1 494 924	1 374 074	92%	1 899 100	2 084 921	110%
	893 951	563 051	63%	1 085 200	977 100	90%
	653 138	274 350	42%	678 250	665 483	98%
	122,0%	84,10%	145%	106,0%	56,30%	188%
	40,0%	36%	111%	38,0%	35,40%	107%
	85,0%	123%	145%	85,0%	87%	102%
	Not applicable			21,0%	42,50%	202%
	Not applicable			6,25	6,38	102%
	20,0%	20%	100%	100%	60%	60%
	Not applicable			45	26	173%
	Not applicable			60	33	182%
	100%	100%	100%	Not applicable		
	Not applicable			65%	77%	118%
	Not applicable			4	7	175%
	Not applicable			20	30	150%
	Not applicable					
	70,0%	56%	80%	62%	63%	102%
	80,0%	78%	98%	50%	40%	80%

Section 3 Governance

Busang Molekane, Sportistic, North West Province

sefa Board of Directors

Ms Simthandile (Simi) Siwisa
Age: 40
Black Female

Appointment Date:
3 May 2022

Academic Qualifications:
- Master of Business Administration, University of Cape Town
- Master's in International Economic Management, University of Birmingham, UK
- International Economics, International Banking and Finance

Area of Expertise/Skills Matrix:
- Strategy Development and Implementation
- Project Management
- Policy Analysis and Development
- Risk Management
- Economic Policy, Risk and Strategy
- Regulatory Strategy

Memberships/ Association/ Advisory:
- Institute of Directors South Africa (IoDSA)

C
NOMCO BCIC BP
BC

Mr Mxolisi Dalukhanyo Matshamba (CEO – Executive Director)
Age: 56
Black Male

Appointment Date:
1 Nov 2020

Academic Qualifications:
- Master of Business Administration (Corporate Strategy and Corporate Finance), Milpark Business School
- BCom, National University of Lesotho
- Management of Petroleum Policy and Economics Programme, University of the Witwatersrand
- Accelerated Directorship Programme (IODSA)

Area of Expertise/Skills Matrix:
- Accounting
- Business Management
- Development Finance
- Industrial Policy Formulation and Implementation
- Trade and Investment Facilitation (FDI and Export Development)
- Special Economic Zones/IDZ Development
- Business Performance – Petroleum Industry
- Strategy Development and Implementation
- Commercialisation of Research and Technology
- Corporate Governance
- Internal and External Audit

Memberships/ Association/Advisory:
- Institute of Directors South Africa (IoDSA)

Directorship/Trusteeship/ (Shareholding):
- The New Horizon Wellness Programmes (100%)
- Trade And Investment South Africa
- Silver Lake Trading 381 (15%)
- G Diggers Investments (20%)
- One Vision Investments 391 (100%)
- Royal Assets Holdings

SEC
BP KBP KCG

Adv. Nokuzola Gloria Khumalo
Age: 63
Black Female

Appointment Date:
3 May 2022

Academic Qualifications:
- Master of Laws (Labour Studies), University of KwaZulu-Natal
- Attorney's Board Qualification, Law Society of South Africa
- Post-graduate Certificate (Practical Legal Training), LEAD/ Law Society
- Post-graduate Diploma in Industrial Relations Management, University of KwaZulu-Natal
- National Diploma in Human Resources Management, Natal Technikon (DUT)
- BCom (Hon) Human Resources Management, UKZN

Area of Expertise/Skills Matrix:
- Legal (Civil and Criminal Law)
- Labour Law
- Corporate Governance
- Employment Law
- Human Resource Management
- Management of Pension and Provident Funds
- Policy Development

Memberships/ Association/Advisory:
- Advocate of the High Court of South Africa
- Johannesburg Society of Advocates (JSA)
- Legal Practice Council (LPC)

Directorship/Trusteeship/ (Shareholding):
- Member of the DFSC (Defence Force Service Commissioner) at SANDF (South African National Defence Force).
- Chair of the Policy Committee: DFSC
- Member Ethics Committee: DFSC

AC NOMCO SEC
HCRC C KCG

Ms Cingashe Nogaya Motale
Age: 43
Black Female

Appointment Date:
3 May 2022

Academic Qualifications:
- Diploma in Marketing & Business Management, Damelin Business College, Walmer Gardens
- Women in Leadership, University of the Free State

Area of Expertise/Skills Matrix:
- Facilitation, Social Impact
- Financial Analysis
- Administrative Skills
- Organisational
- Business analysis
- Report Writing
- Project Development and Management
- Business Management Skills

Directorship/Trusteeship/(Shareholding):
- Saffron Legend Pty Ltd Director/SH (100%)
- Colossal Africa group Pty Ltd Director/ SH (50%)
- MPC Marketing Pty Ltd Director/SH (100%)
- Eclat Africa Projects and Investments Pty
- Ltd Director/SH (100%)
- Colossal Africa Infrastructure Pty Ltd Director/SH (32.5%)
- Pasmot Investments Pty Ltd Director 50%
- NAS Colossal Aviation Services Pty Ltd Director (Indirect shareholding for Colossal
- Africa Infrastructure of 40%)

BCIC SEC KBP

Mr Mmatlou Justice Kganyago
Age: 41
Black Male

Appointment Date:
1 Aug 2019

Academic Qualifications:
- BCom Economics & Finance, University of the Witwatersrand
- BCom (Hons) Economics, University of the Witwatersrand (Wits)

Area of Expertise/Skills Matrix:
- Investments (post investments workouts / restructures, return optimisation, negotiations, due diligence, financial modelling and applied valuations.)
- Technical and Fundamental Analysis
- Fund and Portfolio Administration
- Entrepreneur Assessments
- Development Funding

Directorship/Trusteeship/(Shareholding):
- Pudullo Advisory (Pty) Ltd (100%)
- Pudullo Media (Pty) Ltd (Publishing) (100%)
- Pudullo Capital (Pty) Ltd (Fund Management) (100%)
- Zwelisha Consumables Supplies Solutions (Pty) Ltd (50%)
- Pudullo Entrepreneurship Solutions (Pty) Ltd (100%)
- Investment Committee member for The Innovation Hub's Start-Up Support (SSP) Programme

C BCIC AC NOMCO KBP KISS

Ms Nonzuzo Makanda
Age: 37
Black Female

Appointment Date:
3 May 2022

Academic Qualifications:
- BCom Economics & Finance, University of South Africa
- BCom (Hon), University of South Africa
- Business Management specialising in Investments

Area of Expertise/Skills Matrix:
- Economics
- Finance
- Business Management
- Investments
- Financial Services (Mining, Agriculture, Financial Technology, Construction)
- SMME and Co-operative Development
- Fund Origination and Management
- Investment Analysis and Financial Modelling
- Transaction Advisory and Capital Raising
- PPP Projects
- Financial Technology Strategist
- Content Developer for SMME Training
- Corporate Finance
- SMME Training & Research
- Project Finance

Memberships/ Association/Advisory:
- Chairperson National Financial Literacy Association
- Women's Economic Assembly (WECONA) financial committee
- BRICS Women Business Alliance - Innovative Development
- Economic Society of South Africa (ESSA)

Directorship/Trusteeship/(Shareholding):
- National Financial Literacy Association (NPC)
- National Financial Literacy Advocacy Director (100%)
- Guinevere Property Investments Director (100%)
- Isondlo Producers Director (50%)
- Green food producers Director (100%)

C BCIC AC NOMCO RC

BC Board Chairperson	C Chairperson	AC Audit Committee	BCIC Board Credit and Investment Committee	HCRC Human Capital and Remuneration Committee	NOMCO Nominations Committee
Risk Committee RC	Social and Ethics Committee SEC	Business Partners Ltd BP	Khula Business Premises (Pty) Ltd KBP	Khula Credit Guarantee Ltd KCG	Khula Institutional Support Services NPC KISS

sefa Board of Directors (continued)

Ms Hilda-Marie Tsoadi
Age: 37
White Female

Appointment Date:
1 Oct 2020

Academic Qualifications:
- BCom Accounting, Rand Afrikaans University
- Honours in Accountancy (CTA Equivalent), University of Johannesburg
- CA (SA)

Area of Expertise/Skills Matrix:
- Industry experience (Development Funding)
- Knowledge of sector (Small Business Development)
- Accounting
- Development, Corporate Finance, Fund Management, Investment Operations

Memberships/ Association/ Advisory:
- Institute of Directors South Africa (IoDSA)
- South African Institute of Chartered Accountants (SAICA)

Directorship/Trusteeship/ (Shareholding):
- Lesakeng Environmental Group (100%)

BCIC | RC | NOMCO | KCG

Mr Motse Maxwell Mfuleni
Age: 51
Black Male

Appointment Date:
3 May 2022

Academic Qualifications:
N/A

Area of Expertise/Skills Matrix:
- King III Corporate Governance: Institute of Directors (IOD) 2012
- King IV Corporate Governance: Institute of Directors & Companies Act Law (IOD) 2019
- Financial Insights for Non-Finance Directors: Institute of Directors (IOD) 2020
- IT Governance: Institute of Directors (IOD) 2020

Memberships/ Association/ Advisory:
- Black IT Forum
- Institute of Directors (Membership No 17300616)
- NAFCOC, Nelson Mandela Bay
- President of the Black IT Forum
- Chairperson Mpuma Kapa TV, formerly known as Bay TV

Directorship/Trusteeship/ (Shareholding):
- Imbizo Travels
- Zithethele Media (100%)
- Imbicom EBU (25%)
- Seda – Nelson Mandela Bay ICT incubator
- East London IDZ (also serves as a member of Audit, Operations and Risk and Governance Committees)
- Member of the Vodacom Franchise Forum in the EC

RC | SEC | HCRC

Ms Ziyanda Futhi Ngcobo
Age: 35
Black Female

Appointment Date:
1 Oct 2020

Academic Qualifications:
- LLB, University of KwaZulu-Natal
- Competition Law and Policy: Certificate of competence, University of Witwatersrand
- Advanced Company Law 1: Certificate of competence, University of Witwatersrand)
- Admitted Attorney

Area of Expertise/Skills Matrix:
- Commercial Law
- Risk Management (incl. experience in developing and implementation risk management systems)

Memberships/ Association/ Advisory:
- Institute of Directors South Africa (IoDSA)

Directorship/Trusteeship/ (Shareholding):
- The Institute for Drug Free Sports
- Director Festo Pty Ltd
- Gauteng Cricket Board

C
SEC | NOMCO | HCRC
KBP

Ms Thandi Vivian Tobias-Pokolo
Age: 49
Black Female

Appointment Date:
3 May 2022

Academic Qualifications:
- Advanced Diploma in Economic Policy, University of Western Cape
- Certificate in Economics and Public Finance, UNISA
- Certificate in Leadership Communication, Rhodes University

Memberships/ Association/ Advisory:
- Institute of Directors South Africa (IoDSA)

SEC BCIC

Dr Mzukisi Jonathan Qobo
Age: 48
Black Male

Appointment Date:
2 May 2022

Academic Qualifications:
- PhD International Studies, University of Warwick
- MA International Relations, University of Stellenbosch
- Bachelor of Arts, University of Cape Town

Area of Expertise/Skills Matrix:
- Governance
- Strategy
- General Management of government
- Public Policy

Memberships/ Association/ Advisory:
- Member of the Presidential Economic Advisory Council, August 2019
- Lead Facilitator for South Africa's Agriculture and Agro-Processing Masterplan, 1 June 2020–
- Member of the Ministerial Panel for the Professionalisation of the Public Service, 27 May 2021–

Directorship/Trusteeship/ (Shareholding):
- Corruption Watch (civil society)
- Earn International (private sector unlisted)
- Head, Wits School of Governance, University of the Witwatersrand

C RC AC NOMCO HCRC

BC	C	AC	BCIC	HCRC	NOMCO
Board Chairperson	Chairperson	Audit Committee	Board Credit and Investment Committee	Human Capital and Remuneration Committee	Nominations Committee
Risk Committee RC	Social and Ethics Committee SEC	Business Partners Ltd BP	Khula Business Premises (Pty) Ltd KBP	Khula Credit Guarantee Ltd KCG	Khula Institutional Support Services NPC KISS

Executive Management

Mr Mxolisi (MD) Matshamba
Chief Executive Officer
Age: 56
Black Male

Appointment Date:
1 November 2020

Academic Qualifications:
- Master of Business Administration, Milpark Business School
- BCom, National University of Lesotho
- Certificate in Petroleum Economics & Policy, University of the Witwatersrand University
- Three-year Articles of Accountancy, Price Waterhouse Meyernel

Ms Candice Lauren (CL) Williams
Acting Chief Financial Officer
Age: 37
White Female

Appointment Date:
1 April 2020

Academic Qualifications:
- Chartered Accountant South Africa
- BCompt Accounting Honours (CTA), UNISA
- BCom Accounting, University of Johannesburg

Mr Eric Nyarko (EN) Kwadjo
Acting Executive Manager: Post Investment Monitoring and Workout
Age: 54
Black Male

Appointment Date:
1 June 2013

Academic Qualifications:
- Master of Business Administration, Milpark Business School
- BCom (Hon), UNISA
- BCom General, UNITRA

Ms Nokonwaba (NN) Shwala
Executive Manager:
Human Capital, Facilities and Marketing
Age: 54
Black Female

Appointment Date:
1 January 2015

Academic Qualifications:
- Management Advancement Programme, University of the Witwatersrand
- BA Economics, University of KwaZulu-Natal
- Executive Leadership Programme, Thunderbird School of Global Management, Switzerland

Mr Xolani (X) Meva
Acting Executive Manager:
Direct Lending
Age: 44
Black Male

Appointment Date:
1 December 2018

Academic Qualifications:
- B Compt, Walter Sisulu University of Technology
- Post-graduate Diploma in Accounting, University of KwaZulu-Natal
- B Compt Honours, University of KwaZulu-Natal
- Management Development Programme, University of Pretoria

Chairperson's Statement

Ms Simthandile Siwisa
Chairperson of the Board

> **sefa** continued to operate under a hybrid work environment, to ensure the protection of our valued employees from the pandemic while meeting the needs of our clients and service providers. Our employees demonstrated resilience during the year as we navigated challenges and transitioned towards the new normal.

Small, medium and micro-enterprises (SMMEs) and co-operatives are the backbone of any economy. They remain key contributors to reducing unemployment, poverty and inequality in South Africa and form a significant component of the business sector as they account for 63% employment of South Africa's workforce and 34% of the gross domestic product (GDP).

The COVID-19 pandemic and the subsequent lockdowns have shown that small businesses are more vulnerable to crises and unexpected shocks. It is the quest of the South African government and SMME ecosystem players to help small businesses and co-operatives navigate this crisis and build resilience.

Our Operating Context

COVID-19 has changed the economic environment in which SMMEs in South Africa operate and continues to impact businesses and industries. During the year under review, business activity was constrained, and business continues to recover from the impact of the COVID-19 pandemic.

The lingering effects of the pandemic, exacerbated by unfavourable economic conditions have worsened the cashflow issues of small businesses and co-operatives and has shown that access to financial services remains a significant barrier to prosperity for many businesses.

The world is undergoing increasingly rapid, unpredictable and unprecedented change. The digital and technology revolution, climate change and geopolitical uncertainty will all play major roles in the business environment. It is critical for small businesses to build resilience ahead of future challenges by enhancing their risk-management capabilities.

sefa has adapted its processes to ensure that it continues to serve its clients satisfactorily while keeping its valued employees safe.

To assist with post-COVID-19 recovery, the small business sector was provided with funding to support economic recovery, which was driven by DSBD, in conjunction with its agencies, **sefa** and Seda.

Reflecting on FY2022

The Department of Small Business Development (DSBD) with its agencies, **sefa** and Seda, continued to provide a set of interventions aimed at the economic recovery of SMMEs and co-operatives negatively affected by the COVID-19 pandemic crisis. The interventions include COVID-19 relief programmes such as the SMME Debt Relief Scheme and the business growth/resilience facility.

Furthermore, there were support interventions introduced to help the businesses recover from the July 2021 civil unrest in KwaZulu-Natal and Gauteng.

I am pleased to say that 2021/22 was a good year for **sefa**, as the organisation continued to rally for growth and contribute to the recovery of the South African economy by facilitating access to finance for SMMEs and co-operatives. **sefa** continued to play an important role in eradicating the challenges of poverty, unemployment and inequality.

sefa continued to operate under a hybrid work environment, to ensure the protection of our valued employees from the pandemic while meeting the needs of our clients and service providers. Our employees demonstrated resilience during the year as we navigated challenges and transitioned towards the new normal.

During the year under review, **sefa** approved loans to the value of R2.5 billion (FY21: R1.9 billion) and disbursed R2.3 billion (FY21: R1.6 billion) into the South African economy. We disbursed R2.1 billion to black-owned businesses (FY21: R1.37 billion), R990 million to women-owned enterprises (FY21: R604 million), R494 million to youth-owned businesses (FY21: R315 million), R979 million to businesses in rural towns and villages (FY21: R0.6 billion) and R38 million to entrepreneurs with disabilities (FY21: R2.7 million).

This financial investment benefited 76 129 SMMEs and co-operatives, who in turn helped create and sustain 96 589 jobs. There was increased funding for black-owned, youth-owned and women-owned businesses, businesses in rural towns and villages, and those run by people with disabilities.

This demonstrates our commitment to eradicating the high unemployment rate, especially the high youth unemployment facing our country. The performance further indicates that **sefa** heard the call from the government to support youth as they are the future of our economy and more importantly contributed to transforming ownership in the economy by increasing participation of women-owned, black-owned and people with disability businesses.

Impairments continue to be an area of concern for the organisation as SMMEs struggle to service their loans with **sefa** and these can be attributed to the slow growth of the South African economy generally and the effects of the COVID-19 pandemic, which restricted business activity with lockdowns.

sefa's developmental impact, particularly regarding the number of businesses financed, jobs facilitated, youth-owned businesses and businesses owned by entrepreneurs with disabilities, remained constrained during the year under review. Initiatives will be developed for the coming financial year to improve these performances.

Nokuke Mackay, Baduphase, Free State

Gugulethu Sibiya, African Basket Taste of Home, Gauteng

During the FY2022, **sefa** intensified its brand presence and increased awareness of its programmes through different media platforms and conducted webinars in collaboration with other ecosystem partners to educate the public about **sefa** products.

sefa's goal remains to improve access to finance and enhance marketing and brand visibility to ensure that the organisation improves its penetration, especially in lagging demographic targets. **sefa** will continue to employ research to better understand its operating markets and inform product development and business processes. We must be responsive to SMMEs and attract quality deals which will lead to a better and improved level of collection and sustainability of the organisation.

sefa will continue to invest in strong, secure and flexible infrastructure, including managing cyber threats and avoiding technology breakdown. This is crucial to improving efficiencies and improving our turnaround time in processing applications for funding.

Finally, **sefa** aims to fast track the building of a cohesive high-performance culture that is customer centric to respond to its valued markets, that is, to foster a diverse workforce in which everyone feels included and can perform at their best.

Corporate Governance

sefa continues to embed good governance practices underpinned by integrity, competence, responsibility, accountability, fairness and trust. The Board has put in place structures to ensure that it complies with the relevant legislation and regulations when it delivers its mandate whilst providing flexibility in the company's management. There are appropriate measures to mitigate risks through our risk management function, which continues to facilitate and monitor the organisation's implementation of risk management practices.

During February 2022, the Board adopted the King IV Report on Corporate Governance for South Africa ("King IV") as part of its journey towards striving for enhanced good governance practices within the company. The extent of adherence will be reported in the FY2023 Annual Report.

The constitution of the Board Committees and their related activities undertaken during the year under review are set out in the Corporate Governance Report on page 46.

Outlook

sefa remains a key player in the SMME ecosystem for implementing post-COVID-19 economic recovery programmes. **sefa** will need to be much more creative and innovative in providing support and increasing its impact in the small business sector. The current environment dictates a new social contract for inclusive financial access for SMMEs and co-operatives, especially the informal sector.

There is an urgent need for ecosystem players to organise the provision of finance to bridge the funding gap, which is estimated to be R346 billion (Finfind, 2018). **sefa** will need to continue being a catalyst in driving the shift for other ecosystem players to share in the risk and have a willingness to invest more in the SMMEs and co-operatives (start-ups).

Following the lockdowns of 2020 and 2021 and the supply chain challenges of 2021, another wave of disruptions is challenging businesses around the world, namely, the rising input prices. Also, the realities of climate change and the digital revolution cannot be ignored, and small businesses need to adapt their business models.

To thrive in the coming decade, companies must develop resilience, that is, the ability to withstand unpredictable threats or change and to emerge stronger. The expectation is for the small businesses and co-operatives to maintain robust production capacity that can meet changes in demand and remain stable in the face of operational disruption, without sacrificing quality.

The current and future business environment demands that **sefa** builds its capabilities to prepare for and respond to disruption dynamically. **sefa** will strive to embed resilience in the way we work, in a way that makes the institution better and able to respond better to the needs of small businesses and co-operatives and policies of the government. We understand the important role we play as an institution in contributing to building a sustainable small business and co-operatives sector that will contribute to GDP growth and employment and reduce inequality in South Africa.

Appreciation

On behalf of the Board of Directors, appointed after the period under review, I would like to express our gratitude to the previous Board of Directors, **sefa** management and its excellent staff for their commitment and excellent work during the period under review. Your commitment to service and hard work has contributed to **sefa**'s good performance and will continue to be recognised by the business community for the financial investment it continues to make in the South African economy.

I would also like to acknowledge the contribution made by our Shareholder, the Industrial Development Corporation (IDC) of South Africa, for their continuous support and commitment to ensuring that **sefa** succeeds in its mission.

I must express my gratitude to the Honourable Minister Stella Ndabeni-Abrahams for her support and guidance, and entrusting the Board with the privilege of moving the company forward and serving our clients and the country at large

Lastly, to our clients, as **sefa**, we remain committed to supporting you to build and grow your businesses and contribute to developing the South African economy and reducing unemployment.

We remain hopeful in steering this ship and providing support to SMMEs as we strive to be the leading catalyst for the development of sustainable SMMEs in South Africa.

Ngiyabonga, ndiyabulela, thank you!

Ms Simthandile Siwisa
Chairperson of the Board

Joyce Maphanga, Phakamani, Limpopo

Vhutali Gadisi, Arion Power, Western Cape

Chief Executive Officer's Overview

Mr Mxolisi Matshamba
Chief Executive Officer

Operating Environment

2021 was yet another challenging year for the country at large, and the small business sector continued to be hit hard. Around June 2021, the new Delta variant hit Gauteng, before quickly spreading to other provinces, with severe infections and hospitalisation rates. By July the same year, some parts of Gauteng and KwaZulu-Natal experienced social unrest, which resulted in some shops being looted.

Unfortunately, some **sefa** clients were victims in these acts of violence and suffered losses to their businesses. In November, South Africa entered its fourth wave of COVID-19 pandemic when the Omicron variant emerged. This phase was then characterised by temporary isolation of our country following imposition of travel bans by some countries.

Meanwhile, the economic activity remained muted with the gross domestic product (GDP) expanding marginally at 1.2% in Q4 of 2021, from a contraction of 1.7% in Q3 the same year. Unemployment registered an all-time high rate of 35.3% in Q4, up from 34.9% recorded in Q3 of 2021, with manufacturing and construction sectors recording the highest job losses during Q4, whilst private households, trade as well as community and social services gained jobs over this period.

On a positive note, in Q1 2022, unemployment improved somewhat to 34.5% following 370 000 job gains between January and March 2022. These job gains were mainly in community and social services, manufacturing and trade sectors, whilst private households, finance, construction and agriculture sectors registered job losses over this period.

Key Highlights for the 2022 Financial Year

As of 31 March 2022, **sefa**'s loan book registered R3.4 billon including funds. The Direct Lending channel accounted for R2 billion and Wholesale Lending close to R1.4 billion. Over the review period, **sefa** approved loan facilities to the value of R2.5 billion (up from R1.9 billion the previous year), disbursed R2.3 billion (from R1.6 billion disbursed in 2021) to 76 129 SMMEs and co-operatives (relative to 72 799 previously), who in turn helped facilitate 96 589 jobs (compared to 99 112 the previous year).

In terms of the developmental impact, R2 billion was disbursed to black-owned businesses during the year under review, R990 million to enterprises owned by women, R494 million to youth-owned businesses, R38 million to enterprises owned by people with disabilities, R977 million to businesses based in rural towns and villages and R665 million to enterprises operating in townships over the same period.

The developmental impact was driven largely by the disbursements through the Economic Recovery Programme, which accounted for R821 million for the year from the Direct Lending channel, as well as microfinance (R309 million), retail financial intermediaries (R194 million) and Khula Credit Guarantee (R300 million), with the KCG amount reflecting the credit guarantee taken up by KCG partners.

To mitigate the impact of the July riots on small businesses, DSBD established the Business Recovery Programme (BRP) with the aim of providing financial and non-financial support to uninsured businesses affected by the riots. Both **sefa** and Seda implemented this programme. As of 31 March 2022, **sefa** had approved loans to the value of R235 million to 235 SMMEs and disbursed R176 million to 179 SMMEs that were adversely impacted by the July riots and did not have insurance. This intervention helped preserve 1 768 jobs.

Performance to date over the Medium-Term Strategic Framework (MTSF) period – 1 April 2019 to 31 March 2024
Over the MTSF period, **sefa** had targeted to approve loans to the value of R10.5 billion. To date, we have approved R5.8 billion or 55.1% of the total target. In terms of disbursements, the target was R9.7 billion. As of March 2022, **sefa** had disbursed R5.2 billion (or 54% of the five-year target) into the South African economy. The number of SMMEs and co-operatives financed and the jobs facilitated to date are at 39.4% and 41.4% respectively in relation to the five-year target. To enhance the performance to meet these five-year milestones, targeted interventions will be put in place, particularly on performance indicators that are falling behind.

Post-Investment Monitoring and Workout

In an endeavour to proactively manage our investments, the Post-Investment Monitoring and Workout (PIMW) division closely monitored the performance of the top 50 high-value loans. Most of these clients are still under moratorium, whilst others are up to date with their loan repayments. However, we are experiencing challenges with clients in the transport and logistics sector, who have been underperforming during the period under review.

In addition, to enhance the delivery of the PIMW division, a functional financial analysis matrix was developed to help the Post Investment Officers to assess the client's financial health as well as a diagnostic tool for clients in distress. These tools will help improve the turnaround time in restructuring the accounts in distress.

In terms of collections, it is evident that the ripple effects of the COVID-19 pandemic are still being felt by the small business sector. In our portfolio, we are experiencing repayment challenges mainly from clients operating in the logistics business, fuel retailers as well as those in the tourism and hospitality sector.

Some of our clients have been assisted through the Business Rescue Programme to mitigate the impact of COVID-19 on their operations, whilst others applied for provisional liquidation.

Despite these setbacks, for the year under review, **sefa**'s all in cash collections rate was 87% against the annual target of 85% as collections efforts were intensified especially on clients that could afford to repay their loans.

Human Capital Management

Our employees are key in the delivery of our mandate. For this reason, we do our best to develop their skills and talent, so that they too can be motivated to work. Furthermore, as management, we aspire to attract and retain talent at **sefa**. To this end, several initiatives are executed each year to provide the necessary training to empower employees. The **sefa** Talent Management Framework and Policy was approved, and it incorporates the succession management plan.

In executing the policy, a Management Development Programme was implemented in collaboration with the University of Pretoria, whereby nine heads of departments participated and successfully completed the programme. In addition, a **sefa** Management Competency Framework was designed as well as training of front-end employees in collaboration with Business Partners.

A total of 29 employees participated in this training, and they comprised of investment officers, investment analysts and post-investment officers. This demonstrates our commitment to grow our own and invest in the expansion of **sefa**'s talent pool.

It is worth mentioning that the pending **sefa**/Seda/CBDA merger has created a lot of anxiety among employees, and this has had an adverse impact on the organisational performance and employee attrition.

Outlook

South Africa continues to face structural challenges that range from a mismatch between the supply and demand for labour that resulted in the country facing persistently high unemployment. Other challenges include infrastructure backlogs, low quality of education, sluggish economic activity, crime and corruption.

These factors together pose a risk to positioning the country as a preferred investment destination, which is critical to boost GDP growth and help overcome the social ills brought by unemployment, poverty and high inequality that have remained stubbornly high for many years. **sefa** programmes are designed to contribute to addressing these challenges and affording the small business sector opportunities to innovate and explore their potential to create the desperately needed jobs, and in turn, the income for local households.

Acknowledgements

I wish to sincerely thank the Honourable Minister Stella Ndabeni-Abrahams, (MP) as our Executive Authority, and the Department of Small Business Development at large, for their guidance and support during the review year. My gratitude further goes to the former Board Chairperson, Mr Martin Mahosi for his guidance during his tenure together with all other Directors. A word of thanks goes to the Industrial Development Corporation for its continued support.

A warm welcome to our new Chairperson, Ms Simthandile Siwisa and other directors. We are looking forward to working with you in executing our mandate. There are high expectations on us to contribute significantly to the small business sector, more so, under the prevailing economic environment. Your unwaivering support will be highly appreciated.

We further express our thanks to our internal and external stakeholders for your support throughout the year.

Mr Mxolisi Matshamba
Chief Executive Officer: **sefa**

Chief Financial Officer's Statement

Ms Candice (CL) Williams
Acting Chief Financial Officer

> The financial performance and operational efficiency of **sefa** in the current year showed an improvement from the previous year and budgets. This was reflected in the improved cost-to-income ratio of 56% (2021: 84%, budget 2022: 106%).

Overview

During the financial year under review, **sefa** continued to implement economic recovery programmes to assist SMMEs in response to the difficult economic conditions caused by COVID-19. The Department of Small Business Development (DSBD), through **sefa**, introduced the Business Recovery & Informal Traders Support programme in response to the July 2021 civil unrest that adversely affected SMMEs and informal traders in KwaZulu-Natal and Gauteng. The Youth Challenge Fund (YCF) was also launched in the third quarter of the financial year to address youth unemployment.

Overall **sefa** noted an increase in economic activity when compared to the previous year. This was highlighted by the increased approvals and disbursements made by **sefa**. For the FY2022, **sefa** managed to facilitate disbursements of R2.3 billion and approved funding to the amount of R2.5 billion. Disbursements of R842 million were made through the Township and Rural Entrepreneurship Programmes (TREP). These programmes are designed to offer relief to SMMEs through a blended structure (loan and grant) while also offering concessionary interest rates and initial payment moratoriums.

In pursuit of fulfilling its mandate to develop sustainable SMMEs and co-operatives through the provision of various sources of funding, **sefa** has made the following disbursements during the financial year:

Disbursements (R'000)	*31 March 2022*	*31 March 2021*
Wholesale SME Lending	137 546	80 414
Wholesale Micro Lending	216 002	95 532
Direct Lending - Loans	313 926	363 918
SBIF	88 068	97 092
ERP/TREP/COVID (incl. YCF)	842 658	464 411
EU Fund	49 972	25 003
Disbursements from **sefa**'s balance sheet	1 648 172	1 126 369
Additional disbursements by Intermediaries	308 067	154 092
Khula Credit Guarantee - Guarantees taken up	285 749	201 951
WL_SME-KLR	71 363	93 887
WL_SME-Godisa	8 769	13 204
Total disbursements recorded in corporate plan	2 322 121	1 589 504

Improved Financial Position and Performance

sefa's financial position has shown an improvement in the current financial year, which was backed by the increased size of the loan book and the increase in cash and cash equivalents. The net loans and advances have increased by R640 million to a carrying amount of R1.5 billion at year end. The increase was a result of the growth in disbursements. The liquidity of the balance sheet improved during the year as reflected by cash balances of R3.3 billion at year end. Cash balances increased by R780 million from the prior year closing

balances. Additional ring-fenced funds were received during the year for the various lending programmes. **sefa**'s net asset value is currently R1.3 billion (2021: R927 million) indicating an improvement in the financial sustainability of the entity.

The financial performance and operational efficiency of **sefa** in the current year showed an improvement from the previous year and budgets. This was reflected in the improved cost-to-income ratio of 56% (2021: 84%, budget 2022: 106%). The improvement in the cost-to-income ratio was a result of growth in revenue achieved in the current year of 43% in addition to the operational cost savings realised during the year when compared to budget. In the previous year, revenue was severely impacted by the COVID-19 interventions (interest moratoriums and rental payment holidays that were offered to lending clients and tenants respectively). **sefa** continues to monitor its operational costs closely to ensure operational efficiency while also continuing to fulfil its mandate of developing sustainable SMMEs and co-operatives through the provision of various sources of funding.

Financial Performance

The group reported a loss before tax of R172 million (2021: R283 million) while the loss before tax was budgeted to be R421 million. The factors contributing to the loss before tax are explained further in the following paragraphs.

Revenue

Interest on loans and advances increased from the previous year by R65 million due to the increased loan book size in the current year and lower interest earned in the previous year as six months loan payment moratoriums were provided to some clients. Rental income earned from the property portfolio showed an improvement by R8 million in the current year as a result of a lower base in the previous year as six months rental payments holidays were provided to some tenants as part of COVID-19 programmes responses.

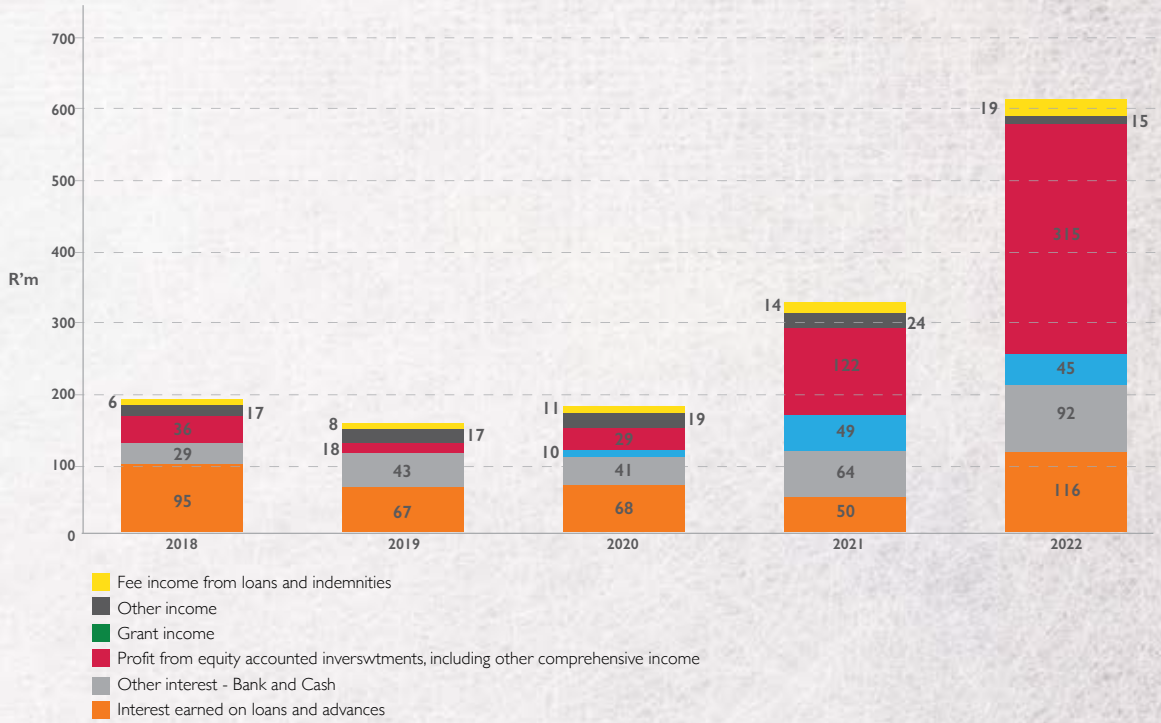


Figure 9: Group Revenue

Other Revenue and Interest Earned

Interest on cash and cash equivalents has increased by R28 million from the previous year due to higher average cash balances held during the 2022 financial year. This was driven mainly by the various funding allocations received under the economic recovery programmes from the Department of Small Business Development and Tourism Equity Funds (TEF) from the Department of Tourism.

sefa's share of net profits and other comprehensive income from equity-accounted investments was lower in the current year compared to the previous year. The main contributors were a loss of R14 million from Anglo **sefa** Mining Fund (Pty) Ltd while Business Partners Limited contributed a profit of R55 million in the financial year. The loss from the Anglo **sefa** Mining Fund is attributable to a reduction in the fair value of their listed investments while the Business Partners' share of profit is attributable mainly to growth in total income and lower net credit losses because of impairment releases.

Other income is mainly made up of management fees earned and other recoveries. A decrease in other income from the previous year was noted, mainly as a result of a once-off R8 million profit on disposal of an investment realised in the prior year.

Grant Income and Expense

Grant income and expense are recognised for certain programmes in the **sefa** group in accordance with the IAS20 – Accounting for Government Grants standard. The recognition of grant income is mainly from the COVID-19/ERP programmes in line with the increased disbursements in these programmes over the past two financial years.

Grant Income and grant expense (R'000)	*31 March 2022*	*31 March 2021*
Grant received: Blended Finance	18 303	11 483
Grant received: Small Business and Innovation Fund	30 608	5 964
Grant received: COVID-19 relief and Economic recovery programmes	265 879	104 295
Total Grant Income	314 790	121 742
Grant expense: Small Business and Innovation Fund	(87 653)	(34 180)
Total Grant Expense	(87 653)	(34 180)

Expenses

Extract from sefa Group Statement of Comprehensive Income Statement (R'm)	*2022*	*2021*	*Variance R'm*
Expenses	**(774)**	**(601)**	**(173)**
Finance costs	(55)	(50)	(5)
Increase in impairments on investments	(9)	(3)	(6)
Increase in credit losses on loans and advances	(294)	(123)	(171)
Bad debts written off	(45)	(56)	11
Net loss on investment properties	(34)	(35)	1
Investment property expenses	(57)	(51)	(6)
Net fair value (loss)/gain on investment	2	6	(4)
Personnel expenses	(209)	(191)	(18)
(Increase)/Decrease in impairments on cash	8	(3)	11
Lease Liability Finance Cost	(3)	(4)	1
Grant expense	(88)	(34)	(53)
Other operating expenses	(47)	(108)	61

Other operating expenses include depreciation, computer expenses, audit fees, director's fees and consulting fees, tax penalty provision and the movement in technical reserves in KCG amongst others.

Savings in operating costs when compared to budgets were realised during the year, with a bulk of the savings derived from lower technical reserves movement (R95 million) due to lower take-ups in KCG, consulting (R7 million) and depreciation (R6 million).

Operating expenditure (excluding grant expenses, impairments and bad debts written off) decreased by R61 million year on year. A significant portion of the decrease was as a result of income taxation penalty expense (R27 million) raised in the prior year, which was reversed in the current financial year resulting in a R54 million positive movement.

The net loss of investment properties remained mostly unchanged year-on-year at R34 million. There was an increase in rental income in the current year due to lower rental income earned in the previous year because of COVID-19 tenant rent relief provided. The investment property expenses increased year-on-year mainly due to increases in municipal services' expenses (electricity, water, rates and taxes, levies).

Taxation

In the previous and current year, **sefa** received various grants from DSBD aimed at assisting SMMEs in response to the COVID-19 pandemic. In the previous year **sefa**, through the DSBD, had applied that these grants be exempted from income tax by National Treasury. The exemption of these grants per the Tax Laws Amendment Act of 2021 was only issued by the Presidency on 19 January 2022 and **sefa** was therefore required to provide for the tax implication in the 2021 annual financial statements which resulted in a current tax expense provision of R270 million while a tax penalty expense of R27 million (10%) was also provided for in other operating expenses. All tax implications were reversed in the current year based on the newly enacted taxation legislation.

Loans and Impairments

The year-on-year increase in net loans and advances amounts to R640 million (72% increase). This is due to growth in the disbursements in new programmes as stated previously.

Loans and Advances (R'000)	***31 March 2022***	***31 March 2021***
Loans and advances to clients	2 622 124	1 687 656
Less: Credit loss allowance	(1 094 498)	(800 969)
Total loans and advances net of credit losses	**1 527 626**	**886 687**
Impairment Ratio - Loans and advances (incl direct lending legacy book*)	42%	47%
Impairment Ratio - Loans and advances (excl direct lending legacy book*)	39%	43%

- Legacy book refers to loans granted before 01/04/2016

Investments and Funds (R'000)	***31 March 2022***	***31 March 2021***
Total investments and funds	773 485	796 547
Less: Credit loss allowance	(176 224)	(176 962)
Total investments and funds net of credit losses	597 260	619 855
Impairment Ratio - Investments and Funds	23%	22%

Total investment in funds refers to equity investments, investments in associates, investments in joint operations, investments in joint ventures and investments in subsidiaries and Khula Land Reform.

Overall Impairment Ratio **sefa** group (excluding Direct Lending legacy book and the impact of capitalisation of KCG)	35%	36%

The gross loans and advances increased by R936 million to R2.6 billion at year end as a result of the growth in disbursements in the loan portfolio.

Overall impairments write-off and bad debt provisions on loans and advances have increased by a net amount of R339 million from the previous year due to the growth in the loan portfolio. At year end, the impairment provision was R1.1 billion (2021: R801 million).

The reduced expected credit loss coverage ratio of 35% (2021: 36%) was achieved through, among others, loan portfolio growth as a result of increased disbursements, the restructuring of loans clients affected by adverse economic conditions and inclusion of collateral in the year-end expected credit losses.

Cash and Cash Equivalents

sefa cash and cash equivalents increased significantly from the previous financial year to R3.3 billion at the end of financial year (2021: R2.5 billion). **sefa** managed the following funds (after reprioritisations) for the year under review:

Programmes	*R'000*
Economic recovery programmes / TREP (incl. COVID, Blended Finance)	1 437 917
European Union (EU) ESD Funds	114 962
Small Business Innovation Fund	299 377
Tourism Equity Fund	322 460

In addition to the funds above, R300 million (EU programme), R112.5 million (Automotive Aftermarkets Support Programme) and R68 million (Spaza Shop Support Programme) were managed by Khula Credit Guarantee (subsidiary of **sefa**) during the financial year.

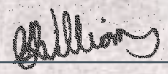
For the financial year ending 31 March 2022, sefa received the following funds:

Programmes	*R'000*
Economic Recovery Programme/TREP	1 326 973
Co-operative Development Support Programme	68 625
Youth Challenge Fund (from DSBD and EU)	206 777
Tourism Equity Fund	242 800
sefa MTEF Allocation	251 706
Total Funds Receipts	**2 096 881**

The FY2023 strategic priorities, as highlighted in the **sefa** Corporate Annual Performance Plan of 2022/2023, include building a sustainable loan book, improving performance on key development indicators and improving the cost structure.

A financially sustainable organisation is one of **sefa**'s outcomes in the 2022/23 Corporate Plan. This would be measured by a growth in the net asset value of the **sefa** group to R1.7 billion by FY2025 while also maintaining the impairment ratio at 36% by FY2025. **sefa** also aims to achieve a budgeted cost to income ratio of 87% in FY2023 with an improvement in the ratio to 76% by FY2025.

Key projects that would require financial resources include IT front-end automation, consultation costs, marketing and advertising, repairs and maintenance in the properties' portfolio, finance automation and IFRS 17 implementation in the year FY2023.



Ms Candice Williams
Acting Chief Financial Officer

Marion Jacobs, Couch Potato, Western Cape

Corporate Governance Report

Governance

Inherent in our vision to be the leading catalyst for the development of sustainable small, medium and micro-enterprises (SMMEs) and co-operatives, through simple access to finance, efficiently and sustainably throughout South Africa, is the responsibility to ensure that an ethical culture and good governance practices in **sefa** continue to evolve to counter challenges in the rapidly changing world. The Board, being the custodian of ethical governance with the collective responsibility for setting an ethical tone at the top, ensures that high ethical standards and governance practices are cascaded in the different levels of the organisation, thus improving **sefa**'s reputation and service to its valued clients, whilst balancing the needs of its stakeholders.

sefa continues to improve and strengthen the application of the recommended best governance practices, and is committed to the principles of integrity, competency, responsibility, accountability, fairness and transparency. The Board ensures accountability for **sefa** performance and oversees implementation of the Approved strategy by management, thus ensuring that the company delivers on its mandate.

The adverse impact of the COVID-19 pandemic over the successive two-year period, and the civil unrest faced by the two main provinces within which **sefa** clients operate, namely KwaZulu-Natal and Gauteng, necessitated a reallocation of some of the funds towards supporting the affected businesses in collaboration with DSBD. The Board, whilst keeping an ethical culture and high standard of governance, responded by resuscitating the flexible and agile approach to ensure that those SMMEs were assisted timeously through related relief programmes.

sefa Governance Structure

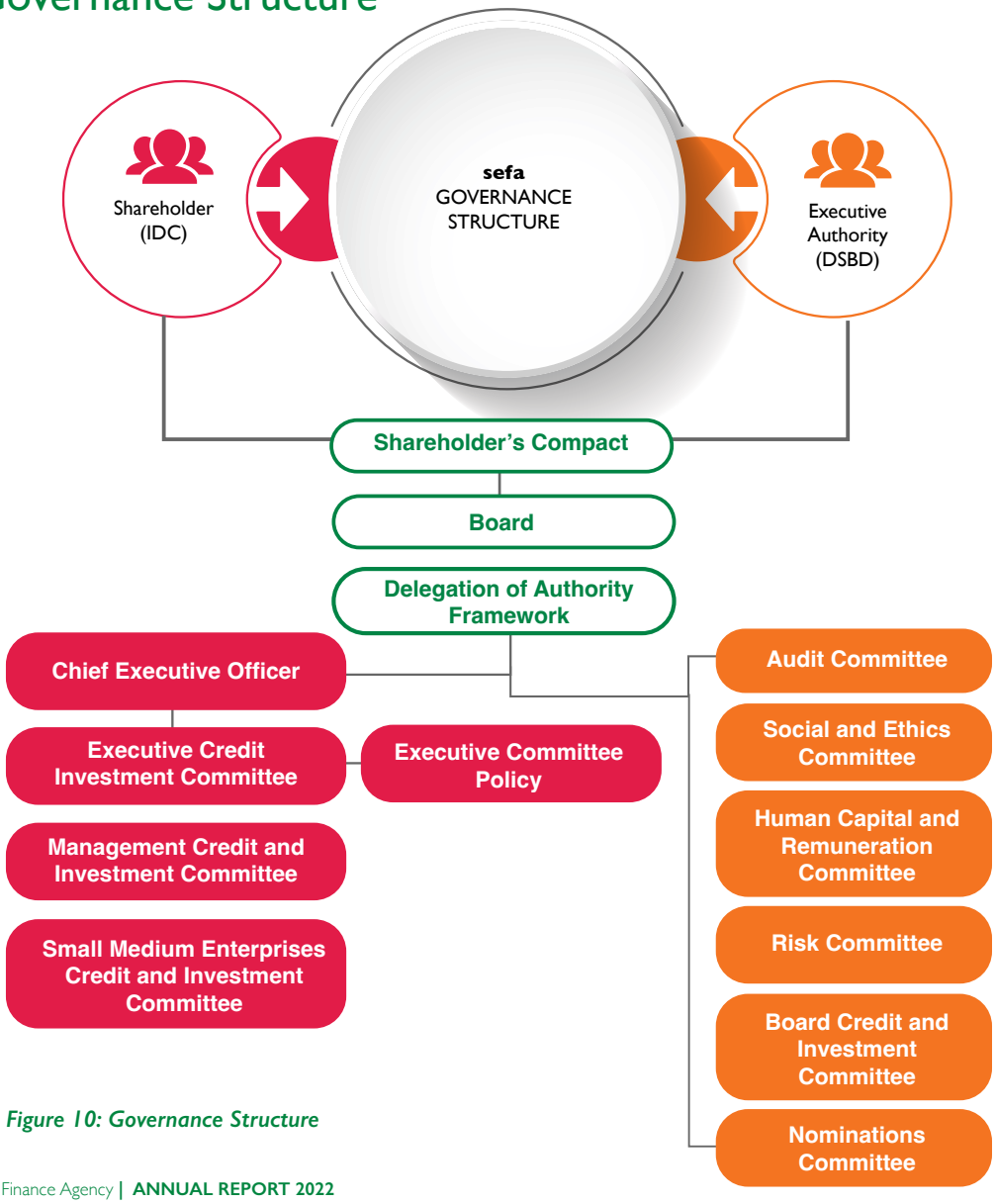


Figure 10: Governance Structure

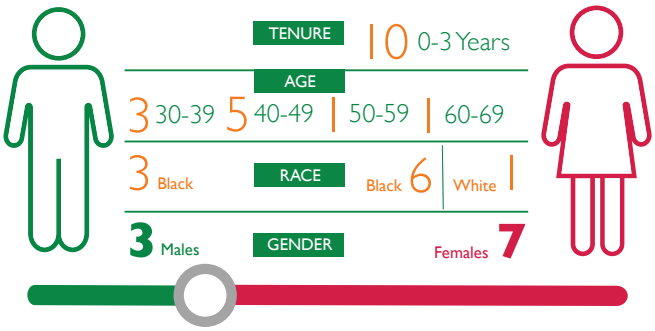
Composition of the Board

The Board has a unitary structure comprising the Board Chairperson, Chief Executive Officer and an adequate number of Directors, a majority of whom are Non-Executive Directors. The Board comprises ten directors, seven of whom are independent non-executive directors. Eight of the directors are appointed by the Executive Authority, the Minister of Small Business Development, whilst the Shareholder, IDC, nominates two members. The former Board's term was extended from 30 September 2021 to 30 April 2022, and a new Board was appointed effective from 1 May 2022. The profiles of the Board Members are provided on page 26.

The CEO is appointed by the Board in consultation with the Shareholder and the Executive Authority. Mr Matshamba was appointed as the CEO of the **sefa** on a three-year contract effective from 1 November 2020, and as an Executive Director of the Company, in accordance with the Company's Memorandum of Incorporation.

The Non-Executive Directors are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the Non-Executive Directors have unrestricted access to the Company's information, documents, records and property in the interests of fulfilling their responsibilities as Non-Executive Directors. The Non-Executive Directors have direct, unfettered access to the company's employees, external auditors, professional advisors and internal auditors. The Non-Executive Directors continue to act in the best interests of the Company and avoid potential political connections or exposures through the use of a range of governance instruments in the execution of their fiduciary duties.

Board Tenure and Demographics



Note: Excludes CEO – Executive Director and is based on current serving Board at reporting stage

Figure 11: Board Tenure

Figure 12: Skills Matrix

Board Skills Matrix

The Non-Executive Directors contribute a variety of skills, business acumen, independent judgement and experience in various matters, including strategy, corporate governance, performance and general leadership. The Board has identified a need for an independent chartered accountant, to be appointed on the Board to enhance the technical skills on the Audit Committee (AC). Engagements will accordingly be held with the Shareholder and the Executive Authority.

The Role of the Board

The Board provides strategic leadership and guidance to the company and is ultimately responsible for governance and effective control of **sefa**. It is further responsible for providing sound judgement in directing **sefa** to achieve its mandate and growth in the best interests of all its stakeholders. The Board functions in accordance with governance principles and ensures compliance with the PFMA, the Companies Act No 71 of 2008 (the Companies Act) and all applicable laws and regulations.

The Chairperson of the Board is an independent Non-Executive Director and provides leadership to the Board to ensure effective discharge of its responsibilities. No individual director has unfettered powers in relation to decision making. The Chairperson presides over the Board meetings and

facilitates sound decision making. The Chairperson ensures that discussions are focused and encourages members to air their views on matters brought before the Board.

The Board fulfils inter alia, the following roles and functions:

Reports to the Executive Authority and the Shareholder on the direction, governance and performance of the company, including any matter that needs reporting or disclosure in the terms of legal requirements;

- Represented by the Chairperson of Board or her delegate, reports to the Parliamentary Portfolio Committee on Small Business Development;
- Reviews and approves strategic plans, budgets, quarterly and annual performance plans as proposed by management;
- Reviews and approves policies;
- Reviews processes for the identification and management of business risk and processes for compliance with key regulatory and legal requirements;
- Provides oversight on organisational performance against targets and objectives.

The Board held a total of 12 meetings in the year under review, and considered the following key matters:

- Approved the **sefa** Corporate Performance Report for Q4 of the FY2020/21;
- Approved the **sefa** Board Charter;
- Approved the **sefa** and Group Annual Financial Statements for the FY2020/21 ended 31 March 2021;
- Appointed Independent Directors to the Khula Business Premises Board, a **sefa** wholly owned subsidiary;
- Reconstituted its committees for adequacy;
- Approved revised threshold in the Khula Business Premises Delegation of Authority (DoA) Matrix;
- Approved the Board Committees' Annual Work Plans for FY2021/22;
- Appointed the Executive Manager: Lending;
- Approved the implementation of a Business Recovery Support Package;Approved the Corporate Performance Report for Q1 of the FY2021/22;
- Approved the **sefa** Annual Report FY2020/21;
- Approved the **sefa** Delegation of Authority Matrix;
- Approved the removal of the FY2020/21 irregular expenditure of R7 529 244.25 from the Annual Financial Statements;
- Approved the revised Social and Ethics Committee Charter and Annual Work Plans for FY2021/22;
- Approved a cost-of-living adjustment for employee salaries;
- Approved the filling of critical vacancies, subject to ministerial concurrence;
- Approved the Performance Management Policy;
- Confirmed the CEO's appointment;
- Approved the CEO's performance contract for FY2021/22;
- Approved the Corporate Performance Report for Q2 of the FY2021/22;
- Approved the Co-operative Development Support Programme (CDSP) fund to be administered by **sefa** on behalf of the DSBD;
- Recommended the revision of the annual targets for FY2021/22 to the Executive Authority;
- Approved a R100 million facility for SA Taxi Development Finance (PTY) Ltd;
- Approved the **sefa** Board of Directors Code of Conduct, Declaration of Interest and Ethics Policy;
- Approved the appointment of acting incumbents in the roles of Chief Financial Officer and Executive Manager: Post Investment Monitoring and Workouts;
- Approved the Khula Credit Guarantee (SOC) Ltd Memorandum of Incorporation;
- Recommended a counter party limit exceedance to the Shareholder (IDC) and Executive Authority (DSBD);
- Approved the proposed Khula Business Premises (Pty) Ltd Memorandum of Incorporation;
- Approved the Annual Corporate Calendar for the FY2022/23;
- Approved the Performance Report for Q3 of FY2021/22;
- Recommended the reappointment of Sizwe-NtsalubaGobodo Grant Thornton Inc. as **sefa** Group External Auditors for the ensuing FY2022/23 to the Shareholder for consideration at the 25th Annual General Meeting;
- Approved the Audit Fees Budget for the FY2021/22;
- Approved the **sefa** Corporate Annual Performance Plan for the FY2022/23 ending 31 March 2023 for submission to the Department of Small Business Development;
- Approved the **sefa** budgets for the FY2022/23 ending 31 March 2023;
- Approved the **sefa** 25th Annual General Meeting Recommended a cost-of-living adjustment to the **sefa** Board Fees for the FY2022/23 for consideration at the annual general meeting of the Company;
- Recommended the **sefa** Shareholders' Compact for the FY2022/23 ending 31 March 2023 to the Industrial Development Corporation of South Africa Limited;
- Approved the following human resources policies: Employment Equity Policy, Talent Acquisition and Selection Policy, Travel Management Policy, Remote Working Policy, Fleet Management Policy;
- Approved the **sefa** Brand and Corporate Identity Policy;
- Approved the **sefa** Credit and Investment Risk Policy;
- Approved the **sefa** Business Continuity Management Policy;
- Approved Annual Work Plans for the FY2022/23 for the following Board Committees: Audit, Human Capital and Remuneration Committee (HCRC), Risk, Social and Ethics Committee (SEC);
- Adopted King IV Report on Corporate Governance for South Africa, as part of enhancing governance in the company;
- Approved the charters for the following Board Committees: Audit, HCRC, Risk and SEC;
- Approved the Small Enterprise Foundation (SEF) NPC Facility of R90 million;
- Approved the Board Credit and Investment Committee Annual Work Plan for the FY2022/23;
- Approved the **sefa** Bad Debts Write-Off Policy.

Board Committees

In line with the provisions of the Companies Act, the Board established the Audit Committee and the Social and Ethics Committee as statutory committees. The Audit Committee's constitution, functioning and reporting adhere firmly to the PFMA requirements. The Board has delegated certain of its functions to the Committees set out below, without abdicating any of its responsibility. Committee members were nominated by the Board from amongst Directors based on experience and expertise.

Committee	Members	Role of the Committee	Key Decisions The committees considered and reviewed the following:
Audit Committee	Ms SF Mudau (Chairperson) Mr MJ Kganyago Ms ZF Ngcobo	Constituted in accordance with Section 94 of the Companies Act No 71 of 2008, the primary role of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, system of internal control, audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee provides independent advice and guidance to the Board regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.	a. Appointed the Head of Internal Audit on a 12-month contract. b. Recommended the Godisa (an associate company) Annual Financial Statements for FY2019/20 to the Godisa Board. c. Recommended the **sefa** Group Annual Financial Statements for FY2020/21. d. Recommended the opening of bank account for the EU Innovation Fund to the KCG Board. e. Approved the Internal Audit Three-Year Risk-Based Rolling Plan FY2021–2023. f. Recommended the Committee Annual Work Plan, subject to the recommended amendments, to the Board for approval. g. Recommended the Memorandum of Incorporation for Khula Credit Guarantee and Khula Business Premises to the respective Boards for onward approval by the Shareholder (**sefa**). h. Recommended the Qualitative Regulatory Return (QRR) for the financial year ended 2021 to the KCG Board. i. Recommended the Quarterly Management Accounts (Q4FY2020/21; Q1 to Q3FY2022/23) for **sefa**, Khula Business Premises and Khula Credit Guarantee to the respective Boards. j. Recommended the draft Annual Report for FY2020/21 to the Board for approval k. Recommended the Quarterly Returns (Q4 FY2020/21; Q1 to Q3 FY2021/22) to the KCG Board for approval and submission to the Prudential Authority. l. Recommended the removal of the FY2020/21 irregular expenditure to the Board given the corrective measures undertaken by Management. m. Recommended the re-appointment of SizweNtsalubaGobodo Grant Thornton as the **sefa** Group External Auditors for approval by the **sefa** Board. n. Recommended the **sefa** 25th AGM Notice and Agenda for approval by the **sefa** Board. o. Recommended the Shareholders' Compact for FY2022/23 for approval by the **sefa** Board, and for subsequent submission to the Shareholder. p. Recommended the **sefa** Corporate Plan for FY2022/23 for approval by the **sefa** Board q. Recommended the **sefa** Budget in respect of FY2022/23 for approval by the **sefa** Board r. Recommended the **sefa** Significant Materiality Framework for approval by the **sefa** Board. s. Recommended the Khula Credit Guarantee Delegation of Authority Matrix to the KCG Board t. Approved the External Audit Planning Memorandum and Audit approach for the year ending 31 March 2022. u. Recommended the External Audit fess for the group at a total of R3 319 610.25 (excluding VAT) for the FY2021/22 Audit. v. Approved the Bad Debts Write Off (R50 million) in line with the Bad Debts Policy. w. Approved the Fraud Prevention Plan. x. Recommended the Audit Committee Charter to the **sefa** Board for approval. y. Recommended the Audit Committee Annual Work Plan for FY2022/23 to the **sefa** Board. z. Recommended the adoption of King IV Code of Governance to enhance governance in the company.

Board Committees (continued)

Committee	Members	Role of the Committee	Key Decisions The committees considered and reviewed the following:
Credit and Investment Committee	Mr MJ Kganyago (Chairperson) Ms SF Mudau Ms H Tsoadi	The primary role of the Committee is to provide oversight and monitoring of all **sefa** investment portfolios and ensuring that **sefa** effectively provides finance, and where appropriate institutional strengthening and business support. Together with consideration and approval of transactions within its delegated authority and recommending those above its limit to the Board for approval, it further ensures that all funding is provided in line with credit and other relevant policies and statutory requirements.	a. Approved an Indemnity Cover of R60 million for Macsteel Service Centres SA (Pty) Ltd. b. Revised the interest rate for Small Enterprise Foundation revolving facility to prime linked rate. c. Revised the interest rate for Phakamani Foundation to a prime-linked interest rate. d. Recommended to the **sefa** Board the approval of the Co-operative Development Support Programme of around R79.8 million to be administered by **sefa** on behalf of the Development of Small Business Development. e. Approved **sefa** participation in TUHF indemnity bond security on the existing facility. f. Recommended to Khula Credit Guarantee Board that ABSA Bank be approved as the partner bank for the implementation of the proposed Automotive Aftermarket Support Programme Facility in line with the framework set by Department of Small Business Development. g. Recommended the loan facility of SA Taxi Development Finance for the amount of R100 million. h. Approved the refinancing of Small Enterprise Foundation's R30 million revolving facility. i. Recommended the implementation of the Youth Challenge Fund on behalf of the Department of Small Business Development for an estimated amount of R282.7 million to the **sefa** Board, in accordance with the DSBD guidelines. j. Recommended the portfolio guarantee amounting to R150 million in favour of Standard Bank of South Africa Limited to facilitate the provision of credit to emerging farmers in the deciduous fruit industry, maize, and grain industry for approval by the KCG Board. k. Recommended that the **sefa** Board approves: i. An extension of the loan facility period by 90 days to allow for the completion of the facility letter and loan agreement drafting process for the ABSA Bank Limited ESD loan facility, for approval by the **sefa** Board. ii. The amendment of interest rate charged to ABSA to always be half of the nominal prime rate per annum compounded monthly and to review the interest charged to end-users funded by ABSA to prime plus 2% for approval by the **sefa** Board. l. Recommended a R75 million credit indemnity facility in favour of Bizcash for approval by the **sefa** Board. m. Recommended the refinancing of R90 million in favour of Small Enterprise Foundation for approval by the **sefa** Board. n. Recommended the reviewed CIC Committee Charter for approval by the **sefa** Board. o. Recommended the CIC Annual Work Plan for FY2022/23 for approval by the **sefa** Board.

Board Committees (continued)

Committee	Members	Role of the Committee	Key Decisions The committees considered and reviewed the following:
Human Capital and Remuneration Committee	Mr M Radebe (Chairperson) Ms DL Mabuza Mr AMR Mahosi Ms ZF Ngcobo	The primary role of the HCRC is to assist the Board in discharging its responsibilities for setting and administering remuneration and human capital policies and practices, taking into account all relevant legislation, regulatory requirements and codes of best practice, in the interest of **sefa**. The Committee does not assume the functions of management, which remains the responsibility of the executive directors, officers and other members of senior management.	a. Recommended the HCRC Annual Work Plan for the FY2021/22 to the Board for approval subject to Recommended amendments. b. Recommended the revised Non-Executive Director Fees Payment Guideline to the Board of Directors and to the shareholder representative for information and noting. c. Recommended the appointment of Ms C Williams as Acting CFO. d. Recommended that the Board approves the appointment of Ms B Sefolo as the Company's Executive Manager: Lending. e. Recommended a cost-of-living adjustment for employee salaries (1.5%) and an additional average 1% performance-based adjustment. f. Recommended the FY2021/22 Chief Executive Officer Performance Contract and the revised Addendum to the Board for approval. g. Recommended the revised Performance Management Policy to the Board for approval subject to amendments. h. Recommended the **sefa** Revised Travel Management Policy to the Board for approval. i. Recommended the filling of critical vacancies to the Board. j. Recommended the feedback on implementation of Annual Salary Increases FY2020/21 to the Board. k. Recommended the feedback on the implementation of the Salary Increase for FY2020/21 l. Recommended the appointment of an incumbent as Acting Executive Manager: Post Investment Monitoring & Workouts. m. Recommended that the Board approves the appointment of a temporary employee on a 12-month fixed-term contract for secondment as Acting Managing Director of the Co-operative Banks Development Agency. n. Recommended the confirmation of the Chief Executive Officer to the Board of Directors, in line with the applicable process. o. Recommended the Talent Acquisition and Selection Policy to the Board for approval, subject to amendments. p. Recommended the Travel Policy to the Board for approval subject to amendments. q. Recommended the Remote Working Policy to the Board for approval subject to amendments. r. Recommended the Employment Equity Policy to the Board for approval subject to amendments. s. Recommended the Fleet Management Policy to the Board for approval subject to amendments. t. Recommended the HCRC Charter to the Board for approval. u. Recommended the HCRC Annual Work Plan FY2022/23 to the Board for approval.

Board Committees (continued)

Committee	Members	Role of the Committee	Key Decisions The committees considered and reviewed the following:
Risk Committee	Mr MJ Kganyago (Chairperson) Ms SF Mudau Ms H Tsoadi	The primary role of the Risk Committee is to assist the Board in identifying, assessing, prioritising and management of key risks inherent in all **sefa** group business activities.	a. Recommended the adoption of the ORSA results for the planning period FY2022 to FY2023 to the KCG Board. b. Recommended the KCG Risk Management Policy to the KCG Board for approval. c. Recommended the Risk Committee Annual Work Plan for the FY2021/22 to the Board for approval. d. Approved the Risk and Compliance Management Annual Plan. e. Recommended the KCG Risk Register to the KCG Board for approval subject to amendments. f. Approved the **sefa** Regulatory Universe and the associated Compliance Risk Management Plans. g. Recommended the KCG Risk Appetite Statement to the KCG Board for approval, subject to amendments. h. Recommended the Business Continuity Management (BCM) Policy to the **sefa** Board, subject to amendments. i. Approved the Business Continuity Management Framework. j. Approved the Compliance Risk Management Plan in respect of: i. The Insurance Act; and ii. the Financial Intelligence Centre Act. k. Recommended the revised Risk Committee Charter for approval by the **sefa** Board subject to the highlighted amendments. l. Recommended the Risk Committee Annual Work Plan for FY2022/23 approval by the **sefa** Board. m. Recommended the **sefa** Credit and Investment Risk Policy for approval by the **sefa** Board.
Social and Ethics Committee	Ms ZF Ngcobo (Chairperson) Mr MJ Kganyago Ms DL Mabuza	The Social and Ethics Committee is constituted as a statutory Committee of the Board of the **sefa** in terms of section 72(4) of the Companies Act No. 71 of 2008, read with Regulation 43 of the Companies Regulations, 2011. The role of the Committee is to assist the Board with the oversight of social and ethical matters relating to the Company.	a. Recommended the Committee Annual Work Plan for FY2021/22 to the Board for approval. b. Recommended the Committee Charter to the Board for approval. c. Recommended the Code of Conduct, Declaration of Interest and Ethics Policy to the Board of Directors for approval. d. Recommended the Social and Ethics Committee Charter for approval by the Board of Directors. e. Recommended the Social and Ethics Committee Annual Work Plan for FY2022/23 for approval by the Board of Directors. f. RECOMMENDED the **sefa** Brand and Corporate Identity Policy for approval by the Board of Directors.
Nominations Committee	Mr AMR Mahosi (Chairperson) Mr MJ Kganyago Ms SF Mudau Ms ZF Ngcobo Mr M Radebe	Established as a Committee of chairpersons to assist the Board with nominations of members to Committees and the Significant Subsidiary Boards.	a. Recommended the confirmation of the Chief Executive Officer to the **sefa** Board. b. Recommended the appointment of Independent Directors, and Chairperson, to the Khula Business Premises Board, a wholly owned subsidiary of **sefa**.

Triton Pharmaceuticals, Gauteng

All Board Committees have charters that guide the execution of their respective mandates, which are achieved through effective meetings, execution of the annual work plans, deep dive sessions and periodic Board workshops. The Board workshops focus on strategic planning and review of the Corporate Plan, which incorporates five-year budgets. Deep dive sessions are held to discuss specific matters as part of ongoing development and understanding of the Company, as and when required.

Board Attendance for the FY2021/22

Board and Committee meetings are held on a quarterly basis, with additional meetings scheduled for out-of-cycle reporting and other related activities. Since the COVID-19 pandemic which saw the Board successfully shift from in-contact meeting to electronic meetings, via Microsoft Teams, all meetings were held electronically. The activities of the year under review shifted towards the adapted normalcy.

	Date Appointed	Board	AGM	Board Strategy Session (2-day session)	Audit Commit-tee	Risk Commit-tee	Human Capital & Remu-neration Commit-tee	Credit & Invest-ment Commit-tee	Social & Ethics Commit-tee
Number of meetings held		12 (3 SM)	1	1	7 (3 SM)	4	6 (2 SM)	6	4
AMR Mahosi (Chairperson)	01/08/19	12	1	1			6		
MJ Kganyago	01/08/19	11	1	1	6*	4		6	4
DL Mabuza	01/08/19	12	1	1			6		4
M Makara[1]	01/08/19	1			1	1			
MD Matshamba	01/11/20	12	1	1					4
SF Mudau	01/10/20	11	1	1	7	4		6	
ZF Ngcobo	01/10/20	8	A	1	5		6		4
H Tsoadi	01/10/20	10	1	1		4		6	
M Radebe	01/08/19	9	A	1			5		3

Notes:
A denotes Apology
SM denotes Special Meeting.
[1] Resigned from the Board on 31 May 2021.
* Mr Kganyago was appointed to the Audit Committee effective from June 2021.
** Ms Mudau was appointed to the Risk Committee effective from June 2021.
*** Mr Matshamba was appointed as member of the Social and Ethics Committee effective from July 2021.

Performance Appraisal

The Board views assessments of its performance as a vital tool to enhance its effectiveness. Generally, an independent service provider is procured to conduct the annual Board performance appraisal. The outcome of that appraisal process would be considered by the Board and remedial action implemented. The report would further be submitted to the Shareholder and Executive Authority. The Board did not conduct an independent assessment during the year under review but conducted a self-assessment process and corrective action plans developed for ongoing implementation.

Directors Induction and Continuous Development

As part of enhancing the Directors' skills, the Company Secretary arranged membership for all the Directors with the Institute of Directors Southern Africa (IoDSA). Individual Directors are encouraged to identify any training events they may wish to attend, through recognised training institutes, especially the IoDSA, as part of ongoing development as a Director. In-house sessions, where possible, are also arranged as part of a scheduled meeting agenda.

In the year under review, the following training engagements were held and/or attended:

Course/ Training	Director	Service Provider
In-house training on the PFMA and related Company obligations	AMR Mahosi DL Mabuza MJ Kganyago ZF Ngcobo H Tsoadi	National Treasury
Director Certification Programme – Passed Certified Director Exam	MJ Kganyago	IoDSA
The relationship between the Board Chairperson and CEO	AMR Mahosi MD Matshamba	IODSA
Toast Masters Speechcraft	MJ Kganyago	IODSA
Transcendental Director	MJ Kganyago	IODSA
Improving Governance in the Public Sector	MJ Kganyago	IODSA

Zongs Mbekweni, Pick 'n Pay, Western Cape

Saleem Williams, Lekka Pies, Western Cape

Stakeholder Engagements

Tiyani Maluleke, First Choice Butchery, Limpopo

Joyce, Maphanga, Phakamani, Limpopo

Executive Authority and Shareholder Engagements

To facilitate effective performance monitoring by the Executive Authority and in line with Treasury Regulation 29.3.1, the Minister meets with the Board as and when necessary, at most, on a quarterly basis. The Minister held two engagements with the Board of Directors during the year under review, with specific focus on the impending merger of **sefa** with two sister companies.

sefa concluded a Shareholder's Compact with the Executive Authority and the Shareholder. A formal governance framework that governs the relationship between **sefa** and the Shareholder exists. The Minister and Shareholder's representative attended the **sefa** Board strategy session held in October 2021.

Site Visits

Due to the COVID-19 restrictions, the Board deferred any in-person contact activities. As such, there were no site visits conducted in the period under review.

Small Enterprise Development Agency (Seda)

The **sefa** and Seda Board Chairpersons, assisted by the respective Company Secretaries, held three bilateral meetings for collaboration and alignment purposes. **sefa** and Seda management counterparties continue to collaborate on specific related projects.

Conflicts of Interest

The Board recognises the importance of acting in the best interests of the company. The Board applies the provisions of the Companies Act and the Directors' Code of Conduct, Declaration of Interest and Ethics Policy, by disclosing, and avoiding conflicts of interests. Directors are required to declare their general interests annually and at each meeting in accordance with the Companies Act.

Board Remuneration

sefa Non-Executive Directors are remunerated for meetings attended. Other ad hoc non-meeting duties performed on behalf of the company, and approved by the Chairperson, are payable on an hourly rate based on the Board or Committee Fees as approved by the Shareholder. No performance-based remuneration or retainer fees are paid to directors.

Directors' remuneration is reported under note xxx of the Annual Financial Statements

Delegation of Authority

The Board has delegated certain of its functions to management while remaining responsible for the execution of the delegated authority. In line with Section 56 of the PFMA, the Board has reduced to writing all powers that have been delegated to management. The Board duly reviewed and approved the **sefa** Delegation of Authority during the period under review.

Company Secretary

The Company Secretary is not a Director of the company and reports administratively to the CEO and functionally to the Board. She is responsible to the Board for, amongst others, ensuring compliance with Board procedures and applicable statutes and regulations. To enable the Board to function effectively, all directors have full and unrestricted access to the Company Secretary. The Company Secretary makes the Board aware of any contraventions to policies and applicable legislation, as and when such matters arise.

Operational Structure

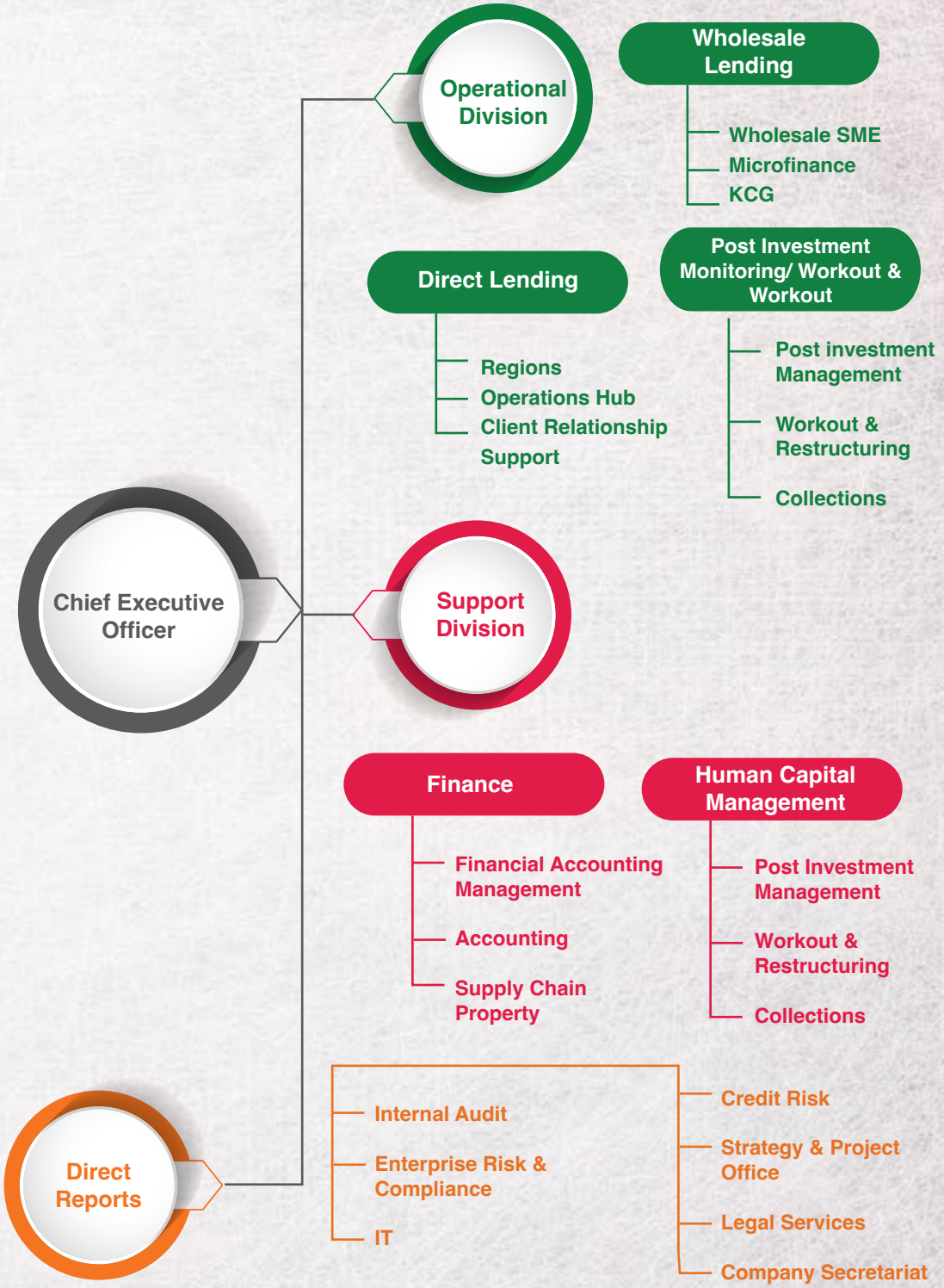


Figure 13: Operational Structure

Enterprise Risk Management

sefa continues to mature and strengthen its risk and resilience culture through the implementation of the approved Enterprise Risk Management (ERM) Policy Framework, aligned with the organisation's strategy and mandate. The Board sets the direction and approach by which enterprise risk management is addressed within **sefa**, further ensuring that risks are assessed on the organisation's strategy and overarching performance. As such the process involves a formalised and well embedded risk methodology to identify and assess risks at both strategic and operational level.

Enterprise Risk Management Framework

sefa manages risks through the risk and resilience programme, which is aligned with the sponsoring committee of organisation and draws from other standards and guidelines, where applicable. The framework aims to enable the organisation to proactively anticipate risks, to ensure that appropriate responses are developed and implemented, thereby ensuring achievement of strategic objectives and the long-term sustainability.

2017 COSO Enterprise Risk Management - Integrating with Strategy and Performance

Figure 14: Enterprise Risk Management

Strategic Risk Profile

Management is committed to ensuring that the risk management process remains robust to ensure that **sefa** assets are protected where necessary. The following strategic risks were identified in the FY2021/22:

#	Risk Description	Inherent Risk	Residual Risk
1	Inadequate recovery of invested funds: low collections and high impairments particularly on old debt book	25	16
2	Inability to meet properties portfolio objectives and achieve market related tenant occupancy	25	16
3	Inadequate capacity in people, systems, processes to achieve levels of impact, performance and innovation.	25	16
4	Lack of clarity and uncertainty surrounding how merger with Seda will be managed	20	16
5	Financial crimes and unethical business practices	20	16
6	Cyber risk	25	16
7	IT security risk	25	12
8	Inability to define and secure long-term financial sustainability of **sefa** to meet **sefa's** mandate and strategic objectives	20	12
9	Limited system automation and ability to adapt to new business models and technologies	16	12
10	Not meeting legal, contractual and regulatory obligations	16	12
11	Inability to generate a desired uptake by new and existing clients: attraction and retention	20	9
12	Inadequate customer centricity, stakeholder focus and brand visibility	15	8

Critical Risk High Risk Medium Risk

Compliance Management

sefa operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives. Failure to meet legislative and regulatory requirements could lead to potential litigation. Key controls that have been put in place to mitigate this risk include the implementation of the approved Compliance Policy, Framework and Procedures. The approved Regulatory Universe was used to apply a risk-based approach to the management of compliance and the development of Compliance Risk Management Plans (CRMPs). Legislation applicable to **sefa**, but not limited to, include the following:

- Compensation for Occupational Injuries and Disease Act No. 130 of 1993
- Consumer Protection Act No. 68 of 2008
- Cybercrimes Act No. 19 of 2020
- Financial Intelligence Centre Amendment Act No. 1 of 2017
- Financial Sector Regulation Act No. 9 of 2017
- National Credit Act No. 34 of 2005
- Occupational Health and Safety Act No. 85 of 1993
- Prevention of Organised Crime Act No. 121 of 1998
- Protection of Constitution Democracy Against Terrorist and Related Activities Act No. 33 of 2004
- Protection of Personal Information Act No. 4 of 2013
- Public Finance Management Act No. 1 of 1999

sefa is defined as an accountable institution in terms of Schedule 1 to the Financial Intelligence Centre Act (FICA) No. 38 of 2001. We are also a registered credit provider in terms of the National Credit Act No 34 of 2005.

Compliance is also strategically important in protecting our reputation, mitigating against operational risk and setting the standard for a strong compliance culture throughout all business activities. To this extent, various compliance awareness sessions and training were provided to the staff. In respect of FICA awareness, **sefa** partnered with the Financial Intelligence Centre and provided Financial Intelligence Centre (FIC)-specific training to staff further highlighting the risk-based approach adopted for client due diligence in its anti-money laundering and combating of terrorist financing initiatives. The implementation of the approved Risk and Compliance Management Programme together with a screening system is used to fulfil anti-money laundering obligations.

The National Credit Regulator requires a credit provider whose annual disbursements exceed R15 million to complete and submit the statistical return quarterly by means of Form 39. This form was submitted quarterly as per the requirement. There is a requirement to submit a completed compliance report on an annual basis within six months after the financial year end of the credit provider to the National Credit Regulator by means of Form 40. **sefa** successfully met this reporting requirement.

The Protection of Personal Information Act No. 4 of 2013 promotes the right to privacy while protecting the flow of information and advancing the right of accession to and protection of information. **sefa**, as an organisation that processes information of data subjects, has an obligation to meet the requirements of this Act. Awareness sessions were conducted together with a gap analysis and action plans for implementation to ensure compliance. The Information Regulator confirmed the registration of the Information Officer and Deputy Information Officer.

Prominent Influential Persons (PIPs)

The definition of Prominent Influential Persons (PIPs) is wide ranging. The Financial Intelligence Centre (FIC) uses the term for an individual who is or has in the past been entrusted with a prominent public or private sector position. PIPs are deemed to be high risk as they occupy positions of influence and power that could be abused for private or to benefit family members and/or close associates.

As a result of the risks associated in dealing with PIPs, **sefa** is taking steps to identify the status of each prospective client in respect of PIPs and ensures the necessary enhanced due diligence and enhanced monitoring and approval by the relevant governance structures are undertaken. **sefa** is not precluded from doing business with a PIP and the identification of a PIP does not by default decline such an application for funding.

The various approved policies giving effect to the operationalisation of the Khula Credit Guarantee's strategy were implemented on an ongoing basis. KCG's Risk and Solvency Assessment, Qualitative Regulatory Return (QRR) and Quarterly and Annual Quantitative Reporting Template (QRT) were timeously submitted to the Prudential Authority (PA). KCG also participated in and responded to various insurance industry-related questionnaires that were managed by the PA. The annual supervisory visit by the PA took place in August 2021.

Broad-Based Black Economic Empowerment remains a focus area for **sefa** and to this end, a strategy will be developed to improve the organisation's BEE rating and contribution to this country-wide imperative.

Zongs Mbekweni, Ambelisi (Pty) Ltd, Western Cape

Daniel Mpande, Triton Pharmaceuticals, Gauteng

Internal Audit

Internal Audit is part of **sefa**'s third line of defence within the Enterprise Wide Risk Management Framework.

The team provides independent, assurance to the Audit Committee (AC) that governance processes, management of risk and internal controls are adequate and effective in mitigating significant risks. The Head of Internal Audit reports functionally to the AC and administratively to the CEO.

The team keeps abreast of macro and microeconomic risks and regulatory developments (e.g. POPIA) that affect **sefa**'s operational existence through continuing professional education.

Fraud Risk Management

During the year, meaningful gains were made to better address fraud risks within **sefa**. A panel of over 20 forensic firms was appointed on 14 September 2021, and a forensic auditor commenced duty on 1 March 2022.

sefa is in partnership with Vuvuzela Fraud Hotline to provide an anonymous tip-off fraud reporting.

In May 2021, Internal Audit hosted an Anti-Fraud, Corruption and Ethics Awareness and Training session for **sefa** officials in collaboration with Vuvuzela Fraud Hotline. A second Anti-Fraud Awareness session was delivered to officials in August 2021. The sessions educated, created awareness, and boosted employee confidence in management's zero-tolerance approach towards fraud at **sefa.**

Control Environment

The assurance team implemented a risk based Internal Audit plan, based on the risk registers compiled the risk management department and approved by the AC. At the end of the financial year, 79% of the audit plan had been completed. A progress report detailing actions taken by management to address weaknesses noted by internal audit was tracked on a quarterly basis by the AC and executive management.

Based on the micro-level audit project's overview assessment, the general control environment as assessed by the King IV framework, the control environment at **sefa** is maturing and requires management's continued attention. Areas with room for improvement include culture, ethics, policy implementation, document management and fraud-risk management.

Baduphase, Kauai, Free State

Kasi Core, Eastern Cape

Section 4 Performance

Gcobisa Siyo, Famous Brands Franchise, Eastern Cape


SPICY HOT POTS
SNACKS
fishaway
CHOOSE BETTER

Human Capital Management

Ms Nokonwaba Shwala
Executive Manager:
Human Capital, Facilities and Marketing

The Human Capital Management (HCM) Division is the key custodian of all people-related matters within the organisation. The role of the HCM Division is to enhance the people agenda through the attraction, development and retention of the best human resource capacity for **sefa**. The HCM's strategic focus is to enable the organisation to execute its strategy and mandate whilst striving to attain the status of being a high-performance organisation (HPO).

The Human Capital Strategic Work Plan execution for fiscal year 2021/22 continued to be focused on the implementation of interventions geared towards transitioning **sefa** through the growth phase of the HPO status through focus on leadership development and culture transformation. The HCM Division continued to play a critical role in supporting the organisation to navigate the tides of the COVID-19 pandemic, whilst ensuring minimal work disruptions and business continuity. The reporting period was impacted by the COVID-19 pandemic, and this resulted in the need to enhance the delivery of employee wellness interventions, digital learning interventions and the execution of a hybrid working environment.

Performance Achievements at a Glance

As **sefa** continues its journey in the growth phase of the HPO journey, in the midst of the COVID-19 pandemic, the following were the performance highlights during the reporting period:

- HCM focused on the filling of strategic and critical vacancies during the reporting period in compliance with the moratorium on recruitment posed by the planned **sefa**/Seda/CBDA merger.
- The implementation of the first round of the **sefa** Management Development Programme (MDP) was completed. Nine managerial employees participated in the programme.
- The Employee Engagement Survey was conducted, and the engagement index was 63%; this was an increase from the previous FY2020/21 survey index of 49.5%.
- Employee engagement interventions such as Youth Day, Women's Day and Men's Health virtual events were conducted as part of the **sefa** employee engagement initiatives. The Culture Transformation Project also continued with the implementation of the EXCO Culture Redefinition Session, which sought to unpack the existing culture challenges whilst mapping out a new culture and values-based behaviours for the organisation.
- **sefa** sourced the services of ICAS to facilitate its Employee Wellness Programme. The implementation of employee wellness interventions such as e-learning interventions aimed at enhancing and harnessing the overall wellbeing of employees.
- Health screening services continued during the reporting period to provide health screening checks for employees at all **sefa** offices.
- Implementation of occupational health and safety interventions continued with the aim of ensuring the provision of a safe, healthy and secure working environment.
- Implementation of a COVID-19 Response Plan aimed at prioritising the health and safety of **sefa** employees whilst supporting business continuity during the pandemic.
- Fifty-two COVID-19 positive cases were reported during FY2021/22. There were fifty-one recoveries and unfortunately one deceased employee.

HCM's Strategic Work Plan

The Human Capital Strategic Work Plan execution for the fiscal year 2021/22 was centred on interventions geared towards transitioning **sefa** through the growth phase of the HPO status by focusing on leadership development and culture transformation.

The following were the key strategic objectives for FY2021/22:

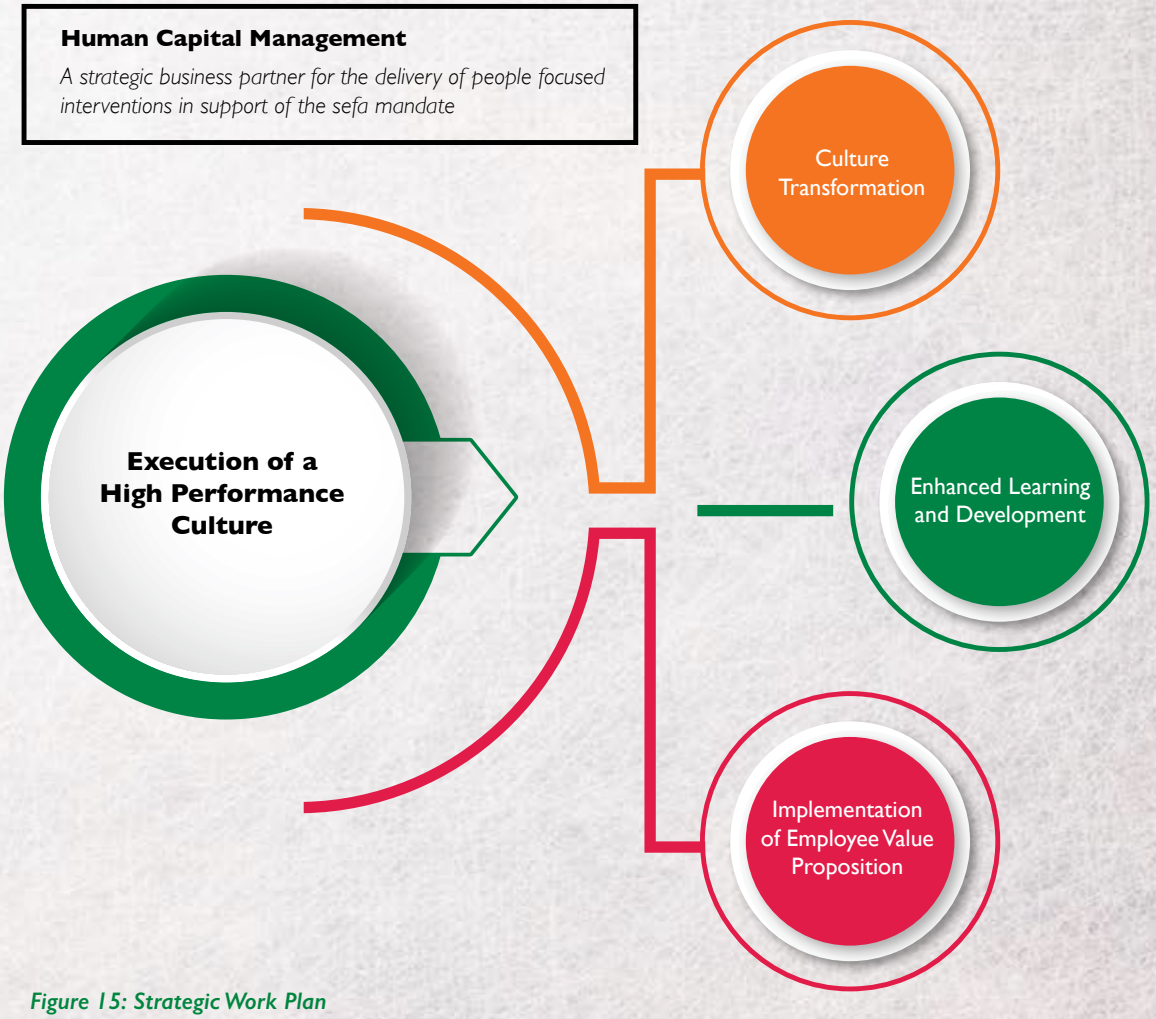


Figure 15: Strategic Work Plan

sefa's HPO Journey

The HCM's execution plan is centred on the vision of achieving an HPO organisational status. **sefa**'s journey towards the achievement of an HPO status started in 2014 and the organisation is currently in the growth phase of the HPO journey. The 2021/22 strategic work plan execution was centred on transitioning through the growth phase of the HPO journey by focusing on leadership and culture transformation interventions. The strategic initiatives are aimed at channelling the organisation through the growth phase of the HPO journey. Progress on the HPO journey was negatively impacted by COVID-19 as the focus had to be switched to ensuring the safety of employees, implementation of hybrid working arrangements and the reprioritisation of initiatives to limit the disruption of services and ensure business continuity.

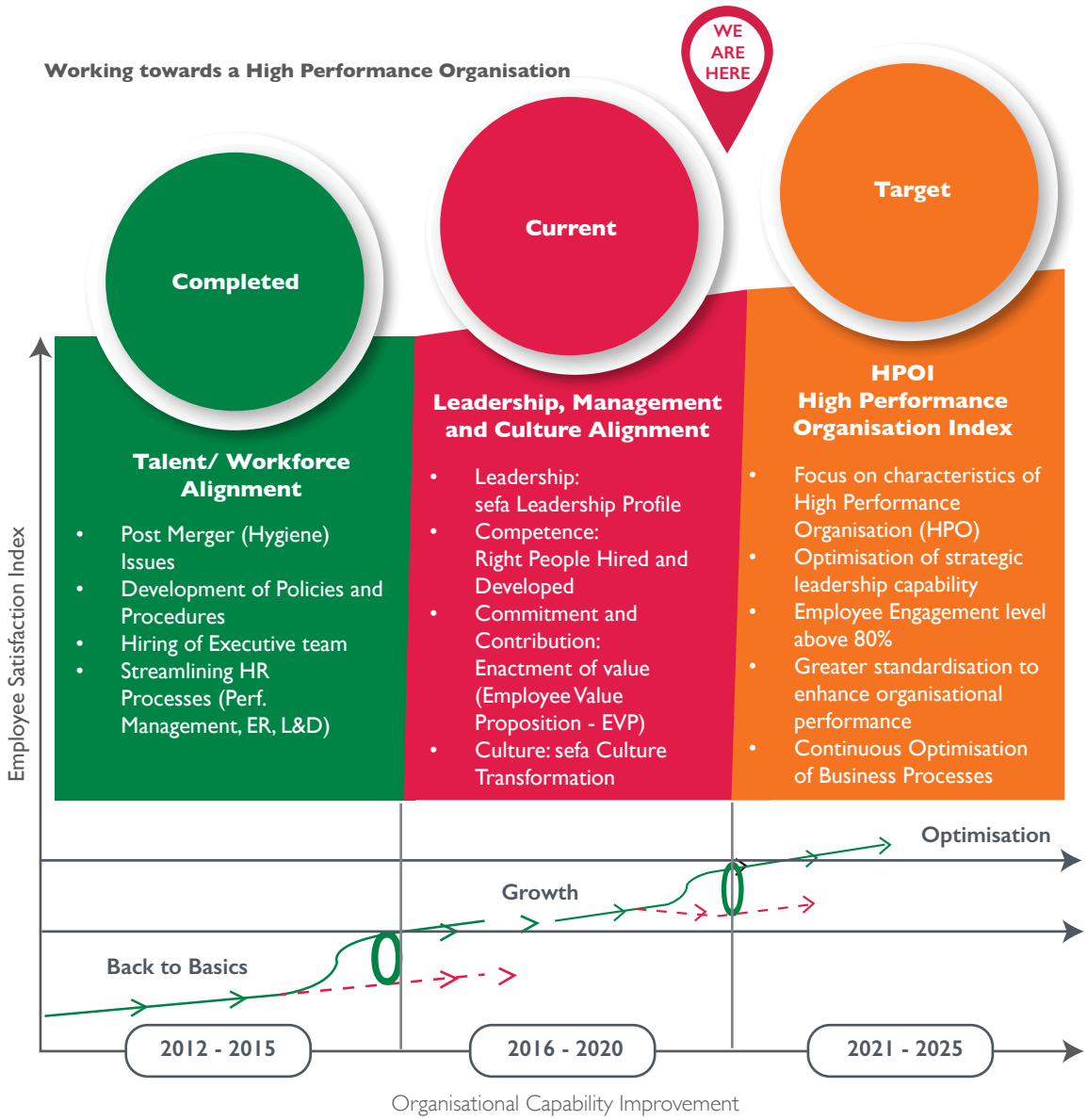


Figure 16: HPO Journey

sefa Employee Profile

The **sefa** employee profile continues to display the existence of a diverse workforce and the HCM's role is that of continuously harnessing the organisation's talent through the acquisition, development and retention of top performing employees. Our talent acquisition processes during the reporting period were primarily aimed at equipping the organisation with talented employees who are fit for purpose.

Talent Acquisition and Retention

The HCM Division prioritised the filling of vacant strategic and critical positions to ensure that the required skills are available to enable the organisation to make correct investment decisions to execute its mandate.

Headcount

During the period under review, **sefa**'s headcount was 302 employees, including fixed-term contractors and interns. The organisation continued to keep a flexible component of its workforce at a minimum in alignment with the moratorium on recruitment as a result of the planned **sefa**/Seda/CBDA merger.

The following graph depicts the **sefa** headcount for the period under review.

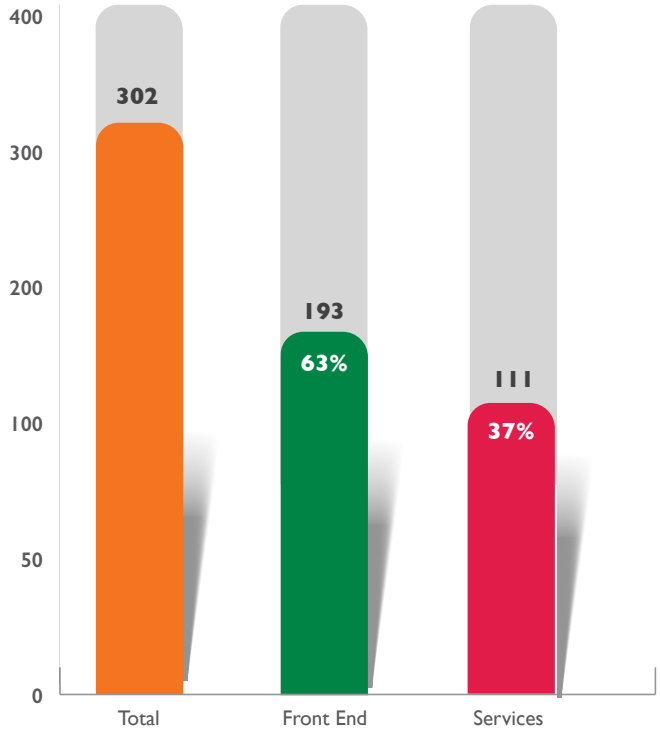


Figure 17: Front-End vs Services Employees' Comparison

An analysis of the staff profile reflects those 63% of the staff compliment is in front-end business functions whilst 37% is in support services. Front-end business functions include Direct Lending, Wholesale Lending, Credit Risk Management, Properties, Post Investment Monitoring and Workout. Services business functions include Human Capital Management & Facilities, Finance and Procurement, Strategy, Legal Services, Enterprise Risk, Compliance, IT, Company Secretary, Marketing & Communications, and Internal Audit.

sefa's employee profile consists of various job categories in the front-end and services functions. The **sefa** workforce profile as of March 2022 reflects the following job category representation: 1% executives, 21% management, 48% professionals, 23% administrators, 1% support staff and 6% interns. During the reporting period, efforts were made to increase capacity on the professionals job category. This category has the highest representation, and it provides the key roles that are critical to the execution of **sefa** front-end business. The example of roles in this category includes Investment Officers, Credit Analysts and Post Investment Officers.

During the reporting period, the HCM Division's resourcing efforts were impacted by the recruitment freeze resulting from the planned **sefa**/Seda/CBDA merger. The moratorium included the freeze on the recruitment of permanent resources, but the filling of critical vacancies continued with the utilisation of fixed-term contract employees to close the gaps. The year under review included the implementation of various **sefa** funds such as the COVID Relief and Business Rescue resulting in the recruitment of additional resources in the form of interns and fixed-term contractors to provide capacity especially in the front-end business functions.

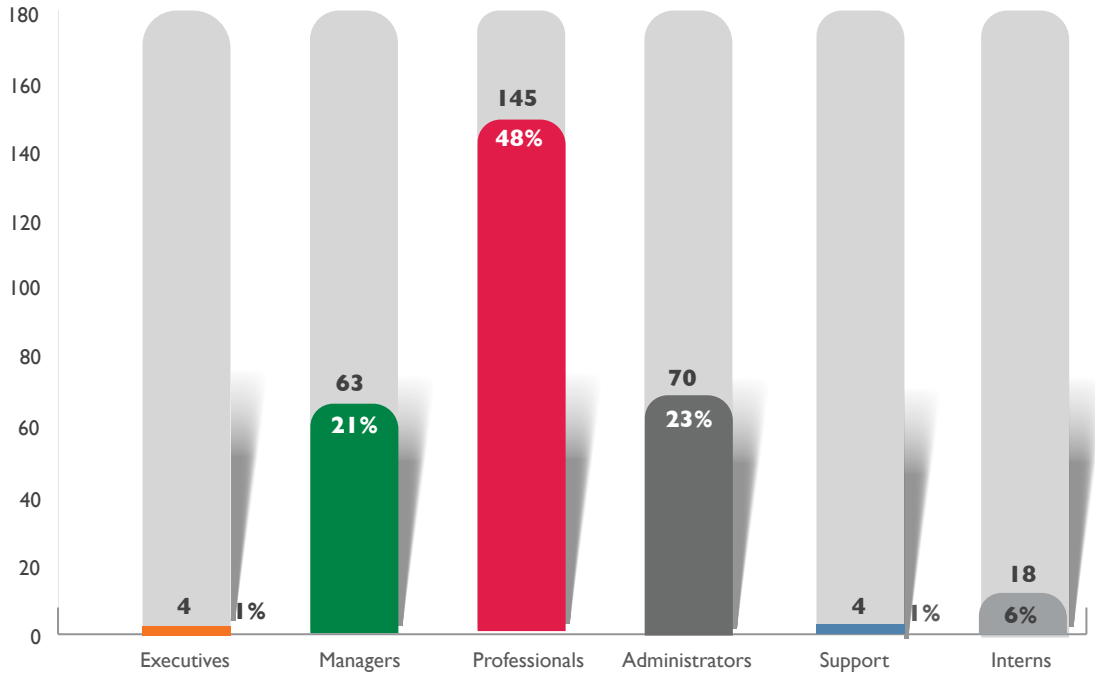


Figure 18: Job Category Profile FY 2021/22

Employment Equity Profile

The **sefa** employee race profile for the reporting period reflected a 98% black representation: African, coloured and Indian. A comparison of the actual employee profile for FY2021/22 against the numerical target as per the employment equity plan reflects a slight over-representation of African employees and future efforts are to drive the increase of coloured, Indian and white representation where opportunities arise.

sefa Race Profile

The gender profile shows an increase in the overall male representation over the three-year period, and a decrease in female representation from the previous reporting period.

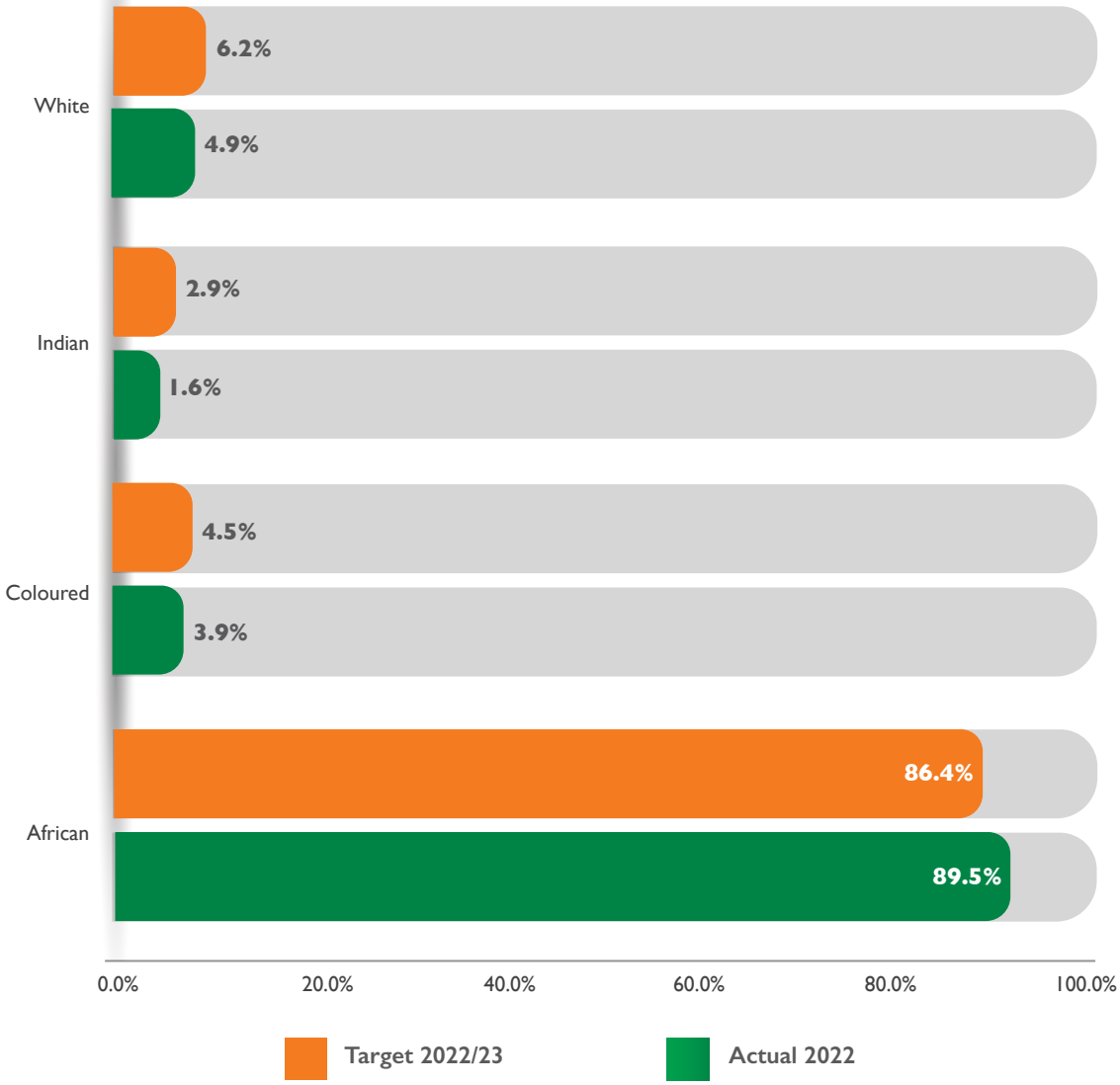


Figure 19: Comparison of Race Profile to Employee Equity Targets

sefa Gender Profile

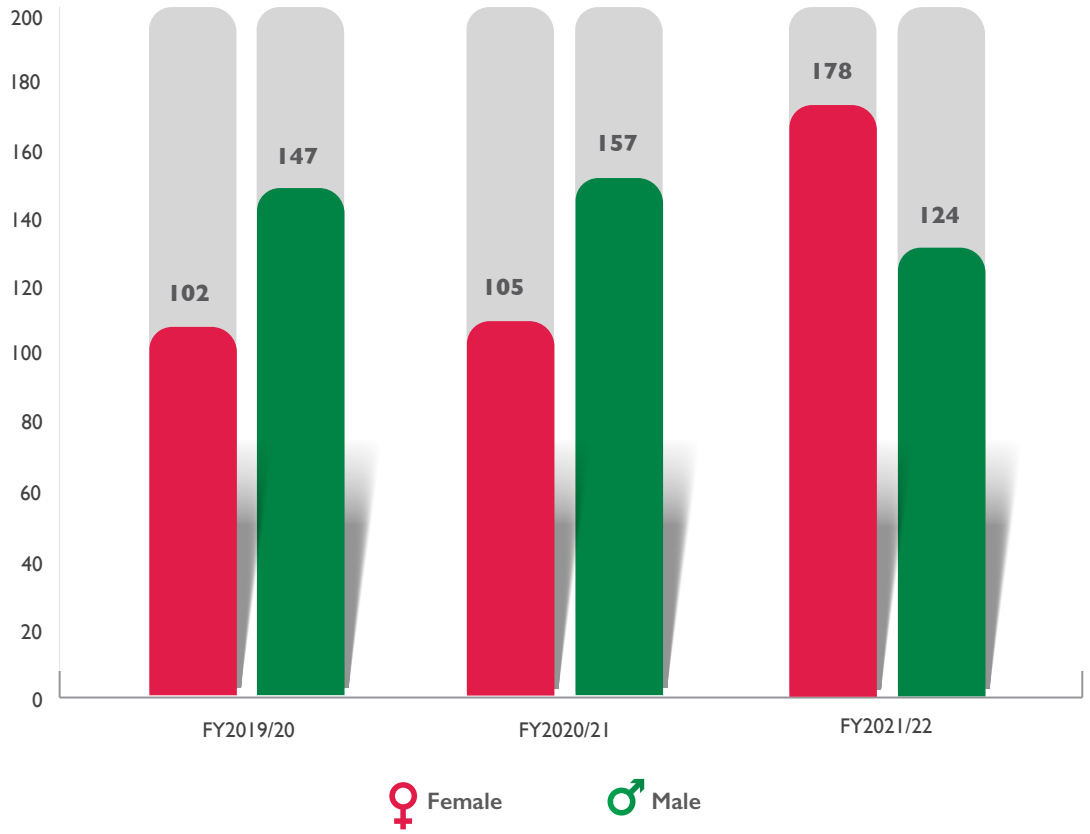


Figure 20: Gender comparison over a 3 year period

Talent for the Future

The learning and development initiatives have been delivered in support of the HCM's strategic objectives of transitioning the organisation into an HPO status through focusing on leadership development and culture transformation. In response to the operational skills requirements, the focus for learning and development was in developing diverse talent for the future, accelerating, reskilling and upskilling of employees.

The HCM Division continued to support the personal and professional growth of **sefa** employees by transitioning all learning programmes into digital platforms. This transition accelerated our digital transformation journey and unlocked new opportunities.

By investing in employee development, the learning and development initiatives enabled the existence of an empowered workforce that engages at the maximum level of its capabilities. This is evident in the variety of diverse yet inclusive development programmes that were implemented during the reporting period.

Developing Future Leaders

Our flagship Management Development Programme (MDP), a formal programme delivered in partnership with the University of Pretoria, focused on building management capability skills. In total, nine high potential senior managers formed part of the six-month programme which took place from June to November 2021. The programme included a practical application of management skills that had a strong business integration element, bringing the learning into the business in real time. The graph below depicts the demographics of the programme beneficiaries, namely, seven Africans and two whites of which six were males and three were females.

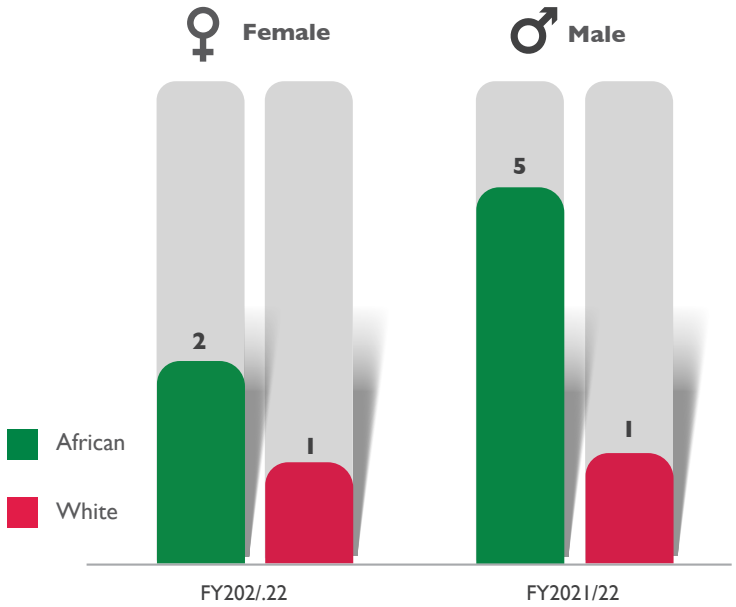


Figure 21: MDP Candidates FY2021/22

Targeted learning programmes were implemented during the reporting period. The learning programmes were aligned to the business requirements as outlined in the Workplace Skills Plan (WSP) FY2021/22. Sixty-seven per cent (67%) of planned programmes and additional learning interventions were implemented. The implemented interventions are as per the following categories:

- Knowledge sessions
- Personal development
- Regulatory
- Job skills

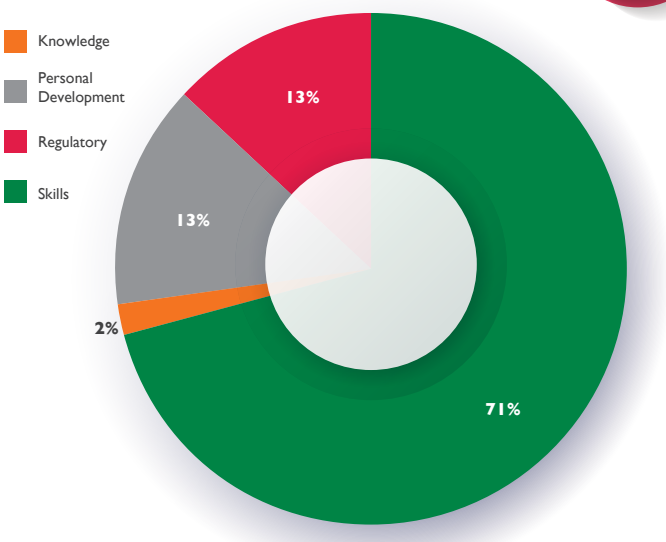


Figure 22: Types of Learning Interventions Implemented

The expenditure for front-end vs services training was 73% and 27% respectively, as depicted in the graph below:

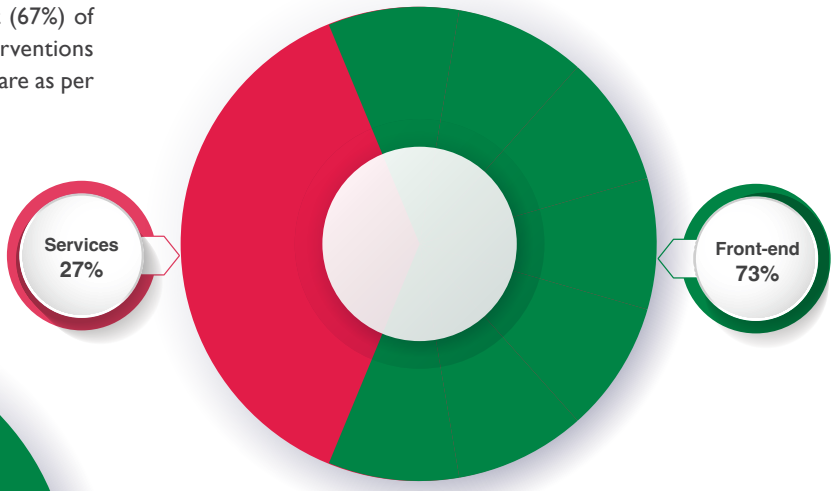


Figure 23: Front-end vs. Services Training Expenditure

Due Diligence Learning Intervention

A collaboration was established with Business Partners for the delivery of learning interventions targeted at improving the due diligence skills of front-end services employees. Two groups of 29 delegates participated in the programme. The demographics distribution is depicted in the graph below. Of 29 beneficiaries, 17 were female while 12 were male.

The learning scope for the due diligence training covered the following topics:

- Business Acumen
- Technical Assessment
- Legal Assessment
- Portfolio Management
- Financial Acumen
- Post-investment Monitoring

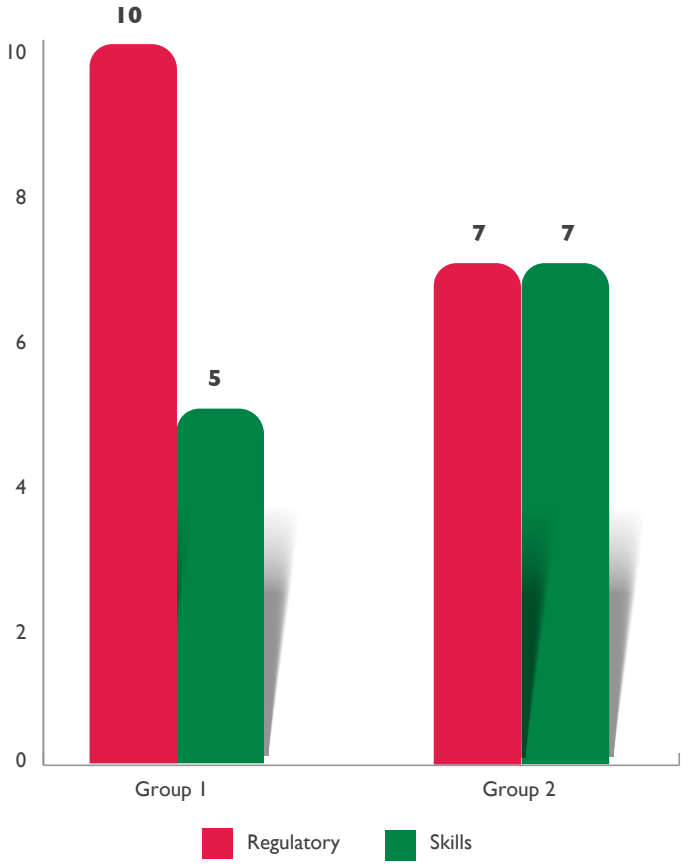


Figure 24: Business Partner: Due Diligence Training

Study Assistance Programme (SAP)

sefa continued to offer financial assistance to employees who wish to study further to enhance their skills through the study assistance programme. During the reporting period, financial assistance for part-time studies was awarded to 14 beneficiaries for a range of formal qualifications with special focus in the following skills areas:

- Business Administration
- Law
- Social Sciences
- CTA level 3
- Development Finance
- Accounting

Work Readiness Programme

The HCM division initiated a Work Readiness and Entrepreneur Programme aimed at empowering **sefa** employees who are learners and interns. Learnerships and Internships for unemployed learners are a critical pillar in building future skills and offering experience and insights into the world of work. The programme is aimed at equipping the target audience with the skills required to effectively participate in the work environment. The Work Readiness and Entrepreneur Programme in partnership with the University of Pretoria was offered to 29 interns and learners across the organisation. The programme is designed for young adults, students and recent graduates entering the workplace to help them integrate into the world of work more easily. The programme commenced in Q4 of the reporting period and consists of the following modules:

- Career planning
- Power skills
- Job preparation
- Your career

Integration of Organisational Development and Change Management into a High-Performance Culture

A key component of the growth phase of the HPO journey includes culture and values integration. The following interventions were implemented during the reporting period:

- **sefa** continued with the implementation of the Culture Change Project aligned to the Investors in People standard. A culture redefinition workshop was implemented with executive leadership taking the lead in the context discussion and redefinition of **sefa** culture.
- Change management support continued for strategic projects ensuring that the people side of change is structured and effectively implemented when introducing new projects or new ways of working. Change interventions such as line manager engagements and communications were also implemented as part of the COVID-19 workplace readiness plans.
- The Employee Engagement Survey FY2021/22 was implemented during the reporting period. The Employee Engagement Index is currently at 63%. The survey results reflected highlights and key challenges that employees experience in the organisation and some of the action plans recommended such as the culture transformation, improvement on learning and development interventions and customer orientation improvement will be prioritised within the FY2022/23 period.

Improved Employee Relations and Discipline

As the organisation navigated through the tides of COVID-19 and its impact on the work environment, the focus during the reporting period was on strengthening constructive workplace relations through the implementation of the following initiatives:

- The labour disputes and disciplinary cases were handled efficiently within reasonable time to avoid disruption of productivity.
- Consultative forums and bilaterals with stakeholders helped in improving the relationships between stakeholders.

Provision of an Adequate, Safe and Secure Working Environment

The HCM division is a custodian of the occupational health and safety (OHS) function, which was responsible for the implementation of all health and safety protocols and workplace adjustments aligned to COVID-19 pandemic as stipulated by the Disaster Management Act during the reporting period. The focus for the period under review was to ensure a safe and healthy work environment during a global pandemic. The key initiatives implemented as part of **sefa**'s response plan to COVID-19 included the following:

- Revised **sefa** Fleet Management and Travel Management Policies approved by the **sefa** Board of Directors in Q4;
- COVID-19 protocols successfully implemented in all **sefa** offices (provision of PPEs, sanitisation and decontamination of office space, implementation of social distancing, wearing of masks and screening of employees and visitors) thus minimising loss of operating hours;
- Training of OHS Committee;
- Zero health and safety-related incidents reported during the period because of the safe and secure working environment in compliance with the OHSACT No. 85 of 1993;
- OHS and COVID-19 Steering Committee, systems and processes established and implemented in line with the standards and requirements of the Occupational Health and Safety Act No. 85 of 1993; and
- Security interventions successfully implemented at Head Office and Regional Offices.

The following are the key occupational health and safety achievements for the reporting period:

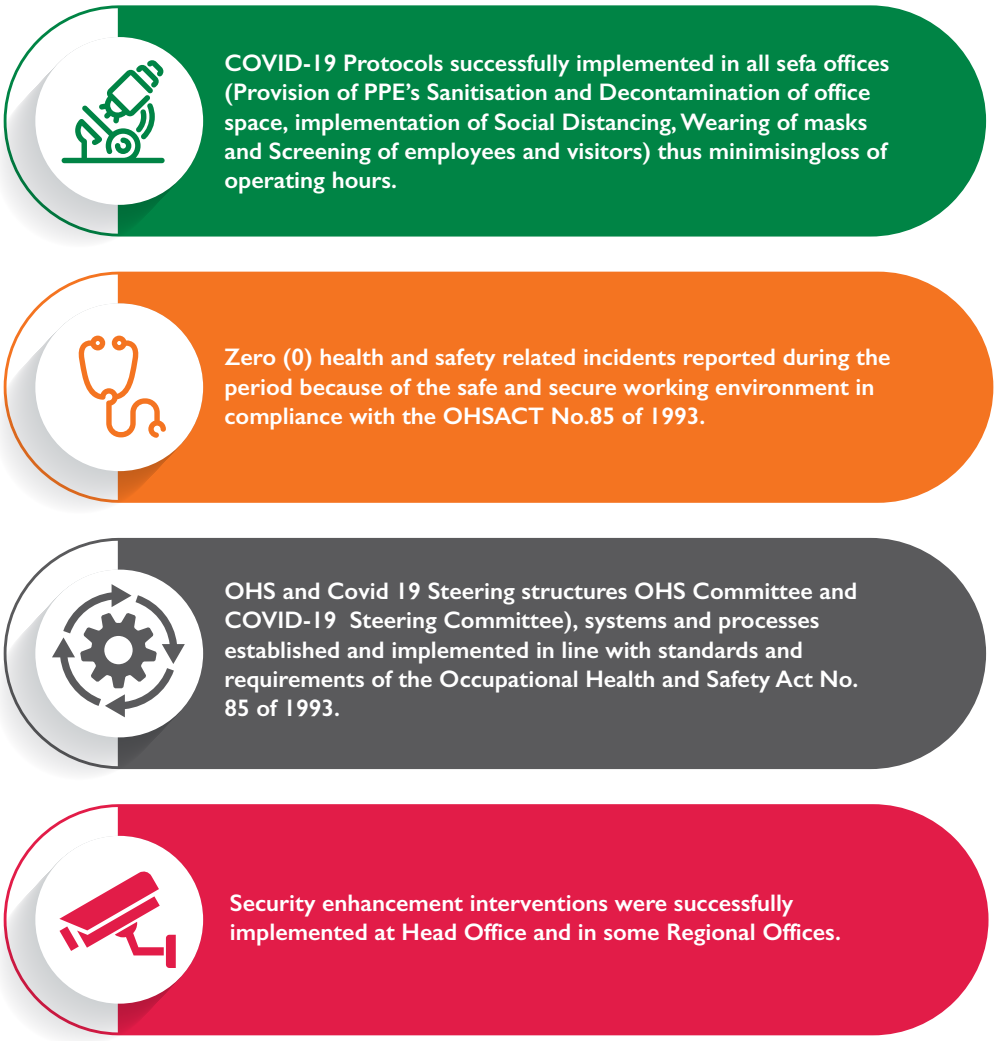


Figure 25: Occupational health and safety achievements FY2021/22

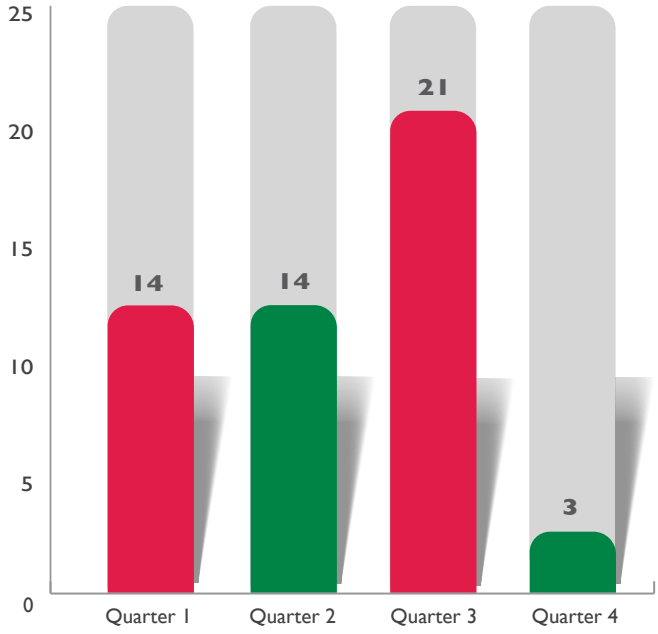


*Figure 26: **sefa** COVID-19 cases FY2021/22*

The numbers of positive cases mirrored the national trends. The spike in cases during Q3 reflected patterns of the fourth wave that was experienced nationwide. All safety precautions such as employee screening at all offices, provision of PPEs and decontamination of office spaces were implemented throughout the reporting period. A total of 52 COVID-19 positive cases was reported, of which there were 51 recoveries and unfortunately one employee succumbing to COVID-19 during Q2.

Employee Wellness

sefa remained committed to the provision of a healthy work environment; this was achieved though the implementation of initiatives that promote physical and mental health, as well as overall employee well-being. Employee well-being became a central focus area due to increased stress and anxiety resulting from the COVID-19 pandemic challenges. People interventions ensuring a holistic focus (physical, financial, mental and psychosocial) were deployed across the organisation to safeguard employees' health and safety while ensuring employee productivity.

In partnership with ICAS, our wellness partner, wellness services were offered to **sefa** employees and their families. A Mental Health Awareness programme was implemented through the delivery of virtual training sessions on various mental health issues. Employee wellness campaigns were also implemented to improve employee health, well-being, motivation and productivity. The **sefa** Employee Wellness Programme (EWP) continued to address pivotal employee wellness concerns and challenges through facilitated sessions to provide guidance and support whilst building employee capacity.

Strategic Outlook for the Year Ahead

The Human Capital Strategic Work Plan for the year ahead will be centred on the execution of sound governance and a high-performance organisation. **sefa** will continue to implement the Culture Change Project that will cultivate a culture of high performance. The targeted learning interventions focused on leadership development will also continue with round two of the MDP, the introduction of a middle management development programme and an executive coaching programme. Learning programmes for front-end employees will also continue. The strategic focus in the new year will primarily support culture transformation through the empowerment team members to improve on performance whilst taking the initiative, serving a common interest and enabling employees to take responsibility for the organisational success. The year ahead will also focus on the implementation of post-COVID interventions that are aimed at embedding a hybrid working culture with fit for purpose employees geared to increase **sefa**'s performance.

Stakeholder Marketing and Communications

Department Highlights

Public Relations & External Media Engagements

- 225 radio adverts and interviews on Commercial and Public Radio stations
- 393 TV and adverts spots-Brand campaign
- 7 Community Radio Stations
- 10 Newspaper Coverage-National and Community
- 3 Magazines
- 10 Online Media coverage

Stakeholder Engagement

- 11 Stakeholder events
- 3 Pop Up Markets (Exhibitions)
- 12 sefa Webinars
- 2 Stakeholder Events
- 1 Sponsorship
- 1 Annual Customer Service Survey conducted
- 1 Product Launch (Youth Challenge Fund)

Marketing Brand & Internal Communications

- 8 The sefaZen digimag issues (internal magazine)
- 4 Asibonisane (external newsletter)
- 8 Regional Monthly meetings
- 18 Internal communications campaigns

Social Media

- 12 Social Media Campaigns
- Facebook total followers 10 243
- Twitter total followers 8 517
- Linkedin total followers 322

Figure 27: Marketing and communications activities FY2021/22

Best-performing organic Facebook post

Post reach and engagement:

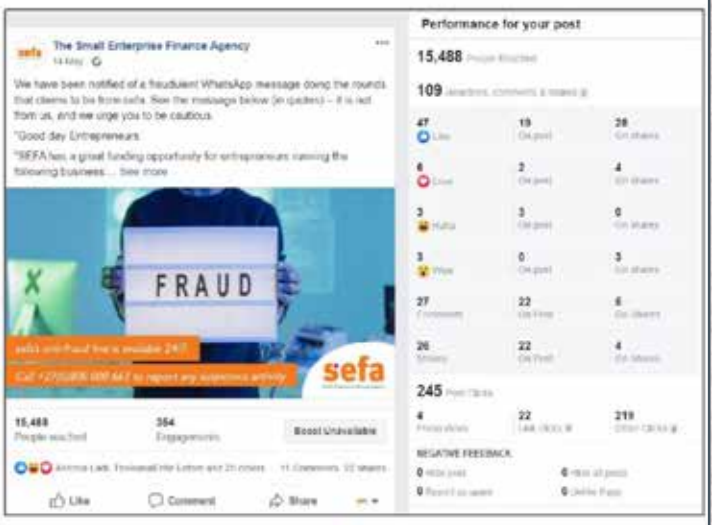
- **Date:** 14 May 2021
- **Reach:** 15 488
- **Engagement rate:** 2%

(Organic post)

Engagement rate:
The number of people your post reached who then liked, commented, shared or clicked on your post.

Reach:
The total number of people who see your content.
If your post reaches someone through both paid and organic distribution, they are counted towards both, and this includes multiple views of your post by the same people.

Impressions:
The number of times that your posts were displayed on-screen.



Highlights

The 2021/22 financial year started off at the height of COVID-19. **sefa** continued to focus on information dissemination and brand building through digital platforms, webinars, TV, radio, print and other non-personal engagements. Later in the year when the COVID-19 regulations were relaxed, there was a shift in strategy to direct engagements where events were hosted in all nine provinces.

The financial year under review saw **sefa** running a TV campaign for the first time since inception. This was also coupled with exciting and informative campaigns that were carried out on all digital platforms and these increased brand visibility and reach. Radio and print were utilised to profile **sefa** clients with a special focus on youth, women, and people with disabilities.

Themed digital campaigns were undertaken to promote products and increase **sefa** visibility, thus creating a strong presence in the youth market and the **sefa** target audience in the social media community. The focus was on three social media platforms, namely, Twitter, Facebook and LinkedIn.

In the latter part of the year as the COVID-19 regulations were relaxed, there was a huge focus on collaboration with our key stakeholders, the Department of Small Business Development (DSBD), the Small Enterprise Development Agency (Seda) and municipalities. Through these collaborations driven by the Minister and the Deputy Minister, the District Development Model (DDM) was brought back to operation, and information was taken directly to the people in their municipalities.

Five main campaigns were launched: the **sefa** Brand Campaign, Youth Month Campaign, Women's Month campaign, Entrepreneurship Month Campaign and the Amavulandlela Funding Scheme campaign.

A brand campaign on a larger scale was hosted through an integrated campaign approach utilising TV, print and radio to position **sefa** and the organisation's products and services to its target market and the broader stakeholder community. To reach under-served communities such as townships and rural villages, community radio stations were deployed to convey **sefa**'s marketing message in languages predominantly spoken in those communities. **sefa** ran the youth entrepreneurs' campaign with a special focus on digital platforms and print. The women's month campaign and the Amavulandlela Funding Scheme campaign included placement of adverts in several newspapers (community and national), social media campaigns, infographics, editorials and radio and TV interviews targeting persons with disabilities informing them of the funding opportunities at **sefa**.

There was a heightened presence of **sefa** on all platforms nationally, which was key in brand building. This was achieved through a series of campaigns and engagements. Some of the key highlights of the department were the following:

- 3 internal online events
- 225 radio adverts and interviews on commercial and public radio stations;
- 393 TV (CNBC TV covering YCF) and adverts spots (**sefa** brand campaign);
- 7 community radio station engagements;
- 10 newspaper coverage, national and community;
- 3 magazine articles;
- 10 online media coverage;
- 12 webinars;
- 9 roadshows;
- 18 internal campaigns;
- 4 staff events;
- 8 **sefa**Zen digimag issues (internal magazine); and
- 4 Asibonane issues (external newsletter).

Media and Public Relations

sefa ran campaigns via print utilising magazine and newspapers, radio adverts and interviews on national and community radio stations and online media coverage. Profiling campaigns were run focusing on people with disability, rural and township businesses to commemorate Freedom Month, Youth Month, Women month and Entrepreneurship Month.

In the second quarter of the 2021/22 financial year, **sefa** launched an integrated brand campaign from July until September in which 200 TV advert slots, 164 radio advert slots and social media were utilised to convey the **sefa** brand message. A separate radio campaign on the Business Recovery Support Programme was implemented concurrently with the brand campaign which enhanced **sefa**'s brand visibility.

Some of the key highlights were:

- 225 radio adverts and interviews on commercial and public radio exposure was received;
- 393 TV (CNBC TV covering YCF) and adverts spots (**sefa** brand campaign);
- 7 community radio station engagements;
- 10 newspaper coverage, national and community;
- 3 magazine articles;
- 10 online media coverage.

In addition, **sefa** embarked on a campaign as part of the entrepreneurship month drive to profile success stories in the print media. Further media exposure was received through the launch of the Youth Challenge Fund in KwaZulu-Natal, which was led by the Minister of Small Business Development, Ms Stella Ndabeni-Abrahams.

There was an increase in media engagement due to the DSBD Roadshow across the country. **sefa** pitched media interviews and managed media mobilisations for interviews for the Minister and Deputy Minister of Small Business Development, Ms Stella Ndabeni-Abrahams and Sidumo Dlamini.

The core focus of public relations for the last quarter of the year was on the Amavulandlela Funding Scheme. Radio interviews, radio adverts and advertorials on national, regional and community broadcasts were conducted. Radio Interviews were conducted with clients, **sefa** regional managers, and **sefa**'s CEO about the Amavulandlela Funding Scheme and some of the services that **sefa** offers.

Marketing Brand and Internal Communications

In line with **sefa**'s mandate relevant messaging was crafted for each media platform targeted and specific to market segments internally and externally. There were themed digital campaigns to promote products and increase **sefa** visibility thus creating a strong presence in the SMME environment and co-operatives sector.

In order to entrench the brand elements especially amongst new employees, the department conducted an internal **sefa** Brand and Corporate Identity Writing and Formatting Workshop to educate **sefa** employees and to ensure uniformity within the organisation.

Internal Communications

To enhance the culture at **sefa**, several internal campaigns were run to keep the employees engaged. To support employees, exciting and live content of **sefa** external activities was shared.

Several internal brand campaigns were facilitated in collaboration with the HCM Department to enhance the **sefa** culture. The campaigns focused on building the brand whilst entrenching the **sefa** values and culture in line with the "one culture theme". Some key highlights were:

- 4 internal events
- 3 internal brand surveys
- 18 internal communications campaigns
- 8 **sefa**Zen digimag issues (internal magazine)
- 4 Asibonisane (external newsletter)

The COVID-19 precautionary message was key in this past year. Several internal communications campaigns were executed, the critical ones being Customer Centricity, Fraud Alert, Celebrating Youth and Women, and showcasing **sefa** success stories.

Digital Media

sefa has an established presence on social media (Twitter, Facebook and LinkedIn), with Facebook followers of over 10 243, Twitter with over 8 500 followers, and LinkedIn with over 320 followers. These numbers continued to grow month on month.

Twelve social media campaigns were conducted. These gave the **sefa** brand great exposure to a broader target audience and further made to easy to engage with clients.

Stakeholder Engagement

To keep the public informed and to continue maintaining the relationship with **sefa**'s external stakeholders, an annual calendar was developed which contained various activities required by various stakeholders. The activities were informed by **sefa** operational plan. Webinars were held from the height of COVID-19 until the end of the financial year. Some key highlights were:

- 11 ministerial roadshows
- 3 pop-up market exhibitions
- 12 **sefa** webinars
- 1 Youth Challenge Fund (YCF) launch
- 2 stakeholder events and
- 1 sponsorship.

Targeted outreach initiatives were conducted which increased the penetration of **sefa** products into targeted groups, youth, women, township, rural and people with disability.

During the height of COVID-19, **sefa** continued to engage all entrepreneurs in all sectors through webinars. **sefa** in partnership with Seda collaborated on pop-up markets showcasing SMMEs in various provinces. There were several collaborative partnerships with various stakeholders to grow the loan book, continue to educate and disseminate information. These were in the form of webinars with stakeholders like the Randburg Chamber of Commerce and Industry, Black Management Forum, Virtual Rural Development 12th Annual Conference, etc.

Post reach and engagement:

- **Date:** 1 September 2021
- **Reach:** 5 997
- **Engagement rate:** 1.54%

(Organic post)

Engagement rate:
The number of people your post reached who then liked, commented, shared or clicked on your post.

Reach:
The total number of people who see your content.
If your post reaches someone through both paid and organic distribution, they are counted towards both, and this includes multiple views of your post by the same people.

Impressions:
The number of times that your posts were displayed on-screen.

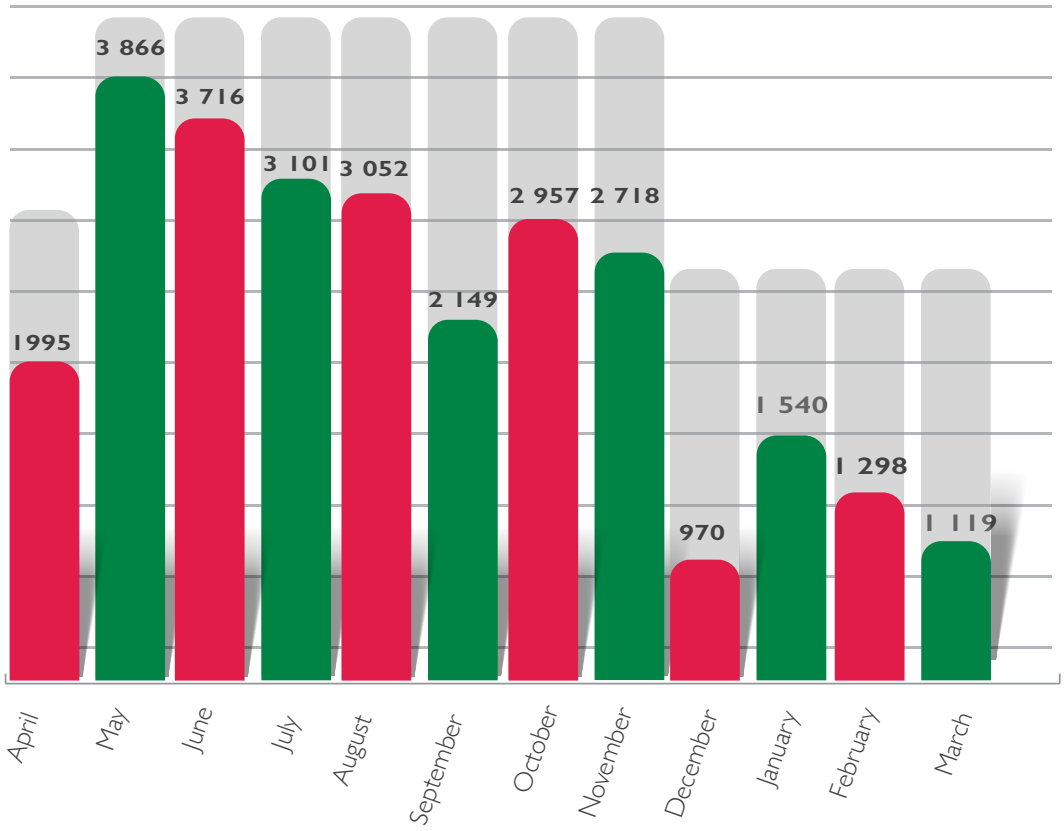


Figure 28: CLC interactions for FY2021/22

Client Liaison Centre

The Client Liaison Centre (CLC) during the review period processed interactions using different touchpoints with the telephone and emails being the most popular. Due to the pandemic, the walk-in numbers were very low.

The CLC continued to be the first point of entry for most customers and for some customers they utilised other enquiry and entry points like Facebook, Twitter and LinkedIn. The centre also functioned as a data collection centre for **sefa**. This is the function performed to ensure that the organisation is able to understand the nature of enquiries.

The FY2021/22 started off with the launch of the SMME Relief Funds as a response to the challenge that a majority of the SMME were faced with due to the COVID-19 lockdown. There was portfolio approach to the response strategy implemented where all calls were directed to the **sefa** CLC. The CLC played a pivotal role in information dissemination regarding the new products. This led to the spike in calls received especially in the month of May and June. In July and August, the activity levels were sustained by the enquiries received mostly as a response to the launch of the national **sefa** brand campaign which was implemented on multiple media platforms. The activities towards end of the calendar year, October and November were mostly influenced by the launch of the Youth Fund Challenge which was in November 2021. The continuation of webinars also maintained the enquiry numbers and with the commencement of the physical events led by the Minister and where **sefa** was represented the numbers remained high. Then in the last quarter the activity numbers went down as most clients were also able to engage directly with the **sefa** regional offices.

Famous Brands franchises owned by Gcobisa Siyo, Bisho Eastern Cape

Lending Operations

sefa managed to grow its loan book to R3.4 billion (FY2021/22) from R2.5 billion (FY2020/21) despite the impact of the COVID-19 pandemic on the economy and the **sefa** target market SMMEs. This 36% growth is mainly driven by Direct Lending at R2 billion (R1.3 billion: FY2020/21) whilst the Wholesale Lending book also grew to R1.4 billion (R1.2 billion: FY2020/21). Total approvals grew by 32% year on year at R2.5 billion (R1.9 billion: FY2020/21) whilst total disbursements grew 44% year on year from R1.6 billion to R2.3 billion. This noteworthy performance was achieved notwithstanding capacity limitations linked to the pending merger.

The growth of the loan book can be attributed to Direct Lending normal business followed by the Township and Rural Entrepreneurship Programme, Business Recovery Programme and Small Enterprise Manufacturing Support Programme. Of these programmes the Business Recovery Programme was a new programme established to help re-build businesses that were affected by the looting and unrest in the July 2021 riots in KwaZulu-Natal and Gauteng. An amount of R242.7 million was approved to SMMEs in order to fund working capital and equipment. The Youth Challenge Fund was launched in December 2021 in order to fund youth-owned SMMEs, to help them set up start, grow or acquire businesses across all sectors including a focus on technological and innovation-orientated enterprises. At financial year end an amount of R39.9 million was approved to SMMEs and it is anticipated that this programme will gain traction in the new financial year. The Small Enterprise Manufacturing Support Programme is a partnership initiative with the Department of Small Business Department to stimulate and support small-scale manufacturing businesses as part of the overall industrial policy initiative and enhance localisation. R237 million worth of funding was approved for manufacturing businesses during the financial year.

The Township and Rural Entrepreneurship Programme (TREP) is aligned to government's overall approach to stimulate township economic activity and entrepreneurship. The TREP initiative was redesigned during the financial year into one overarching scheme that funds all businesses operating in townships and rural areas. TREP now can fund in all sectors/segments of the township economy which seeks to ensure that the programme is more inclusive.

The COVID-19 pandemic continued to have a negative impact on SMMEs as they required assistance to re-establish and grow. The Lending Divisions also drove various collaborative efforts with Seda, particularly in leveraging the pre-investment support that Seda provides as well as the business development services. Seda played an integral role in the Business Recovery Programme in KwaZulu-Natal and Gauteng by assisting applicants with packaging their applications and assisting with ensuring that the various compliance requirements are met by them. In addition, Seda provides all the post-investment monitoring and business development services on TREP. DSBD continued to ensure that the portfolio intensifies its collaboration by co-ordinating efforts between **sefa**, Seda and DSBD. This included the critical role of a market access programme linked to the Small Enterprise Manufacturing Support Programme. DSBD initiated engagements with retailers and wholesalers to enlist the product of South African manufactured goods, which resulted in various products being enlisted. **sefa** supported the market access programme through providing funding for the enterprises whose products were enlisted.

The restrictions imposed to combat the impact of COVID-19 pandemic continued to negatively affect the economy resulting in SMMEs also battling to get back to pre-COVID-19 performance levels. Load shedding also became an integral factor during the financial year and provision of generators to SMMEs had to become a consideration in all funding applications. When the gradual opening up of the economy came, SMMEs struggled to regain momentum as they tried to adjust to new operating models and reduced demand in the economy. In addition, the intermediaries that **sefa** partners within Wholesale Lending remained uncertain of the economic outlook and were therefore reluctant to draw down large amounts on approved facilities or to consider new funding facilities. The balance of the financial year remained challenging as the economic activity in the country was still subdued.

sefa had to continue operations on the adjusted delivery model with the hybrid of remote working and virtual engagements with clients. This led to various business interruptions as certain members of the **sefa** workforce continued to become infected with COVID-19 at various stages. Regional offices have had to be frequently closed for decontamination whilst infected or exposed **sefa** employees were in isolation. It is important to note that **sefa** ensured that its workforce is empowered with the necessary business tools to enable efficient remote working. Lastly, ensuring that the **sefa** target market SMMEs are funding ready remains a

Tumi Pitso, Tumi Pitso Company (Pty) Ltd, North West Province

significant challenge. The majority of enterprises that approach **sefa**, either do not have all the required information at enquiry stage or have compliance gaps that need to be addressed. This has a considerable impact on the turnaround times for applications as **sefa** is unable to proceed with incomplete applications. In turn, the client experience is affected as their expectations are not met whilst efforts are underway to address application gaps.

In order to ensure an enhanced client experience, **sefa** is finalising the automation initiative to improve customer relationship management. This includes a loan origination system, enhanced post-investment implementation support and overall back-office automation. This will ensure that **sefa** clients are able to track their applications and interact with **sefa** digitally and thus realise quicker turnaround times. The economic recovery programmes that **sefa** is implementing in collaboration with DSBD and Seda have already gained traction and will yield the intended results as the country's economy stabilises. The experience gained while operating in under challenging and uncharted circumstances has assisted **sefa** to adapt its processes, systems and delivery model. This has also enabled **sefa** to embed the setting up and implementing of emergency SMME response programmes with requisite speed, such as the Business Recovery Programme. It is therefore anticipated that the loan book growth experienced in FY2021/22 will continue in the future as **sefa** strives to increase financial inclusivity and deliver financial support to under-served SMMEs.

sefa's lending operations comprise of the following channels: Informal and Microfinance - Micro Finance Institutions; SME Wholesale - Retail Financial Intermediaries and Joint Ventures; Khula Credit Guarantee - credit guarantees via the commercial banks and trade credit suppliers; Direct Lending - financial support via **sefa**'s provincial offices and co-locations with Seda.

Informal Sector and Microfinance

The role of the Microfinance Unit is to facilitate and increase access to finance and reduce the cost of end-user financing to informal and micro enterprises, with targeted rural, peri-urban and township areas as a focal point. This is achieved through:

- Identifying technology platforms that can efficiently disburse credit to informal and microenterprises in diverse communities across the country;
- Cooperating with the DSBD and Seda to provide targeted support to informal traders
- Developing new products that will enhance credit offerings by intermediaries to informal and microenterprises;
- Going beyond the utilisation of traditional microfinance institutions and identifying and/or creating new lending channels to informal and microenterprises, especially those in peri-urban and township areas; and
- Working with the Credit Department to create flexible and tailored credit assessment processes for intermediaries that will significantly lower costs and ease access.

In the financial years preceding 2021/22, **sefa**'s ability to implement an effective microfinance strategy were significantly hampered by a lack of internal staff capacity in **sefa** and the absence of developmental microfinance institutions geared to micro entrepreneurs. **sefa** was still primarily depended on two large microfinance institutions (MFIs), namely Small Enterprises Foundation (SEF) and Phakamani as retail partners. During this year the relationship with these partners was stabilised and long-term funding agreements were settled and the impact expectations with these partners were set in place. It is also important to note in the case of SEF and Phakamani

that the group meetings are used to promote the general health and wellbeing of their members by ensuring that group meetings discuss social and health issues such as gender-based violence, family planning and breast feeding. Ten topics are determined each year: the MFIs ensure that their field staff accesses information, and that this information is conveyed at the centre and group meetings. The impact of this work that goes beyond microfinance have been well recognised to improve the negotiation power of the women in reducing gender-based violence and improve empowerment. These findings were supported by independent research.

In the financial year, two new MFIs were brought on board. One of these partners, Sunrise Woman's Development, is a Grameen replicator and continues with the group lending methodologies developed by SEF and Phakamani, mainly aimed at women in the rural areas of eastern KZN. The other partner is Ezemali, a mostly urban partner financing mostly electronic equipment for emerging companies in urban areas.

The MFI and strategy department based on the findings of an EU study as well as **sefa**'s own experience developed a proposal on how to address the institutional weaknesses of MFIs and the micro enterprises. This proposal will be presented to the relevant decision-making structures in the first quarter of the 2022/23 financial year.

Service Delivery Methodology

sefa's microfinance distribution channel is made up of MFIs accessing wholesale facilities and then lending to informal and micro enterprises in accordance with the National Credit Act. The primary retail partners, SEF and Phakamani were severely hit by COVID-19 and will need at least 24 to 36 months to recover fully. Demand within these MFIs significantly declined.

In the 2021/22 financial year, **sefa** supported informal and microenterprises in eight of the nine provinces.

Performance

The following table shows the movement in the key indicators from 2019/20 to 2021/22:

Indicator	2019/20	2020/21	2021/22	Year on Year Variance
Number of SMMEs supported	71 520	57 875	69 325	17%
Amount disbursed to end users	R232 623 860	R239 307 600	R309 477 177	23%
Amount disbursed to Women	R230 213 931	R233 568 313	R293 163 256	20%
Jobs created and sustained	71 512	57 959	R71 403	19%

Joyce Maphanga, Phakamani, Limpopo

As a high level overview per the 2021/22 performance, there was significant improvement in some critical key indicators as compared to the previous financial year:

- Number of SMMEs supported increased by 17%;
- Amount disbursed to end users increased by 23%;
- Amount disbursed to women increased by 20%; and
- Jobs created and sustained increased by 19%.

The significant increase in the amount of money deployed into the economy, coupled with an improvement in the amount disbursed to end users, is mostly due to the recovery from COVID, as well as the improvement in **sefa**'s relationships with the long standing MFIs. For the 2021/22 financial year, the impact of the new clients coming onboard was minor. The new partners will over time take greater portions of the impact, but this will be slow and will only be significant over time.

Small and Medium Enterprises Wholesale Lending

As one of **sefa**'s main distribution channels of deploying funding into the economy, the Small and Medium Enterprises (SME) Wholesale Lending Division deploys funding to retail financial intermediaries and specialised funds with the objective of increasing access to finance to SMEs. To supplement this objective, **sefa** also enters joint ventures and other strategic partnerships in order to crowd-in financial and business support as well as technical resources of the public and private sector strategic partners.

In the context of the current South African economic climate, although the country has exited its longest recession since 1992 (where recession was due to nationwide lockdowns to curb the spread of COVID-19), growth in GDP remains low. From an economic outlook, South Africa is only expected to reach pre-COVID-19 GDP levels by 2025 and beyond (where Reserve Bank forecasts GDP growth of 1.7% in 2022 growing to 2% in 2024.

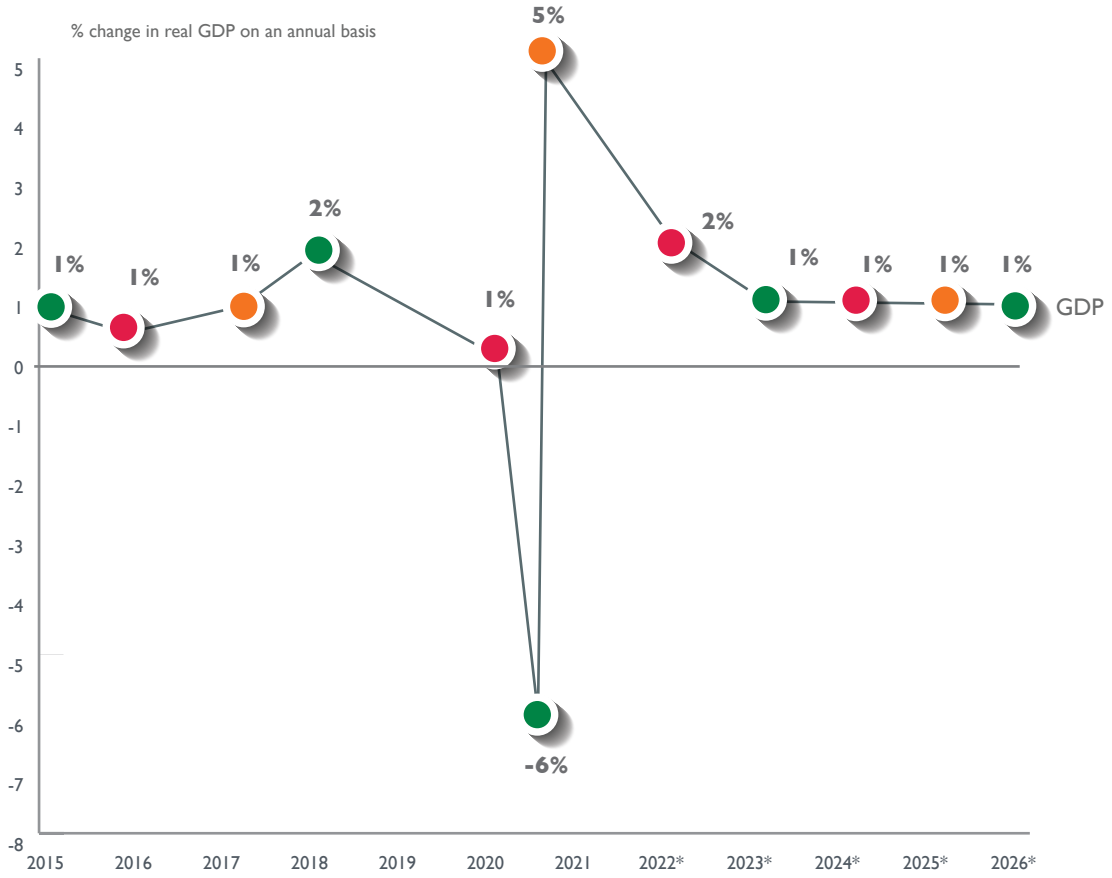


Figure 29: South Africa's annual real GDP annual growth rate

The low growth in GDP and the COVID-19 impact culminating in a negative economic climate have resulted in many significant institutional funders, in particular those who are wholesale funders, to almost stifle their funding activities into the market due to the difficult trading conditions experienced across the board (attributable in the main to higher impairments and lower transactional volumes, which impact negatively on their bottom-line profit). This is evident in the pipeline of enquiries coming to **sefa**, with a special noting of an increased number of agricultural intermediaries due to the current non-participation in the market of Land Bank in the wholesale funding space.

The SME Wholesale programme is a significant contributor to **sefa**'s loan book performance, with R361.16 million approved to 12 new intermediaries in the FY2021/22 and R569.7 million disbursed by intermediaries to SMEs between April 2021 and March 2022.

579 SMEs have been financed, facilitating 8 826 jobs from April 2021 to March 2022 as a direct result of the R569.7 million disbursed to SMEs as a deployment into the economy. The disbursement also emanates from approvals done in the previous financial year (FY2020/21) noting that R313.8 million was in the main what **sefa** disbursed to intermediaries for FY2021/22.

Responding to the difficult trading conditions, **sefa** has developed an in-house fund management capacity to deliver third-party funds. Stretching the limited financial resources at hand, the pursuit of Fund Management Services by **sefa** with various institutions participating in key strategic economic sectors is one of the key strategies being implemented so as to continue to extend the scope of **sefa**'s development impact by leveraging third-party funds to exponentially increase reach to under-served SMEs in the market.

Various transactions in this regard are being pursued in order to continuously diversify **sefa** loan book portfolio, where the following funds are is still in existence:

Fund Management Services

1. Godisa Supplier Development Fund, aimed at Transnet suppliers, has achieved significant progress in this portfolio and, in the year under review, more than R6.7 million was approved and R14.7 million was disbursed. **sefa**, together with Transnet, is in discussions noting that the fund has to come to an end; however, due to the development impact displayed the fund could be extended in the short to medium term. Other state-owned entities are being pursued in order to duplicate the initiatives through their respective Enterprise Supplier Development (ESD), in order to set up similar funds which can be managed by **sefa**.

2. The European Union Commission has allocated budget support of €30 million of the Employment Promotion through SMME Support Programme (EPSSP) to **sefa**. €10 million has been made available to **sefa** for on-lending as the ESD window in the year under review. The remaining €20 million is still earmarked for an Innovation window which will be allocated in the other years. This funding provides an opportunity for **sefa** to increase access to finance, crowd-in private sector investment and scale up support to SMMEs. It is anticipated that the €10 million has been made available to **sefa** for on-lending as the ESD will be fully committed in FY2022/23, as various long overdue transactions are in progress and being pursued to be finalised between Q2 and Q3 of FY2022/23.

3. **sefa** is the appointed implementing agency for a R2.1 billion Small Business and Innovation Fund which commenced in 2019/20. The strategic objectives of the fund are to:
   - Increase business formation to facilitate business dynamism through a stream of new entries into the market.
   - Incentivise innovation and growth; and
   - Expand the number of high growth and innovative companies and to enable these companies to compete internationally.
   - At this juncture; most of the budgeted capital has been committed where it is envisaged that the full capital commitment of the fund will occur by Q2 of FY2022/23.

New Partnerships

Outsource Finance (Pty) Ltd

Outsource Finance (Pty) Ltd (OF) is a black majority-owned company that was established in 2012. The company is registered with and regulated by the National Credit Regulator (NCR), certificate number NCRCP13946. OF provides retail financial services to small, medium and micro enterprises in South Africa including some government institutions in the office automation space. Their products on offer include operating lease and full maintenance lease on equipment specialising in office automation.

sefa's facility of R30 million will be utilised for on-lending for equipment finance to its target market in line with **sefa**'s credit policy.

Amadlelo Agri (Pty) Ltd

Amadlelo Agri (Pty) Ltd was established in 2004 by 70 commercial dairy farmers in the Eastern Cape and KwaZulu-Natal. The aim was to take under- or unutilised community land and develop it to its full potential and to train local community members in farming and management practices. Amadlelo has undergone substantial transformation since its establishment and is now 72% black owned (inclusive of 8% farmworker ownership) with 28% shareholding by white commercial farmers.

For over a decade, the collaborative efforts of Amadlelo have been at the forefront in transforming the dairy industry and unlocking the land potential of black communities in the Eastern Cape and KwaZulu-Natal.

Amadlelo's first dairy enterprise was established in 2007 in partnership with the University of Fort Hare also creating a training platform for emerging farmers and research capabilities. Six more dairy enterprises, operating in rural areas and on communal land have since been successfully established. It expanded its footprint within the agricultural sector to include fruit (macadamia), livestock (piggery) production and agro-processing in the form of milk processing. **sefa**'s facility will be utilised for working capital within the Amadlelo Agri value chain (on-lending to farms and other related entities) in line with **sefa**'s credit policy

Omnivore (Pty) Ltd

Omnivore Capital is a Plettenberg Bay-based business entity that exists within a group of sister companies. Other companies within the group include Carnivore Capital (Pty) Ltd, Mosong Capital (Pty) Ltd and Community of Omnivore NPC. The group's core competencies are based on their experience in the property and land development sector with a focus on project development and implementation. These core competencies are what the group is bringing to the agricultural sector mainly through Carnivore Capital which has been in existence since 2002. Additionally, the employees who are all shareholders in the business, bring with them a diverse set of skills to the business.

The group's agricultural journey started 12 years ago when they acquired a 724-hectare farm in Magaliesberg named Maloney's Eye. The property was previously an irrigated cattle and trout fish farm with 200 hectares consisting of land under pivot irrigation.

What made the property attractive, in addition to its proximity to Johannesburg, was the fact that it is situated on an underground aquifer called the Steenekoppie Compartment, which has natural water outflow on the farm. This natural spring is where Maloney's Eye derived its name from. The farm has a substantial amount of registered water rights, which is estimated to be in the region of 2.2 million cubic metres, sufficient to irrigate at least 400 hectares per annum.

In 2018 the group partnered with Cherry Genetics, a subsidiary of ZZ2 in the cultivation of early season sweet cherries. Cherry Genetics are the rights holders for a newly developed, low-chill variety of cherries developed by Zaiger Genetics of California. This variety of cherries is ideally suited to the climatic conditions found on Maloney's Eye farm for the production and export to four international markets during the month of October when only a handful of other sweet cherry producers globally can do so, ensuring premium return to Maloney's Eye for being one of the few suppliers of cherries during that marketing window.

Since 2019 to date, the group planted 12 hectares of cherries on Maloney's Eye farm and over the next five years they plan to develop additional hectares to expand production to its maximum potential of 400 hectares. As their long-term plan, the group has also secured other farms in the Southern and Western Cape to produce avocados and citrus.

sefa's funds will then be advanced to SMEs (at least 51% BEE supply contractors) who provide goods and services to Maloney's Eye farm and transform is supplier value chain in line with the BEE codes.

Mincap (Pty) Ltd

Mincap (Pty) Ltd is a diversified financial services company founded in 2008. The business has several business offerings or services, and are outlined as follows: debt collection, SME finance, capital raising and investments amongst other activities.

In 2017, Mincap began providing working capital financing to SMEs as a response to an overwhelming call in the market for invoice discounting and purchase order financing. **sefa**'s facility will be utilised for invoice discounting and purchase order financing mainly in the public sector and other sectors not prohibited by **sefa**'s credit policy.

sefa's facility of R30 million will be utilised for on-lending and ultimately to grow their invoice discounting and purchase order financing loan book portfolio in line with **sefa**'s credit policy.

De Novo Medical Solutions (Pty) Ltd

De Novo Medical Solutions (Pty) Limited is a company involved in the purchase and processing of medical claims from SMMEs who provided ambulance services to victims of road accidents, in particular passengers, whilst waiting for Road Accident Fund to settle.

sefa's facility of R30 million will be utilised for offering bridging finance of medical claims from SMMEs, where some of the SMMEs funded are owned by people with disabilities. The aim is for **sefa** to ringfence a facility to this intermediary in order to have a captive market of funded SMMEs owned by people with disabilities.

Indyebo Fund (Pty) Ltd

Indyebo Fund is a finance and supplier development partner managed by Indyebo Fund Managers, both entities being start-ups founded by highly skilled finance and engineering black professionals. The business is 100% black owned. The Fund will extend business loans to qualifying SMMEs that have existing contracts or orders from their corporate partner in the name of Northam Platinum. Indyebo will focus on key interventions to establish mechanisms to ease some of the constraints which prevent SMME development.

The approved R30 million **sefa** facility will focus on supply chain transformation and resourcing local based SMMEs to access capital and other business support initiatives and resources for them to deliver on contracts awarded to them by their corporate partner.

Arion Power, Western Cape

Developmental Impact

A total sum of funding to the value of R570 million was disbursed to 579 SMEs through intermediaries and strategic partners. This was made possible by the revolving nature of the instruments used by the intermediaries to provide ongoing financial support to SMEs. Through the above funding activities, 8 826 jobs were facilitated.

The developmental impact of the beneficiaries is summarised in the table below.

	No. of SMEs	Amount disbursed in 2021/22
Total Disbursements	**579**	**R569.70 million**
Black	496	R383.00 million
Female	219	R186.07 million
Youth	136	R94.38 million
Township-based	268	R192.49 million
Rural-based	250	R214.51 million
People with disabilities	5	R22.03 million

Strategic initiatives were implemented in order to improve the development impact as compared to FY2020/21. As per the outcome of FY2021/22, a significant improvement is demonstrated where the deployment of funds (through intermediaries) has almost doubled.

This is also demonstrated in the developmental impact in particular to the designated groups, which has displayed a similar trend in line with the improved deployment of funds into the economy. It is worth mentioning that the developmental impact on people with disabilities is a vast improvement to what was achieved cumulatively in the previous financial years.

Going forward, it is anticipated that the trajectory will be maintained in terms of deploying funding into the economy and achieving the development impact on the targeted designated groups. Any growth anticipated will be in line with the growth in the economy indicated by the growth in GDP, which is not expected until 2025 per the economic outlook of the South African Reserve Bank.

However, **sefa** will continue to seek and implement strategic interventions that are also innovative, and assist in diversifying its SME Wholesale Lending portfolio to continue to promote access to finance for SMEs, which will benefit the targeted designated groups in line with **sefa**'s strategic objectives in particular with new black-owned retail financial intermediaries.

Land Reform Empowerment Facility (LREF)

The Land Reform Empowerment Facility is a Broad-Based Black Economic Empowerment Agriculture and Land Reform Fund that was established and capitalised by the Department of Agriculture, Land Reform and Rural Development in 1999/2000. The Fund is housed within and managed by **sefa**. The purpose of the fund is to financially support the South African land reform beneficiaries and agricultural SMEs through a concessionary wholesale lending model in collaboration with commercial banks and non-bank agricultural financial intermediaries.

LREF was established primarily as an intervention aimed to facilitate finance for farmworker communities, as well as emerging black farmers to enable them to acquire farmland, agricultural machinery, equipment and seasonal production inputs. The original modus operandi of the LREF was to advance wholesale loans to reputable agricultural lenders for on-lending to BEE commercial farming ventures on a project-by-project basis.

Since inception to FY2021/2022, **sefa** (through LREF) has approved facilities to the value of R687 million to financial intermediaries and disbursed R597 million to 749 previously disadvantaged farming enterprises. The intermediaries participating in the LREF are required to conduct their own project screening, due diligence as well as economic and financial evaluations. The credit risk default of the funded projects is entirely borne by the intermediaries. The LREF's interventions supported projects in all nine provinces and ventures in the following sectors: sugarcane, dairy farms, poultry, greenhouse vegetable crops, deciduous and subtropical fruit as well as a piggery.

The LREF has made noticeable progress over the years through its achievement of a portfolio growth from R63 million to R482 million, financed 749 agriculture and land reform projects which altogether created at least 7 000 jobs, of which at least 40% thereof, were women-owned businesses.

Regarding 2021/2022 developmental impact indicators, the Fund facilitated the following:

- R212 million was disbursed to 213 emerging farmer projects;
- R122 million was disbursed to majority black-owned businesses;
- R38.3 million was disbursed to many women-owned businesses;
- 732 jobs were facilitated (created and sustained); and
- R145 million was disbursed to businesses in priority provinces.

Financial Performance

Profitability Ratios	31 March 2022 (R'000)	31 March 2021 (R'000)	31 March 2020 (R'000)	31 March 2019 (R'000)	31 March 2018 (R'000)
Interest income: loans	8 282	8 120	16 166	15 867	15 933
Interest income: cash	6 231	7 533	12 524	12 269	12 007
Operating expenses	11 462	10 567	10 193	9 665	9 154
Return on assets	1.23%	3.8%	3.8%	2.4%	4.2%
Return on equity	1.25%	3.8%	3.8%	2.4%	4.3%

Profitability Analysis

The Land Reform Empowerment Facility (LREF) interest income on loans increased by 1.99% to R8.28 million from R8.12 million (2021). This was largely due to a 2.44% decline in loans and advances to customers to a value R307.14 million from R314.84 million (2021). The operating expenses had an increase of 8.47% in 2022 to R11.46 million from R10.56 million (2021). This was largely **sefa**'s management fee which was charged to LREF.

Due to an overall marginal increase in revenue in 2022, which has also been largely offset by a significant increase in operating expenditure, the return on assets declined to 1.2% (3.8% in 2021). The overall increase in operating profit to R5.08 million from R3.25 million (2021) is mainly due to the decrease in credit losses and significant increase in management fees, however the return of owners' equity still reduced to 1.2% (2022).

Liquidity and Gearing	31 March 2022 (R'000)	31 March 2021 (R'000)	31 March 2020 (R'000)	31 March 2019 (R'000)
Loans and advances	307 135	314 861	290 574	281 320
NPLs (% of advances)	1%	2%	Nil	Nil
Cash and cash equivalents	178 782	164 017	186 750	178 639
Debt equity ratio	1.8%	1.7%	1.8%	2.1%

Liquidity Analysis

The loans and advances declined by 2.44% to R307.14 million from R314.86 million (2021), mostly due some repayments to LREF-funded loans. The non-performing loans are sitting at 1%; since LREF lending is done via intermediaries, mostly commercial banks with strict lending criteria and good post-investment interventions (noting the improvement in the quantum of non-performing loans). Cash and cash equivalents increased by 9.0% to R178.78 million from R164.02 million (2021).

The undrawn commitment is available for further lending to new projects. The IDC provides treasury management services to **sefa** and LREF.

LREF Financial Position

The LREF financial position as of 31 March 2022 is shown below. The current portfolio consists of 396 projects collectively adding up to a value of R310 487 million. Funds available for new investments equals R19.539 million, after considering undrawn commitments.

LREF Financial Position	R'000
Outstanding balance from projects	R310 487
LREF money market balance	R171 539
Undrawn commitments	R152 000
Available for new investments	R19 539

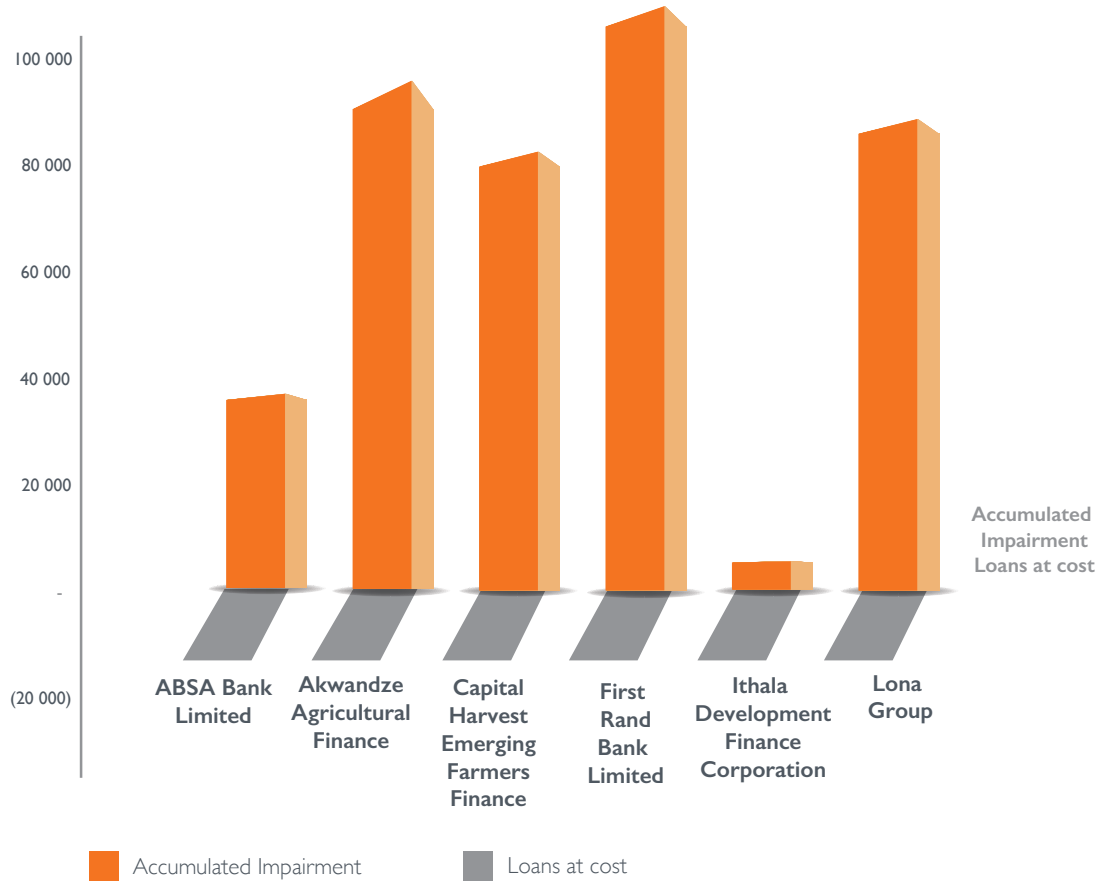


Figure 30: Accumulated loans and advances vs loans at cost

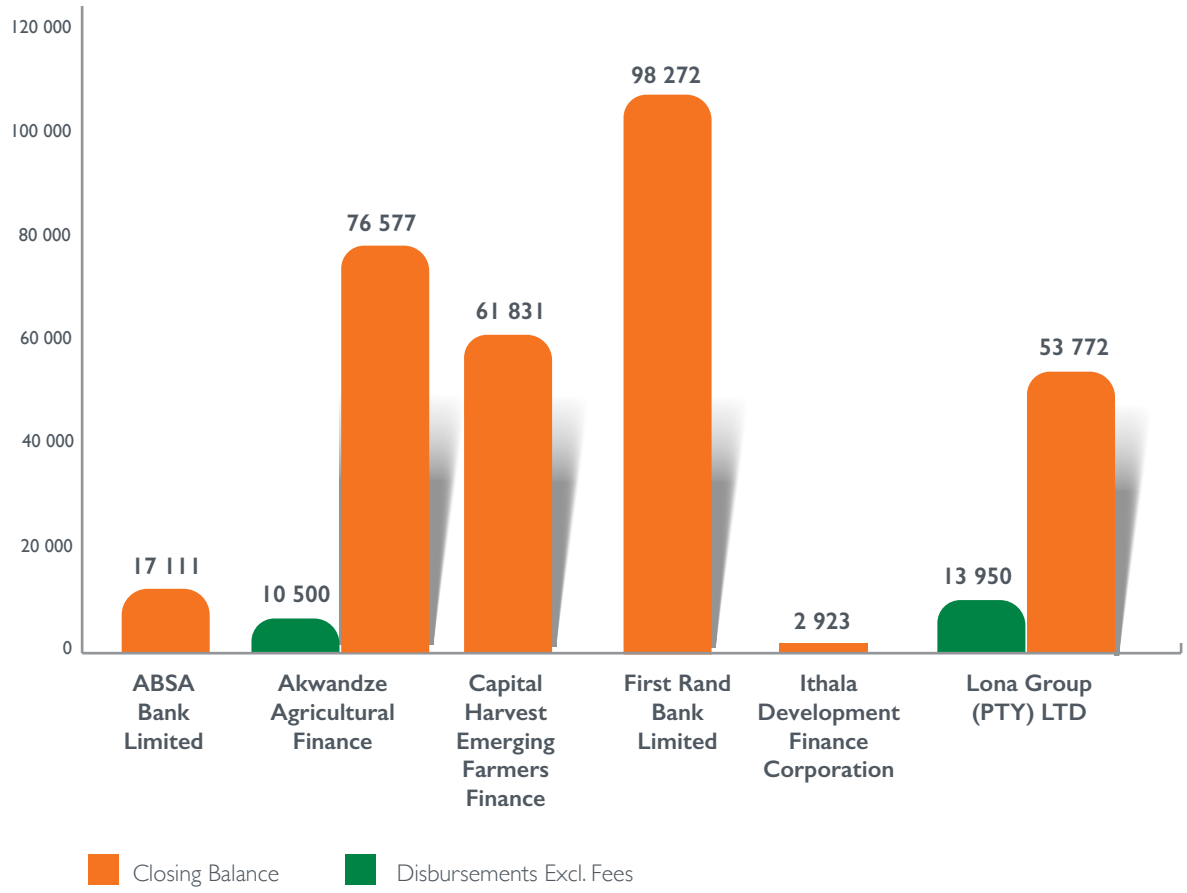


Figure 31: Disbursements and Laon balances at cost R'000 FY2022

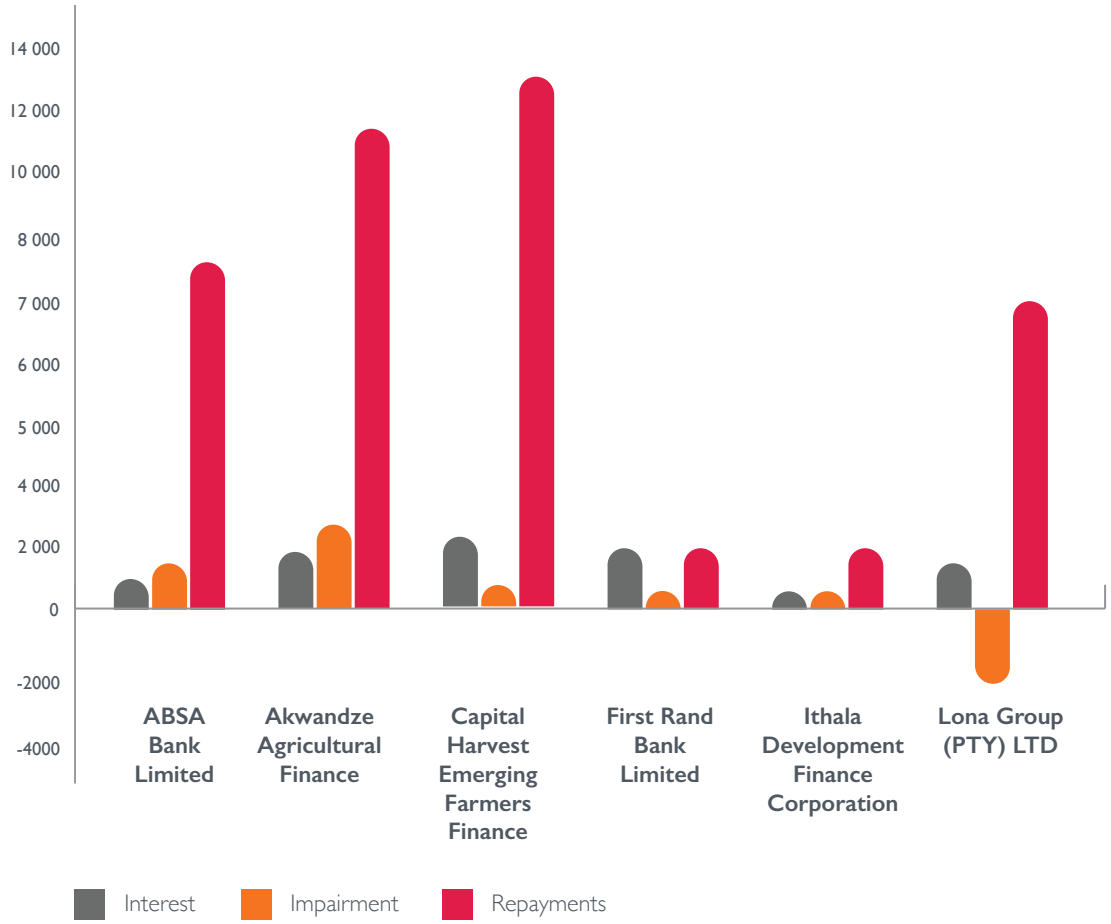


Figure 32: Movement on loans and advances FY2022

LREF Portfolio Analysis by Loans and Advances

The outstanding balances on the equity and mortgage projects constitute approximately 22% of total balance outstanding. The portfolio also shows that a greater share (63%) of the wholesale facilities is held by non-bank financial intermediaries such as Akwandze, CHEFF, Ithala and Lona.

Portfolio – Distribution by Financial Intermediary

Financial Intermediary	SMEs: 31 March 2022	Outstanding loan balance	% Distribution by RFI
Akwandze Agric Finance	366	R76 577 133.68	25
Ithala Finance Corporation	4	R2 923 266.35	1
FNB Agribusiness	14	R98 272 094.72	31
Lona Citrus	2	R53 722 316.77	17
ABSA Agribusiness	4	R17 111 398.87	6
Capital Harvest	6	R61 830 907.74	20
Total	396	R310 487 114	100%

LREF Forward Planning in 2022/23

To increase the LREF footprint beyond its current outreach, the agricultural organisations in the list below will be targeted with a view to propose joint investment ventures or financial intermediation arrangements. It is envisaged that this measure will minimise the LREF investment concentration risk by spreading the investments over a wide-ranging base. The targeted organisations are listed in the table below:

Organisation	Geographical Area of Operation
Senwes	North-West, Free State, Gauteng, Mpumalanga, KwaZulu-Natal, Eastern Cape, Northern Cape, Western Cape
OVk	Free State, Eastern Cape and Northern Cape
SSK	Southern Cape
NTK	Limpopo
NWK	North-West
GWK	Northern Cape

In order to meet the above pipeline, LREF will have to be recapitalised with an estimate of R350 million to continue in its current form and mandate at inception.

Sbongakonke Ngcobo, Rebels Unite, KwaZulu-Natal

Khula Credit Guarantee (KCG)

Chairperson's Statement

The 2021/2022 financial year continued to be a very challenging year for most businesses globally, in South Africa, and Khula Credit Guarantee (KCG) was not excluded in that impact.

The KCG Strategic Focus

KCG continued with the execution of its mandate from the Executive Authority for the period under review, through its shareholder, the Small Enterprise Finance Agency (**sefa**): to alleviate the negative impact of Covid-19 to township and rural businesses, resultant from a global health crisis and disruptions in supply chains of global commerce.

Operating Environment

According to the World Bank report, South Africa Economic Update Edition 13, COVID-19 brought the deepest recession to South Africa since the end of apartheid. As a result, South Africa's GDP shrank by 7 percent in 2020, more than in almost all other emerging economies. The pandemic has increased unemployment by more than 1 million to 7 million. This statistic translates into South Africa now having a record high unemployment rate of 33 percent. Of equal importance, are the 17 million South Africans who are not playing an active part in the labour market. Of these, about 3 million appear to have stopped searching for work altogether.

Organisational Performance

KCG's business model is to crowd-in funding in support of SMMEs who lack the necessary collateral to access loan funding. We do this by offering a credit insurance guarantee product to commercial bank institutions, non-commercial bank financial institutions and any other corporate entity that seeks funding for participants in its value chain. For the year under review, KCG has grown credit insurance guarantees by R472.5 million to R1.342 billion (2021/22 R870 million) of which R249.5 million (2020/21 R201 million) was drawn down. The significant difference in amount provided versus what was drawdown is due to the delay in finalising roughly R560 million of approved guarantees, largely due to disruptions in working environment and low commercial banking activity due to the Covid-19 pandemic.

European Union Innovation Fund Programme

KCG's insurance capacity received a significant boost during the year when the European Union approved and advanced R300 million under the EU Innovation Fund to KCG. The objectives of the EU Innovation Fund Programme are to: improve the competitiveness of SMMEs and their ability to meet procurement requirements of large multinational/local corporations and state-owned enterprises, improve access to finance for SMMEs with limited access to finance and support relevant government institutions in their efforts to improve the regulatory and administrative environment for SMMEs. This capital injection will enable KCG to crowd-in at least R2 billion in funding for SMMEs using its various credit insurance products and will enable KCG to continue providing support to the following key sectors:

- Agriculture (Cotton, Deciduous Fruit & Essential oils)
- Green economy
- ICT
- Medical
- Micro finance (Spaza and Automotive)

Spaza Shops Support Programme

The Spaza Shops Support Programme is a cashflow facility in the form of credit guarantee administered via commercial banks that enables South Africa's spaza shop owners with a valid operating permit to buy the stock at accredited wholesalers. Whilst the uptake of this programme was lower than anticipated, it is gaining traction with about 80 wholesalers participating. 5 962 Spaza shops were approved out of a total of 9 750 applications, with a total disbursement of R54.7 million into the economy. We acknowledge that this is far too little to address the high unemployment rate. The innovative funding package is, however, the first of its kind providing targeted support to what is considered to be the second economy, which is a critical imperative in addressing the pervasive high levels of inequality in South Africa. Overall, the performance of the Spaza Shops Support Programme did not, unfortunately, yield the expected outcome during the year under review.

The Automotive Aftermarket Scheme

The Automotive Aftermarket Business Support Scheme supports and develops small and independent automotive aftermarket enterprises, including informal businesses located in townships and villages. The scheme was developed in response to the increased demand for services from the motor industry, insurance companies and uninsured vehicle owners, and it has a bias towards businesses located in townships and rural areas. The Scheme objectives are to:

- Support motor body repairers (panel beaters) to operate accredited small or independent panel beating (motor body repairs) businesses;
- Support motor and other mechanics to operate authorised service centres; support small and independent auto-spares shops to operate profitable spare parts centres; and
- Support the formalisation of informal automotive entrepreneurs into formal fitment centres.

The programme was included as part of the economic recovery initiatives, which is a response to the COVID-19 lockdown.

Corporate Governance

KCG remains committed to good governance practices and has put in place structures and policies to ensure that the organisation upholds its fiduciary responsibilities and delivers on its mandate. Appropriate measures have been put in place to mitigate non-compliance. Our risk management function continues to facilitate and monitor implementation of risk management measures across the organisation. Our latest Own Risk and Solvency Assessment (ORSA) Report reflects that KCG is well capitalised to sustain and grow the business over the next 3 years. On 31 May 2021, the KCG Board bid farewell to Ms. Mphokolo Makara after her resignation from the Board of **sefa** and KCG. I wish to thank her for her commitment and contribution to the KC during her tenure.

During the year under review, the KCG Board held 5 meetings, of which one was a special meeting and the following key decisions were made:

a. APPROVED the Own Risk and Solvency Assessment results for the planning period FY2022/23
b. APPROVED the KCG Risk Management Policy.
c. APPROVED the Quarterly Quantitative Reporting Template for Q4FY2020/21; Q1FY2021/22; Q2FY2021/22 and Q3FY2021/22 for submission to the Prudential Authority.
d. APPROVED KCG Annual Financial Statements for the year ended 31 March 2021
e. APPROVED the KCG Board Charter and Annual Work Plan for the FY2021/22
f. APPROVED the Annual Solo Qualitative Regulatory Return for the financial year ended 31 March 2021
g. RECOMMENDED ABSA Bank as the partner bank for the implementation of the Automotive Aftermarket Support Programme Facility (R150 million)
h. RECOMMENDED the KCG Memorandum of Incorporation for approval by the Shareholder (**sefa**).
i. APPROVED the KCG Risk Appetite Statement.
j. APPROVED a Portfolio Credit Guarantee for Standard Bank of South Africa Ltd (SBSA) for an Indemni-ty Cover of R150 million.
k. APPROVED the KCG targets as included the **sefa** Corporate Annual Performance Plan for the FY2022/23.

Strategic Partnerships

We, in pursuit of the KCG vision of expanding access to funding for SMMEs, recognize the need to improve our strategic partnerships and further increase stakeholder satisfaction. We aim to continue nurturing and deepening the remarkable and ongoing partnerships that form the bedrock of our institutional framework, which includes commercial banks, wholesale retailers, the Department of Small Business Development (our Executive Authority) and **sefa** (our Shareholder).

Outlook

South Africa's economy has started to recover after the COVID-19 pandemic. The latest GPD figures indicate a growth of 1.1% in the first quarter of 2021 (Stats SA – 8 June 2021). The most significant challenge to growth is an environment that creates less jobs for the growing working-age population. A deliberate focus on supporting the development and success of SMMEs will help.

Though KCG now has the balance sheet to do more in crowding in funding to SMMEs, our current challenge is expanding our product offering to non-commercial financial institutions and corporates. It has now become an imperative that KCG, with the support of **sefa**, improve on its brand marketing and public relations to create a high awareness of its product offering, so that more SMMEs can be supported, and jobs created.

Appreciation

I would like to give special thanks to our employees who worked hard and innovated during the Covid pandemic. Your commitment and tenacity ensured that we continued to deliver innovative products to support SMMEs. I thank the **sefa** Board of Directors, our shareholders for the continued support given to KCG, to ensure that notwithstanding our limited operational capacity, KCG continues to maintain good corporate governance and adhere to the principles and requirements of the Prudential Authority Standards in terms of the Insurance Act.

I extend my heartfelt gratitude to the Department of Small Business Development and the Honourable Minister, Stella Ndabeni-Abrahams, for her leadership and guidance during the tough economic climate. With her support, KCG is now well positioned to help address challenges that township businesses face. Finally, to our clients and stakeholders, we appreciate and thank you for your continued support.

Mr. LF Mosupye
Chairperson, Khula Credit Guarantee

Khula Credit Guarantee (SOC) Ltd

Khula Credit Guarantee (SOC) Limited is a wholly owned subsidiary of Small Enterprise Finance Agency (SOC) Limited. It is a non-life insurer licensed by the SARB Prudential Authority to conduct insurance business in the classes of Guarantee and Trade Credit. KCG was established to house a fund, which would operate an indemnity scheme aimed at assisting SMMEs to obtain financing from financial institutions to enable them to establish, expand or acquire new or existing businesses in circumstances where they would not, without the support of an indemnity cover, qualify for such financing in terms of the participating financial institution's SMME lending criteria. Under the scheme the targeted clients are the marginal and sub-marginal Small and Medium Enterprises (SMEs).

The objective of the Khula Credit Guarantee scheme is to issue partial credit guarantees to lenders for SMME borrowers, whose access to finance is impeded by the lack of collateral required by lenders. The scheme was set up as a risk-sharing facility with Partner Financial Institutions (PFIs) for the purpose of facilitating access to finance for SMMEs that lack insufficient or unacceptable collateral for the acquisition, establishment or expansion of a business.

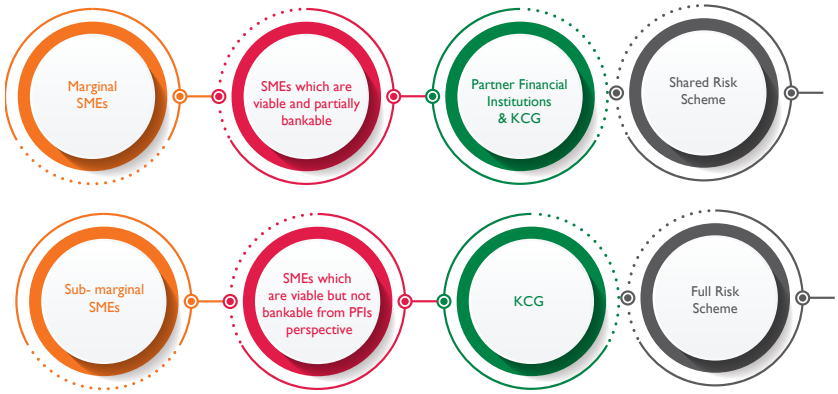
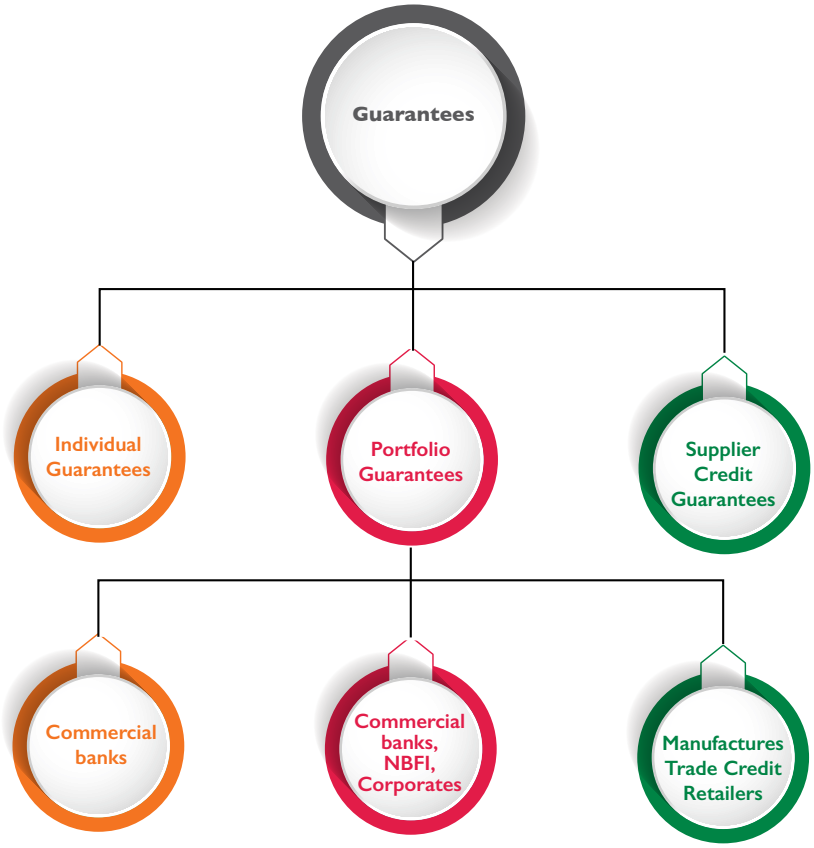


Figure 33: KCG Objectives



KCG product offerings

KCG offers the following products to PFIs:

- Individual credit guarantees;
- Portfolio credit guarantees;
- Supplier credit guarantees; and
- Hybrid guarantees.

Figure 34: KCG product offerings

FY2021/22 Performance

KCG Strategic Indicators Performance for the FY2021/22 is shown below:

Key Performance Area	***FY2021/22***		
	Target R'000	Actual R'000	% Achieved
Value of approvals: Financial institutions	300 000	285 000	95%
Value of approvals for TREP Spaza Shop Support Programme	450 000	223 599	49,7%
Value of guarantees taken up: Financial institutions	150 000	183 424	122,3%
Value of disbursement for TREP Spaza Shop Support Programme	375 000	36 099	9,63%
Value of guarantees taken up: Participating Suppliers	60 000	80 516	134,2%
No. of SMMEs and co-operatives financed through KCG	41 869	4 760	11,4%
No. of jobs facilitated (created and sustained)	32 250	7 000	21,7%
Value of guarantees taken up by black-owned enterprises	409 500	276 515	67,5%
Capital leverage effect	6.25 times	6.38 times	

KCG has achieved 68% of annual target for approvals largely due to KCG core business contributing 95% of annual target, which was offset by low performance on TREP at 50%. The total approvals for the year under review was R509 million. This represented 95% of the targeted approvals of R300 million for portfolio guarantees and 49.7% of TREP target of R450 million. The portfolio guarantees approvals largely came from Standard Bank of South Africa (SBSA) (R150 million), Bizcash (R75 million), ABSA Automotive Aftermarket (AA) (R187.5 million) and Spaza Shop Support Programme (SSSP) (R31.1 million).

The total value of guarantees taken up was R300 million, representing 51% of the yearly target. This was largely due to portfolio guarantees achieving 122.28% of annual target and supplier credit making up 134.19% of annual target, which was offset by low performance of TREP at 9.63%. The underperformance in KCG TREP can be attributed largely to the slow start of AA and to SSSP being behind with the take-up of the facilities.

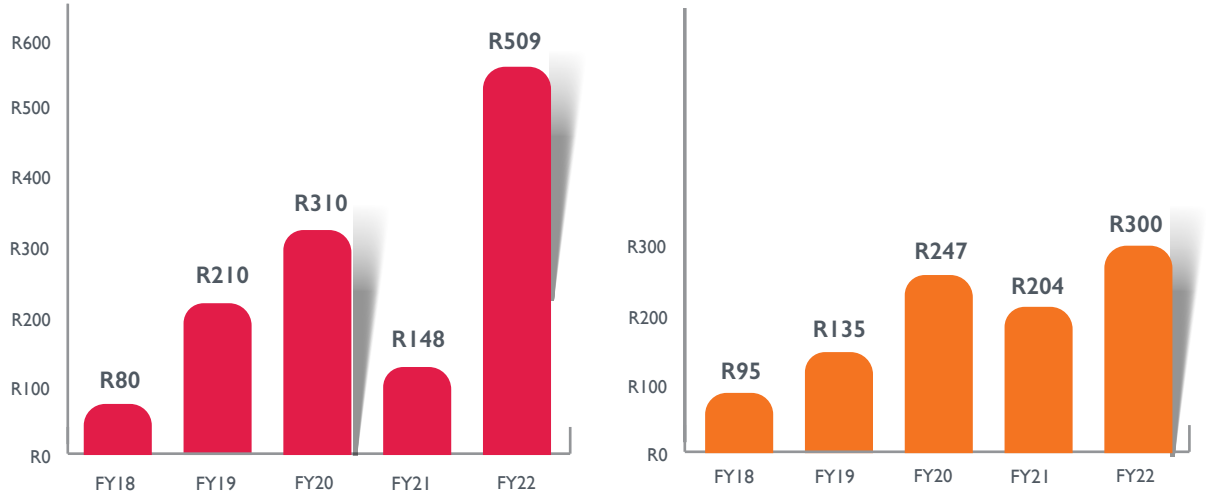


Figure 35: KCG Approvals - value (R'm)

The KCG take-ups grew by 47% year on year to R300 million in FY22. As of 31 March 2022, ABSA Agriculture was the largest indemnity value at R89 million followed by Barnes Reinforcing Industries (BRI) at R81 million and ABSA Alternative Lending Solutions at R51 million.

The take-ups are dominated by commercial banks at 76% and supplier credit at 24%. Suppler credit is the revolving nature of the product and the resilience of the industry sector it is in which is steel.

Portfolio Performance for the period 1 April 2021–31 March 2022

Institution	Guarantee Type	No. of SMMEs	Jobs	Status	Taken- up	Indemnity Value (R)
Sasol Siyakha	Portfolio	3	391	Taken-up	Active	12 477 026
TCBS	Portfolio	17	1 220	Taken-up	Active	19 901 216
Mr Price Group	Portfolio	0	0	Taken-up	Active	0
ABSA Automotive	Portfolio	2	15	Taken-up	Active	1 080 350
ABSA Agriculture	Portfolio	12	325	Taken-up	Active	51 751 739
FNB Agriculture	Portfolio	6	35	Taken-up	Active	36 389 000
ABSA ALS	Portfolio	10	276	Taken-up	Active	61 824 650
Portfolio Guarantees		50	2 262			183 423 981
BRI	Supplier Credit	14	213	Taken-up	Active	80 516 032
Spaza Shop	TREP	4 599	4 525			36 099 300
Total		4 663	7 000			300 039 313

The approvals which have not yet been drawn are shown in the table below:

Indemnities Authorised but not taken-up as at 31 March 2022

RFI	Status	Approval date	Active	Facility not taken up (R)	Facility Limit Approved (R)
Sasol Siyakha BEE	Authorised	23 May '16	Active	-	20 000 000
Sasol Siyakha ESD	Authorised	26 Mar '18	Active	27 211 944	30 000 000
TCBS	Authorised	15 Aug '16	Active	27 315 000	50 000 000
FNB Agriculture	Authorised	27 Mar '20	Active	123 611 000	160 000 000
Mr Price Group	Authorised	27 Mar '19	Active	30 000 000	30 000 000
ABSA Agriculture	Authorised	29 Mar '21	Active	71 124 452	160 000 000
Mercantile Bank	Authorised	27 Mar '19	Not activated	150 000 000	150 000 000
ABSA ALS	Authorised	27 Mar '20	Active	99 328 611	150 000 000
ABSA AA	Authorised	2 Jan '22	Active	186 420 000	187 500 000
SBSA	Authorised	22 June '22	Not activated	150 000 000	150 000 000
Praxis Financial Services	Authorised	03 Jun '19	Not activated	60 000 000	60 000 000
UBank	Authorised	19 Mar '21	Not active	30 000 000	30 000 000
Bizcash	Authorised	9 Mar '22	Not active	75 000 000	75 000 000
BRI	Authorised	3 June '19	Active	(50 376 869)	30 000 000
Macsteel SA	Authorised	30 Aug '21	Not active	60 000 000	60 000 000
				1 039 633 787	1 342 500 000

The economic uncertainty brought about by the COVID-19 pandemic has pushed the commercial lenders such as banks and non-bank financial institutions to a state of volatility which made these lenders remain risk averse when lending to SMMEs. This was further worsened by the restriction of the capital adequacy requirements (CAR), high costs of serving the SMME segment and the rather high collateral requirements. The hesitation of lenders to fund SMMEs had a direct impact on the guarantees offered by KCG. This is evident in facilities amounting to R688 million which were approved in prior years but have not been utilised by the lenders. The low take-up of new indemnities, low approvals and unutilised facilities had a negative impact on KCG projected revenue.

Though KCG has a well-balanced sector portfolio it has not been immune to the effects of civil unrest and natural disasters experienced in KwaZulu-Natal and Gauteng. ESD lenders such as Mr Price Group (MRPG) were worst hit by the looting such that they opted to direct their funds to rebuild destroyed stores as opposed to providing funding to cotton farmers in Nkomazi and

Loskop, which they had been doing for the last three years. KCG has also seen the exit of Transaction Capital Business Solutions (TCBS) from the lending space which left SMMEs unfunded for future expansions. The exit of the MRPG and TCBS has however created opportunities for new entrants such as Bizcash to come in and fund these SMMEs

Summary of the Newly Approved Facilities

1. Standard Bank of South Africa: R150 million

A portfolio guarantee of R150 million for Standard Bank of South Africa (SBSA) was approved in FY2021/22. The purpose of this portfolio credit guarantee is to encourage and facilitate the provision of loan funding to emerging farmers in the deciduous fruit industry and grain industry who intend to secure production loans with SBSA, by offering to absorb 50% of SBSA's Irrecoverable Loss in the event of a default.

SBSA's Agriculture Enterprise Development (Agri-ED) solution is aimed at black-owned small and medium enterprises in the primary agricultural production sector (farmers) who are seeking production finance to fulfil their working capital requirements. This is a strategic initiative for the bank to improve the economic participation of black businesses, entrenching the social, economic and environment proposition in the country and making SBSA relevant in the market in terms of collaborating with government and agribusiness partners.

This indemnity facility will provide collateral cover and/or shortfalls for emerging farmers who, except for security, would qualify for SBSA's lending criteria.

The SBSA Agri-ED framework features the use of business development service providers (BDSP), a third party responsible for:

- Pre-selection of farmers and preparation of a credit application pack for submission to the bank;
- De-risking of transactions by managing the end-to-end flow of funds, from loan drawdown to repayment of loans; and
- Managing the production risks to ensure performance and repayment of loans.

The SBSA facility has been split as follows:

BDSP	Crop type	Type of finance	Approval Amount
Deciduous Fruit Development Chamber (DFDC)	Deciduous fruits Stone and Pome fruit	Agricultural Production Loan (Seed, fertiliser, chemicals, diesel and oil, repairs and maintenance, harvesting and transport)	R80 million
Farmsol	Soya, Sunflower, Wheat and Barley	Production finance	R20 million
GrainSA and others	Grain and other crops	Production finance	R50 million
			R150 million

The Deciduous Fruit Development Chamber (DFDC-SA) has been formed with the strategic intent of transforming the deciduous fruit industry, so that it is inclusive of black farmers throughout the value chain. The DFDC-SA has a high-level mandate of doubling the industry by 2050 through a transformation agenda. The strategy focus is premised on increasing number of hectares owned by black producers and transforming the value chain segment, thus playing a leading role in the process of driving a transformation agenda for the deciduous fruit industry.

Farmsol is a black-owned, small–medium agricultural enterprise focused on incubating smallholder and emerging farmers into fully fledged, future-fit, sustainable farming enterprises that attain higher improved quality yields and enabling these smallholder and emerging farmers to participate into commercial supply chains. FarmSol started out as an implementing partner to South African Breweries (SAB), offering support services to emerging and smallholder farmers under the SAB GO-FARMING programme and implemented other developmental programmes which were part of the ABInBev and SAB merger.

FarmSol unlocks opportunities for emerging farmers by enabling them to have access to modern production inputs, patient production loan financing and guaranteed offtake markets.

2. Alternative Finance Solutions (AFS) T/A Bizcash: R75 million

A portfolio credit guarantee of R75 million for Bizcash was approved in FY2021/22. The purpose of this portfolio credit guarantee is to encourage and facilitate the provision of funding to SMMEs via the purchase of transferable instruments in the form of invoices, purchase orders and contracts by offering to absorb 80% of Bizcash's irrecoverable loss in the event of a default.

Bizcash's main working capital product offering includes the following:

- **Bizcash Selective Invoice Discounting, Disclosed/ Undisclosed (1 to 6 months).** It is a process whereby businesses can convert existing sales invoices into cash as opposed to waiting 30 or 60 days to get paid.
- **Bizcash Business Loan (1 to 12 months).** Applicants can apply online at Bizcash for their required loan amount and get the funding that is needed to invest in growing the business.
- **Bizcash Term Loan (1 to 24 months).** This is flexible working capital facility, repaid in regular monthly payments with either fixed or floating interest rates over a set period of time.
- **Bizcash Overdraft (on demand, followed by annual renewal).** A facility for now and later access to funds during cashflow crunches, servicing interest only on what has been taken out, making deposits anytime at no charge.
- **Bizcash Supply Chain Finance (1 to 6 months).** A revolutionary online cash flow solution that bridges the buyer–supplier business relationship, by assisting buyers to pay their suppliers cash on delivery, while simultaneously offering buyers extended terms and flexible repayment amounts.

3. Macsteel Services SA: R60 million

This supplier credit guarantee facility of R60 million was approved in FY2021/22 to be utilised to provide a credit guarantee and encourage the facilitation of the provision of credit to end users who intend purchasing steel products from Macsteel under the Usizo ESD Programme.

Macsteel is a leading manufacturer, merchandiser and distributor of steel and value-added steel products, and it operates eight dynamic business units (Coil Processing; Exports; Fluid Control; Roofing; Special Steels; Trading; Tube & Pipe; and VRN). It operates through a strategic network of over 50 service centres, branches and warehouses.

The Macsteel Usizo ESD Programme impact targets aim to:

- Increase participation of women in the industry with a target of 45%;
- Promote and support black SMMEs;
- Encourage youth participation in the sector;
- Create employment in the targeted market; and
- Target 200–500 SMMEs for participation in the R60 million credit guarantee facility.

Usizo offers Macsteel's small business customers a supplier credit programme that cancels out the limitations associated with lack of access to finance due to lack of collateral. The programme allows Macsteel to bring this market sector into the credit value chain, in partnership with KCG, by assuming part of the risk in (in a form of credit guarantee) extending credit to SMMEs.

Township and Rural Enterprises Economy Programmes (TREP) update

Spaza Shop Support Programme (SSSP)

The Spaza Shop Support Programme offering has been increased from R7000 to R15 000 (R10 500 grant and R4 500 credit). Nedbank as a partner bank has been rolling out the bulk disbursement of the R7000 top-ups to the previously approved clients and the R10 500 grant for the new applications. The two new strategic partners who have access to spaza shops have brought about the increased numbers. The Vuleka Platform is responsible for increased spaza numbers in Gauteng and Mpumalanga.

There are new partners in the Western Cape namely Supply Pal (SEKIKA), who are responsible for increasing number of applicants. Another partner Yebo Fresh Wholesalers intends to offer the credit line to its customer base which will increase the uptake in the two major metros of Johannesburg and Cape Town. This will assist in increased volumes in the new financial year.

The Spaza Shop Support Programme has received the following applications cumulatively:

- 9 750 applications;
- 5 962 approvals;
- 5 339 cards have been collected by applicants;
- R54 726 000 has been disbursed to spaza owners (SMMEs); and
- R19 655 667 has been spent on approved wholesalers.

The Automotive Aftermarket Programme (AA): R187.5 million

ABSA has been appointed as a partner bank to implement the AA programme. Due to a late start few applications have been disbursed towards the end of Q4 of FY2021/22. The major challenge came from clients whose funding needs changed or who declined the offers that had been presented by the bank. ABSA offers applicants a maximum of R500 000 with a grant of 20% but limited to R100 000 per client.
The AA Programme is aimed at:

- Supporting qualified motor body repairers (panel beaters) to operate accredited small /independent panel beaters (motor body repairers) centres;
- Supporting qualified motor mechanics to operate authorised service centres;
- Supporting the small/independent auto-spares shops to serve as distributors of automotive aftermarket spare parts centres; and
- Supporting in the formalisation of informal fitment centres into formal fitment centres.

Performance of Existing Facilities for the Year under Review

1.Transaction Capital Business Solutions (TCBS)

TCBS was approved in May 2016 with a purpose to provide guarantees to SMMEs who apply for financial assistance from TCBS to unlock more working capital, invoice discounting and to establish, expand or acquire new or existing businesses but lack sufficient collateral. TCBS contributed 6.6% of the guarantees taken up at R19.9 million, which is an increase from the previous year's performance of R5.5 million (FY2020/21). For the year under review the facility has assisted 17 SMMEs and created and maintained 1221 jobs on the portfolio (active liability). TCBS is almost wound up as it is left with a few renewals still coming through, but no new term loans are extended to SMME borrowers since TCBS is exiting the lending business. The remaining book will be taken over by Bizcash, a newly approved PFI.

2.ABSA Agriculture

ABSA Agriculture was approved in May 2018 to assist black small-holder farmers to enable equity acquisitions by workers' trust funds or B-BBEE investors in the farming enterprises of ABSA's top 20% agriculture clients. The purpose of the facility is also to enhance delivery of agriculturally based financial solutions towards acquisition, expansion and joint ventures initiatives where there is a strong business case but there is lack of sufficient collateral. The approved facility of R160 million has a take up of R51.8 million, thus contributing 17.2% of the total take-ups for the year. The facility has assisted 12 farmers with an average transaction size of R15 million, and it has created 325 jobs up to the period under review.

The ABSA Agribusiness indemnity facility of R160 million provides cover to clients predominantly in the following four categories: small-holder farmers, stand-alone black commercial farmers, B-BBEE joint ventures (with established commercial farmers) and B-BBEE in secondary agriculture.

Small-holder farmers	These are small holdings as individuals or as groups (co-operatives), who mostly cultivate short-term crops (vegetables, cotton, grains) and tree crops on communal land. They have limited production assets. There are ESD opportunities and have potential to be sustainable. Borrowing requirements: R1 million from the bank, (more is required for long-term crops).
Black commercial farmers	Most lease land from government and few own the land acquired from former homeland governments and in current dispensation. They are involved in various commodities and technical assistance is usually provided by commodity associations, co-operatives, input suppliers and off-takers. Some are in ESD programmes of corporates. Borrowing requirements: R10 million for production, assets and land.
B-BBEE joint ventures with established white commercial farmers	These are joint ventures between existing bank clients and empowering partners (usually workers' trusts) in response to requirements for B-BBEE compliance in order to access government services such as export licences, water rights and fishing permits. JVs may be with communities in order to expand into unutilised land.
B-BBEE in secondary agriculture	Banks need to develop B-BBEE clients and service providers in supply and distribution chains (eg, supply agri products for processing, BEE entities in allied activities such as packing, transport, chilling, storage, labour brokerage, etc.) These may need BEE shareholders.

3.Sasol Siyakha

Sasol Siyakha BEE Trust was approved in 2016 for R 50 million to provide guarantees to SMMEs who apply for financial assistance from Sasol Siyakha through the Enterprise and Supplier Development programme. This facility was created to serve as a vehicle to assist black suppliers, contractors and entrepreneurs with the creation, development, funding and accelerated growth of their enterprises, and thereby deliver successful B-BBEEs to the local economies in the areas in which Sasol Group has presence and for the benefit of Sasol Group.

For the year under review, the facility has contributed to 4.2% of the portfolio guarantee taken up at R12.5 million, and it has assisted three SMMEs who have created and maintained 391 jobs.

4. FNB Business Agriculture

The facility was approved in 2017 and later increased by R100 million in March 2020 to make a total facility to be R160 million. FNB Business Agriculture facility exists to proactively promote black economic empowerment in the agriculture sector. The facility focuses on the emerging black farmers in the entire agricultural value chain, who are producers of inputs, primary and secondary

production, as well as agri-businesses. FNB, due to its national footprint, leverages its existing network and customer base to identify possible transactions

The FNB agriculture contribution to portfolio guarantees taken up is 12.1%, and it has assisted six farmers with a funding of R36.1 million and thus it has created and maintained 35 jobs in the period under review.

5. ABSA Alternative Lending Solutions (ALS)

The facility was approved in March 2020 for R150 million. This facility enables access to finance opportunities to prospective and existing SMMEs who require credit from ABSA ALS but cannot qualify as a result of lack of/or inadequate security. This facility provides collateral cover and/or shortfalls for SMMEs which, other than security, would qualify for ABSA ALS lending criteria.

For the year under review, the ABSA ALS take-ups were R61.8 million representing 20.6% of total utilisation. These take-ups under ABSA ALS have assisted 10 SMMEs who have created 276 jobs.

6. Barnes Reinforcing Industries (BRI)

The facility was approved in July 2016 for R30 million with the purpose of providing guarantees to encourage and facilitate the provision of credit by the supplier to SMMEs who intend purchasing goods and materials from BRI by offering to insure 85% of BRI's irrecoverable loss in the event of default.

The main purpose of the facility is to encourage suppliers of "input goods" to SMMEs, by indemnifying suppliers against possible default by the SMMEs. It also enables access to affordable credit for SMMEs, especially those enterprises that do not have access via traditional banking facilities. Moreover, it supports and strengthens relationships between "input goods" suppliers that represent a key resource in most of South Africa's small business activity by reducing the cost and shortening the supply chain.

This BRI supplier credit guarantee facility assisted six SMMEs in the steel supply business to maintain 213 jobs with a revolving taken facility of R80.5 million utilised during the year under review.

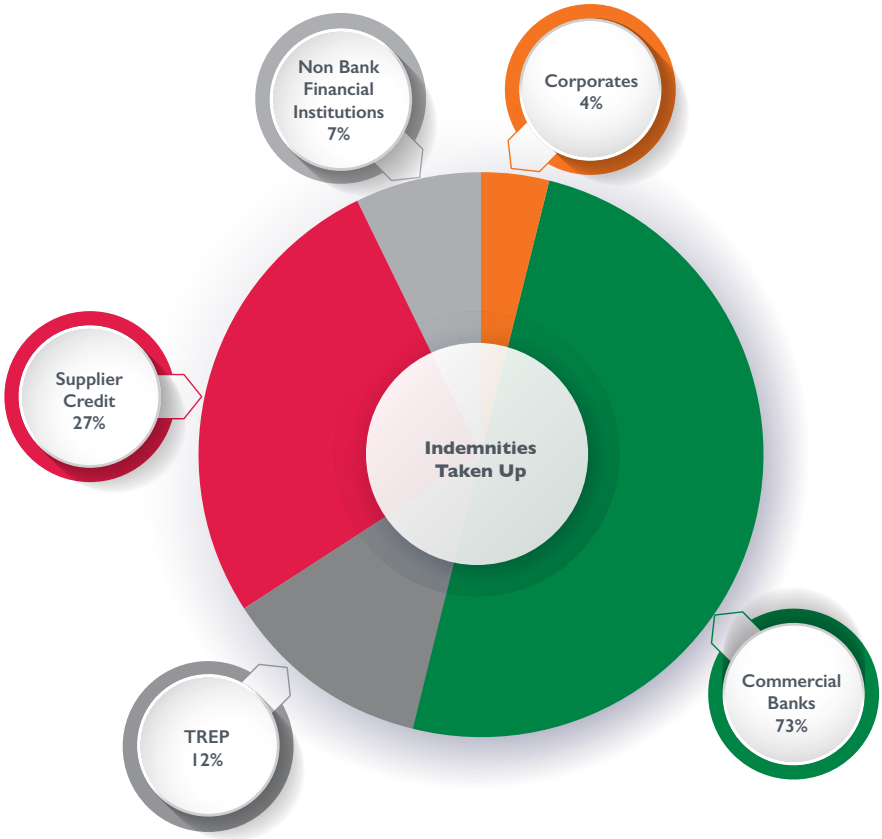


Figure 36: Portfolio split for FY2021/22

Claims Provisioning

For year ended 31 March 2022 the balance of total technical provision in relation to claims lodged and claims paid is depicted in the graph below:

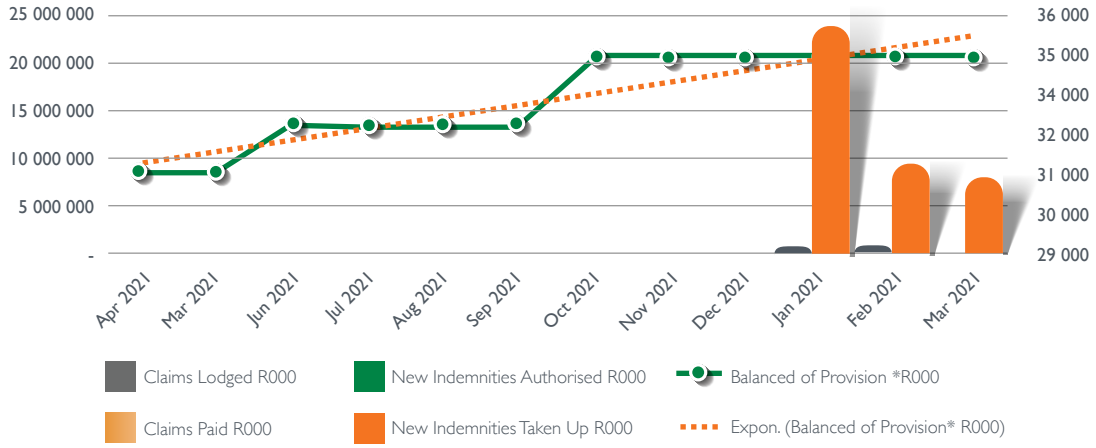


Figure 37: Indemnities performance for FY2021/22

The new indemnities taken up have an upward trigger to the movement of technical provision whereas claims have an inverse relation to the balance of provision. The provision is adjusted on a quarterly basis to reflect the new upward/downward movement on business. At year end all movements are matched to financial statements and are adjusted to match the anticipated growth in business as per the approved budget. The new indemnities for the year are largely from ABSA ALS (R36.3 million), ABSA Agriculture (R14.4 million) and FNB Business Agriculture (R12.2 million) whereas the other take-ups are renewals and therefore do not affect the movement on provisions. The balance of provision is around R36.8 million since there has not been a lot of claims paid in the quarter to make a noticeable dent.

COVID-19 IMPACT

The national lockdown restricted the movement of people in order to contain the spread of the COVID-19 virus. The consequences thereof had an economic impact on the survival of enterprises. Most importantly, the lockdown affected the distribution and availability of food in spaza shops and other township-based businesses managed and owned by South African citizens. DSBD responded to this challenge with a programme called the Township and Rural Empowerment Programmes (TREP) aimed at resuscitating these enterprises.

TREP supports informal, micro and small enterprises and co-operatives in the rural and township economies. TREP provides blended finance and business development support to various sectors with a view to promoting their participation in the mainstream economy. **sefa** has a number of funding products available specifically to assist SMMEs and co-operatives in need of finance. KCG has the following programmes to implement as part of TREP:

TREP offerings

Product	Amount per applicant	Partner Bank
Automotive Aftermarket	R500 000 blended finance (80% loan and 20% Grant) R1million applications can also be accommodated	ABSA
Spaza Shop Support Programme	R15 000 (70% grant and 30% credit) through a closed loop purchasing card at participating wholesalers	Nedbank

Automotive Aftermarket

The Automotive Aftermarket business support scheme supports and develops small and independent automotive aftermarket enterprises, including informal businesses located in townships and villages.

The scheme was developed in response to the increased demand for services from the motor industry, insurance companies and uninsured vehicle owners, and it is geared towards businesses located in townships and rural areas. The objective of the AA is to support motor body repairers (panel beaters) to operate accredited small or independent panel beating (motor body repairs) businesses, and motor and other mechanics to operate authorised service centres.

Spaza Shop Support Programme

The Spaza Shop Support Programme is targeted at township and rural entrepreneurs who own spaza shops, general dealers or grocery stores. It is offered in partnership with Nedbank and through KCG. The objectives of this scheme are to formalise informal businesses into micro enterprises, facilitate the banking of the unbanked and to build a reliable database for future government planning and support.

Concentration of Insurance Risk

Whilst KCG partners with PFIs to provide guarantee for risk of default, KCG's ultimate KCG's risk lies at the underlying SMME borrower level, and therefore the concentrated exposure to specific SMMEs would be the greatest source of concentration risk. There are other secondary concentration risks such as economic sectors, geographical locations as well as practices of the lenders.

Risk across Funders

The credit guarantee risk split is as shown in the following diagram. ABSA (Agri and ALS) at 55% followed by FNB Agriculture at 19% and BRI at 14% account for the largest share of the risk whereas Sasol Siyakha, SBSA, Nedbank and TCBS account for the remainder below 10%.

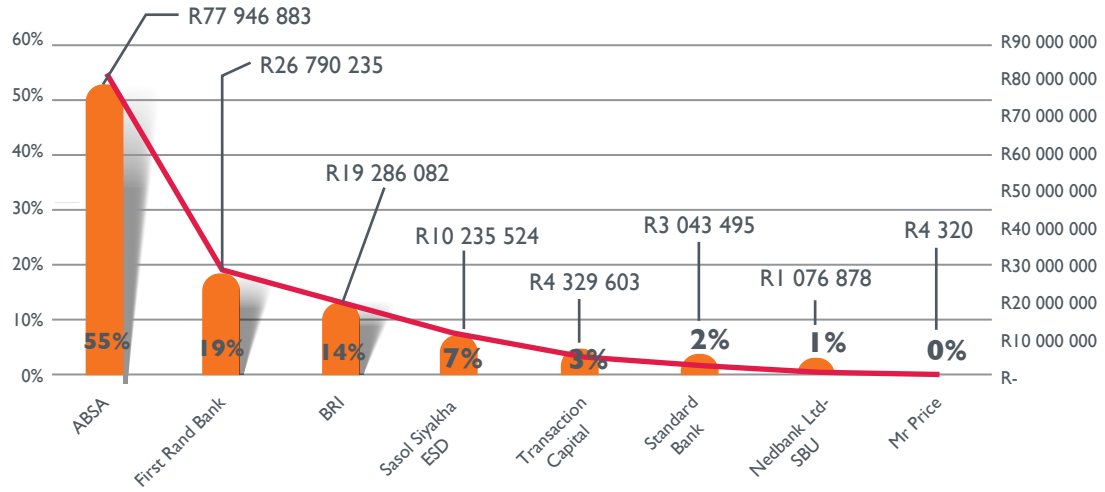


Figure 38: Value of risk exposures per lender

Business Sector Spread

Wholesale and retail businesses at 31%, agri and agro business at 24% and general SMMEs at 11% account for the largest share of the sectoral split at whereas the other sectors such as manufacturing, construction, wholesale, retail, catering and other sectors all have a share of the remaining 34%.

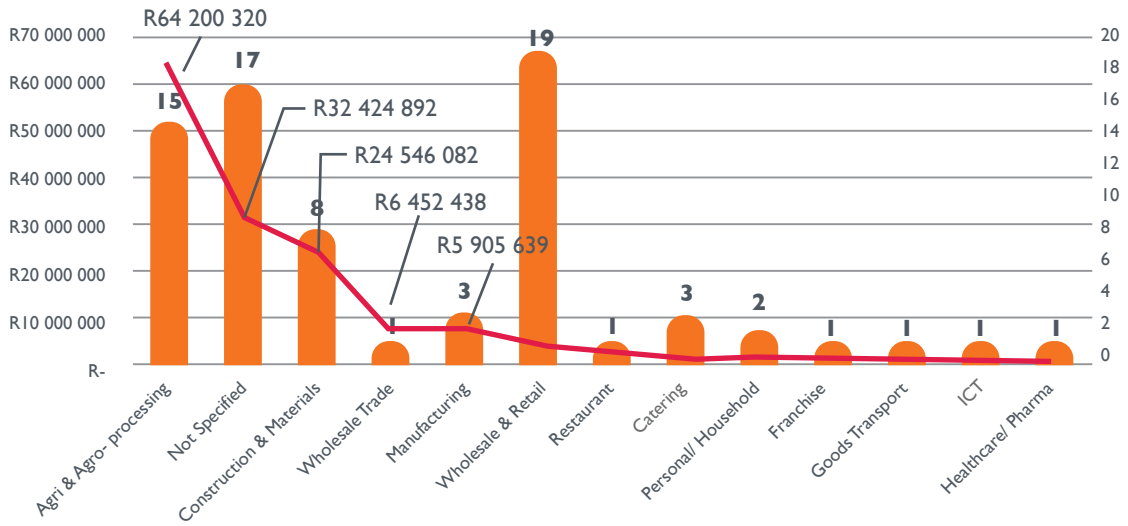


Figure 39: Value of risk exposures per sector

Risk spread across the provinces

The recent disasters (natural and man-made) in KwaZulu-Natal and Gauteng which affected sustainability of businesses could have a significant impact on KCG's future claims experience. There have not yet been directly related claims during the year under review.

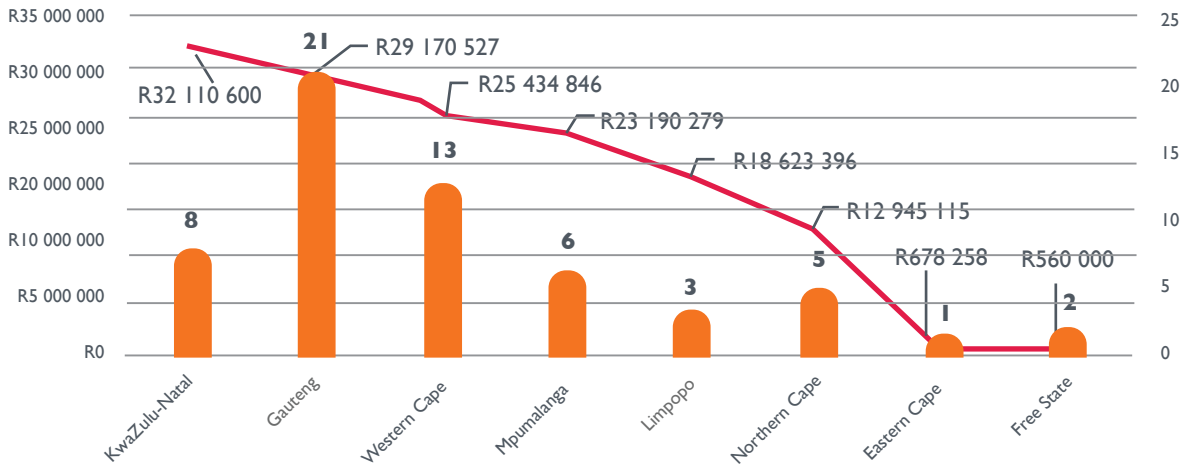


Figure 40: Value and number of risk exposures per province

Simon Mabena, Braai Block, Gauteng

KCG Partner Financial Institutions

Mercantile Bank Approved facility R150 million	Sasol Siyakha Approved facility R50 million	Transaction Capital Approved facility R50 million
Mr Price Group Approved facility R30 million	ABSA Agribusiness R160 million ABSA ALS: 150 million Approved facility R310 million	Barnes Reinforcing Industries Approved facility R30 million
FNB Business Agriculture Approved facility R160 million	ABSA: TREP Approved facility 187.5 million	Nedbank: TREP Approved facility R175 million
Macsteel SA Services Approved facility R60 million	Alternative Finance Solutions T/A Bizcash Approved facility R75 million	Standard Bank Approved facility R150 million

Key Challenges

- Low level of banking participation in the guarantee;
- Low visibility of KCG; and
- Regulatory compliance complexity in relation to the standards set out by the financial sector authority.

For KCG to be successful in addressing the challenges it faced, the planned strategy required that the current form under which KCG operated was changed. This involved re-engineering KCG to a more efficient operation in line with best international practices so that the revamped institution could manage to shed its legacy problems and reputation.

A range of financial products that meet the needs of SMEs would be developed in the forthcoming years. KCG is planning to develop several products such as working capital loans, trade finance and start-up loans that target professional and vocational graduates.

The guarantee is kept invisible to the end beneficiary in order to reduce moral hazard. This has been widely accepted by the PFIs.

Business Cases

1.SSPS Opulence Group (Pty) Ltd
Location: Empangeni, KZN
Jobs creation: 17
Funding amount: R 4 600 0000
Funder: ABSA ALS
Sector: Construction, Water reticulation

SSPS OPULENCE GROUP (PTY) LTD is a company, which was established and registered in 2017 to provide multiservice in civil construction, general building, water reticulation, agriculture infrastructure, plant hire, and corporate health and wellness. The company aims to provide industrial solutions to corporate and government enterprises in the greater Zululand area The business is currently registered with Construction Industry Development Board (CIDB) Level 5 grading as competent supplier in Civil and General Building up to maximum of R20 million projects. The business is currently located in a leased premise at Empangeni, Unit 10A Maguzulu Industrial Park, R34 Melmoth Road, Empangeni. SSPS Opulence's client base comprises of both public sector and private sector. Their key client is Jozini Municipality, DBSA and DARD, and they have completed previous projects in Jozini such as building of Onaleni Community Hall. The company was awarded two contracts by Jozini Municipality to the value of R16 million and ABSA ALS granted them a facility of R4.6 million secured by a guarantee from KCG, to enable them to deliver on the projects.

2.Maloyo Agriculture
Location: White River, Mpumalanga
Jobs creation: 6
Funding amount: R 12 200 000
Funder: FNB Agriculture
Sector: Agriculture

Maloyo Agriculture is a majority black-owned macadamia farm and vegetable producer and processor. It was the vision of the late Chief Mnisi to uplift the 140 households of the Maloyo Community Trust. Chief Mnisi initiated the project and approached the Agristar Group with the proposal to create a joint venture to develop the land and knowledge of the Maloyo Community Trust. The Agristar Group joined as the technical partner in 2018 and Maloyo Agriculture was established. The partnership is structured as a stand-alone commercial enterprise and blueprint for agrarian reform in South Africa founded on the firm principles including the following to mention a few:

- Financial strength and resilience;
- Farm-related and technical innovation;
- A sustainable approach to farming; and
- Poverty alleviation through job creation.

FNB Agriculture has funded Maloyo Agriculture with a facility of R12.2 million secured by a guarantee from KCG.

Direct Lending

Mr Xolani Meva
Acting Executive Manager:
Direct Lending

Background

Direct Lending compliments the Wholesaling Lending programme and enables **sefa** to implement a hybrid lending model in the SMME lending space. The channel targets entrepreneurs that have viable businesses and are not able to secure funding from the open markets. Direct Lending mainly provides debt funding and in certain programmes offers blended financing instruments. The available financing instruments include: asset finance, term loans, revolving credit loans and bridging loans.

Historic Performance

a. Approvals

APPROVALS	
Financial Year	**Amount**
FY 2017/2018	R195 997 928
FY 2018/2019	R272 643 922
FY 2019/2020	R443 319 135
FY 2020/2021	R1 242 442 468
FY 2021/2022	R1 472 063 213

Direct Lending approvals have grown significantly over the past five years. This trend is attributed to various programmes that were introduced in the past two years, by the DSBD portfolio (DSBD, Seda and **sefa**). These programmes were the following:

- Township and Rural Entrepreneurship Programme;
- Small Enterprise Manufacturing Support Programme;
- Youth Challenge Fund;
- SMME Debt Relief Scheme;
- Business Viability Programme; and
- Business Recovery Programme.

First Choice Butchery, Limpopo

b. Disbursements

APPROVALS	
Financial Year	**Amount**
FY 2017/2018	R118 720 736
FY 2018/2019	R156 189 229
FY 2019/2020	R229 156 086
FY 2020/2021	R832 439 362
FY 2021/2022	R1 156 698 359

Direct Lending disbursements have shown a corresponding trend to approvals over the past five years. The high level of disbursements has resulted in a total loan book of R2.070 billion as of 31 March 2022.

Tsholofelo Maja, Blompots, Limpopo

Operational Performance

PERFORMANCE INDICATOR	BASE YEAR ACHIEVED AUDITED FY 2020/21	TARGET FY 2021/22	PERFORMANCE ACHIEVED FY 2021/22	% ACHIEVED
Approvals	R1.242 billion	R788 million	R1.472 billion	187%
Disbursements	R832 million	R1.094 billion	R1.157 billion	106%
Number of SMMEs supported	1 443	1 441	1 571	109%
Jobs created and/or maintained	19 700	20 500	9 378	46%
Disbursements to black-owned SMMEs	R753 million	R765 928 100	R1 132 560 811	148%
Disbursements to women-owned SMMEs	R257 million	R437 673 200	R433 291 341	99%
Disbursements to youth-owned SMMEs	R166 million	R328 254 900	R295 512 057	90%
Disbursements to SMMEs operating in townships	R150 million	R273 545 750	R421 599 330	154%
Disbursements to entrepreneurs with disabilities	R2.2 million	R76 592 810	R15 821 834	21%
Disbursements to SMMEs operating in rural towns and villages	R151 million	R437 673 200	R364 984 036	83%

- The approvals grew by 18% when compared to the previous financial year. The level of performance was achieved amid tough economic conditions because of COVID-19 and related lockdowns.
- This is a clear demonstration that **sefa** as a Development Financial Institution (DFI) was able to be countercyclical in assisting deserving SMMEs and it preserved and even created the much-needed jobs.
- Direct Lending disbursements grew by 39% when compared to the previous financial year. Disbursements are real investment in the economy and contribute towards the development impact outcomes.
- In terms of development impact outcomes, Direct Lending achieved its targets in the number of SMMEs supported, disbursements to black-owned and managed businesses, as well as disbursements to SMMEs operating in townships. The results in terms of the number of jobs created and/or maintained as well as disbursements to entrepreneurs with disabilities were below stated targets. Intervention measures have been put in place to address this gap, going forward.

Sectorial Impact

Economic Sector	Disbursed Amount	%
Agriculture, hunting, forestry and fishing	31 642 150	3%
Community, social and personal services	209 566 225	18%
Construction	41 931 137	4%
Electricity, gas and water supply	21 556 388	2%
Financial intermediation, insurance, real estate and business services	14 807 821	1%
Manufacturing	531 280 025	46%
Mining and quarrying	49 570 993	4%
Transport, storage and communication	85 161 133	7%
Wholesale and retail trade	170 571 542	15%
Unclassified	610 946	0%
Grand Total	1 156 698 360	100%

Direct Lending disbursements were dominated by the following sectors:

- Community, social and personal services – 18%;
- Manufacturing – 46%; and
- Wholesale and retail trade – 15%.

The above-mentioned can be attributed to, amongst others, disbursements through the Small Enterprise Manufacturing Support Programme as well as the Township and Rural Entrepreneurship Programme.

Strategic Initiatives

Direct Lending embarked on certain strategic initiatives with the primary purpose of further entrenching the programme in the SMME financing landscape.

a. Collaboration with ecosystem partners

The Unit signed MOoUs with the following strategic partners:

- Eastern Cape Development Corporation (ECDC): This collaboration will enable **sefa** to serve SMMES and co-operatives that are based in the Eastern Cape in a coordinated manner. The partnership will, amongst others, promote collocation, cross-referrals, syndicate financing.
- Automotive Industry Development Centre (AIDC): The primary purpose of this relationship is to better serve SMMEs (incubates) that are operating from the incubators that are managed by AIDC.
- Department of Defence: This partnership is managed through SAFI Investments (Pty) Ltd. The partnership is targeted at supporting the military veterans who intend pursuing entrepreneurship opportunities. The support will primarily be offered through the Inyamazane Funding Scheme, a dedicated financing scheme to support military veterans through affordable financing and business development.
- Black Business Council (BBC): Partnering with BBC ensures that **sefa** engages with SMMEs through a coordinated voice. This is critical in promoting **sefa**'s offerings in the market and it also positions **sefa** to be in touch with its target market.
- South African Informal Traders Association (SAITA): SAITA represents informal traders and this partnership is essential in promoting the Township and Rural Entrepreneurship Programme (TREP).

b. Collaboration through the District Development Model (DDM)

The regional offices participated in the ministerial roadshows organised by the Department of Small Business Development (DSBD). These roadshows were aimed at bringing the work of the DSBD and its agencies (**sefa** and Seda) to SMMEs and co-operatives and enable the DSBD portfolio to understand challenges faced by entrepreneurs. The municipalities through their Local Economic Development (LED) offices also participated in the roadshows, thus fostering the spirit of DDM.

Direct Lending Case Studies

1. Baduphase (Pty) Ltd t/a Kauai Restaurant is a 100% black female-owned food franchise that was incorporated in 2016. The business is owned by Ms Emily Mackay. The business sells healthy foods to customers. Three branches were established in the past and **sefa** funded the fourth branch as an expansion. Two branches are located in Bloemfontein and one branch is located in Welkom in the Free State.

sefa assisted the client with R2 375 908.30 and the applicant contributed R256 000 for up-front franchise fees and internal layout. The new restaurant alone created seven jobs and the three old restaurants maintained 21 jobs. The entrepreneur is the sole owner of all four Kauai Restaurants in the Free State Province.

2. Braai Block (Pty) Ltd is 100% owner-managed by Simon Malikhanye Mabena. The BB concept appeals to most customer segments due to most South Africans' love of braai meat which fits into the busy lifestyles of the target market. BB provides the convenience of fast food with rapid response times, affordability as well as carry-out and home meal replacement options.

The BB concept was born out of township street food with the idea to formalise and commercialise the braai idea into a clean urban environment at a reasonable price where the customer can pick any meat to mix and match to make their own unique meal.

Their business model is two-pronged with firstly their processing centre (which falls under the entity Industrial Butcher (Pty) Ltd also owned and managed 100% by Mabena. This involves the processing and manufacturing of all product lines including spices, marinade and meats, which are "sold" and delivered to the BB retail stores as well as bulk-customers such as prisons, hospitals and catering companies. The second leg of the model is their owner-managed retail fast food braai outlets which are responsible for selling all the brand's product. BB has 18 retail stores including the five that were financed by **sefa**.

BB was financed with an amount of R7 million. As a result of this funding the business maintained 204 jobs.

3. African Basket Taste Home (Pty) Ltd is a 100% black women-owned business by Ms Philisiwe Sibiya (who is supported by her husband Mr Sam Kachikoti – both are chartered accountants and have vast corporate experience).

The business is a retailer of FMCG, which includes fruit juice mixes, peanut butter, beans, bread, rice, maize meal, fish, meat, biscuits etc. Furthermore, the business is a manufacturer of rough maize meal (using the manual hammer mill). The above products are aimed at the immigrant population in South Africa who crave home-made, indigenous products. The business has 15 stores, which act as the distribution channel for the above products.

sefa funding enabled the business to acquire a delivery truck, forklift and generator, raw material, working capital as well as latest production/milling machinery which made it possible to produce rough maize in three different packages. The client was funded with an amount of R7 472 290.36 through a blended finance facility. As a result of this funding, 21 jobs were maintained.

4. Mizontone is in the restaurant industry. The business has two Pie City stores at two different locations. On 12 July 2021, Ebony Mall and Letsoho Shopping Centre were both looted and a portion of Letsoho Centre was burned down by community members. Mizontone operates Pie City outlets at both malls and as a result these outlets were also vandalised and affected.

Mizontone is a beneficiary through a facility that was created for businesses that experienced such difficulties. An amount of R2 million (60% grant and 40% loan) was approved for this business with a moratorium of 12 months. None jobs were maintained as a result of this facility.

5.Browns Group (Pty) Ltd ("Browns Foods") is 100% youth black woman-owned business. It is owned by Mrs Mabel Philisile Akinlabi who has a communications media background and a passion for the food industry. The business began operations in December 2020. It is located in Newport Business Park, Unit 9 Quartz Dr, Kya Sand in close proximity to Cosmo City. The business focuses on manufacturing corndogs for freezers and delis. The product is a hot dog on a stick that is coated in a thick layer of cornmeal (yellow maize meal) butter and deep fried. The client was assisted with funds amounting to R12,511,718.40 through a Small Enterprise Manufacturing Support Programme. 57 jobs were maintained as a result of this funding.

6. GoGreen Roto Plastic Moulding (Pty) Ltd t/a is a roto moulding manufacturing plant that manufactures water tanks (2500 and 5000 litres) and biogas digesters in Komani Industrial Park in Ezibeleni township, Queenstown, Eastern Cape. The business is co-owned by a wife and husband team, namely, Koleka and Michael Ntwasa, who are experienced entrepreneurs.

The entrepreneurs approached **sefa** for R8 973 374 as start-up funding to establish their business. The business was funded through the Small Enterprise Manufacturing Support Programme. 23 jobs were created as a resulted of this facility.

7. First Choice Butchery is a business 100% owned by Tiyani Maluleke. The business operates in Nkowankowa under the Greater Tzaneen local municipality in the Mopani district. It is a butchery that offers the following: all cuts of beef, mutton, pork, chicken and fish. They complemented their product offering by selling fruits and vegetables. The business has since added a braai area to increase their scope.

sefa funded the business to set up the butchery and initial working capital for a total amount of R2 787 290.78. 17 jobs were created because of this funding.

8. Kaleca Agency (Pty) Ltd is a 100% white woman-owned company based and operating in Piet Retief in the Mkhondo Local Municipality in Mpumalanga. The owner is highly skilled and experienced in the forestry sector. The business buys and processes timber for pallet, roof trusses and furniture manufacturing for customers in the whole of Mpumalanga, KwaZulu-Natal and Gauteng.

sefa assisted the business with a loan of R5 600 000.00 to buy manufacturing equipment and finance working capital in order to upscale the business. This facility resulted in the business maintaining 29 jobs.

9. Triton Pharmaceuticals (Pty) Ltd was started in the year 2009 by entrepreneurs Daniel Dinezulu Mpande (51%) and Colin Levy (49%). The business manufactures tablets, capsules, lotions, creams and liquids in any dosage or quantity and is based in Midrand, Johannesburg.

Their business is a well-established business. The entity has grown over the years into a well-respected manufacturing business serving clients such as Clicks Pharmacies, Spar Pharmacies, Netcare, Shoprite (Medirite), Tony Ferguson, Adcock Ingram and the Link Pharmacy.

A 15 million facility was provided to the client, as a result of which the business created 72 jobs and sustained 160.

10. GS United is a black female-owned company based in Barrydale, Western Cape. Its business activities consist of fruit farming (apricots and plums) and running a free-range piggery. This business initially started as a construction business focusing on low-cost housing and gradually diversified into the farming sector. The entrepreneur focus was primarily on exporting fruit globally – having clients in Asia, Europe and USA. However, due to COVID-19 she was unable to export as borders were closed. She decided to purchase her own packaging plant to de-risk the business dependency on export market by also supplying fruit to local retailers.

The entrepreneur approached **sefa** for funding to purchase a fruit packaging plant under the Business Viability Programme. A facility amounting to R15 million was approved. 209 jobs were created as a result of this facility.

Credit Risk Management

Our efforts to attain financial sustainability is to a large extent dependent on our ability to take credit risk in a responsible manner and to manage the resultant exposure to credit risk effectively. The Credit Risk **sefa** faces across its business and portfolios are key areas of management focus.

Definition

Credit risk represents a significant risk and mainly arises from exposures to Direct and Wholesale loans and advances as well as Khula and Supply Credit Guarantee. It is defined as the risk of loss arising from the failure of a counter party to fully honour their financial or contractual obligations to **sefa** when due, including the whole and timely payment of principal, interest, collateral and other receivables.

The credit risk disclosures in this report include many of the recommendations as contained in Pillar 3 of Basel 3 on market discipline through prescribed public disclosures about expected credit losses (ECL) and it is expected that relevant disclosures will continue to be developed in future periods.

Given the nature of the inherent risk contained in small business transactions, **sefa**'s Credit and Investment Risk Policy directs that the risks assumed by **sefa**, in the pursuit of its vision and mandate, are consistent with its nature and size. It also dictates that such risk should also be commensurate with its capital structure, management expertise and risk appetite, as outlined in **sefa**'s Annual Corporate Plan.

Overview

The credit risk that **sefa** faces arises mainly from providing finance to survivalist, micro, small and medium businesses, and financial Intermediaries throughout South Africa. In situations where **sefa** holds equity in funds, **sefa**'s position could suffer loss arising from the decline in the value of **sefa**'s investment.

sefa's credit risk management objectives are to:

- maintain sound credit granting standards;
- identify, assess and measure credit risk clearly and accurately across the **sefa**'s loan portfolio within each separate business unit, from the level of individual facilities up to the total portfolio;
- control and plan credit risk taking in line with external stakeholder expectations and avoid undesirable concentrations; and
- monitor credit risk and adherence to agreed controls.

Credit risk management decisions are made against the backdrop of **sefa**'s objective to improve the financial lives of our clients and create value for our stakeholders in line with our mandate.

sefa as a DFI faces a unique challenge in maintaining a sustainable balance between maximising development returns and minimising financial loss in its lending and investment activities. As such, **sefa**'s credit granting activities are informed by the strategic acceptance by the Board, that a higher risk appetite than entities driven by a purely commercial objective, is essential to fulfil the mandate given by government in relation to small business development and job creation objectives.

Wholesale and Direct (Retail) portfolios are managed separately to reflect the differing nature of assets. Wholesale Lending is through intermediaries whereas Direct Lending is directly to the end user. Wholesale Lending balances tend to be larger in value while Direct Lending balances are greater in number but lesser in value.

During the year under review, various loan schemes like the Township and Rural Empowerment Programmes (TREP), Business Recovery Package (BRP) and Business Viability Programme were initiated by the national government to provide financial support and to stimulate the economy impacted by the COVID-19 pandemic. These schemes were designed and implemented at pace, meaning the Credit Risk Management Unit had to address operational issues and develop decision-making tools for the respective schemes. This led to increasing design and use of bespoke models for decision making.

The COVID-19 pandemic has had and continues to have material impact on business and the economic environment in which our business operates.

The impact of the COVID-19 pandemic has increased the level of judgement that management have been required to exercise over the course of the 2021/22 financial year. Client default rates have continued to increase in view of the global impact of the pandemic and volatile macroeconomic environment. It remains unclear how the impact of COVID-19 pandemic will evolve through the 2022/23 financial year and beyond, from a commercial and risk perspective. Although the impact of the COVID-19 pandemic could be significantly different from past crises and might persist for a prolonged period, the removal of restrictive laws will aid the economy in its recovery. However, the impact of the pandemic on **sefa** loan assets could result in high-risk investments, which would consequently lead to higher expected credit loss charges and in turn capital position. Our credit granting approach evolves as we improve our understanding of clients' needs, behaviours and risk profiles, and as we respond to changes in the economic and regulatory environment. Our approach to credit granting resulted in us tightening our credit policy in response to the low-growth economic environment that the country has been experiencing due to COVID-19. We regularly assess the levels of impairments through coverage ratios to ensure that we adequately provide for the risk profile of the loan book.

The Unit together with Post Investment Monitoring Unit once again completed the identification, verification and valuation of all **sefa** financed assets. This project was undertaken by Spectrum Valuation and Assets Solutions (Spectrum). Spectrum identified, verified and valued all assets that **sefa** has either purchased or bonded to its clients. **sefa**'s financed

assets register consists of Instalment Sales Agreement (ISA) Equipment, Instalment Sale Agreement Vehicles, Notarial Bonds and 1st Covering Bonds (Land and Buildings).

Approach to Credit Risk Management

The granting of credit is **sefa**'s major source of income and its most significant risk rises from both Direct (Retail) and Wholesale loans as well as Khula and Supply Credit Guarantee commitments. The management of credit risk is therefore fundamental to **sefa**'s core business activities, its planning and decision-making processes. **sefa** therefore dedicates considerable resources to its control and management. Credit risk management encompasses the process of identification, measuring, monitoring and controlling of all credit decisions and exposures within **sefa**.

The diagram below gives an overview of **sefa**'s credit and investment risk framework and policy model:

Figure 41: Credit and investment risk framework and policy model

The management of credit risk is aligned to **sefa**'s three lines of defence framework. The business functions own the credit risk assumed by **sefa** and as the first line of defence, it is primarily responsible for its management, control and optimisation in the course of business generation.

The Credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while ensuring risk is undertaken with integrity.

The Board holds the ultimate approval and oversight responsibility for ensuring that strategies are set in which the underlying risk is identified, understood and responded to in a proactive and coherent manner. The Board as part of their oversight duties, sets the tone for the management of risk and defines the level of risk that **sefa** is willing to assume. Furthermore, the Board requires that risk assumed is assessed, measured, mitigated, managed and reported on an on-going basis and with due regard to the monitoring overlapping nature of risks. That the necessary tools and IT systems for overall risk management and monitoring are in place.

The Board of Directors has delegated the operational responsibility for managing credit to its Credit and Investment Committee (CIC), Executive Credit and Investment Committee, Management Credit and Investment Committee (MANCOM) and the Small Micro Medium Enterprise Credit and Investment Committee (SMME). The primary objective of **sefa**'s credit risk management and these credit committees is to ensure that **sefa**'s risk is in line with the institution's risk appetite and threshold, and that all risk issues inherent in **sefa**'s lending decisions are mitigated and managed.

The ongoing governance of **sefa**'s risk-taking activities is devolved to management. For credit risk management, **sefa** has board and corporate level risk committees that are mandated to maintain credit policies. The chief executive officer (CEO) therefore has functional responsibility for managing credit risk across the institution, through structures such as the Management Credit and Investment Committee (MANCOM), the Small Micro Medium Enterprise Credit Committee (SMME) and the Post Investment Monitoring Committee (PIMC). The CEO chairs the Executive Committee: Investment. These structures provide both management and the Board with the appropriate forums to evaluate credit risk and evaluate how effectively it is being managed.

Organisation, Roles and Responsibilities

The quality of credit risk management is assured through a centralised Risk Assurance Division, responsible for the development of policy, models and standards in support of the efficient and effective management of credit risk. The Credit Risk Management Unit is therefore a dedicated resource within the Risk Assurance Division. Its role is to assist the CEO in setting and maintaining best credit risk management practices, by providing analytical and advisory services in respect of risk taking, control, measuring and reporting on credit risk exposures, trends and quality of assets at portfolio level.

The primary objective of Credit Risk Management Unit is therefore to enhance shareholder value by facilitating **sefa**'s management to take appropriate credit risk in the attainment of its business objectives within acceptable levels of risk tolerance and with appropriate financial returns and development impact.

The Credit Risk Management Unit performs an independent credit risk assessment of all transactions and indicate support or no support and the basis thereof. Credit risk managers, therefore, provide an objective view of the quality of individual investments and transactions under consideration. The credit team works closely with the frontline. The risk assessment critically identifies and assesses the risks and proposes appropriate additional mitigations by analysing the entrepreneur's commitment, skills, knowledge and experience, project and market risk, as well as cashflow projections. In view of the fact that most of **sefa**'s loan transactions are of limited to non-recourse bases, the main focus is to determine if projected cash flows, using realistic assumptions, are sufficient to meet the client's operational needs and also repay all liabilities in a timely manner. Assumptions made in arriving at the projected cash flows are scrutinised for and stress tested against key performance drivers.

Credit Risk Control and Governance: Committee Structure

The primary management level governance committees overseeing credit risk and evaluating all transactions are as follows:

- Credit and Investment Committee (Board);
- Executive Credit and Investment Committee;
- Management Credit and Investment Committee (MANCOM); and
- Small Micro Medium Enterprise Credit and Investment Committee (SMME).

These Credit and Investment Committees have clearly defined mandates and members. Additionally, delegated authorities that are reviewed regularly.

Responsibilities include:

- Providing oversight of governance and risk appetite;
- Ensuring that all transactions under consideration are within **sefa**'s mandate and meet our financing criteria;
- Evaluating and specifying terms and conditions of credit and lending proposals;
- Providing guidance on transactions to credit risk teams on matters to be followed up and incorporated in the further design and origination of credit and investment proposals; and
- The largest credit exposures above the defined amounts are approved at the Board Investment Committees.

Credit Risk Management Enhancements during the Financial Year under Review

During the financial year under, the Unit embarked on an extensive review and revision of the existing **sefa** Credit and Investment Risk Policy approved by the previous board in 2017. The revised Credit and Investment Risk Policy was approved by the **sefa** Board on the 24 February 2022. The Policy was benchmarked with credit policies of fellow Development Finance Institutions in South Africa and abroad.

The standards and principles reflected in the revised Policy are, therefore, dynamic and proactive. They are transparent and developed with close involvement of the executives, divisional heads and in consultation with external stakeholders such as the Ecosystem Development for Small Enterprise (EDSE) and True North Partners LLP. The revised Policy is further based on feedback from **sefa**'s Credit Committees and incorporates changes for the better and sound management of Credit and Investment risk within **sefa**.

The revised Credit and Investment Risk Policy reflects the realities of the prevailing business environment in which **sefa** operates and strengthens the governance of **sefa**'s credit granting and investment operations within **sefa**'s Lending division in line with **sefa**'s mandate and objectives.

Credit Risk Rating and Expected Credit Loss Models

sefa continuous to increase the predicative powers of its bespoke Credit risk rating models. **sefa** completed the implementation and migration to IFRS 9 in the financial year ending 31 March 2021. The standard is intended to replace the superseded accounting standard for financial instruments (IAS 39). The standard contains requirements for a new impairment model, which is aimed at the early recognition of losses on a more forward-looking basis and on a broader scope of financial instruments. **sefa** recalibrated and validated its internally developed credit risk rating models in the financial year under review, to increase their respective predictive powers and robustness regarding the recalibration of the expected credit loss (ECL) model. The model has been in existence since the 2018 financial year. The assumptions incorporated in the model need to be recalibrated and validated to ensure ECL estimates are reliable and accurate each year. On the part of the credit risk rating models, the main objectives of the rule sets are to rank **sefa**'s client base according to risk and to estimate the probability of default (PD) for each client and to price transactions in line with the pricing methodology approved by the **sefa** Board. The institution will ensure that it continues to comply with Basel standards in the development of credit risk models. It is also the aim of the Credit Risk Management Unit to continue refining these models in the coming financial year. The risk classification process within **sefa** ensures that there is a shared understanding across the institution of the credit risk that clients pose.

These models quantify and rank the credit risk profile of **sefa**'s clients as well as our ECL provisions. They also assist in frontline credit decisions on new transactions, the management of the existing portfolios and ensuring that **sefa** has a credit risk rating for each client.

Having adopted IFRS 9 which came into effect for the financial year commencing on or after 1 January 2018, **sefa** applies a three-stage approach to the measuring of ECL on debt instruments accounted for at amortised cost.

The diagram below depicts **sefa**'s stage approach with regards to IFRS 9:

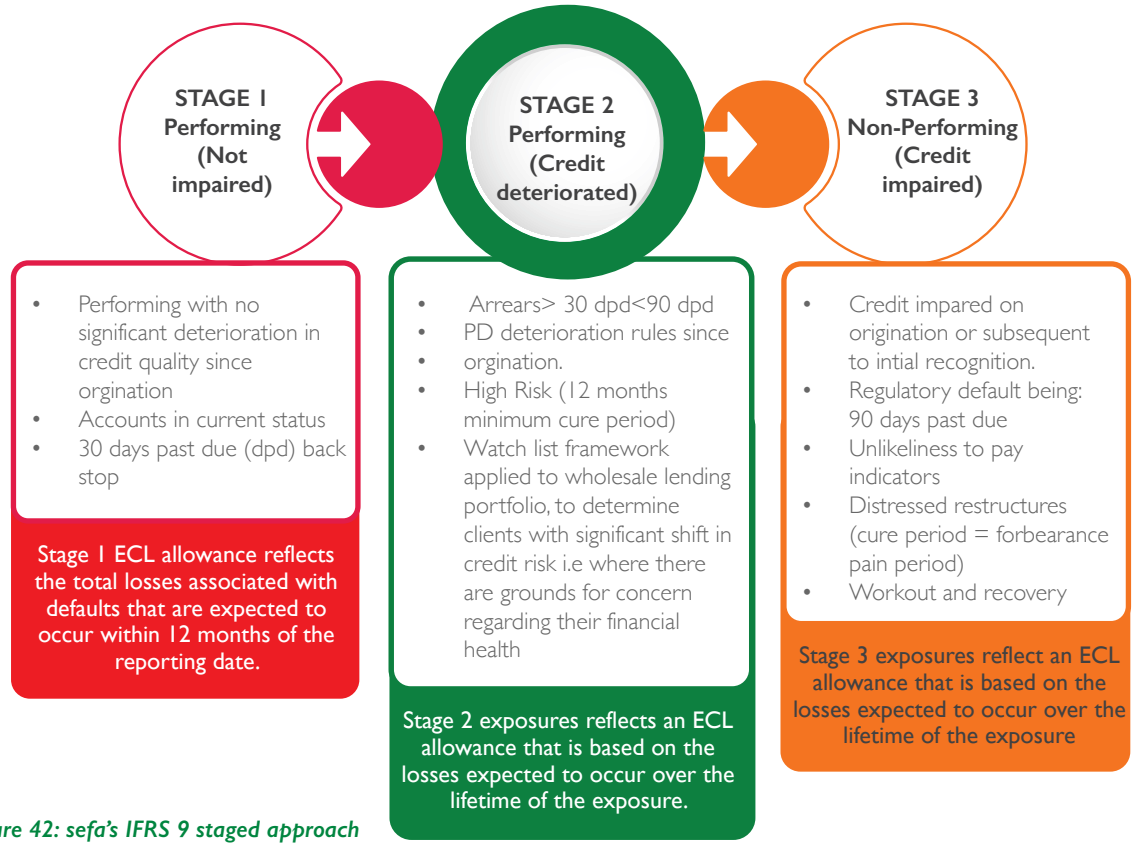


Figure 42: sefa's IFRS 9 staged approach

The measurement of ECL involves increased complexity and judgement, including estimation of probabilities of default (PD), loss given default (LGD) a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default (EAD) and assessing significant increases in credit risk. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: Includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month ECLs are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECLs are the expected credit losses that result from default events that are possible within 12 months after reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2: Includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of an impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default (PD) as the weight.

Stage 3: Includes financial assets that have objective evidence of impairment at the reporting date. For the assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

During the period under review, **sefa** ran a range of scenario analysis to determine potential outcomes of the COVID-19 pandemic. One of the scenarios was a macroeconomic stress test, where the macroeconomic elements were stress tested against a severe but plausible economic climate scenario. The aim of the test was to identify key vulnerability that were most relevant and material to our loan portfolio. The result of our test was incorporated in the year-end ECL calculations.

Tumi Pitso, Tumi Pitso Company (Pty) Ltd, North West Province

Assessment of the Impact of COVID-19 on sefa's Loan Book

The COVID-19 outbreak is one of the largest human tragedies to take place in recent years and is expected to affect millions of people around the world. The virus has also had a growing impact on the global economy including South Africa. The impact of the COVID-19 pandemic is still evolving, while collectively, better understanding of COVID-19 has been gained over the period, it is not yet certain how long the economy will continue to be negatively affected by the pandemic.

It has had a significantly negative effect on economies and has resulted in a rather subdued macroeconomic outlook for many countries. The lockdown and the consequent restriction on movement of people resulted in a significant decrease in activities for all industries which are deemed non-essential. However, despite the devastating impact of COVID, Moody's decided to affirm South Africa's long-term foreign and local debt ratings at "Ba2" and revised the outlook to stable from negative. This decision raises the likelihood of government's debt burden stabilising over the medium term. Obviously albeit the negative impact of COVID, the future macroeconomic outlook as indicated by Moody's looks good and will ease investor concern, support a faster recovery and high levels of economic growth.

In calculating expected credit losses, **sefa** applies macroeconomic information and changes relating to GDP, employment rate, inflation and Household Consumption Expenditure (HCE).

In calculating its ECL, **sefa** incorporates the impact of forward-looking economic information. The main components of the calculation are the PD, LGD, EAD and Staging (SICR). In the calculation, macroeconomic information forms a subcategory of the PD calculation, which also includes information from **sefa**'s historical account information to form the base data. The COVID-19 pandemic and its impact would then only adversely affect forward-looking macroeconomic information and in turn PDs. COVID-19 therefore has an impact on **sefa**'s LGDs, EAD and SICR when calculating the ECL.

In order to assess the impact of COVID-19 on **sefa**'s loan book, an analysis has been performed on the ECL comparing pre-COVID macroeconomic results against the post-COVID macroeconomic results.

The figure below demonstrates a comparison of pre versus post COVID ECL calculations for different divisions on a probability weighted scenario of base, optimistic and pessimistic macroeconomic outlooks.

Restructured Accounts Stage Migration ECL Impact

Product Category	ECL (Pre-Migration)	ECL (Post-Migration)	ECL Impact %
Blended Finance	104 959 268	105 826 790	0.83%
COVID Relief	114 166 851	114 299 011	0.12%
DL	591 438 082	591 438 082	0.00%
LREF	3 352 084	3 352 084	0.00%
Micro Finance	65 104 691	65 104 691	0.00%
SBIFDL	2 559 076	2 559 076	0.00%
SBIFWL	27 824 216	27 824 216	0.00%
SFS	914 507	914 507	0.00%
TREP	20 736 093	20 736 093	0.00%
WL	283 740 827	283 740 827	0.00%
	1 214 795 695	1 215 795 377	0.08%

NB: IFRS 9.5.5.12 requires an assessment of whether a significant increase in credit risk has occurred for financial assets that have been renegotiated or modified but not derecognised. **sefa** performed a stress test (stage migration) on restructured accounts. The **sefa** active loan book impairment increased by 80 bps (R1 million) due to the stage migration. Portfolios which have a significant contributor to the increase are COVID Relief (R132 000) and Blended Finance (R867 000).

Approach to Credit Modeling

Credit risk ratings have become increasingly critical to the Credit Risk Management function in **sefa**. Their importance has been enhanced by the migration to IFRS 9, which prompts the entity to recognise future credit losses at inception. According to the impairment standard, entities are required to measure expected credit losses over the expected remaining lifetime of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information about past events, current conditions; and
- reasonable and supportable forecasts of future events and economic conditions at the reporting date.

The principal objective of **sefa**'s credit modelling is to produce the most accurate possible quantitative assessment of credit risk to which **sefa** is exposed from the level of individual facilities up to the total portfolio. **sefa** Credit Risk Rating Systems also ensures that **sefa** prudently classifies loans in terms of their riskiness as a basis for determining the appropriate pricing and loan loss provisioning.

The key credit parameters used in **sefa**'s quantitative assessment of expected credit loss (ECL) and by implication in setting risk-adjusted pricing are:

- Probability of default (PD), which determines the likelihood that an individual obligor will not be able to meet its debt repayment based on creditworthiness;
- Exposure at default (EAD), which calculates an estimate of the credit exposure and thus potential loss at the point of default;
- Loss given default (LGD), represents an estimate of the percentage of EAD that will not be recovered, should the obligor default; and
- Maturity represents the remaining time until the maturity date of the loan or other credit facility.

Although **sefa** is not subjected to Basel III, the objective of **sefa** is to adopt best practices in terms of the quantification of its assets and funding. As part of the credit process, **sefa** has undertaken extensive research on second generation PD and LGD credit risk models and has developed these models for both Direct (Retail) and Wholesale Lending.

Credit Risk Exposures

The financial sustainability of **sefa** is critical. **sefa** therefore dedicates resources to gaining a clear and accurate understanding of credit risk across its portfolios. Further enhancements were made at both divisional (Wholesale and Direct Lending) reporting levels, on the reporting of the credit portfolio, including the measurement of the quality of the loan book. This resulted in more consistent and insightful portfolio analysis, evaluation and reporting through the use of improved metrics. In the coming financial years, it is envisaged that portfolio reporting will be enhanced further as more granular data becomes available. It is imperative that the asset portfolio be comprehensively reviewed and significant risk indicators impacting the valuation and impairment of the portfolio, be reflected timeously and adequately in the financial results. The table below indicates the asset classifications of the Direct (Retail) Lending total loan book.

The Approach to Management and Representation of Credit Quality

sefa uses an internal credit rating scale that makes use of 17 performing rating grades and a default grade. **sefa**'s credit quality distribution is based on the IFRS 9 12-month probability of default for the reporting period. The diagram below provides an indicative mapping of the internal grades to rating description.

sefa's Internal risk grading and PD mapping scale:

DG	Risk Segment	PD
0	Low	0%
1	Low	6%
2	Low	11%
3	Low	17%
4	Medium	22%
5	Medium	28%
6	Medium	33%
7	Medium	39%
8	Medium	44%
9	High	50%
10	High	56%
11	High	61%
12	High	67%
13	High	72%
14	High	78%
15	High	83%
16	High	89%
17	High	94%
18	Default	100%

The credit quality descriptions above can be summarised as follows:

- Low: indicates that there is a very high likelihood of the asset/loan being recovered in full;
- Medium: indicates that while there is likelihood that the asset might be recovered, there is evidence of credit deterioration and, as such, clients within this range require careful monitoring; and
- High: indicates that there are serious concerns over the obligor's ability to make payments when due.

Risk Performance

Credit Exposures by Internal PD Description as at 31 March 2022

Risk Segment	Total Outstanding Balance	ECL	Net Carrying amount	% Balance Outstanding	Coverage Ratio
	R'000	R'000	R'000	%	%
Low	1 051 451	118 536	932 914	33,3%	11,3%
Medium	672 651	153 109	519 542	21,3%	22,8%
High	286 524	139 908	146 616	9,1%	48,8%
Default	1 143 663	960 075	183 588	36,3%	83,9%
Grand Total	**3 154 289**	**1 371 628**	**1 782 660**	**100,0%**	**43,48%**

12-month PDs by Product Description

Asset Class	12-month PD			
	0 Days	0–30 Days	31–60 Days	61–90 Days
	%	%	%	%
Co-operative loans	45,9%	68,1%	78,4%	99,7%
Direct-lending loans	42,7%	71,7%	90,2%	98,1%
Land reform	10,7%	13,1%	40,8%	100,0%
Micro loans	8,4%	34,9%	74,9%	93,8%
Wholesale	13,2%	17,3%	35,2%	83,2%

Asset Classification of Direct Lending Loan Book as at 31 March 2022

Loan Type	Total Outstanding Balance	Arrears	No. of Accounts
	R'000	R'000	#
Default	**302 655**	**292 844**	**187**
Bridging Loan	41 325	41 325	36
Grant	674	674	1
Instalment Sale	76 706	72 127	55
Revolving Credit	29 982	29 982	10
Term Loan	153 967	148 736	85
Special Mention	**36 393**	**23 169**	**49**
Instalment Sale	12 062	5 725	27
Term Loan	24 331	17 444	22
Standard	**1 721 947**	**236 392**	**3 541**
Bridging Loan	24 678	12 857	24
Grant	-	-	1
Instalment Sale	451 302	62 157	385
Revolving Credit	838	61	2
Term Loan	1 245 130	161 317	3 129
Substandard	**7 435**	**4 495**	**5**
Instalment Sale	112	112	1
Term Loan	7 323	4 383	4
Total	**2 068 431**	**556 900**	**3 782**

- Standard: Clients with no missed payment and are considered good and low-risk clients.
- Special Mention: Clients with one missed payment and are considered average risk clients.
- Substandard: Clients with two missed payments and showing well defined weakness.
- Default: Clients with three or more missed payments.

Direct Lending Loan Book Expected Credit Losses and Coverage Ratio as at 31 March 2022

Loan Type	Total Outstanding Balance	ECL	Net Carrying amount	% Balance Outstanding	Coverage Ratio
	R'000	R'000	R'000	%	%
Bridging Loan	50 523	45 870	4 653	2,4%	90,8%
Instalment Sale	416 248	229 211	187 037	20,1%	55,1%
Revolving Credit	30 819	30 041	778	1,5%	97,5%
Term Loan	1 570 978	690 365	880 613	75,9%	43,9%
Total	**2 068 568**	**995 487**	**1 073 081**	**100,0%**	**48,12%**

Direct Lending Loan Book Expected Credit Losses and Coverage Ratio as at 31 March 2021

Loan Type	Total Outstanding Balance	ECL	Net Carrying amount	% Balance Outstanding	Coverage Ratio
	R'000	R'000	R'000	%	%
Bridging loan	59 739	55 038	4 701	4,5%	92,1%
Instalment sale	280 399	140 173	140 227	21,2%	50,0%
Revolving credit	31 105	30 833	272	2,3%	99,1%
Term loan	952 965	453 891	499 073	72,0%	47,6%
Total	**1 324 208**	**679 935**	**644 273**	**100,0%**	**51,35%**

Expected Credit Losses and Coverage Ratio as at 31 March 2022

Asset Class	Total Outstanding Balance	ECL	Net Carrying amount	% Balance Oustanding	Coverage Ratio
	R'000	R'000	R'000	%	%
Co-Operative Loans	5 259	5 259	-	0,2%	100,0%
Direct Lending Loans	2 068 568	995 487	1 073 081	65,6%	48,1%
Micro Loans	107 884	59 846	48 038	3,4%	55,5%
Wholesale Loans	662 050	307 684	354 366	21,0%	46,5%
Sub Total	**2 843 760**	**1 368 276**	**1 475 484**	**90,2%**	**48,1%**
Land Reform Loans	310 529	3 352	307 176	9,8%	1,1%
Total	**3 154 288**	**1 371 628**	**1 782 660**	**100,0%**	**43,48%**

Expected Credit Losses and Coverage Ratio as at 31 March 2021

Asset Class	Total Outstanding Balance	ECL	Net Carrying amount	% Balance Outstanding	Coverage Ratio
	R'000	R'000	R'000	%	%
Co-operative loans	11 448	11 364	84	0,5%	99,3%
Direct Lending Loans	1 324 208	679 935	644 273	60,3%	51,3%
Micro loans	64 656	51 282	13 374	2,9%	79,3%
Wholesale loans	475 815	249 463	226 352	21,7%	52,4%
Sub Total	**1 876 127**	**992 044**	**884 083**	**85,4%**	**52,9%**
Land reform loans	320 597	5 758	314 839	14,6%	1,8%
Total	**2 196 724**	**997 802**	**1 198 922**	**100,0%**	**45,42%**

The above tables demonstrate **sefa**'s total ECLs by business unit, the total net carrying amount as well as the coverage ratio per business unit.

Wholesale Lending realised a coverage ratio of 46.5% (2021: 52.4%). The Direct (Retail) Lending loan book has a coverage ratio of 48.1% (2021: 51.3%). The decrease in the coverage ratio was largely assisted by increase in the TREP and SEMSP initiatives, we note that a majority of these facilities were under interest moratoriums.

Stage approach of the Total Loan Outstanding Balances on Debt Instruments as at 31 March 2022

Asset Class	Total Outstanding Balance	Stage 1	Stage 2	Stage 3
	R'000	R'000	R'000	R'000
Co-Operative Loans	5 259	-	-	5 259
Direct Lending Loans	2 068 568	898 060	361 575	808 933
Micro Loans	107 884	32 273	20 801	54 810
Wholesale Loans	662 050	170 571	245 474	246 005
Sub Total	**2 843 760**	**1 100 904**	**627 850**	**1 115 006**
Land Reform Loans	310 529	194 633	87 238	28 657
Total	**3 154 288**	**1 295 537**	**715 088**	**1 143 663**

The table above illustrates the total loan outstanding balances on debt instruments over the three stages in line with IFRS 9 per business unit. Funds are not included in the table above.

Stage Approach to the Measuring of ECLs on Debt Instruments Accounted for at Amortised Cost as at 31 March 2022

Asset Class	Expected Credit Losses	Stage 1	Stage 2	Stage 3
	R'000	R'000	R'000	R'000
Co-Operative Loans	5 259	-	-	5 259
Direct Lending Loans	995 487	150 902	167 369	677 216
Micro Loans	59 846	1 610	4 375	53 861
Wholesale Loans	307 684	6 024	79 354	222 306
Sub Total	**1 368 276**	**158 536**	**251 098**	**958 642**
Land Reform Loans	3 352	584	1 335	1 433
Total	**1 371 628**	**159 120**	**252 433**	**960 075**

The table above demonstrates the expected credit loss according to the three stages of IFRS 9. Funds are not included in the table above.

Stage Approach according to Net Carrying Amount as at 31 March 2022

Asset Class	Net Carrying Amount	Stage 1	Stage 2	Stage 3
	R'000	R'000	R'000	R'000
Co-Operative Loans	-	-	-	-
Direct Lending Loans	1 073 081	747 158	194 206	131 717
Micro Loans	48 038	30 663	16 425	949
Wholesale Loans	354 366	164 547	166 120	23 699
Sub Total	**1 475 484**	**942 368**	**376 752**	**156 364**
Land Reform Loans	307 176	194 049	85 903	27 224
Total	**1 782 660**	**1 136 417**	**462 655**	**183 588**

The table above demonstrates the net carrying amount of **sefa**'s loan book according to the three stages of IFRS 9. Funds are not included in the table above.

Stage approach according to Coverage Ratio

Asset Class	Coverage Ratio	Stage 1	Stage 2	Stage 3
	%	%	%	%
Co-Operative Loans	100,0%	0,0%	0,0%	100,0%
Direct Lending Loans	48,1%	16,8%	46,3%	83,7%
Micro Loans	55,5%	5,0%	0,0%	98,3%
Wholesale Loans	46,5%	3,5%	32,3%	90,4%
Sub Total	48,1%	14,4%	40,0%	86,0%
Land Reform Loans	1,1%	0,3%	1,5%	5,0%
Total	**43,48%**	**12,28%**	**35,30%**	**83,95%**

The table above demonstrates coverage ratio by stage per business unit. Funds are not included in the table above.

sefa's 12-months Roll Rates from Stage 1

sefa utilises the roll rates analysis method, which shows the proportion of exposures transitioning from the IRFS 9 stage 1 into the other various IFRS 9 stages over a 12-month period. The roll rate depicted below are from Stage 1 into Stage 1 (Current and not yet due), Stage 2 (0–90 days in arrears), Stage 3 (90+ days in arrears) and Closed (Written-off or paid-up).

As at 31 March 2022, on average over the last 12 months around 61% of accounts in Stage 1 remain in Stage 1 after 12 months, 27% of the accounts transitioned upwards into Stage 2, 12% transitioned into Stage 3 and while 0% were closed.

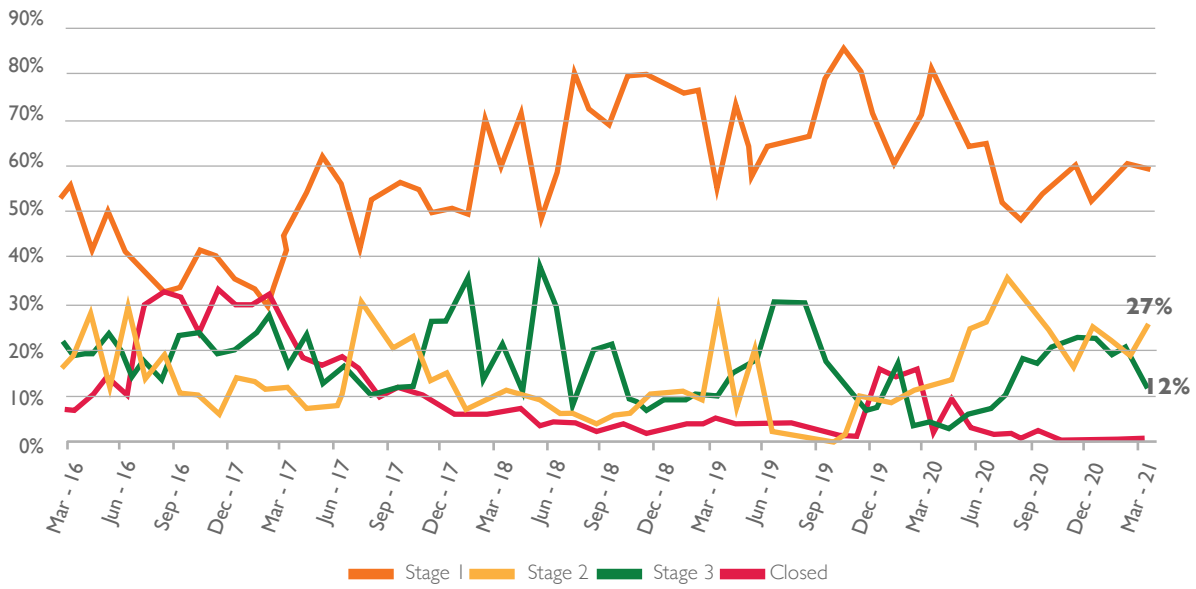


*Figure 43: **sefa**'s 12-months roll rates from Stage 1*

The table below indicates the different industry exposures of the direct lending loan book as at 31 March 2022.

Sector Exposures of the Direct (Retail) Lending Loan Book as at 31 March 2022

Industry	Total Outstanding Balance	Expected Credit Losses	Net Carrying Amount	% Balance Outstanding	Coverage Ratio
	R'000	R'000	R'000	%	%
Agriculture, hunting, forestry and fishing	64 854	36 524	28 331	3,1%	56,3%
Community, social and personal services	288 331	120 565	167 765	13,9%	41,8%
Construction	176 593	124 935	51 657	8,5%	70,7%
Electricity, gas and water supply	41 872	22 074	19 798	2,0%	52,7%
Financial intermediation, insurance, real estate and business services	84 821	59 412	25 409	4,1%	70,0%
Manufacturing	696 039	266 847	429 192	33,6%	38,3%
Mining and quarrying	56 372	12 944	43 428	2,7%	23,0%
Transport, storage and communication	244 929	152 751	92 178	11,8%	62,4%
Wholesale and retail trade	414 757	199 435	215 321	20,1%	48,1%
Total	2 068 568	995 487	1 073 081	100%	48,12%

The book is mainly concentrated in four industries: wholesale and retail trade at 20% (2021: 23%); construction at 8.5% (2021: 13.5%); transport, storage and communication at 12% (2021: 11%), as well as manufacturing at 33.6% (2021: 21.5%). Wholesale and retail trade encompasses a wide variety of sub sectors which explains the large distribution of the book in the sector. The economic outlook prior to COVID-19 was already dire for the construction and manufacturing industry. COVID-19 has had negative impact in most industries and these four industries are expected to contribute the most to the impairments of **sefa**'s Direct (Retail) Lending loan portfolio.

Sectorial Weighted and ZAR Weighted PDs

Industry	Weighted PD
	%
Agriculture, hunting, forestry and fishing	54%
Community, social and personal services	44%
Construction	80%
Electricity, gas and water supply	58%
Financial intermediation, insurance, real estate and business services	76%
Manufacturing	50%
Mining and quarrying	45%
Transport, storage and communication	76%
Wholesale and retail trade	51%
Total	53%

The Direct Lending Vintage Analysis (Exposure originated since 01 April 2016)

sefa utilises the vintage analysis methodology to understand the risk associated with the sectors we extend facilities to within the Direct Lending portfolio. The cumulative bad rate, which is proportion of the originated exposure that goes into NPL (ageing status: 90 days plus overdue) in its lifetime, and the cumulative loss rate, which is the percentage proportion of the originated exposure that rolls into bad-debt written-off, are computed and analysed for each of the sectors **sefa** supports.

sefa has originated R1.73 billion since the beginning of the 2016/17 financial year through the normal Direct Lending product offering (that is, direct lending, blended finance and SEMSP, not accounting for the other governmental support programmes like TREP and SMME Relief etc). In terms of the sectorial distribution of the originated exposure, 24% is businesses within the manufacturing sector, 19% was for businesses within the wholesale and retail trade sector, which includes businesses like fuelling stations and shisanyama, 18% in the community, social and personal services sector, 14% in the transport, storage and communication sector and 12% for businesses in the construction sector. The mining and quarry sector, electricity, gas and water supply sector, financial intermediation, insurance, real estate and business services sector, and agriculture, hunting, forestry and fishing sectors together make-up the remaining 15% of the originated exposures.

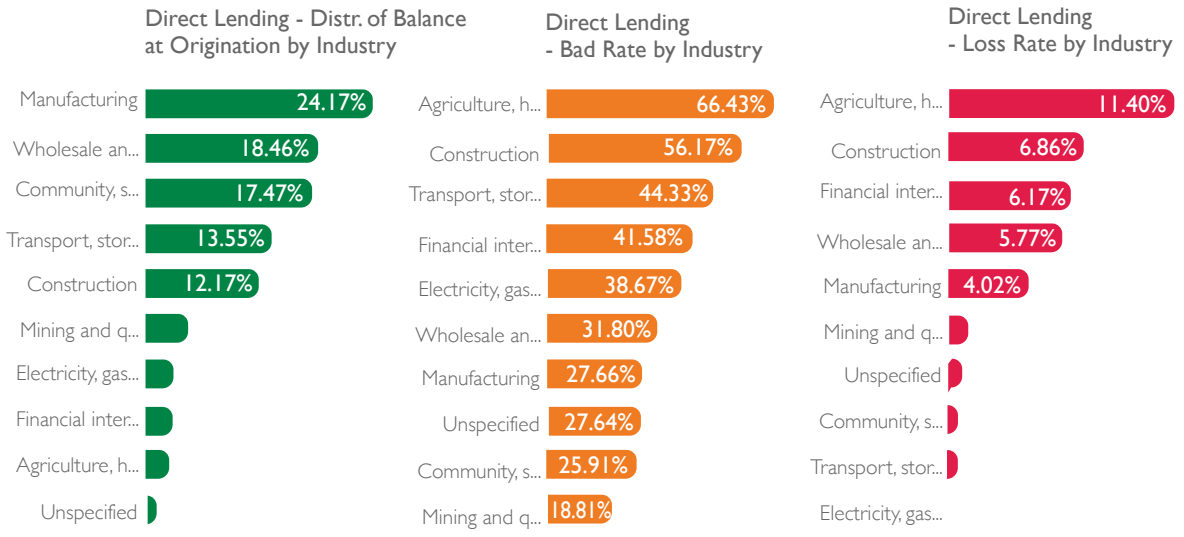


Figure 44: Direct lending vintage

In terms of the cumulative bad rate, the agriculture, hunting, forestry and fishing (66%), construction (56%), transport, storage and communication (44%) and financial intermediation, insurance, real estate and business services (42%) have cumulative bad rate greater than the 40% **sefa** considers as the unofficial tolerance level.

In terms of the cumulative loss rate, the agriculture, hunting, forestry and fishing (11.4%), construction (7%), transport, storage and communication (6%) and financial intermediation, insurance, real estate and business services (6%) cumulative loss rate is greater than the 5% **sefa** considers as the unofficial tolerance level.

Credit Risk Mitigation

sefa takes collateral on transactions if and when they are available, otherwise, **sefa** relies on the generation of cash flows for repayments. In circumstances where business assets are financed under Instalment Sale Agreement (ISA), such assets are deemed as collaterals to the transaction until the loan is fully amortised. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants. In view of the lessons learnt and the increasing level of impairments, collateral has now become an important instrument to enhance credit quality and mitigate the credit risk inherent in **sefa**'s lending transactions. The business units in **sefa** pursue the procurement of acceptable collateral on credit transactions on a case-by-case basis. The decision to which kind of collateral can be acceptable will depend on the circumstances of a particular transaction and it is taken only after a thorough credit appraisal process.

Where collateral is offered or deemed to be prudent, consideration is given to the eligibility of collateral in terms of the economic value of the underlying assets and the enforceability of **sefa**'s legal rights or entitlement to the asset. The main types of collateral taken comprise notarial bonds over existing plant and equipment (business assets), instalment sale agreements on the underlying moveable assets financed, cession of debtors' book and collateral mortgage bonds over secondary and investment properties if available. In addition, **sefa** takes personal suretyships to demonstrate clients' commitment.

The security coverage required is determined by the risk profile, the materiality of the loan and the sustainability and repayment of the funds' application. Financial and behavioural covenants are also an important tool for credit risk mitigation within **sefa**.

Tumi Pitso, Tumi Pitso Company (Pty) Ltd, North West Province

Post Investment Monitoring and Workout

Mr Eric Kwadjo
Acting Executive Manager: Post Investment Monitoring and Workout

The objective of the division is to contain and reduce portfolio impairments, manage and improve portfolio collections and build sustainable investee companies by providing non-financial support and advisory services. This is achieved by proactive monitoring of **sefa**'s investments, collections, workout and restructuring, and the provision of mentorship and business support interventions. The division is split between Direct and Wholesale Lending.

Overview

The 2021/22 financial year continued to disrupt the SMME environment against the backdrop of the effects of COVID-19, coupled with looting in Gauteng and KwaZulu-Natal. SMMEs have been struggling to gain traction with turnover while trying to manage the effects of ever-increasing input costs.

Following on from the previous financial year, SMMEs cited cash flow challenges as the key challenge to remaining sustainable as access to markets has shrunk due to the change in spending patterns of consumers, after the easing of lockdown regulations. Distressed businesses continue to increase which has resulted in an increase in liquidations and businesses opting for business rescue. To alleviate the cash flow shortages faced by **sefa** clients, the Business Viability Programme and the Recovery and Informal Traders Support Loans were disbursed to eligible businesses to ensure they were sustained and the job losses were minimised. Many loans have been restructured to assist clients with temporary cash flow shortages to allow them to generate sufficient turnovers to commence with repayments to **sefa**. Client behaviour with regards to **sefa** repayments is becoming worrisome considering that clients are actively cancelling the **sefa** debit orders and prioritising other creditors. **sefa** continues to monitor such clients and will not hesitate to institute legal action where it is believed that a client is in a position to fulfil their payment obligations.

Total Portfolio under Management

sefa has a total loan book of R3.4 billion as of 31 March 2022. This comprises R1.4 billion in Wholesale Lending (WL) and R2.1 billion in Direct Lending (DL).

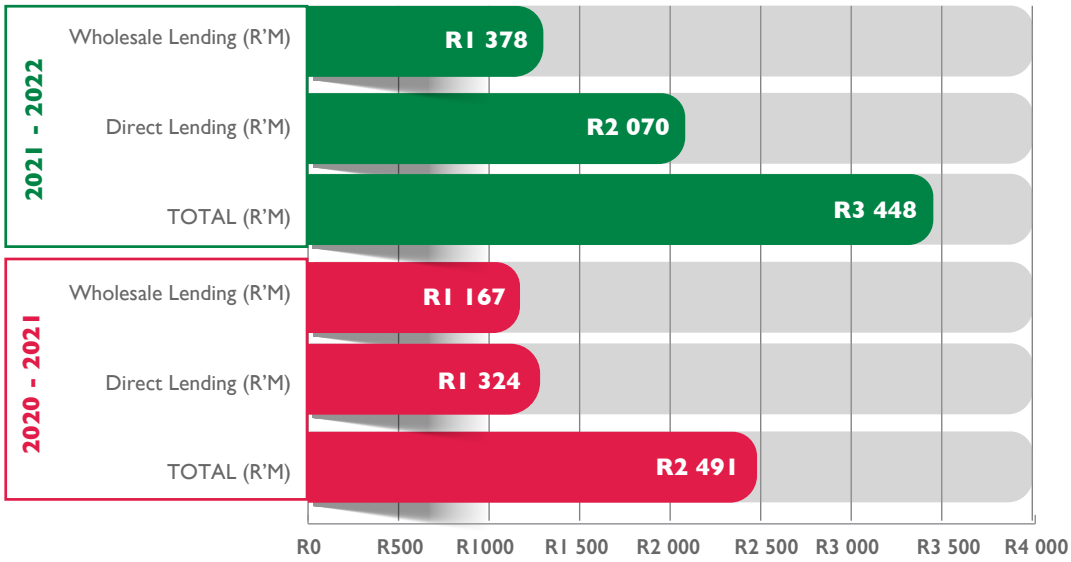


Figure 45: Total portfolio

a) Wholesale Lending Portfolio

At the end of FY2021/22, the WL portfolio closed at R1.378 billion. This reflects a year-on-year increase of 18% from R1.167 billion at March 2021. The increase was underpinned by the disbursement of R516 million to funding partners and offset by repayments and a settlement. R211 million (41%) of the R516 million was disbursed to new funding partners/intermediaries.

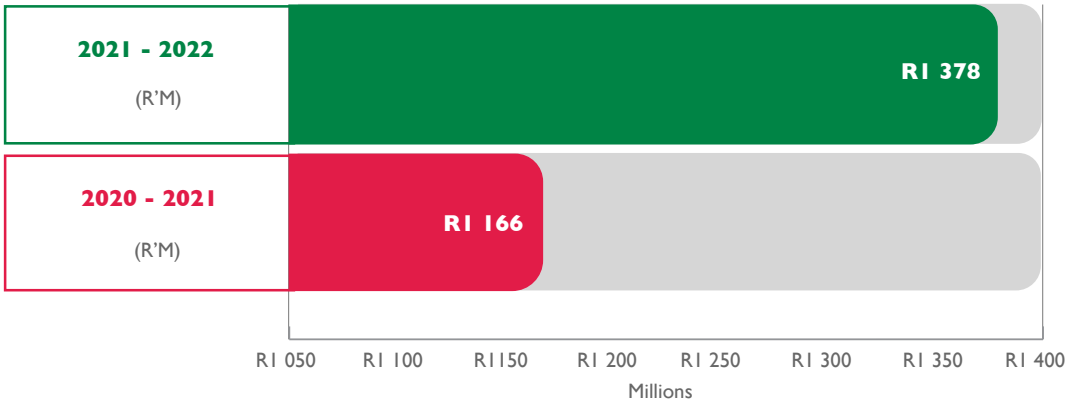


Figure 46: Portfolio growth

Figure 47: Product Contribution to the Portfolio

The portfolio consists of term loans (R831.6 million), revolving credit facilities (R252.2 million), instalments sale agreements (ISA) (R1.8 million) and the funds/JV (R292.2 million). The term loans increased by 29%, the ISA decreased by 53%, the revolving facilities decreased by 12% and Funds/JV decreased by 1%).

Portfolio per Channel

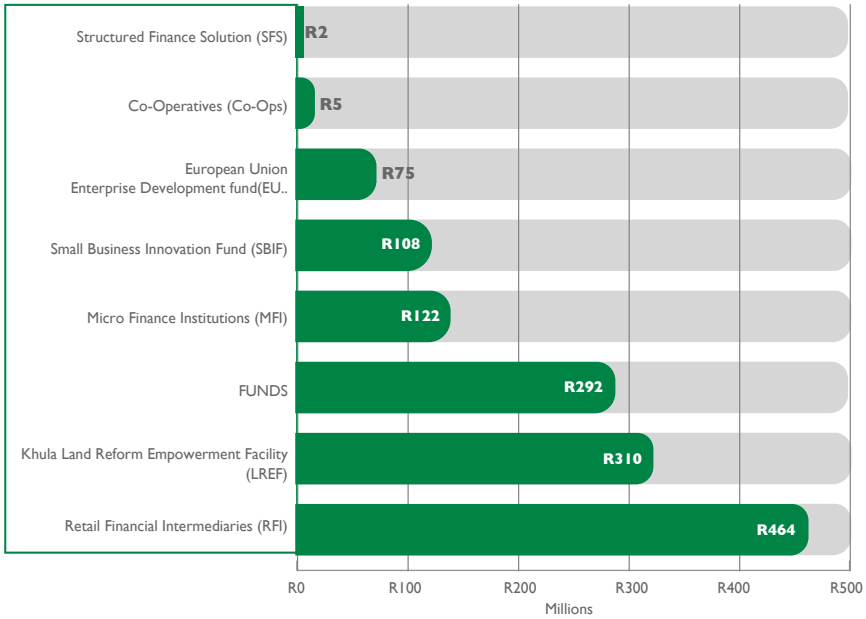


Figure 48: Portfolio per channel

Portfolio per Channel

The portfolio is segmented into co-operatives (co-ops), structured finance solutions (SFS), microfinance institutions (MFIs), the Khula Land Reform Empowerment Facility (KLREF), specialised funds and joint ventures, Small Business Innovation Fund (SBIF), European Union Enterprise Supplier Development Fund (EU ESD Fund) and retail financial intermediaries (RFIs).

Structured Finance Solution (SFS)

The structured finance solutions comprise the local distribution partners (LDPs), a facility that was established by **sefa** in collaboration with Coca Cola Beverage South Africa (Pty) Ltd (CCBSA).

Year-on-year exposure decreased by 53%, from R3.8 million in March 2021 to R1.8 million at March 2022. The decrease was a result of receipts of instalments due and no growth in the loan book. The draw-down term on the facility has lapsed and therefore no new LDPs are signed.

Co-operatives (Co-ops)

The exposure is 100% in the feeding scheme.

The portfolio decreased by 54%, from R11.4 million in March 2021 to R5.2 million at the end of March 2022. The decrease was the result of a hydroponic vegetable farm being written off.

European Union Enterprise Development Fund (EU ESD Fund)

R65 million (87%) is invested in agriculture whilst the remaining R35 million (13%) is invested in various other sectors.

The portfolio exposure recorded a sharp increase of 200%, from R25 million reported in March 2021 to R75 million at the end of the financial year March 2022. The increase was mainly due to disbursements to three (3) funding partners amounting to R49.9 million.

Microfinance Institutions (MFIs)

The MFI portfolio is funding micro enterprises across all sectors with a strong presence in rural villages and townships. This portfolio increased by 68% from R64 million in March 2021 to R107 million at the end of March 2022. The increase was due to disbursements of R215 million to four funding partners offset by repayments on revolving facilities.

Small Business Innovation Fund (SBIF)

The exposure is diversified into different sectors such as agriculture, ICT-related, mining, manufacturing, construction and general services.

During the year the portfolio recorded a sharp increase of 124% from R54.2 million in March 2021 to R121.5 million at March 2022. The increase was mainly due to disbursements of R71 million to three funding partners.

Funds and Joint Ventures Investments

The exposure is diversified into different sectors such as agriculture, mining, information & communication technology (ICT) and general services. Year on year, the portfolio exposure decreased by 18% from R294.5 million in March 2021 to R292.2 million at March 22. The decline was due to distribution receipts of R18.8 million from three funding partners.

Khula Land Reform Empowerment Facility (KLREF)

31% of the exposure is invested in sugarcane, 17% in citrus and the remaining 52% in various agricultural activities. KLREF funding partners/intermediaries are ABSA Bank Ltd, First Rand Bank Ltd, Ithala Development Finance Corporation, Akwandze Agricultural Finance, Capital Harvest Emerging Farmers and Lona Group (Pty) Ltd, who on-lend to SMMEs in the agricultural sector. The exposure has decreased by 3% from R320.5 million in March 2021 to R310.4 million at the end of the financial year March 22. The decline was the result of collections on instalments due.

Retail financial intermediaries (RFIs)

The exposure is diversified into different sectors such as transport (taxis), property management, health services, manufacturing, supplier development, agriculture, invoice discounting and general services. The portfolio increased by 18%, from R392.6 million reported in March 2021 to R463.5 million at the end of the financial year end March 22. The increase was mainly due to disbursements of R128.6 million to seven funding partners.

b) Direct Lending Portfolio

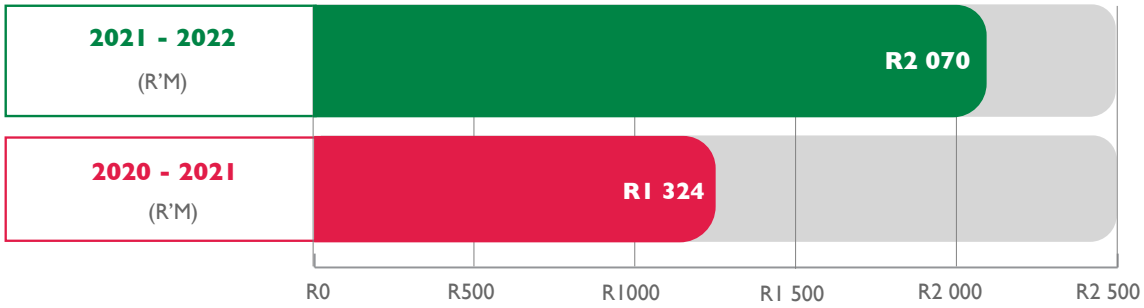


Figure 49: Direct lending portfolio

The DL loan book had a balance of R2.1 billion as of 31 March 2022. This is a 56% increase, which was largely due to higher lending activities related to the TREP programme.

The loan portfolio consists of term loans (R1.433 billion), revolving credit facilities (R30.8 million), instalments sale agreements (ISA) (R540.2 million) and bridging loans (R66 million). It must be noted that R292 million of the term loans are COVID-1/9 relief funds. The term loans, the instalment sales agreements and the revolving facilities increased by 158%, 312% and 3.7% respectively. The bridging loans registered a decrease of 61%

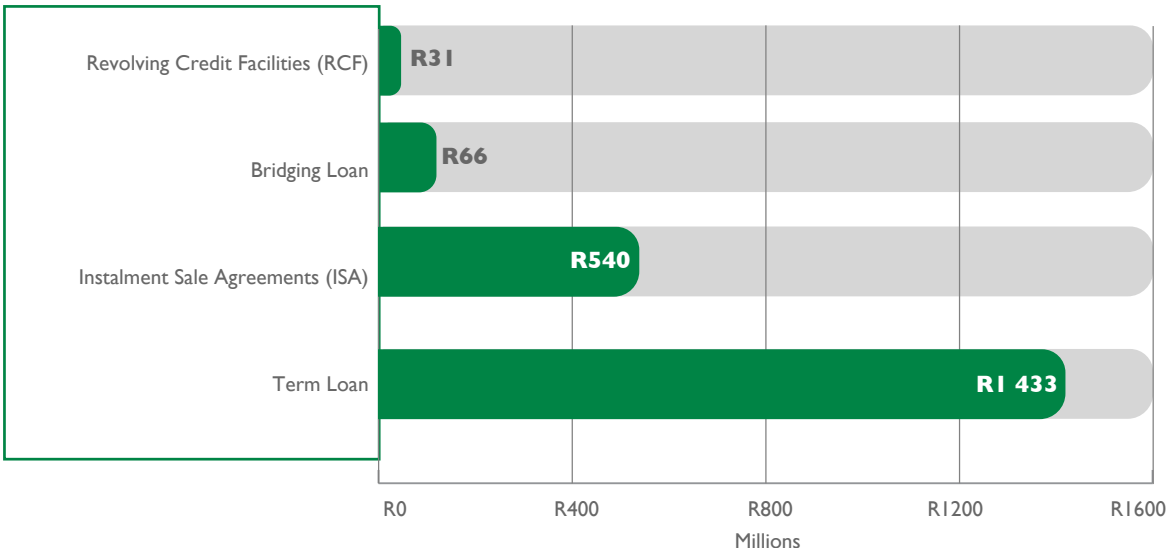


Figure 50: Portfolio products spread

Total Collections

The total collections from loans and advances amounted to R570 million against a target of R656 million. This represents 1.8% above target. The actual collections were 43% above the previous year's collections of R400 million. The contributing factors towards this achievement were the focused approach on collections by the establishment of separate collections function during the year under review and the concentrated efforts on pursuing defaulting clients by sending breach letters and foreclosing on **sefa**'s security.

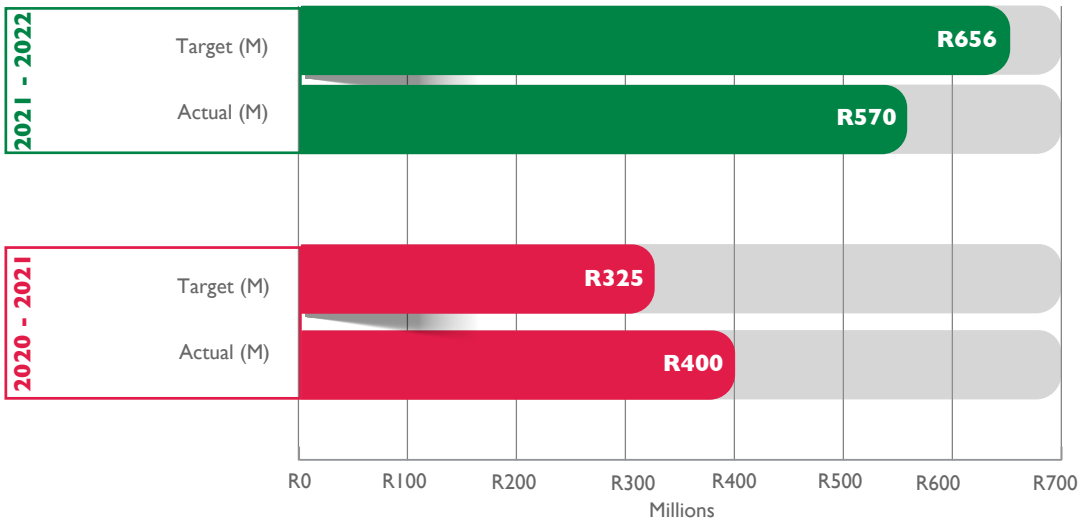


Figure 51: Total collections

a) Wholesale Lending Collections

Wholesale Lending collections was R306.2 million, which represented 128% of the R238 million annual target. The actual collections were 7% higher than the previous year. This is largely due to early payments received on revolving facilities and early settlements.

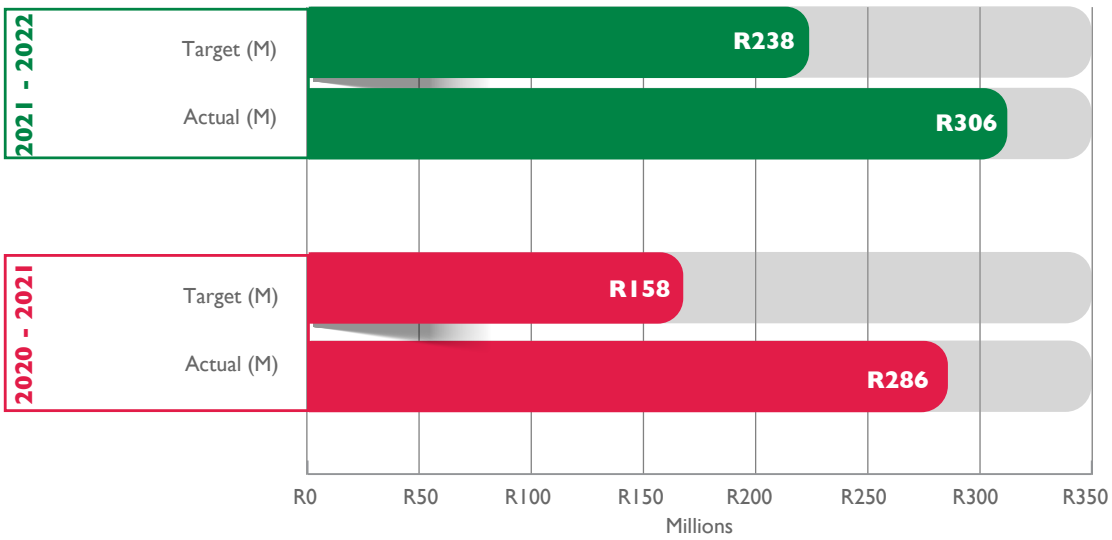


Figure 52: Wholesale lending collections (millions)

b) Direct Lending Collections

Direct Lending collections amounted to R263.8 million, which represents 63.1% of the R417.8 million annual target. The actual collections were 504% higher than the previous year. SMMEs in general were impacted by the unfavourable economic conditions exacerbated by COVID-19 as well as the effects of looting in July 2021 in Gauteng and KwaZulu-Natal resulting in missed instalments. There were also cases where loan repayments that were due were not received due to delays from importing and commissioning machinery. Client behaviour also impacted the on-time collections as many clients actively cancelled debit orders. The increase in the number of clients has impacted the ability to curb the portfolio arrears rolling forward. A new collection system was implemented during the year to increase the efficiency and effectiveness of the collection efforts.

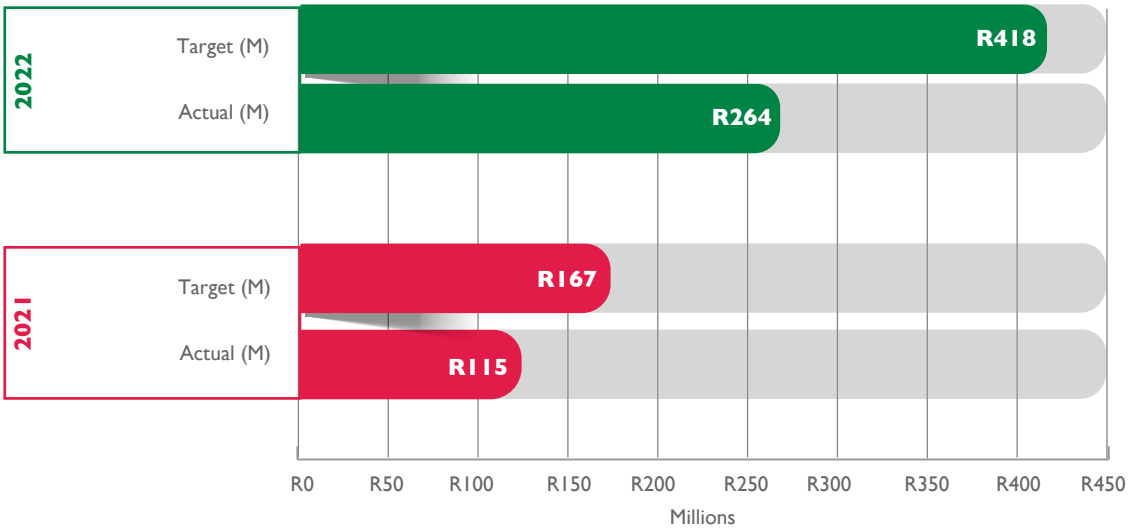


Figure 53: Direct lending collections (millions)

Township Rural and Enterprise Programme

sefa disbursed R283.2 million to 1 546 clients in this programme. The purpose of the loans is to assist small businesses with access to finance, non-financial and technical business support, markets and business facilities.

Workout and Restructuring

Some of **sefa**'s clients experienced operational challenges that necessitated the restructuring of loan exposures. These challenges emanated from the prevailing circumstances relating to the COVID-19 pandemic and the riots in the country in July of the reporting year. The specific challenges that impacted these clients include:

- Disruptions in the supply value chain due to the looting;
- Disruptions at the ports of entry; and
- Slow uptake of the clients' products.

This meant that some projects were delayed due to late delivery of imported equipment. Additionally, the recovery of business operations and performance has been slow despite the easing of COVID-19 restrictions. These factors impinged on the business operations. It is in this context that **sefa** restructured 114 clients with an exposure of R87.5 million. The restructuring was in the form of extension of loan tenures, reduction in instalments, provision of payment holidays, capitalisation of interest in arrears or a combination of the various restructuring elements. These clients whose accounts were restructured continue to operate and expectations are that full recovery will take place in the 2022/23 financial year.

Mentorship and Business Support

The provision of mentorship and business support continues. During the year under review the implementation of the mentorship was impacted negatively by COVID-19. Since the easing of the lockdown measures, mentors were dispatched to clients to assist with interventions that were identified. **sefa** spent R1.627 million on business support outlined as follows:

Expenditure by Region	Amount
Western Cape	R230 048.58
Eastern Cape	R515 115.08
KwaZulu-Natal	R28 041.25
Gauteng	R218 182.63
Limpopo	R74 863.33
North West	R173 281.60
Mpumalanga	R27 755.98
Total	R1 267 288.45

There were 53 interventions initiated and completed on 33 clients that required assistance in various functional areas of small business management. The interventions ranged from business management and sectors of the economy such as engineering and construction, marketing, HR services, food and franchising, quantity surveying and project management, agricultural development, freight and logistics (transport), manufacturing, financial management and bookkeeping,

textile, tourism and leisure, mining, ICT and regulatory compliance. The interventions completed during the year under review are outlined in the chart below.

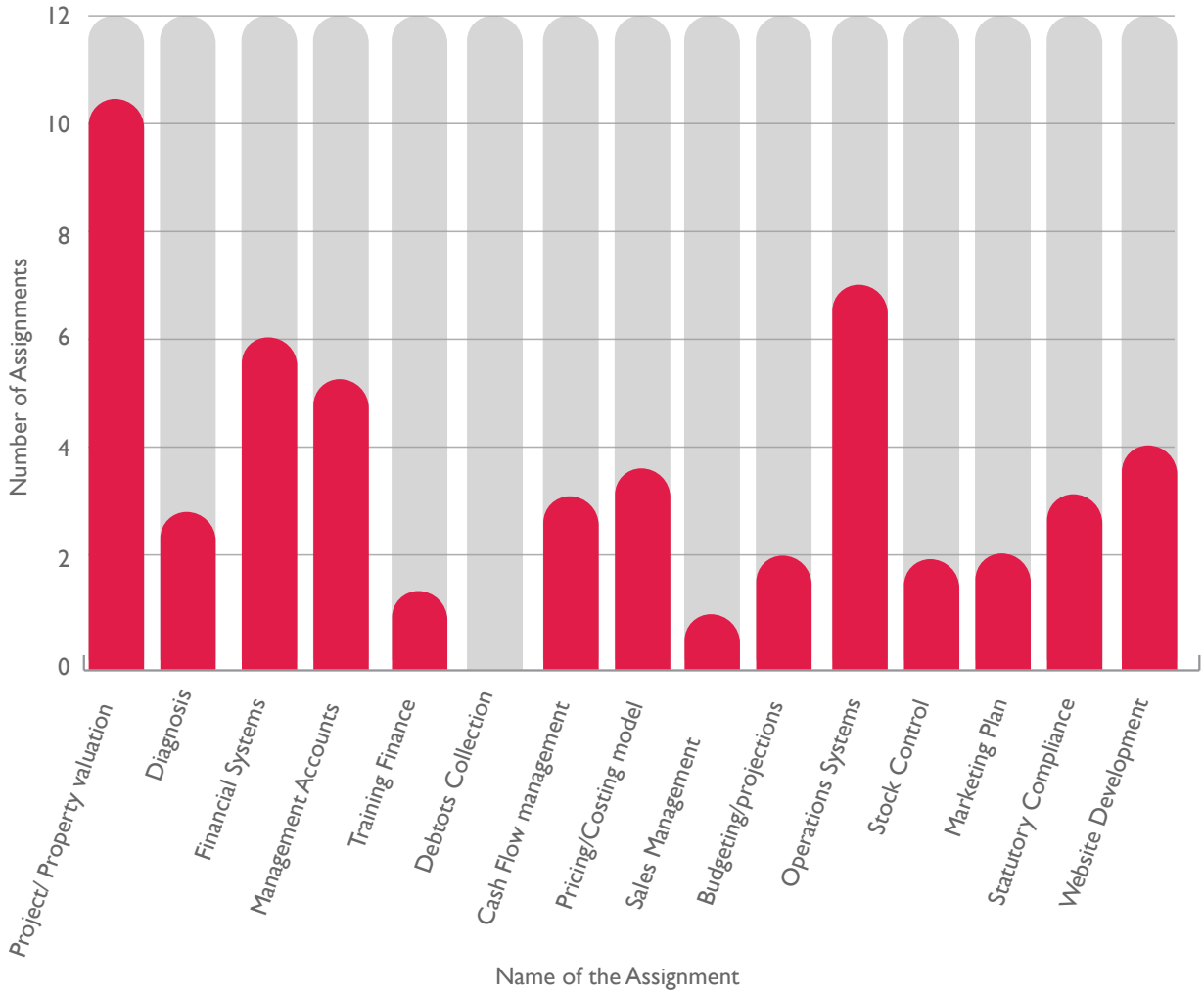


Figure 54: Interventions/Projects completed FY2021/22

The graph above indicates that the greatest need is in project / property valuation costs, setting up of operations systems and financial systems. One client in the Western Cape was assisted with the compilation of management accounts, annual financial statements, monthly VAT submissions and a host of finance-related queries. The interventions added to the profitability of the client and reduced penalties for late submissions of VAT returns. The mentor finalised the previous year's audited financial statements, which were incomplete, and were required for a fuel guarantee, which then aided in cash flow management.

sefa was able to review and analyse the management accounts to determine the client's financial position during the monitoring function, which analysis proved to be positive as the client was trading profitably.

mbelisi (Pty) Ltd, Western Cape

Gugulethu Sibiya, African Basket Taste of Home, Gauteng

Section 5

Annual Financial Statements

Couch Potato, Western Cape

Blompots, Limpopo

Small Enterprise Finance Agency (SOC) Limited

Group and Company Annual Financial Statements for the Year Ended 31 March 2022

Registration Number: 1995/011258/0

The Annual Financial Statements have been prepared under the supervision of the Group's Acting Chief Financial Officer, Ms CL. Williams CA (SA).

The financial statements have been audited in compliance with Section 30 of the Companies Act of South Africa.

Index to the Annual Financial Statements

Statement of Responsibility by the Board of Directors

for the Year Ended 31 March 2022

The directors of **sefa** are responsible for the maintenance of adequate accounting records and the preparation of the Group annual financial statements, together with the related information. These Group annual financial statements are prepared in accordance with International Financial Reporting Standards, and applicable accounting policies.

In preparing the Group annual financial statements, the directors should ensure that these fairly present the state of affairs of the Group, its financial results, its performance against pre-determined objectives and its financial position at the end of any given financial year.

The directors acknowledge that they are ultimately responsible for the process of risk management and the systems of internal controls, management assists the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the Group annual financial statements in accordance with IFRS and to adequately safeguard, verify and maintain accountability for assets. Accounting policies supported by judgements, estimates and assumptions which comply with IFRS are applied on a consistent and going concern basis. Systems of internal controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management, internal auditors and discussions held with external auditors on the results of their audits, the directors are of the opinion that the internal financial controls are adequate and can be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained.

Nothing has come to the attention of the directors indicating any breakdown in the functioning of these internal controls, which could result in material loss to the Group during the year under review, and until the date of this report. The directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern approach in the preparation of the financial statements.

The Group annual financial statements have been audited by independent external auditors, SNG Grant Thornton Inc., who have been given unrestricted access to all financial records and related information, including minutes of shareholder, Board and Board Committee meetings. The external auditor's audit report is contained on pages 144 - 147.

The directors are of the opinion that the Group annual financial statements fairly present the financial position of **sefa** and the results of its operations and cash flow information for the year ended 31 March 2022.

Against this background, the directors of the Company accept responsibility for the Group annual financial statements which were approved by the Board of Directors on 19 July 2022 and are signed on its behalf by:

Ms S Siwisa
Board Chairperson

Directors' Report

for the Year Ended 31 March 2022

Introduction

sefa is a State-Owned Company in terms of the Companies Act and is a Schedule 2 listed entity in terms of the PFMA and Treasury regulations. This report is presented in accordance with the provisions of the prescribed legislation and addresses the performance of **sefa**, as well as relevant statutory information requirements. The Board of Directors is the accounting authority as prescribed in the PFMA.

Nature of business

sefa is a DFI, which provides finance to SMMEs and Cooperatives directly through its branch network and indirectly through Financial Intermediaries and other suitable financial institutions. Finance is provided in the form of loans, equity and credit indemnities. The Group also owns a portfolio of business premises that are leased to commercial undertakings.

Funding

sefa's capital funding requirements are sourced mainly from allocations received from the Department of Trade, Industry and Competition through **sefa**'s shareholder, the IDC (Refer to note 8.2).

An allocation of R251.7 million (2021: R196.8 million) was received from government to support **sefa**'s activities. The allocation was paid to the IDC, and was made available to **sefa** through a shareholder's loan which is recognised directly in the statement of changes in equity.

sefa also receives grant funding from the Department of Small Business Development, donor Funding (European Union) and collaborative efforts (from DTIC, Dept of Tourism and Seda).

The IDC committed to funding in the amount of R921 million (2021: R921 million).

Public Finance Management Act

sefa's Board of Directors are responsible for the development of the Company's strategic direction. The Company's strategy and business plan are captured in the Shareholder's Compact which is agreed with the shareholder and forms the basis for the Company's detailed action plans and on-going performance evaluation.

The responsibility for the day-to-day management of the Company vests in line management through a clearly defined organisational structure and through a formal Delegation of Authority.

sefa has a comprehensive system of internal controls, which is designed to ensure that the Company's objectives are met, including the requirements of the Companies Act and the recommendations of King IV.

These systems and controls meet the requirements of the PFMA. There are processes in place to ensure that where these controls fail, such failure is detected and corrected.

Insurance Act

sefa's wholly owned subsidiary KCG is registered as a short-term insurer and is subject to the Insurance Act 18 of 2017.

Significant matters

During the year ended 31 March 2022 and 31 March 2021 **sefa** received a number of grants from the Department of Small Business Development. A majority of these grants were to fund programmes aimed at SMME Relief for the impact of COVID-19 and post economic recovery programmes in response to the COVID-19 pandemic.

The Eleventh Schedule of the Income Tax Act has now been amended and new legislation promulgated to provide an exemption for grants received from the Department of Small Business Development. On 19 January 2022 Act No. 20 of 2021: Taxation Laws Amendment Act was issued by the Presidency. Section 47 of the Taxation Laws Amendment Act replaced the current Eleventh Schedule (Government Grants Exempt From Normal Tax, Section 12P) with a new list of Government Grants now exempted, which includes the various programs under which **sefa** received funding from the Department of Small Business Development.

The programs listed which applies to **sefa** are as follows:

8. Business Viability Programme received or accrued from the Department of Small Business Development;
14. Co-operative Incentive Scheme received or accrued from the Department of Small Business Development;
35. Small Enterprise Manufacturing Support Programme received or accrued from the Department of Small Business Development;
44. The Blended Finance Facility received or accrued from the Department of Small Business Development;
45. The COVID-19 Emergency Fund received or accrued from the Department of Small Business Development;
46. The Small Business and Innovation Fund received or accrued from the Department of Small Business Development;
47. Township and Rural Entrepreneurship Programme (TREP) received or accrued from the Department of Small Business Development

In the prior year this was not yet finalised and therefore in the prior year financial statements **sefa** was required to present the tax impacts as per tax legislation that was in place at the time of signing the financial statements. The tax liability that was presented at the end of the prior year (31 March 2021) for the amount of R 270 million in terms of the current tax legislation where these grants are not exempt for Income Tax purposes has been reversed post the promulgation of the Taxation Laws Amendment Act.

In 2021, Cabinet approved the consolidation of the agencies reporting to the Minister of Small Business Development (**sefa**, Co-Operatives Bank Development Agency and Seda), to form a new entity that would be responsible for the provision of both financial and non-financial support to small enterprises throughout the entire business development life cycle. The merger was initially set to be effective from 1 April 2022.

However on 6 April 2022 Cabinet approved the 20 months extension period for the merging of the entities.

The approved extension will enable the Department of Small Business Development to finalise the legislative review to provide a proper legislated and policy environment that will allow for the formation of the single entity. Cabinet also approved the appointment of the interim Boards of Directors.

Subsidiaries, joint ventures and associates

Details of each trading subsidiary, joint venture and associate are set out in the notes to the financial statements.

Dividends

No dividends have been declared during the year and none are recommended (2021: Rnil).

Share capital

The authorised and issued share capital remained unchanged during the year (2021: unchanged).

Directors

The directors in office during the financial year and up to the date of approval of the annual financial statements were:

Non-Executive Directors		
Director	Appointment date	Retirement date
Mr AMR Mahosi	2019/08/01	2022/04/30
Mr MJ Kganyago	2019/08/01	
Ms DL Mabuza	2019/08/01	2022/04/30
Ms ME Makara	2019/08/01	2021/05/31
Mr M Radebe	2019/08/01	2022/03/31
Ms SF Mudau	2020/10/01	2022/04/30
Ms ZF Ngcobo	2020/10/01	-
Ms HM Tsoadi	2020/10/01	-
Ms S Siwisa	2022/05/01	-
Ms N Makanda	2022/05/02	-
Mr M Mfuleni	2022/05/02	-
Ms CN Motale	2022/05/02	-
Dr M Qobo	2022/05/02	-
Ms TV Tobias-Pokolo	2022/05/02	-
Adv NG Khumalo	2022/05/03	-

Executive director	
Mr MD Matshamba (Chief Executive Officer)	Appointed 1 November 2020

Materiality and significance

Materiality levels for reporting in terms of Section 55(2)(b)(i) of the PFMA Section 55(2)(b)(i) of the PFMA states that the annual report and financial statements should include particulars of any material losses through criminal conduct and irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year. The term material has not been defined in the Act. Significance levels detailed below were used for the purpose of determining materiality.

Significance levels related to Sections 51(1)(g) and 54(2) of the PFMA Sections 51(1)(g) and 54(2) of the PFMA read in conjunction with the related practice note requires the use of a significance framework.
Based on the guidelines in the practice note and after evaluating total assets, total revenue and loss after tax for the Group, a significance level of R71 million has been adopted.

Unauthorised, Fruitless and Wasteful and Irregular Expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2021: Rnil).

Fruitless and wasteful expenditure

The PFMA defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Refer to note 11.1 for detailed information on fruitless and wasteful expenditure.

Irregular expenditure

Irregular expenditure signifies expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have been implemented to ensure compliance with the PFMA, relevant tender regulations as well as any other relevant procurement regulations.

Refer to note 11.1 for detailed information on irregular expenditure.

Post reporting date events

On 22 June 2022 there was a fire and some of the units at one of the Properties in Soweto, Orlando West, were badly damaged. These properties are owned by Khula Business Premises (Pty) Ltd (subsidiary of **sefa**). The total damage is still being quantified and the full fire report has not yet been finalised. This is considered a non-adjusting event and therefore does not impact the numbers presented in the financial statements.

The Directors are not aware of any other matters or circumstances arising since the end of the financial year and 19 July 2022, not otherwise dealt with in the report that would affect the operations of the Group or Company significantly.

Declaration by the Group Company Secretary

for the Year Ended 31 March 2022

In terms of section 88(2)(e) of the Companies Act No.71 of 2008, I, Buhle Ndlovu, in my capacity as group company secretary confirm that, to the best of my knowledge and belief, the Company has filed all required returns and notices with the Companies and Intellectual Property Commission, and that such returns are correct and up to date.

Ms Buhle Ndlovu
Group Company Secretary
19 July 2022

Independent Auditor's Report

to Parliament and the Shareholder of Small Enterprise Finance Agency

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of the Small Enterprise Finance Agency and its subsidiaries (the group) set out on pages 148 to 231, which comprise the consolidated and separate statement of financial position as at 31 March 2022, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act, 2008 (Act No.71 of 2008) (the Companies Act).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We are independent of the group in accordance with Independent Regulatory Board for Auditors' Code of Professional Conduct for Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).

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

Responsibilities of the accounting authority for the financial statements

The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

A further description of our responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, we have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify material findings but not to gather evidence to express assurance.

Our procedures address the usefulness and reliability of the reported performance information, which must be based on the group's approved performance planning documents. We

Independent Auditor's Report

to Parliament and the Shareholder of Small Enterprise Finance Agency

have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our procedures do not examine whether the actions taken by the group enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the group's annual performance report for the year ended 31 March 2022:

Objectives	*Pages in the integrated report*
Objective 1 - Achieve a high impact, high performance through being responsive to government's microeconomic policies and specifically the DSBD MTEF plan	24 - 25

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for this objective:

Objective 1 - Achieve a high impact, high performance through being responsive to government's microeconomic policies and specifically the DSBD MTEF plan.

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the group's compliance with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

We did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes statement of responsibility by the board of directors, the directors' report, the audit committee's report, and the declaration Group Company secretary as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report , or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. We did not identify any significant deficiencies in internal control.

Other reports

We draw attention to the following engagement conducted by us which had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

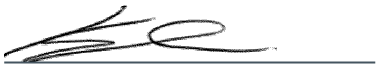
Limited Assurance Report to the National Credit Regulator in Compliance with Regulation 68 of the Regulations to the National Credit Act, 2006.

Independent Auditor's Report

to Parliament and the Shareholder of Small Enterprise Finance Agency

Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SNG Grant Thornton Inc. has been the auditor of the Small Enterprise Finance Agency SOC Limited for 5 years.



Kelello Hlajoane

SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

16 August 2022

20 Morris Street East
Woodmead
2191

SNG
Grant Thornton

Annexure - Auditor's responsibility for the audit

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on the reported performance information for selected objectives and on the group's compliance with respect to the selected subject matters.

Financial statements

In addition to our responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, we also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Small Enterprise Finance Agency SOC Limited and its subsidiaries internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Small Enterprise Finance Agency SOC Limited and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify our opinion on the financial statements. Our conclusions are based on the information available to us at the date of our auditor's report. However, future events or conditions may cause the Small Enterprise Finance Agency SOC Limited and its subsidiaries to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Small Enterprise Finance Agency SOC Limited and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statements of Financial Position

for the Year Ended 31 March 2022

	Note	Group		Company	
		2022 R'000	2021 R'000	2022 R'000	2021 R'000
Assets					
Cash and cash equivalents	4.1	3 320 688	2 539 835	2 716 425	2 065 037
Trade and other receivables	4.2	20 779	26 862	215 054	226 195
Current tax asset	3.1	–	61	–	–
Deferred grants receivable	4.4	313 360	116 338	369 610	116 338
Loans and advances	7.10	1 527 626	886 686	1 526 608	883 135
Investment properties held-for-sale	5.4	–	–	–	–
Equipment, furniture and other tangible assets	5.1	8 088	5 787	8 088	5 787
Intangible assets	5.2	202	1 243	202	1 243
Right-of-use asset	5.6	21 923	28 208	21 923	28 208
Investment properties	5.3	185 133	183 480	–	–
Investments	7.11	33 337	29 790	33 337	29 790
Deferred tax asset	3.3	3	282	–	–
Investments in subsidiaries	9.2	–	–	479 634	409 731
Investments in joint operations	9.3	–	–	–	–
Investments in associates	9.4	836 823	781 364	98 955	98 994
Investments in joint ventures	9.5	101 647	140 910	102 414	134 330
Total Assets		**6 369 609**	**4 740 846**	**5 572 250**	**3 998 788**
Equity and Liabilities					
Share capital	8.1	308 300	308 300	308 300	308 300
Shareholder reserves	8.2	2 552 488	2 300 782	2 552 488	2 300 782
Other reserves		18 148	18 727	–	–
Retained earnings		(1 602 699)	(1 700 713)	(2 334 083)	(2 376 679)
Equity attributable to owners of the parent		**1 276 237**	**927 096**	**526 705**	**232 403**
Non-controlling interest		271	8	–	–
Total equity		**1 276 508**	**927 104**	**526 705**	**232 403**
Liabilities					
Trade and other payables	4.3	130 305	132 050	109 594	116 139
Lease liability	5.6	27 090	34 025	27 090	34 025
Tax payable	3.1	–	297 012	–	297 012
Deferred grants payable	4.4	4 169 622	2 639 237	4 169 622	2 639 237
Outstanding claims reserve	6.2	7 788	9 899	–	–
Unearned risk reserve	6.2	19 057	21 547	–	–
Post-retirement medical liability	6.3	567	536	567	536
Shareholder loans	6.1	734 043	679 436	734 043	679 436
Non-current liability		4 629	–	4 629	–
Total liabilities		**5 093 101**	**3 813 742**	**5 045 545**	**3 766 385**
Total Equity and Liabilities		**6 369 609**	**4 740 846**	**5 572 250**	**3 998 788**

Statement of Comprehensive Income

for the Year Ended 31 March 2022

	Note	Group		Company	
		2022 R'000	2021 R'000	2022 R'000	2021 R'000
Interest income on loans and advances	2.2	115 784	50 427	115 786	49 935
(Increase)/Decrease in credit losses on loans and advances	2.4.3	(293 529)	(122 485)	(306 072)	(124 721)
Bad debts written off[1]	2.4.3	(44 560)	(56 174)	(43 102)	(53 067)
Loss from lending activities		**(222 305)**	**(128 232)**	**(233 388)**	**(127 853)**
Other interest earned and other revenue	2.3	149 788	118 941	143 963	122 138
Grant income	2.6	314 790	121 742	314 790	121 742
Lease liability finance cost	5.6	(2 922)	(3 720)	(2 922)	(3 720)
Finance costs	6.1	(54 607)	(50 372)	(54 607)	(50 372)
Gross profit/(loss) after finance costs		**184 744**	**58 359**	**167 836**	**61 935**
Net fair value gain/(loss) on investment properties	5.5	1 653	6 365	–	–
Increase in impairments on related party loans	2.4.5	–	–	(58 733)	(52 115)
Decrease/(Increase) in impairments on cash	4.1	7 510	(3 224)	6 114	(2 139)
Increase in impairments on investments	2.4.2	(9 339)	(3 495)	(1 873)	10 519
Investment property expenses		(57 821)	(51 143)	–	–
Personnel expenses		(208 645)	(191 454)	(208 645)	(191 454)
Grant expense	2.6	(87 653)	(34 180)	(87 653)	(34 180)
Other operating expenses		(46 973)	(107 792)	(44 461)	(96 220)
Operating loss	2.4	**(216 524)**	**(326 564)**	**(227 415)**	**(303 654)**
Profit from equity accounted investments, net of tax	9.6	45 069	43 941	–	–
Loss before tax		**(171 455)**	**(282 623)**	**(227 415)**	**(303 654)**
Income tax credit/ (charge)	3.2	269 732	(269 779)	270 011	(270 011)
Net profit/(loss) for the year		**98 277**	**(552 402)**	**42 596**	**(573 665)**
Other comprehensive income after tax:					
Other comprehensive income from equity accounted investments		(579)	4 675	–	–
Other comprehensive income/(loss) for the year	9.6	(579)	4 675	–	–
Total comprehensive profit/(loss) for the year		97 698	(547 727)	42 596	(573 665)
Profit/(Loss) and total comprehensive income/(loss) attributable to:					
Owners of the parent – profit/(loss) for the year		98 014	(552 594)		
Owners of the parent – other comprehensive income		(579)	4 675		
Non-controlling interest – for the year		263	192		
Total comprehensive income/(loss) for the year		**97 698**	**(547 727)**		

*(1) 81% (2021: 0.4%) of the bad debts written off relates to **sefa**'s direct lending legacy book. The split of bad debt written off is detailed in note 2.4.3*

Statements of Changes in Equity

for the Year Ended 31 March 2022

Group	Notes	Share capital	Retained earnings	Shareholder reserves	Other reserves*	Non-controlling interest	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2020		**308 300**	**(1 148 119)**	**2 103 996**	**14 052**	**(184)**	**1 278 045**
Advances received on shareholder reserves	8.2	–	–	196 786	–	–	196 786
Other comprehensive income from equity accounted investments		–	–	–	4 675	–	4 675
Total comprehensive loss for the year		–	(552 594)	–	–	192	(552 402)
Balance at 31 March 2021		**308 300**	**(1 700 713)**	**2 300 782**	**18 727**	**8**	**927 104**
Advances received on shareholder reserves	8.2	–	–	251 706	–	–	251 706
Other comprehensive loss from equity accounted investments		–	–	–	(579)	–	(579)
Total comprehensive income for the year		–	98 014	–	–	263	98 277
Balance at 31 March 2022		**308 300**	**(1 602 699)**	**2 552 488**	**18 148**	**271**	**1 276 508**

** Other reserves consists of fair value and other reserves recognised by Business Partners Limited*

Company	Notes	Share capital	Retained earnings	Shareholder reserves	Other reserves	Non-controlling interest	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2020		**308 300**	**(1 803 014)**	**2 103 996**	**–**	**–**	**609 282**
Advances received on shareholder reserves	8.2	–	–	196 786	–	–	196 786
Total comprehensive loss for the year		–	(573 665)	–	–	–	(573 665)
Balance at 31 March 2021		**308 300**	**(2 376 679)**	**2 300 782**	**–**	**–**	**232 403**
Advances received on shareholder reserves	8.2	–	–	251 706	–	–	251 706
Total comprehensive income for the year		–	42 596	–	–	–	42 596
Balance at 31 March 2022		**308 300**	**(2 334 083)**	**2 552 488**	**–**	**–**	**526 705**

Statements of Cash Flows

for the Year Ended 31 March 2022

	Note	Group		Company	
		2022 R'000	2021 R'000	2022 R'000	2021 R'000
Cash flows from operating activities					
Cash utilised by operations	2.5	(430 427)	(329 940)	(468 598)	(315 861)
Loans and advances to customers or investees		(979 029)	(631 448)	(992 647)	(633 331)
Grant income received		1 845 175	1 760 000	1 845 175	1 760 000
Tax received/(paid)	3.1	–	–	–	–
Net cash generated from/(utilised by) operating activities		**435 719**	**798 612**	**383 930**	**810 808**
Cash flows from investing activities					
Purchase of equipment, furniture and other tangible assets	5.1	(5 197)	(1 703)	(5 197)	(1 703)
Purchase of intangible assets	5.2	–	(241)	–	(241)
(Acquisition) / disinvestment of investments		(8 257)	(4 075)	(8 257)	(5 597)
Interest received	2.3	92 708	65 173	72 804	55 037
Disinvestment / (Acquisition) of equity accounted investments	9.5	17 301	(33 407)	17 301	(18 048)
Investment in subsidiary	9.2	–	–	(56 378)	(367 837)
Proceeds from sale of equipment, furniture and other tangible assets		–	13	–	13
Net cash generated by investing activities		**96 555**	**25 760**	**20 273**	**(338 376)**
Cash flows from financing activities					
Capital funding received from the shareholder	8.2	251 706	196 786	251 706	196 786
Lease payment (capital portion)		(10 636)	(9 163)	(10 636)	(9 163)
Net cash from financing activities		**241 070**	**187 623**	**241 070**	**187 623**
Net increase in cash and cash equivalents		**773 344**	**1 011 995**	**645 273**	**660 055**
Cash and cash equivalents at beginning of year		2 547 369	1 535 374	2 071 170	1 411 115
Cash and cash equivalents at end of year	4.1	**3 320 712**	**2 547 369**	**2 716 442**	**2 071 170**

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for the Year Ended 31 March 2022

Notes to the Annual Financial Statements
for the Year Ended 31 March 2022

Accounting Framework and Critical Judgements

1.1 Basis of preparation

The Group financial statements of sefa (the Company) comprise the Company and its subsidiaries and the Group's interest in associates, joint ventures and joint operations.

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC) and comply with the South African Companies Act, No 71 of 2008 as well as the requirements of the PFMA. The financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- Investment properties measured at fair value.
- Investment properties held-for-sale measured at fair value.
- Investments that are classified as financial instruments at fair value through profit or loss.

The Group and Company financial statements are presented in South African Rand, which is the Company's functional currency, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 1.6.

1.2 Going concern

The Group and the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group and the Company should be able to operate within their current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future.

The financial statements have been prepared on a going concern basis.

1.3 Significant changes in accounting policies

No significant changes in accounting policies applicable for the year ending 31 March 2022.

1.4 Principle accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out in this section as well as in the related notes to the Group and Company financial statements. The principle accounting policies applied are consistent with those adopted in the prior year, unless otherwise stated.

The principle accounting policies applied in the Company financial statements are consistent with those applied in the Group financial statements where applicable.

1.4.1 Consolidation

1.4.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when control is obtained by the Group. A business is defined as an integrated set of activities and assets that are capable of being conducted and managed for the purposes of providing a return directly to investors or other owners, members or participants.

Recognition and measurement

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as and when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where applicable the Group measures any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets at initial recognition. Subsequently, the carrying amount of non-controlling interest is the amount of the interest at initial recognition plus the non-controlling interests' share of the subsequent change in equity. Total comprehensive income is attributed to non-controlling interest. Accumulated losses attributed to noncontrolling interest may result in the non-controlling interest having a deficit balance.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. In the event of this being less than the fair value of the net assets of the acquiree in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Derecognition

When a parent loses control of a subsidiary it stops consolidating the subsidiary by derecognising the assets (including goodwill) and liabilities of the subsidiary and NCI in the subsidiary. As a consequence, the amount recognised in profit or loss on loss of control of a subsidiary is measured as the difference between:

- The sum of :
  - The fair value of the consideration received, if any;
  - The fair value of any retained non-controlling investment; and
  - The carrying amount of the NCI in the former subsidiary.
- The carrying amount of the former subsidiary's net assets.

1.4.1.2 Consolidation of subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when **sefa** is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are consolidated in the Group financial statements from the date that control commences (acquisition date) and are deconsolidated from the date that control ceases (disposal date).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Where necessary, adjustments are made to the financial statements of subsidiaries to align any difference in accounting policies with those of the Group.

The Company accounts for investments in subsidiaries at cost, less accumulated impairment losses.

1.4.1.3 Non-controlling interests

On an acquisition-by-acquisition basis, non-controlling interests in the acquiree is initially measured at the non-controlling shareholders' proportion of the net identifiable assets acquired and liabilities and contingent liabilities assumed.

Non-controlling shareholders are treated as equity participants; therefore, all acquisitions of noncontrolling interests or disposals by the Group of its interests in subsidiaries, where control is maintained subsequent to the disposal, are accounted for as equity transactions. Consequently, the difference between the fair value of the consideration transferred and the carrying amount of a non-controlling interest purchased, is recorded in equity. All profits or losses arising as a result of the disposal of interests in subsidiaries to non-controlling shareholders (where control is subsequently maintained) are also recorded in equity.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Total comprehensive income is attributed to non-controlling interests even if this results in the noncontrolling interests having a deficit balance.

1.4.1.4 Interest in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are all entities over which the Group has significant influence but not control or joint control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost, which includes transaction costs. Subsequent to the initial recognition, the Group financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

The Group's investment in equity-accounted investees includes goodwill identified on acquisition. Any excess of the acquisition price over the acquired net asset value is not separately recognised as goodwill, but rather is included in the cost of the investment.

The cumulative post-acquisition movements are adjusted for against the carrying amount of the investment. Distributions received from associates reduce the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investee equals or exceeds its interest in the equity accounted investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the equity accounted investee.

The equity interest in an equity accounted investee includes, for this purpose, the carrying amount of the investment under the equity method and other long term interests that in substance form part of the entity's net investment in the associate or joint venture.

After application of the equity method, including recognising the associate's or joint venture's losses, **sefa** determines whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

Unrealised gains and losses arising from transactions with equity-accounted investments are eliminated against the investment to the extent of the Group's interest in the investment. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

1.4.2 Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognised when the Group or Company has a present obligation as a result of a past event and the amount can be reliably measured. The Group or Company will also determine whether outflow of economic resources, embodying economic benefits that will be required to settle the obligation is probable or not. A provision will therefore be raised if the condition of being probable is met.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

1.4.3 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the notes when significant.

1.4.4 Employee benefits

Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plan

The Group has a provident fund scheme which is a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. Contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the year to which they relate.

1.4.5 Measurement principles

Key assets and liabilities shown in the statement of financial position are subsequently measured as follows:

Assets	Measurement principle
Cash and cash equivalents	Amortised cost
Trade and other receivables	Amortised cost
Loans and advances	Amortised cost
Investment properties held-for-sale	Fair value at the date of being classified as held-for-sale less subsequent impairments
Equipment, furniture and other tangible assets	Historical cost, less accumulated depreciation and impairment losses
Intangible assets	Historical cost, less accumulated amortisation and impairment losses
Deferred tax assets	Undiscounted amount measured at the tax rate at the reporting date
Investment properties	Fair value through profit or loss
Investments	Fair value through profit or loss
Investments in associates and joint ventures	Cost adjusted for share of movements in net assets, less impairment losses
Right-of-use Asset	Historical cost, less any accumulated depreciation and impairment losses
Deferred grants receivable	Conditional grants (grant provided to customers that may become repayable if the customer defaults on their loan) disbursed to customers is presented as deferred expenses and recognised on a systematic basis over the related loan term.

Liabilities	Measurement principle
Trade and other payables	Amortised cost
Tax payable	Amount expected to be paid to the tax authorities, using the tax rate at the reporting date
Outstanding claims reserve	Present value of the best estimate of settlement amount
Unearned risk reserve	Present value of the best estimate of settlement amount
Deferred tax liabilities	Undiscounted amount measured at the tax rate at the reporting date
Post-retirement medical liability	Present value of the best estimate of settlement amount
Shareholder's loans	Amortised cost
Lease Liability	Present value of lease payments to be made over the lease term
Deferred grant payable	Grant income received is deferred on the statement of financial position as deferred grant payable and recognised as revenue on a systematic basis over the term of the related loan.

1.4.6 Determination of fair values

Determination of fair values

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1	Level 2	Level 3
Quoted prices (unadjusted) in active markets for identical assets or liabilities	Inputs other than quoted prices (as per Level 1) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Refer to note 5.5 for additional information on determining the fair value of investment properties and note 7.11 for investments carried at fair value.

1.5 New and amended standards and interpretations

1.5.1. No new standards required to be implemented for the year ending 31 March 2022.

1.5.2 New standards and interpretations, not yet effective

The pronouncement listed below will be effective in future reporting periods and is considered relevant to the Group. The Group has elected not to early adopt the new pronouncement. It is expected that the Group will adopt the pronouncement on its effective date in accordance with the requirements of the pronouncement.

Topic	Key requirements	Effective date
IFRS 17 Insurance Contracts	IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The new standard brings greater comparability and transparency about the profitability of new and in-force business and gives financial statements users more insight into an insurer's financial health. IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty related to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. Insurance contracts are required to be measured based only on the obligations created by the contracts. An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. Separate presentation of underwriting and financial results is required and will therefore give added transparency about the sources of profits and quality of earnings of insurers. This standard replaces IFRS 4 – Insurance Contracts.	IFRS 17 will be effective for annual periods beginning on or after 1 January 2023.
IAS 1 Presentation of Financial Statements	*Classification of liabilities as Current or Non-Current:* Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. *Disclosure of Accounting Policies:* The amendments require companies to disclose their material accounting policy information rather than their significant accounting policy information, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.	1 January 2023

Topic	Key requirements	Effective date
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	*Definition of Accounting Estimates:* The amendments clarify how companies should distinguish changes in accounting estimates, by replacing the definition of a change in accounting estimate with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in the financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged.	1 January 2023
Onerous Contracts – *Costs of Fulfilling a Contract – Amendments* to IAS 37	*An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.* The amendments specify which costs an entity includes when assessing whether a contract is onerous or loss- making. This will not impact the group currently as **sefa** has not identified any onerous contracts.	Effective from 1 January 2022

1.6 Critical accounting judgements, estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group and Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

1.6.1 Income taxes

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

1.6.2 Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which it can be utilised.

1.6.3 Measurement of the expected credit loss (ECL) allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 7.5.3, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

1.6.4 The ultimate liability arising from claims made under indemnity contracts

The estimation of the ultimate liability arising from claims made under indemnity contracts is a critical accounting estimate. Several sources of uncertainty have to be considered in estimating the liability that the Group will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining the tools with which it monitors and manages risk to place the Group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which it operates means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

1.6.5 Effective rate used in determining the fair value of the shareholder's loan

The effective interest rate used to discount the interest-free shareholder's loans from the IDC is based on the average rate at which the IDC borrows external funds. **sefa** has never applied for external finance and, therefore, the average borrowing rate of the IDC is considered a market related rate.

1.6.6 Fair value assumptions for investment property

Property valuations take place annually, based on the aggregate of the net annual rental receivable from the properties, considering and analysing rentals received on similar properties in a close vicinity, less associated costs (insurance, maintenance, repairs, and management fees).

A capitalisation rate which reflects the specific risks inherent in the net cash flows is applied to the net annual rentals to arrive at the property valuations.

The fair value of undeveloped land held as investment property is based on comparative market prices after market surveys.

External, independent valuators having appropriate, recognised professional qualifications and recent experience in the location and category of the property being valued, perform valuations on the portfolio every three years.

Refer to note 5.5 for the fair value assumptions used.

1.6.7 Fair value assumptions for investments, associates and joint ventures

The fair value of the investment in equity instruments is determined by reference to the net asset value of the underlying entity.

1.6.8 Assumptions applied to the impairment of investments in associates and joint ventures

These assets are not carried at fair value but at cost adjusted for share of movements in net assets, less impairment losses.

The impairments of investments in associates and joint ventures is determined by reference to the net asset value of the underlying entity.

Refer to note 2.4.2 for additional information

2. Results of operations

2.1 Interest income, dividend income, fee income, rental income and indemnity premiums earned

Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

Dividend income

Dividend income is recognised in profit or loss on the date the Group's right to receive payment is determined.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes.

Fee income

Income earned on the execution of a significant act is recognised when the significant act has been performed. Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service.

Fee income is comprised of commitment fees and administration fees charged on some loans. These fees, where applicable to the loan, are due from customers on disbursement of the loan.

Rental income

Rental income is generated from investment properties that are subject to operating leases. An operating lease is a lease where substantially all of the rewards and risks incidental to ownership of the leased asset remains with the lessor.

Receipts in respect of operating leases are accounted for as income on the straight-line basis over the period of the lease.

Indemnity premiums earned

Indemnity premiums earned are included in revenue and comprise the premiums earned on active contracts. Premiums are earned and recognised as income from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten.

Grant income

The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Grant income received is deferred on the statement of financial position and recognised as revenue on a systematic basis over the term of the related loan.

Other revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes. Other revenue comprises of bad debts recovered, management fee income on related parties and other sundry income.

Management fee income charged to related parties

Management fees are charged by **sefa** to related parties in the group for the shared service costs that are incurred. The management fees are charged in terms of the service level agreements in place with each subsidiary. At a Group level these will eliminate, except for Khula Land Reform which is not consolidated in terms of IFRS requirements. Khula Land Reform is registered as a Non-profit Company. This company has been exempted from consolidation as **sefa** is acting as an agent.

2. Results of operations

		Group		Company	
		2022	2021	2022	2021
		R'000	R'000	R'000	R'000
2.2	**Interest income on loans and advances**				
	Interest received on loans and advances to clients	115 784	50 427	115 786	49 935
2.3	**Other interest earned and other revenue**				
	Fee income	14 774	12 263	14 774	12 175
	Indemnity premiums earned	4 584	1 981	–	–
	Interest on overdue rental debtors	841	1 257	–	–
	Investment property rental income	15 372	10 267	–	–
	Investment property rental recoveries	7 488	5 487	–	–
	Interest received on cash and cash equivalents	91 872	63 919	72 813	55 037
	Interest received on related party loan	–	–	12 885	12 227
	Dividends received on equity investments	–	–	–	–
	Bad debts recovered	2 009	1 715	1 859	1 653
	Management fee – related parties	8 782	8 151	37 563	35 111
	Other sundry income (1)	4 066	5 934	4 069	5 935
	Accounting gain on dissolution of subsidiary (2)	–	7 967	–	–
	Total other interest and other revenue	**149 788**	**118 941**	**143 963**	**122 138**
	Total other interest earned	92 713	65 176	85 698	67 264
	Total other revenue	57 075	53 765	58 265	54 874

(1) Rental income earned on a building that is sub-leased to a third party to the value of R1.6 million (2021: R5.2 million) is included in other sundry income.

(2) Refer to note 9.2.1 for details of carrying values disposed of.

2. Results of operations (continued)

2.4 Operating loss

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Is arrived at after taking into account the following:				
2.4.1 Specific items:				
Contributions to defined contribution plans	15 427	15 644	15 427	15 644
Depreciation	2 896	3 640	2 896	3 640
Amortisation	1 041	1 094	1041	1 094
Penalties and interest – South African Revenue Services	(26 993)	27 001	(26 993)	27 001
	(7 629)	**47 379**	**(7 629)**	**47 379**
2.4.2 Increase/(decrease) in impairments on investments:				
Impairment of Investments in Associates	–	–	39	(8)
Impairment of Joint Ventures	–	–	7 071	(7 057)
Impairment of Other Investments	9 339	3 495	9 339	3 860
Impairment of Joint Operation	–	–	–	(9 916)
Impairment of Subsidiaries	–	–	(14 576)	(25 360)
Investment written off	–	–	–	27 962
Total increase in impairments on investments	9 339	3 495	1 873	(10 519)

Impairment losses are recognised in proportion to the entities share in the reduction of the investees net asset value, if any. The individual investments' fair value less cost of disposal have been used as the recoverable amount as there is no reason to believe that value in use would materially exceed its fair value less cost of disposal as the above mentioned changes in the net asset value would have an equal impact on the future cash flows which would realise when the investments are ultimately disposed of.

2.4.3 Increase/(decrease) in expected credit losses on loans and advances:				
Increase/(Decrease) in expected credit losses – loans and advances	293 529	122 485	306 072	124 721
Bad debt written off – loans and advances[1]	44 560	56 174	43 102	53 067
Total increase in expected credit losses on loans and advances	**338 089**	**178 659**	**349 174**	**177 788**
(1) On a portfolio basis the split of bad debt written off is as follows:				
Micro Finance portfolio	–	11 061	–	11 061
Co-operatives portfolio	6 557	28 693	6 557	28 693
Direct Lending Portfolio (Loans issued before 1 April 2016)	36 055	199	36 055	199
Direct Lending Portfolio (Loans issued after 1 April 2016)	490	13 114	490	13 114
Khula Akwandze Fund	1 391	–	–	–
Identity Development Fund	67	3 107	–	–
	44 560	56 174	43 102	53 067

(1) Refer to 7.5.7 for the additional policy notes.

2. Results of operations (continued)

2.4 Operating loss (continued)

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
2.4.4 Increases/(decreases) in bad debt provisions on rental debtors:				
Increase in bad debt provision – rental debtors	2 548	1 608	–	–
Loss on disposal of rental debtors	–	–	–	–
Total increase in bad debt provisions on rental debtors	**2 548**	**1 608**	**–**	**–**
2.4.5 Increases/(decreases) in bad debt provisions on related party loans				
Increase in bad debt provision on Khula Business Premises (Pty) Ltd	**–**	**–**	**58 733**	**52 115**
2.4.6 (Decrease)/increase in provisions and reserves relating to the credit indemnity product:				
Indemnity claims incurred	2 491	4 530	–	–
Claims provision	(2 111)	4 342	–	–
Indemnity reserves	(2 490)	(6 672)	–	–
Total increase in indemnity provisions and reserves	**(2 110)**	**2 200**	**–**	**–**
2.4.7 Loans and advances: Impairment movement per sector				
Net increase/(decrease) in impairments – loans and advances				
Agriculture, forestry and fishing	(461)	4 308	1 960	4 861
Basic chemicals	840	–	840	–
Basic iron and steel	6 968	1 752	6 968	1 752
Beverages	2 698	1 928	2 698	1 928
Building construction	(1 827)	17 151	(1 827)	17 151
Business services	577	(3 896)	577	(3 896)
Catering and accommodation services	(2 680)	1 450	(2 680)	1 450
Electricity, gas and steam	20 887	12 036	20 887	12 036
Finance and insurance	62 610	(27 094)	62 610	(27 094)
Food	37 854	(2 210)	37 854	(2 210)
Footwear	(1 102)	1 277	(1 102)	1 277
Furniture	103	888	103	888
Glass and glass products	161	371	161	371
Government	(775)	(551)	(775)	(551)
Machinery and equipment	11 041	499	11 041	499
Medical, dental and other health and veterinary services	579	(34)	579	(34)
Metal products excluding machinery	17 232	1 535	17 232	1 535
Motor vehicles, parts and accessories	(2 984)	(2 470)	(2 984)	(2 470)

2. Results of operations (continued)

2.4 Operating loss (continued)

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
2.4.7 Loans and advances: Impairment movement per sector (continued)				
Non-metallic minerals	12 842	8 881	12 842	8 881
Other community, social and personal services	14 582	45 236	14 582	45 236
Other chemicals and man-made fibres	(1 335)	626	(1 335)	626
Other industries	(4 065)	(12 367)	(3 859)	(12 367)
Other mining	15 982	3 427	15 982	3 427
Other services	8 593	(1 212)	18 509	471
Paper and paper products	(8)	32	(8)	32
Plastic products	6 566	2 616	6 566	2 616
Printing, publishing and recorded media	(733)	83	(733)	83
Television, radio and communication equipment	735	59	735	59
Textiles	17 962	1 148	17 962	1 148
Transport and storage	35 120	15 458	35 120	15 458
Wearing apparel	6 032	1 886	6 032	1 886
Wholesale and retail trade	29 794	34 575	29 794	34 575
Wood and wooden products	(259)	15 097	(259)	15 097
Total movement on credit loss allowances	**293 529**	**122 485**	**306 072**	**124 721**
2.4.8 Bad debts written off/ (recovered) per sector:				
Bad debts written off/(recovered) – Loans and advances				
Bad debts written off	44 560	56 174	43 102	53 067
Bad debts recovered	(2 009)	(1 715)	(1 859)	(1 653)
Total bad debts written off/ (recovered)	**42 551**	**54 459**	**41 243**	**51 414**
Bad debts written off/(recovered) – Per sector:				
Agriculture, forestry and fishing	1 391	97	–	–
Building construction	9 732	2 040	9 732	2 040
Business services	2 543	1 822	2 543	1 822
Finance and insurance	158	11 264	158	11 264
Food	3 762	9 102	3 762	9 102
Government	361	72	361	72
Medical, dental and other health and veterinary services	225	–	225	–
Motor vehicles, parts and accessories	–	163	–	163
Other community, social and personal services	(5)	82	(5)	82
Other chemicals and man-made fibres	3 488	–	3 488	–
Other industries	15 693	19 820	15 693	19 820
Other services	75	3 151	158	203
Printing, publishing and recorded media	983	–	983	–
Textiles	–	(49)	–	(49)
Transport and storage	1 013	–	1 013	–
Wholesale and retail trade	3 132	6 895	3 132	6 895
Total bad debts written off/(recovered)	**42 551**	**54 459**	**41 243**	**51 414**

2. Results of operations (continued)

2.5 Cash utilised by operations

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Loss before tax	(171 455)	(282 623)	(227 415)	(303 654)
Adjustments for:				
Depreciation	12 883	14 297	12 883	14 297
Amortisation	1 041	1 094	1 041	1 094
Fair value adjustment	(1 653)	(6 365)	–	–
Impairments – Investments	9 339	3 495	9 341	3 862
Impairments – Subsidiaries and equity accounted investees	–	–	(7 465)	(42 340)
Income from associates and joint ventures	(45 071)	(43 941)	–	–
Increase in indemnity reserves	(2 490)	(6 672)	–	–
Interest charged on shareholder's loan	54 607	50 372	54 607	50 372
Interest on related party loans	–	–	(12 885)	(12 227)
Investment income and interest on overdue rental debtors	(92 713)	(65 175)	(72 813)	(55 037)
Grant income	(314 790)	(121 742)	(314 790)	(121 742)
(Profit)/loss on sale of equipment	–	35	–	35
Profit on sale on unlisted investment	–	(7 995)	–	–
Provision for bad debts – loans	293 529	122 485	306 072	124 721
Provision for bad debts – rental debtors	2 548	1 608	–	–
Investment written off	–	27 962	–	27 962
Bad debts written off	44 560	28 212	43 102	53 067
Increase in impairments on cash	(7 510)	3 224	(6 114)	2 139
Increase in impairments on related party loans	–	–	58 733	52 115
Post-retirement liability	31	93	31	93
Increase in provision for indemnity claims	(2 111)	4 342	–	–
Operating loss before changes in working capital	**(219 255)**	**(277 294)**	**(155 672)**	**(205 243)**
Changes in working capital	**(211 172)**	**(52 646)**	**(312 926)**	**(110 618)**
(Increase)/decrease in trade and other receivables	(192 881)	(105 939)	(252 806)	(102 072)
Loans issued to related parties	10 303	33 877	(26 584)	(30 372)
(Decrease)/increase in trade and other payables	(28 594)	19 416	(33 536)	21 826
Cash utilised by operations	**(430 427)**	**(329 940)**	**(468 598)**	**(315 861)**

2. Results of operations (continued)

2.6 Grant Income and grant expense

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Grant received: Blended Finance	18 302	11 483	18 302	11 483
Grant received: Small Business and Innovation Fund	30 608	5 964	30 608	5 964
Grant received: European Union	4 250	–	4 250	–
Grant received: COVID-19 relief and post economic recovery programmes	261 630	104 295	261 630	104 295
	314 790	**121 742**	**314 790**	**121 742**
Grant expense: Blended Finance	(18 302)	(11 483)	(18 302)	(11 483)
Grant expense: Small Business and Innovation Fund	(26 739)	(20 786)	(26 739)	(20 786)
Grant expense: Covid-19 relief and post economic recovery programmes	(42 612)	(1 911)	(42 612)	(1 911)
	(87 653)	**(34 180)**	**(87 653)**	**(34 180)**

3. Taxation

3.1 Current tax asset/ (tax payable)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year. Refer to note 3.2 for additional information.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Tax receivable/(payable) at the beginning of the year	(296 951)	61	(297 012)	–
Tax as per statement of comprehensive income (net of deferred tax)	270 011	(270 011)	270 011	(270 011)
Tax penalty	26 993	(27 001)	26 993	(27 001)
Tax (refund received)/paid	(53)	–	8	–
Tax (payable)/receivable at the end of the year	**–**	**(296 951)**	**–**	**(297 012)**

3. Taxation (continued)

3.2 Income tax expense

Income tax expenses comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in other comprehensive income or equity.

Current tax

Current tax is measured using tax rates enacted or substantively enacted at the reporting date. Current taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, in other comprehensive income or in equity.

Current tax also includes any adjustment to tax payable in respect of previous years when necessary.

The Group offsets current assets and current tax liabilities only when:

- The Group has a legally enforceable right to set off current tax assets against current tax liabilities.
- The Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged to other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or equity.

Refer to note 3.3 for additional information on deferred tax.

The South African Revenue Service announced that the corporate tax rate will be changing from 28% to 27% for all years of assessment ending on or after 1 March 2023. Deferred tax has been calculated at a rate of 27% (2021 : 28%), as a result of tax laws substantively enacted at reporting date.

3. Taxation (continued)

3.2 Income tax expense (continued)

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Current tax expense – current year	**(270 011)**	**270 011**	**(270 011)**	**270 011**
– Current year	–	270 011	–	270 011
– Prior year under/(over) provision	(270 011)	–	(270 011)	–
Deferred taxation – current year	**(99 256)**	**(348 795)**	**(86 624)**	**(332 706)**
– Current year	(87 797)	(499 648)	(76 328)	(495 143)
– Prior year under/(over) provision	–	–	–	–
– Rate change adjustment	36 279	–	32 907	–
– Tax Loss movement	(47 738)	150 853	(43 203)	162 437
Deferred tax asset not recognised in the current year	95 535	348 563	86 624	332 706
Income tax expense	**(269 732)**	**269 779**	**(270 011)**	**270 011**
Reconciliation of taxation amount:				
Loss before taxation	(171 455)	(282 623)	(227 415)	(303 654)
Taxation at standard rate of 28% (2021:28%)	(48 007)	(79 134)	(63 676)	(85 023)
Tax effect of permanent differences[1]	(89 192)	(2 327)	(55 855)	22 328
– Non-deductible expenses	32 287	12 707	32 287	37 097
– *expenses attributable to exempt grant income*	24 543	–	24 543	–
– *amortisation of lease premiums and improvements to leasehold premises*	5	15	5	15
– *legal fees not deductible*	–	649	–	649
– *repairs and maintenance not deductible*	7	–	7	–
– *movement on day 1 gain on IDC loan*	15 290	14 104	15 290	14 104
– *Interest, penalties paid in respect of taxes*	(7 558)	7 560	(7 558)	7 560
– *other*	–	(9 621)	–	14 769
– Non-taxable income	(121 479)	(14 768)	(88 142)	(14 769)
– *fair value adjustment on investment properties*	(93)	(356)	–	(356)
– *exempt grant income*	(88 142)	–	(88 142)	–
– *other*[2]	(33 244)	(14 412)	–	(14 413)
Tax effect of deferred tax asset not recognised	99 535	348 563	86 624	332 706
Tax loss recognised	1 664	2 677	–	–
Tax effect of rate change adjustment	36 279	–	32 907	–
Taxation – Relating to prior year under/(over) provision	(270 011)	–	(270 011)	–
Taxation (credit)/ charge to the statement of comprehensive income	**(269 732)**	**269 779**	**(270 011)**	**270 011**
Taxation expense relating to current year	279	269 779	–	270 011
Effective tax rate	**(0,16%)**	**(95,46%)**	**0,00%**	**(88,92%)**

[1] *Permanent differences are as a result of Amortisation of lease premiums and improvements to leasehold premises; Repairs and maintenance and legal expenditure not deductible due to being capital in nature; Movement on day 1 gain on shareholder loan and irregular expenditure not deductible for tax.*

[2] *The other amounts in the tax rate reconciliation are reconciling items from externally managed related entities. The individual amounts making up this item are not considered to be significant.*

3. Taxation (continued)

3.3 Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable income.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which unused tax deductions can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax will be realised.

Deferred tax is not recognised if the temporary differences arise from:

- The initial recognition of goodwill
- The initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit or loss

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Group intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of Investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

3. Taxation (continued)

3.3 Deferred tax assets and liabilities (continued)

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
3.3.1 Net deferred tax				
Deferred taxation assets	154 406	121 771	136 976	107 876
Deferred taxation liabilities	(154 403)	(121 489)	(136 976)	(107 876)
Net deferred taxation asset	**3**	**282**	**–**	**–**
3.3.2 Deferred taxation assets				
Movement on the deferred taxation asset is as follows:				
At beginning of the year	121 771	96 899	107 876	89 720
Temporary differences recognised in profit or loss				
– Current year	74 881	24 872	67 080	18 156
– Previous year	–	–	–	–
– Rate change adjustment	(42 246)	–	(37 980)	–
At end of the year	**154 406**	**121 771**	**136 976**	**107 876**
Deferred taxation assets recognised:				
Income received in advance	2	2	–	–
Tax loss	154 403	107 973	136 976	107 876
Other provisions	1	13 796	–	–
Total deferred tax assets recognised	**154 406**	**121 771**	**136 976**	**107 876**
Unused deferred tax assets:				
Fair value adjustments	888	1 291	–	–
Other provisions	312 868	256 593	366 293	286 096
Fixed assets (owned)	130	126	26	17
Revenue received in advance	–	738 846	–	738 846
IFRS 16	1 395	1 558	1 395	1 558
Prepayments	(127)	1 173	(127)	(118)
Doubtful debt allowance	(136 976)	(107 757)	(136 976)	(107 757)
Impairment of investments	84 533	69 879	123 505	110 941
Tax losses (Revenue in nature)	591 598	39 414	534 381	–
Total	**854 309**	**1 001 123**	**888 497**	**1 029 583**

3. Taxation (continued)

3.3 Deferred tax assets and liabilities (continued)

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
3.3.3 Deferred taxation liability				
Movement on the deferred taxation liability is as follows:				
At beginning of the year	(121 489)	(96 850)	(107 876)	(89 720)
Temporary differences recognised in profit or loss				
– Current year	(38 881)	(24 639)	(34 173)	(18 156)
– Rate change adjustment	5 967	–	5 073	–
At end of the year	**(154 403)**	**(121 489)**	**(136 976)**	(107 876)
Deferred taxation liabilities:				
Equipment, furniture and other tangible assets	–	–	–	–
Prepaid expenses	127	–	127	–
Debtor allowances	154 276	121 371	136 849	107 758
Fair value adjustments on investment property	–	–	–	–
Other provisions	–	118	–	118
Total deferred tax liabilities recognised	**154 403**	**121 489**	**136 976**	**107 876**

The South African Revenue Service announced that the corporate tax rate will be changing from 28% to 27% for all years of assessment ending on or after 1 March 2023.

Deferred tax has been calculated at a rate of 27% (2021 : 28%), as a result of tax laws substantively enacted at reporting date.

4. Working capital

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash managed by the shareholder, deposits held on call with financial institutions, and investments in money market instruments, all of which are available for use by the Group unless otherwise stated. Cash and cash equivalents are available within three months from the date of acquisition (or from initial recognition).

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Cash in bank and on hand	3 236 517	2 399 016	2 654 657	1 950 287
Cash managed by shareholder	32 212	78 649	9 802	51 179
Cash managed on behalf of 3rd parties (note 4.3.3)	51 983	69 704	51 983	69 704
Gross carrying amount	**3 320 712**	**2 547 369**	**2 716 442**	**2 071 170**
Expected credit loss on cash	(24)	(7 534)	(17)	(6 133)
Total cash and cash equivalents	**3 320 688**	**2 539 835**	**2 716 425**	**2 065 037**

Funds held on behalf of Managed Funds are included in cash and cash equivalents. Refer to note 4.4 for additional information.

Cash and cash equivalents are all current assets. Cash balances managed by IDC are immediately available as and when requested.

4.2 Trade and other receivables

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost less impairment losses. The carrying amount of trade and other receivables is deemed to approximate fair value due to the short term nature of the assets.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Trade receivables	21 793	29 248	3 821	4 260
Prepayments	471	521	471	521
Rental debtors	23 445	20 187	–	–
Related party loans (refer to note 10.1)	8 594	7 904	495 831	447 770
Study loans	1 035	441	1 033	441
Trade and other receivables before credit allowances	**55 338**	**58 301**	**501 156**	**452 992**
Credit allowances on rental debtors	(22 263)	(19 715)	–	–
Credit allowances on trade and other receivables	(12 296)	(11 724)	(1 311)	(739)
Credit allowance on related party loan (refer to note 10.1)[1]	–	–	(284 791)	(226 058)
Closing carrying value	**20 779**	**26 862**	**215 054**	**226 195**

Trade and other receivables are current assets and not pledged as security.

*(1) All related parties, including Khula Land Reform (not required to be consolidated) were assessed for impairment and no impairment was required, other than for Khula Business Premises (a subsidiary) where a credit loss allowance was raised in the **sefa** company financial statements which is then eliminated in the consolidated group financial statements. At a company level the related party loans are assessed for impairment with referece to the net asset value of the subsidiary. If the net asset value is negative, the related party loan is impaired up to the total negative net asset value attributable to the company (**sefa**).*

4. Working capital (continued)

4.3 Trade and other payables

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Trade payables	47 534	40 024	26 823	24 113
Provision for bonus (Refer to 4.3.1)	24 383	18 474	24 383	18 474
Provision for leave pay (Refer to 4.3.2)	6 405	3 848	6 405	3 848
Managed funds (Refer to 4.3.3)	51 983	69 704	51 983	69 704
Total trade and other payables	**130 305**	**132 050**	**109 594**	**116 139**
4.3.1 Provision for Bonuses				
Opening balance	18 474	18 375	18 474	18 375
Utilised during the year	–	–	–	–
Unutilised portion released during the year	(18 474)	(18 375)	(18 474)	(18 375)
Accruals raised during the year	24 383	18 474	24 383	18 474
Closing balance	**24 383**	**18 474**	**24 383**	**18 474**
4.3.2 Provision for leave pay				
Opening balance	3 848	5 168	3 848	5 168
Utilised during the year	(4 513)	(5 467)	(4 513)	(5 467)
Prior year (under provision) / over provision	–	–	–	–
Accruals raised during the year	7 070	4 147	7 070	4 147
Closing balance	**6 405**	**3 848**	**6 405**	**3 848**
4.3.3 Managed funds				
The group is managing funds and holding cash balances on behalf of the following parties:				
Unops	37 286	55 290	37 286	55 290
European Union	14 697	14 414	14 697	14 414
Total managed funds	**51 983**	**69 704**	**51 983**	**69 704**

All trade and other payables are current liabilities. Carrying amount is deemed to approximate fair value due to the short term nature of the assets.

4.4 Deferred grants receivable and payable

Deferred grant receivable - gross carrying amount	317 145	116 338	373 395	116 338
Credit allowances on deferred grant receivables	(3 785)	–	(3 785)	–
Total deferred grant receivable - net carrying value	**313 360**	**116 338**	**369 610**	**116 338**
Deferred grants payable	4 169 622	2 639 237	4 169 622	2 639 237
Total deferred grant payable	**4 169 622**	**2 639 237**	**4 169 622**	**2 639 237**

Grant income is deferred and recognised in profit or loss over the period necessary to match them with the costs for which they are intended to compensate.

5. Fixed assets

5.1 Equipment, furniture and other tangible assets

Measurement

All items of equipment, furniture and other tangible assets recognised as assets, are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. All items of equipment, furniture and other tangible assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Where parts of an item of equipment, furniture and other tangible assets have significantly different useful lives, they are accounted for as separate items of equipment, furniture and other tangible assets. Although individual components are accounted for separately, the financial statements continue to disclose a single asset.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised in profit or loss.

Subsequent costs

The Group recognises the cost of replacing part of such an item of equipment, furniture and other tangible assets in the carrying amount of the item when that cost is incurred and if it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other costs are recognised in profit or loss as an expense as they are incurred.

Impairment

The carrying amount of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. The recoverable amount of non-financial assets is the greater of fair value less cost of disposal and its value in use. Fair value less cost of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an orderly transaction between market participants at the measurement date, less the costs of disposal. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses

An impairment loss is recognised immediately in profit or loss.

Impairment losses recognised in the prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis, based on the estimated useful lives of the underlying assets. Depreciation is calculated on the cost of the asset (or carrying amount, if asset is previously impaired) less residual value. The estimated useful lives for the current and comparative periods are as follows:

Computer equipment	3 – 5 years
Office equipment	2 – 6 years
Furniture and fittings	5 – 6 years
Motor vehicles	4 – 5 years
Leasehold improvements	expected lease period

The residual values, useful lives and depreciation method are re-assessed at each financial year-end and adjusted if appropriate.

5. Fixed assets (continued)

5.1 Equipment, furniture and other tangible assets

De-recognition

The carrying amount of items of equipment, furniture and other tangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

	Group			Company		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
2022						
Motor vehicles	1 210	(838)	372	1 210	(838)	372
Computer equipment	21 838	(16 192)	5 646	21 442	(15 797)	5 645
Office equipment	5 052	(4 858)	194	4 786	(4 592)	194
Furniture and fittings	10 429	(9 675)	754	7 404	(6 649)	755
Lease improvements	12 433	(11 311)	1 122	12 433	(11 311)	1 122
	50 962	**(42 874)**	**8 088**	**47 275**	**(39 187)**	**8 088**
2021						
Motor vehicles	1 210	(732)	478	1 210	(732)	478
Computer equipment	16 688	(14 575)	2 113	16 293	(14 180)	2 113
Office equipment	5 052	(4 741)	311	4 786	(4 475)	311
Furniture and fittings	10 429	(9 331)	1 098	7 404	(6 306)	1 098
Lease improvements	12 407	(10 620)	1 787	12 407	(10 620)	1 787
	45 786	**(39 999)**	**5 787**	**42 100**	**(36 313)**	**5 787**

Notes to the Annual Financial Statements (continued)

for the Year Ended 31 March 2022

5. Fixed assets (continued)

5.1 Equipment, furniture and other tangible assets (continued)

The movement in the carrying value of office equipment, furniture and other tangible assets is as follows:

	Group					
	Motor vehicles	Computer Equipment	Office equipment	Furniture and fittings	Lease improvements	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2022						
Opening carrying value	478	2 113	311	1 098	1 787	5 787
Additions	–	5 171	–	–	26	5 197
Disposals	–	–	–	–	–	–
Depreciation charges	(106)	(1 638)	(117)	(344)	(691)	(2 896)
Closing carrying value	**372**	**5 646**	**194**	**754**	**1 122**	**8 088**
2021						
Opening carrying value	8	3 246	448	1 452	2 618	7 772
Additions	531	1 155	17	–	–	1 703
Disposals	–	(48)	–	–	–	(48)
Depreciation charges	(61)	(2 240)	(154)	(354)	(831)	(3 640)
Closing carrying value	**478**	**2 113**	**311**	**1 098**	**1 787**	**5 787**

	Company					
	Motor vehicles	Computer Equipment	Office equipment	Furniture and fittings	Lease improvements	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2022						
Opening carrying value	478	2 113	311	1 098	1 787	5 787
Additions	–	5 171	–	–	26	5 197
Disposals	–	–	–	–	–	–
Depreciation charges	(106)	(1 639)	(117)	(343)	(691)	(2 896)
Closing carrying value	**372**	**5 645**	**194**	**755**	**1 122**	**8 088**
2021						
Opening carrying value	8	3 246	448	1 452	2 618	7 772
Additions	531	1 155	17	–	–	1 703
Disposals	–	(48)	–	–	–	(48)
Depreciation charges	(61)	(2 240)	(154)	(354)	(831)	(3 640)
Closing carrying value	**478**	**2 113**	**311**	**1 098**	**1 787**	**5 787**

No equipment, furniture or other tangible assets are pledged as security for liabilities (2021: Rnil) and all assets are non-current assets.

5. Fixed assets (continued)

5.2 Intangible assets

Measurement

All intangible assets in the Group and Company have finite useful lives. Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses.

Impairment

The carrying amount of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. The recoverable amount of intangible assets is the greater of fair value less cost of disposal and its value in use. Fair value less cost of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an orderly transaction between market participants at the measurement date, less the costs of disposal. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss of assets carried at cost less any accumulated amortisation is recognised immediately in profit or loss.

Impairment losses recognised in the prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis, based on the estimated useful lives of the underlying assets. Amortisation is calculated on the cost less any impairment and expected residual value. The estimated useful lives for the current and comparative periods are as follows:

Computer software	3 – 4 years

The residual values, useful lives and amortisation methods are re-assessed at each financial year-end and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis.

De-recognition

The carrying amount of intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

Gains or losses arising from de-recognition are determined as the difference between the net disposal proceeds and the carrying amount of the item of intangible assets and included in profit or loss when the items are derecognised.

5. Fixed assets (continued)

5.2 Intangible assets (continued)

	Group			Company		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
2022						
Software	9 066	(8 864)	202	9 041	(8 839)	202
	9 066	(8 864)	202	9 041	(8 839)	202
2021						
Software	9 066	(7 823)	1 243	9 041	(7 798)	1 243
	9 066	(7 823)	1 243	9 041	(7 798)	1 243

The movement in the carrying value of computer software is as follows:

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening carrying value	1 243	2 507	1 243	2 507
Additions	–	241	–	241
Amortisation	(1 041)	(1 094)	(1 041)	(1 094)
Reclassification	–	(411)	–	(411)
Closing carrying value	**202**	**1 243**	**202**	**1 243**

No intangible assets are pledged as security for liabilities (2021: Rnil). All intangible assets are non-current assets.

5. Fixed assets (continued)

5.3 Investment properties

Investment property is property held to earn rental income or for capital appreciation or for both.

Measurement

Investment property is measured initially at cost, including transaction costs and directly attributable expenditure in preparing the asset for its intended use. Subsequently, all investment properties are measured at fair value.

Valuation

Valuation takes place annually, based on the aggregate of the net annual rental receivable from the properties, considering and analysing rentals received on similar properties in a close vicinity, less associated costs (insurance, maintenance, repairs, and management fees). A capitalisation rate which reflects the specific risks inherent in the net cash flows is applied to the net annual rentals to arrive at the property valuations.

The fair value of undeveloped land held as investment property is based on comparative market prices after market surveys.

Gains or losses arising from a change in fair value are recognised in profit or loss.

External, independent valuators having appropriate, recognised professional qualifications and recent experience in the location and category of the property being valued, perform valuations on the portfolio every three years.

Gain or Loss on the disposal of investment property

Gain or loss on the disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Refer to note 5.5 for additional information on determination of fair values.

The properties were valued by the independent valuators in 2021. A desktop valuation was performed in 2022. Inputs included market related rental income and market capitalisation rates.

5. Fixed assets (continued)

5.3 Investment properties (continued)

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening carrying amount	183 480	177 115	–	–
Fair value adjustments	1 653	6 365	–	–
Total investment properties	**185 133**	**183 480**	**–**	**–**
Amounts recognised in profit and loss from investment properties				
Interest on overdue rental debtors[1]	841	1 257	–	–
Investment property rental income[1]	15 372	10 267	–	–
Investment property rental recoveries[1]	7 488	5 487	–	–
Investment property expenses[2]	(57 821)	(51 143)	–	–
Total Amounts recognised in profit and loss	**(34 120)**	**(34 132)**	**–**	**–**

(1) As presented in note 2.3 – Other interest and revenue earned.

(2) As presented in the statement of comprehensive income.

5.4 Investment properties held-for-sale

Investment properties are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Measurement

Investment properties held-for-sale are measured on the same basis as investment properties.

Reclassification

The investment property will be reclassified immediately when there is a change in intention to sell.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening carrying amount	–	–	–	–
Reclassification to Investment Properties	–	–	–	–
Closing carrying value	**–**	**–**	**–**	**–**

Investment properties held-for-sale are valued on the same basis as the investment properties.

There is an intention to sell properties that are not financially viable, however, these sales take a considerable amount of time to conclude, and therefore due to the fact that management cannot reliably conclude that sale of these properties will be finalised within 12 months, they have been reclassified in the current year back to investment property.

5. Fixed assets (continued)

5.5 Net fair value gain or loss on investment properties

Refer to 1.3.6 for the fair value hierarchy and accounting policy on determination of fair values.

Valuation methods and assumptions used in determining the fair value of investment property and investment property held-for-sale:

- Capitalisation method

The property portfolio is mostly made up of income producing properties, with the result that the income capitalisation method has been adopted for the determination of value. The value of the property reflects the present value of the sum of the future benefits which an owner may expect to derive from the property. These benefits are expressed in monetary terms and are based upon the estimated rentals such a property would fetch, i.e. the market-related rental between a willing landlord and tenant. The usual property outgoings are deducted to achieve a net rental, which is then capitalised at a rate an investor would require.

- Comparative method

Of the entire portfolio, two properties are sectional title in nature and one comprises of vacant land. These properties have been valued on the direct comparison basis, as this is how they trade in the open market. The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject property.

Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Fair value gain/(loss) on investment properties	1 653	6 365	–	–
Net fair value gain and impairments	**1 653**	**6 365**	**–**	**–**

Investment properties are valued externally by independent valuators every three years. For the financial year ended 31 March 2022, a desk top valuation was performed. In the prior financial year, an external independent valuations was brought forward one year to confirm whether the impact of COVID-19 on the value of the properties was completely addressed at year end. All investment properties were valued on 31 March 2021, by Spectrum. Investment properties are non-current assets.

The fair value measurement for investment property has been categorised as level 3 fair value based on **sefa**'s fair value hierarchy due to unobservable inputs used.

The assumptions used in the valuations conducted were assessed to be appropriate for the current financial year.

The following summarises the valuation technique used in measuring the fair value of Investment Properties, as well as the significant unobservable inputs used:

Valuation technique

sefa's property portfolio consists mainly of income producing properties and this is the fundamental basis on which the valuation of investment properties is determined. Investment properties produce a perpetual income stream and the capitalisation of such net revenue flow is an accurate means of determining the value. Included in the portfolio, are two properties which are sectional title in nature and one comprises of vacant land. These properties have been valued on the direct comparison basis.

5. Fixed assets (continued)

5.5 Net fair value gain or loss on investment properties (continued)

The capitalisation rates used range from 11.5% to 17.5% (2021: 9% – 15.5%).

	Highest	Lowest	Average
Capitalisation percentage	15.5%	9%	12.7%

Sensitivity analysis for inputs to determine fair value

A change in 1% (2021: 1%) in the below inputs at the reporting date would have increased/(decreased) net fair value gain or loss on the investment property by the amounts shown below. This analysis assumes that all other variables remain constant.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Market related annual income 1% increase	1 879	615	–	–
Market related annual income 1% decrease	(1 879)	(615)	–	–
Capitalisation rate 1% increase	(1 861)	(42)	–	–
Capitalisation rate 1% decrease	1 861	42	–	–
Market related expenses 1% increase	(2 057)	336	–	–
Market related expenses 1% decrease	2 057	(336)	–	–

5.6 Leases (Right-of-use Asset and Lease Liability)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. As a lessee: The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 5.6 and are subject to impairment in line with the Group's policy.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease liability is discounted using the incremental borrowing rate. The Group's leases comprise of fixed lease payments.

As a lessor:

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the underlying asset and recognised over the lease term on the same basis as rental income.

5. Fixed assets (continued)

5.6 Right-of-use asset and lease liability (continued)

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening carrying amount	28 208	39 104	28 208	39 104
Depreciation charge for the year	(9 987)	(10 657)	(9 987)	(10 657)
Additions	–	3 989	–	3 989
Disposals	–	(4 228)	–	(4 228)
Modifications to lease terms	3 701	–	3 701	–
Closing carrying value	**21 923**	**28 208**	**21 923**	**28 208**

The right-of-use asset is for leases of property only and does not include any other class of assets. As at 1 April 2019, a right-of-use asset of R52 178 833 was recognised and accumulated depreciation on the right-of-use asset of R4 002 212 was processed in retained earnings. The right-of-use assets for all leases were recognised based on the carrying amount as if the standard had always been applied (retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application "Cumulative catch up method").

Set out below are the carrying amounts of lease liabilities and the movements during the period:

Opening carrying amount	34 025	43 427	34 025	43 427
Additions	3 989	3 989	3 989	3 989
Disposals	(4 228)	(4 228)	(4 228)	(4 228)
Accretion of interest	2 913	3 720	2 913	3 720
Payments	(13 557)	(12 883)	(13 557)	(12 883)
Closing carrying value	**27 090**	**34 025**	**27 090**	**34 025**

As at 1 April 2019, a lease liability of R52 178 833 was recognised and a reversal of R2 620 095 was processed for payments made before April 2019 under IFRS 16 against retained earnings.

The lease liability is discounted using the incremental borrowing rate.

5. Fixed assets (continued)

5.6 Right-of-use asset and lease liability (continued)

Lease payments not recognised as a liability

The group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

	2022 R'000	2021 R'000
The expense relating to payments not included in the measurement of the lease liability is as follows:		
Short term leases	–	–
Leases of low value assets	233	162
	233	**162**

Low value assets consists of 9 printers that are leased. Remaining term on the lease at year end was 25 months (2021: 0 due to being on month-to-month lease).
The Group applies the election by class of underlying asset to which the right of use relates.
Rental income earned on a building (right-of-use asset), that is sub-leased to a third party, to the value of R1.6 million (2021: R5.2 million) is included in other sundry income. (Refer to note 2.3)

Maturity analysis for lease liability

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Due within one year	12 430	11 001	12 430	11 001
Due after one year but within two years	10 950	9 130	10 950	9 130
Due within two to three years	3 710	10 184	3 710	10 184
Due within three to four years	–	3 710	–	3 710
Due within four to five years	–	–	–	–
Due after five years	–	–	–	–
Carrying value of lease liability	27 090	34 025	27 090	34 025

Contractual lease payments maturity analysis

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Due within one year	14 478	13 777	14 478	13 777
Due after one year but within two years	11 863	10 919	11 863	10 919
Due within two to three years	3 783	11 076	3 783	11 076
Due within three to four years	–	3 783	–	3 783
Due within four to five years	–	–	–	–
Due after five years	–	–	–	–
Total contractual lease payments in the next 5 years	30 124	39 555	30 124	39 555

6. Finance structure and commitments

6.1 Shareholder's loan

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening balance	679 436	629 064	679 436	629 064
Finance charges[1]	54 607	50 372	54 607	50 372
Total shareholder's loans	734 043	679 436	734 043	679 436

[1]At initial recognition, a day one gain was recognised. The effective interest rate used in determining the fair value of the shareholder's loan to discount the interest-free shareholder's loans from the IDC is based on the average rate at which the IDC borrows external funds. ***sefa*** *has never applied for external finance and, therefore, the average borrowing rate of the IDC is considered a market related rate. The interest recognised during the year relates to the unwinding of the day one gain. An assessment has been conducted as at the reporting date to test for possible changes in the effective interest rate and no material changes in the rate has been noted since initial recognition of the loan. At reporting date the carrying value is considered to approximate the fair value.*

The closing balance consists of two loans:

	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Loan terms	R'000	R'000	R'000	R'000
Subordinated and non-interest bearing. Repayable after 10 years, commencing 11 June 2024	660 521	614 768	660 521	614 767
Subordinated and non-interest bearing. Repayable biannually in equal instalments over 10 years, commencing 20 June 2023	73 522	64 668	73 522	64 668
Total shareholder's loans	**734 043**	**679 436**	**734 043**	**679 435**

6.2 Unearned risk provision and outstanding claims provision

Indemnity contract classification

Contracts under which the Group accepts significant indemnity risk (insurance risk) from another party (the indemnity holder) by agreeing to compensate the indemnity holder or other beneficiary if a specified uncertain future event (the indemnified event) adversely affects the indemnity holder, are classified as indemnity contracts. Indemnity risk is a risk other than financial risk. Indemnity contracts may also transfer some financial risk.

Unearned risk reserve consists of:

• Provision for unearned premiums

Unearned fees, which represents the proportion of fees written in the current year which relate to risks that have not expired by the end of the financial year, are calculated on the 365th basis.

• Provision for unexpired risk

Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies. The provision for unexpired risks is calculated separately by reference to class of business that are managed together, after taking into account the relevant investment returns.

6. Finance structure and commitments (continued)

6.2 Unearned risk provision and outstanding claims provision (continued)

Outstanding claims provision

Provision is made for the estimated final cost of all claims that had not been settled on the reporting date, less amounts already paid based on calculations performed by independent actuaries. Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to indemnity holders, as follows:

1. The group's own assessors individually assess claims.
2. The claims reserve includes an estimated portion of the direct expenses of processing the claims.
3. Provision is also made for claims arising from indemnified events that occurred before the close of the accounting period, but which had not been reported to the Group by that date, also referred to as incurred but not reported (IBNR) provisions.

Whilst the directors consider that the gross reserve is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. The methods used to calculate the reserve, and the estimates made, are reviewed regularly. Claims incurred consist of claims and claims handling expenses paid during the financial year.

The movement in the provision for outstanding claims is disclosed separately in the notes to the financial statements.

Receivables and payables related to indemnity contracts

Receivables and payables are recognised when due. These include amounts due to and from indemnity contract holders and are included under receivables and payables. Policy premiums are received in advance and a policy lapses if the premium is unpaid. Receivables raised due to unpaid premiums are reversed.

Salvage reimbursement

The indemnity contracts require the indemnified party to make all reasonable efforts to recover as much of the loss as possible and to refund the Group its proportionate share of the claim recovered. Estimates of these salvage recoveries are included as an allowance in the measurement of the indemnity liability for claims. The allowance is the assessment of the Group's share of the amount that can be recovered from the action against the liable third party.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk reserve).

The ultimate liability arising from claims made under indemnity contracts

The estimation of the ultimate liability arising from claims made under indemnity contracts is one of the Group's most critical accounting estimates. Several sources of uncertainty have to be considered in estimating the liability that the Group will ultimately be exposed to for such claims. The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining the tools with which it monitors and manages risk to place the Group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which it operates means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

6. Finance structure and commitments (continued)

6.2 Unearned risk provision and outstanding claims provision (continued)

The provisions recognised in the statement of financial position are current and non-current liabilities and are detailed below:

6.2.1 Unearned risk reserve

	Group		
	2022		
	Unearned premium reserve	Additional unexpired risk reserve	Total unearned risk reserve
	R'000	R'000	R'000
As at 31 March 2020	1 504	26 716	28 220
Movement recorded in profit or loss	(726)	(5 947)	(6 673)
As at 31 March 2021	**778**	**20 769**	**21 547**
Movement recorded in profit or loss	666	(3 156)	(2 490)
As at 31 March 2022	**1 444**	**17 613**	**19 057**

6.2.2 Outstanding Claims Reserve

	Group		
	2022		
	Notified outstanding claims reserve	Incurred but not reported reserve	Total outstanding claims reserve
	R'000	R'000	R'000
As at 31 March 2020	3 188	2 369	5 557
Movement recorded in profit or loss	1 469	2 873	4 342
As at 31 March 2021	**4 657**	**5 242**	**9 899**
Movement recorded in profit or loss	(1 379)	(732)	(2 111)
As at 31 March 2022	**3 278**	**4 510**	**7 788**

6.2.3 Total exposure

	Group	
	2022	2021
	R'000	R'000
Credit indemnities issued to financial institutions	148 906	113 570
Less technical reserves already provided	(26 845)	(31 446)
Exposure after technical reserves	**122 061**	**82 124**

The calculation of the reserves was performed by an independent actuarial consulting firm, Matlotlo Group Proprietary Limited.

6. Finance structure and commitments (continued)

6.2 Unearned risk provision and outstanding claims provision (continued)

The summary of the valuation method is as follows:

The Unearned Premium Reserve is calculated on a straight line basis, assuming indemnity premiums received are earned uniformly over the 12 months for which they have been paid for. The Additional Unexpired Risk Reserve (AURR) is the additional reserve required should the net discounted value of the expected claims from active policies not be covered by the Unearned Premium Reserve and the net present value of expected future indemnity fees. The AURR is held at a 75% sufficiency level as a result of simulating claims severity and frequency.

The Outstanding Claims Reserve ("OCR") is in respect of those policies of KCG that may result in claims due to a claim event that has happened prior to the financial year end. For each policy, the OCR is determined as (probability of claiming) x (current indemnity) x (claim severity). The total OCR is raised at a 75% sufficiency level by simulating the claim severity.

All reserves have been calculated on a run-off basis (i.e. assuming KCG does not write new business) and allowance for claim handling expenses has been made.

The principal valuation assumptions are as follows:

	2022	2021
Average ultimate probability of claim	15%	15%
Claim severity	81%	81%
Claim expense rate	1 217	1 086
Recovery rate	10%	10%
Discount rates (per government bond yield curve)	5.60%-11.75%	4.65%-12.55%

The increases in reserves illustrated in the sensitivity analysis above will result in an equal decrease in profit and total equity of the Group.

The sensitivity of the total provisions to the key assumptions is as follows:

	2022	2021	2022	2021
	R'000	R'000	%	%
Probability of claim (+10%)	1 577	1 578	5,79%	1,17%
Claim severity (+10%)	2 524	2 793	9,26%	10,18%
Claim expense rate (+1%)	521	225	1,91%	0,74%
Discount rates (-1%)	109	279	0,40%	1,15%

Claims development:

	2022	2021	2020	2019	2018
	R'000	R'000	R'000	R'000	R'000
Total Claims Provision	8 021	9 899	8 122	3 689	3 861
Claims paid[1]	2 491	2 173	2 173	597	978
% of provision paid out in claims	31%	22%	27%	16%	25%

(1) Claims paid consists of actual claims paid during the financial year plus salvages.

6. Finance structure and commitments (continued)

6.3 Post-retirement medical liability

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Post-retirement medical liability	**567**	**536**	**567**	**536**

sefa provides a subsidy towards medical aid contributions payable to selected employees who retire in the employment of **sefa**.

Twenty one in-service employees are eligible for the benefit. This subsidy is unfunded and is provided for based on actuarial valuations performed annually.

The value of this liability was determined by Matlotlo Group Proprietary Limited, an independent actuarial consulting firm and is dependent on amongst others the demographic profile of employees, mortality, consumer price inflation and bond yields.

	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Analysis of the defined post retirement medical liability:				
Present value of unfunded obligations	567	536	567	536
	567	**536**	**567**	**536**

Changes in the present value of the defined benefit obligation are as follows:

	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening post-retirement medical aid obligation	536	443	536	443
Current service cost	22	8	22	8
Interest cost	26	28	26	28
Actuarial gain	124	57	124	57
Employer benefit payments	(141)	–	(141)	–
Closing defined benefit obligation	**567**	**536**	**567**	**536**

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	2022	2021
Discount rate at 31 March	4.1% – 12.0% naca	3.4% – 14.4% naca
Medical inflation rate per annum	4.8% – 9.5% naca	3.8% – 11.5% naca
Take-up rate by retired employees	100%	100%
Retirement age	60 years	60 years
Pre-retirement mortality	SA85-90 Light PA (90)	SA85-90 Light PA (90)
Post retirement mortality	2 year reduction	2 year reduction

6. Finance structure and commitments (continued)

6.3 Post-retirement medical liability (continued)

The table below shows the sensitivity of **sefa**'s obligations, as at 31 March 2022, with respect to post-retirement medical aid benefits to key assumptions:

Assumption	Variation	% change in provision	Change in value of provision
Long-term interest rates	1%	-10%	(58)
	-1%	12%	68
Retirement Age	+1 year	-16%	(91)
	-1 year	20%	1 123
Medical inflation rate(1)	1%	0%	–
	-1%	0%	–
Post-Retirement mortality(1)	+1 year	0%	–
	-1 year	0%	–

(1) The provision is not sensitive to Medical inflation/Contribution Inflation as this amount is capped. Sensitivity to post retirement mortality is not material and the amount is less than R1000.

6.4 Commitments

Items are classified as commitments where the Group has committed itself to future transactions.

6.4.1 Lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Equipment	529	–	529	–
Within 1 year	254	–	254	–
From 2 to 5 years	275	–	275	–
Total lease commitments	**529**	**–**	**529**	**–**

Per the signed agreements there are no annual escalations.

6.4.2 Loan and indemnity commitments

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Off-balance sheet items				
Undrawn financing facilities approved	186 433	284 071	186 433	284 071
Undrawn credit guarantee facilities approved	1 040 714	148 199	–	–
Total off-balance sheet commitments	**1 227 147**	**432 270**	**186 433**	**284 071**

Commitments will be financed by loans and internally generated funds.

7. Financial risk

7.1 Financial instruments

Amortised cost – Financial liabilities

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost.

Fair value through profit or loss – Financial assets

These assets are held with the intention to sell. Cash flows are primarily recovered through sale, and are measured at fair value through profit or loss. Any changes in the fair value of these assets are recognised in profit or loss.

Accounting for financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

All financial assets and liabilities are initially measured (1) at fair value, plus (or minus) transaction costs that are directly attributable to the acquisition or (2) issue of the financial asset or financial liability in the case of financial asset (or financial liability) not at fair value through profit or loss, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Fair value adjustments on initial recognition relating to financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss. If **sefa** determines that the fair value on initial recognition differs from the transaction price, the difference is recognised as a gain or loss only if the fair value is based on a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. Otherwise, the difference is deferred and recognised as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Offsetting financial instruments

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position.

Financial instrument classification

The Group classifies its financial instruments into the following categories:

- At fair value through profit or loss;
- Amortised cost.

The classification is dependent on the purpose for which the financial instruments were acquired.

Management determines the classification of financial instruments at initial recognition. Financial instruments comprise investments in equity and debt, loans receivable, trade and other receivables, cash and cash equivalents, other non-current liabilities and trade and other payables.

Financial assets measured at amortised cost are initially recognised at the fair value received or receivable.

7. Financial risk (continued)

7.1 Financial instruments (continued)

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below:

Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss are subsequently measured at fair value and changes therein are recognised in profit or loss.

Financial instruments at amortised cost

Financial assets at amortised cost: Loans and advances, trade and other receivables, cash and cash equivalents are measured at amortised cost.

Financial liabilities at amortised cost: Trade and other payables and borrowings are measured at amortised cost.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire.

Credit allowances on financial assets carried at amortised cost

Loans and advances (General approach per IFRS 9 par 5.5.1)

All loans and advances meet the requirements of solely payments of principal and interest and are measured at amortised cost.

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and the exposure arising from loan commitments.

The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes based on the relevant stage and internal credit rating of a loan;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables (Simplified approach per IFRS 9 par 5.5.15)

Credit losses for rental debtors are based on the portfolio's collection rates and the number of outstanding payments from a debtor, as this is the best indicator for the future collectability of rental income. Credit losses on related party loans were based on historical payment trends to predict the ability of the related party to settle the loan in the future. Trade receivables are initially recognised at the transaction price.

Refer to note 7.5.1 for rental debtors and 7.5.2 for related party loans.

Cash and cash equivalents (General approach per IFRS 9 par 5.5.1)

The expected credit loss is calculated by referencing each banks published credit rating to the probability of default based on the mapping tables published by the three major international credit rating agencies. The loss given default used is in line with guidance provided by the Basel foundation approach on banks.

7. Financial risk (continued)

7.2 Financial risk management

The Group and Company have exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk (interest rate risk). This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group and Company's risk management framework. The Board has established the Audit and Risk Committees, which are responsible for developing and monitoring the Group and Company's risk management policies. The committees report regularly to the Board of Directors on their activities.

The Group and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group and Company's activities. The Group and Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committees oversee how management monitors compliance with the Group and Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit and Risk Committees are assisted by the Internal Audit function which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committees.

7. Financial risk (continued)

7.3 Categories of financial instruments

The table below sets out the Group and Company's classification of each class of financial assets and liabilities.

Group – 2022	Amortised cost	FVTPL	Total
	R'000	R'000	R'000
Assets			
Loans and advances	1 527 626	–	1 527 626
Investments	–	33 337	33 337
Trade receivables	20 308	–	20 308
Cash and cash equivalents	3 320 688	–	3 320 688
Total financial assets	4 868 622	33 337	4 901 959
Liabilities			
Shareholder loans	(734 043)	–	(734 043)
Trade and other payables	(99 517)	–	(99 517)
Lease liability	(27 090)	–	(27 090)
Non-current liability	(4 629)	–	(4 629)
Total financial liabilities	(865 279)	–	(865 279)
Net financial assets and liabilities	**4 003 343**	**33 337**	**4 036 680**

Group – 2021	Amortised cost	FVTPL	Total
	R'000	R'000	R'000
Assets			
Loans and advances	886 686	–	886 686
Investments	–	29 790	29 790
Trade receivables	26 341	–	26 341
Cash and cash equivalents	2 539 835	–	2 539 835
Total financial assets	3 452 862	29 790	3 482 652
Liabilities			
Shareholder loans	(679 436)	–	(679 436)
Trade and other payables	(109 728)	–	(109 728)
Lease liability	(34 025)	–	(34 025)
Total financial liabilities	(823 189)	–	(823 189)
Net financial assets and liabilities	**2 629 673**	**29 790**	**2 659 463**

7. Financial risk (continued)

7.3 Categories of financial instruments (continued)

Company – 2022	Amortised cost	FVTPL	Total
	R'000	R'000	R'000
Assets			
Loans and advances	1 526 608	–	1 526 608
Investments	–	33 337	33 337
Trade receivables	214 583	–	214 583
Cash and cash equivalents	2 716 425	–	2 716 425
Total financial assets	4 457 616	33 337	4 490 953
Liabilities			
Shareholder loans	(734 043)	–	(734 043)
Trade and other payables	(78 806)	–	(78 806)
Lease liability	(27 090)	–	(27 090)
Non-current liability	(4 629)	–	(4 629)
Total financial liabilities	(844 568)	–	(844 568)
Net financial assets and liabilities	**3 613 048**	**33 337**	**3 646 385**

Company – 2021	Amortised cost	FVTPL	Total
	R'000	R'000	R'000
Assets			
Loans and advances	883 135	–	883 135
Investments	–	29 790	29 790
Trade receivables	225 674	–	225 674
Cash and cash equivalents	2 065 037	–	2 065 037
	3 173 846	29 790	3 203 636
Liabilities			
Shareholder loans	(679 436)	–	(679 436)
Trade and other payables	(93 817)	–	(93 817)
Lease Liability	(34 025)	–	(34 025)
	(807 278)	–	(807 278)
Net financial assets and liabilities	**2 366 568**	**29 790**	**2 396 358**

7. Financial risk (continued)

7.4 Credit risk exposure

Credit risk is the risk of financial loss, should any of the Group's counterparties fail to fulfil their contractual obligations to the Group. Credit risk mainly arises from commercial loans and advances, and loan commitments arising from such lending activities.

The Group is also exposed to other credit risks arising from investments and rental debtors.

Credit risk is the single largest risk for the Group's business; management, therefore, carefully manages its exposure to credit risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of the group.

The Group and Company considers its maximum exposure to credit risk per class to be as follows:

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Cash and cash equivalents	3 320 712	2 547 369	2 716 442	2 071 170
Trade receivables	55 338	58 301	501 156	452 992
Loans and advances	2 622 124	1 687 655	2 609 376	1 659 831
Investments	33 337	29 790	33 337	29 790
Total exposure at gross carrying amount	**6 031 511**	**4 323 115**	**5 860 311**	**4 213 783**

Cash and cash equivalents

The Group and Company limit their exposure to credit risk in respect of its money market transactions by only investing in funds that have approved high credit quality financial ratings and public sector institutions in accordance with predetermined limits approved by Executive Management and the Board. Money market investments are reflected as cash and cash equivalents. Due to the nature of the investments the probability of default is low and, the possible credit losses have been assessed as being insignificant in value. A credit loss has been provided for on cash and cash equivalents in the current year of R0.024 million (2021: R7.5 million).

Trade receivables

Trade receivables include related party loans receivable, rental debtors and other trade and receivables. The nature of other trade receivables, other than rental debtors, is of such a nature that low probabilities of default is anticipated and possible credit losses have been assessed as being insignificant. No credit loss has been provided for on trade and receivables other than rental debtors and related party loans. Refer to note 7.5.1 for credit risk measurement under rental debtors and note 7.5.2 for related party loans.

Loans and advances

The mandate of **sefa** is to support sustainable enterprise development through providing loan funding to SMMEs and Co-operatives. **sefa** maintains sound credit granting standards to manage its risks posed by credit risk exposure.

The Group and Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group and Company's customer base, including the default risk of the industry, in which customers operate, is also taken into account. Counterparty limits are used to ensure that the Group or Company is not significantly exposed to transactions with one customer and there is no geographical concentration of credit risk.

7. Financial risk (continued)

7.4 Credit risk exposure (continued)

Risk Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group or Company will transact with the customer. The Group and Company's review include external ratings, when available, due diligence exercises and in some cases, bank references.

Loans and advances are subject to comprehensive and substantial security clauses to protect the Group and Company in the event of non-payment. All credit risk arises from normal operations of the Group and Company, with the major credit risk arising from the Group and Company's receivables and loans and advances. The Credit and Investment Committee established by the Board of Directors review the Group and Company's loan portfolio on an on-going basis. All applications for credit are thoroughly scrutinised covering financial, technical and market risks. **sefa**, being a Development Finance Institution (DFI), has a different risk profile compared to traditional commercial banks. The Group and Company establish an allowance for impairment that represents its estimate of expected losses in respect of receivables, loans and advances and investments. Refer to note 7.5.3 for credit risk measurement under loans and advances.

7.5 Credit risk measurement

7.5.1 Trade receivables

Trade receivables and pre-payments

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Gross carrying amount	22 264	29 769	4 292	4 781
Lifetime expected credit loss	(12 296)	(11 724)	(1 311)	(739)
Net carrying amount	**9 968**	**18 045**	**2 981**	**4 042**
Deferred grants receivable				
Gross carrying amount	**317 145**	**116 338**	**373 395**	**116 338**
Lifetime expected credit loss	**(3 785)**	**–**	**(3 785)**	**–**
Net carrying amount	**313 360**	**116 338**	**369 610**	**116 338**

Rental debtors

The following table sets out information using a provision matrix, based on actual collection rates, on the credit quality of rental debtors measured at amortised cost where the loss allowance is measured at an amount equal to lifetime expected credit losses (simplified approach). Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	Group			Group		
		2022			2021	
Rental debtors	0 – 30 days	30 days+	Total	0 – 30 days	30 days+	Total
Expected loss rate	53%	100%		69%	100%	
	R'000	R'000	R'000	R'000	R'000	R'000
Gross carrying amount	2 520	20 925	23 445	1 539	18 648	20 187
Lifetime expected credit loss	(1 338)	(20 925)	(22 263)	(1 067)	(18 648)	(19 715)
Net carrying amount	**1 182**	**–**	**1 182**	**472**	**–**	**472**

Trade receivables – related party loans

All related party loans, except the loan issued to Khula Business Premises, are considered to be fully recoverable as these companies have a positive net asset value and have historically settled these loans in full as and when they occur. The impairment on the Khula Business Premises loan was based on the net asset value of Khula Business Premises. Refer to note 10.1.

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.1 Trade receivables (continued)

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Gross carrying amount	8 594	7 904	495 831	447 770
Lifetime expected credit loss	–	–	(284 791)	(226 058)
Net carrying amount	**8 594**	**7 904**	**211 040**	**221 712**

7.5.2 Investments

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Standard monitoring	33 337	29 790	33 337	29 790
Special monitoring	–	–	–	–
Total exposure at carrying amount	**33 337**	**29 790**	**33 337**	**29 790**

7.5.3 Loans and advances (including commitments)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of the credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) which is in line with the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The group uses internal rating models tailored to the various categories of counterparties. Borrower and loan specific information collected at the time of application serves as inputs to this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage	Change in credit risk since initial recognition	Recognition of interest	12 month or lifetime ECL
Stage 1 – Initial recognition	No significant increase in risk since initial recognition.	Interest is based on the loan balance gross of impairments.	12-month ECL is used, which is the expected credit losses that result from default events that are likely within 12 months after the reporting date.
Stage 2 – Significant increase in credit risk	Significant increase in credit risk (SICR) but not objective evidence of impairment.	Interest is based on the loan balance gross of impairments.	Lifetime ECL is used, which is the expected credit losses that result from all default events that are likely over the expected life of the financial instrument.
Stage 3 – Credit-impaired asset	Objective evidence of impairment.	Interest is based on the loan balance net of impairments.	Lifetime ECL is used, which is the expected credit losses that result from all default events that are likely over the expected life of the financial instrument.

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.3 Loans and advances (including commitments) (continued)

The key judgements and assumptions adopted by the group in addressing the requirements of the standard are discussed below:

Significant increase in credit risk:

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- The loan or any other loan issued to the same counterparty is in arrears.
- There is evidence that the loan should be impaired based on an individual client assessment.
- Actual or expected restructuring.
- Significant adverse changes in business, financial and/ or economic conditions in which the borrower operates.

Definition of default and credit-impaired assets:

The group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

- The loan or any other loan issued to the same counterparty is 90 days past due.
- The loan has been restructured and has not yet performed for a minimum period.
- Interest on outstanding capital is suspended.
- There is evidence that the loan should be impaired based on an individual client assessment.

The criteria above have been applied to all loans and advances extended to clients by the Group and are consistent with the definition of default used for internal risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate.

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.3 Loans and advances (including commitments) (continued)

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile reflects on how defaults developed on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit rate band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/ refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking the current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

The 12 month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

Forward-looking information incorporated in the ECL models

Changes in macroeconomic conditions are expected to influence the rate at which accounts default on the portfolios. The macroeconomic module of the IFRS 9 impairment model includes such an allowance through adjusting expected default probabilities based on forecast macroeconomic information, using the historical relationship between these macroeconomic variables and default rates in order to inform the quantum of the expected impact.

Using Principal Component Analysis, a historic index was constructed and subsequently used to produce the forecasted indices under three scenarios (optimistic, best-estimate and downturn), with the final result of the Expected Credit Loss model subsequently calculated as a probability weighted average of the results under each of the scenarios.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and, therefore, the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The analysis outlined above yielded the following variables for use in the macroeconomic model:

- Percentage year on year growth in Gross Domestic Product ("%GDP");
- Percentage year on year growth in Formal sector Employment ("%Employment");
- Percentage year on year growth in Consumer Price Inflation ("%CPI"); and
- Percentage year on year growth in Household Consumption Expenditure ("%HouseCE")

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.3 Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate at 31 March 2022 are set out below:

		2023	2024	2025	2026
% GDP	Base	0,37	0,51	0,67	0,62
	Downturn	(0,10)	0,32	2,94	3,32
	Optimistic	3,28	0,84	0,77	0,75
% Employment	Base	2,02	2,33	2,39	1,99
	Downturn	0,36	1,69	1,96	1,51
	Optimistic	2,10	1,74	1,25	1,15
% CPI	Base	4,40	4,52	4,37	4,13
	Downturn	4,68	4,37	4,30	4,11
	Optimistic	4,53	3,98	3,85	3,82
% HouseCE	Base	0,28	0,63	0,78	0,70
	Downturn	(0,07)	0,48	3,26	3,59
	Optimistic	2,92	1,96	1,86	1,84

- The base scenario represents the best estimate view of expected future macroeconomic conditions;
- The downturn scenario represents a view of expected future macroeconomic conditions during a downturn period; and
- The optimistic scenario represents a view of expected future macroeconomic conditions during a period of good economic conditions.

The final Expected Credit Loss to be raised as an impairment provision under the IFRS 9 standard is calculated as an average of the ECL calculated by the model under each of the three scenarios, weighted by the probability of each of these scenarios occurring.

Probabilities assigned to the likelihood of each scenario:

Scenario	Probability
Base	65%
Downturn	25%
Optimistic	10%

The probabilities assigned to each likelihood are unchanged from prior year.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/ external supplementary data to use for modelling purposes.

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.4 Expected credit losses emanating from credit risk exposure

The following tables contain an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognised. The net carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

Loans and advances: Credit risk analysis

Note	Group			
	2022 R'000			
	Stage 1 – Gross amount	Stage 2 – Gross amount	Stage 3 – Gross amount	
	Stage 1 – ECL	Stage 2 – ECL	Stage 3 – ECL	
Group 2022 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	1 100 904	–	–	1 100 904
Special monitoring	–	627 850	–	627 850
Default	–	–	893 370	893 370
Gross carrying amount	**1 100 904**	**627 850**	**893 370**	**2 622 124**
Loss allowance	(143 450)	(234 494)	(716 554)	(1 094 498)
Carrying amount	**957 454**	**393 356**	**176 816**	**1 527 626**

	Group			
	2021 R'000			
	Stage 1 – Gross amount	Stage 2 – Gross amount	Stage 3 – Gross amount	
	Stage 1 – ECL	Stage 2 – ECL	Stage 3 – ECL	
Group 2021 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	1 064 165	–	–	1 064 165
Special monitoring	–	80 021	–	80 021
Default	–	–	543 471	543 471
Gross amount	**1 064 165**	**80 021**	**543 471**	**1 687 657**
Loss allowance	(91 514)	(121 791)	(587 666)	(800 971)
Carrying amount	**972 651**	**(41 770)**	**(44 195)**	**886 686**

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.4 Expected credit losses emanating from credit risk exposure (continued)

	Note	Company			
		2022 R'000			
		Stage 1 – Gross amount	Stage 2 – Gross amount	Stage 3 – Gross amount	
		Stage 1 – ECL	Stage 2 – ECL	Stage 3 – ECL	
Company 2022 (R'000)		Stage 1	Stage 2	Stage 3	Total
Standard monitoring		1 100 904	–	–	1 100 904
Special monitoring		–	627 850	–	627 850
Default		–	–	880 623	880 623
Gross carrying amount		**1 100 904**	**627 850**	**880 623**	**2 609 377**
Loss allowance		(143 450)	(234 494)	(704 825)	(1 082 769)
Carrying amount		**957 454**	**393 356**	**175 798**	**1 526 608**

	Company			
	2021 R'000			
	Stage 1 – Gross amount	Stage 2 – Gross amount	Stage 3 – Gross amount	
	Stage 1 – ECL	Stage 2 – ECL	Stage 3 – ECL	
Company 2021 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	1 064 165	–	–	1 064 165
Special monitoring	–	80 021	–	80 021
Default	–	–	515 646	515 646
Gross amount	**1 064 165**	**80 021**	**515 646**	**1 659 832**
Loss allowance	(91 381)	(121 716)	(563 600)	(776 697)
Carrying amount	**972 784**	**(41 695)**	**(47 954)**	**883 135**

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.5 Collateral

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Group			
	2022			
	Gross exposure	Credit loss allowance	Carrying amount	Fair value of collateral held
Stage 1	1 100 904	(143 450)	957 454	104 908
Stage 2	627 850	(234 494)	393 356	35 707
Stage 3	893 370	(716 554)	176 816	35 011
	2 622 124	**(1 094 498)**	**1 527 626**	**175 626**

	Company			
	2022			
	Gross exposure	Credit loss allowance	Carrying amount	Fair value of collateral held
Stage 1	1 100 904	(143 450)	957 454	104 908
Stage 2	627 850	(234 494)	393 356	35 707
Stage 3	880 623	(704 825)	175 798	35 011
	2 609 377	**(1 082 769)**	**1 526 608**	**175 626**

Nature of collateral held:	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Vehicles under instalment sale agreement	54 940	7 290	54 940	7 290
Equipment under instalment sale agreement	104 415	16 056	104 415	16 056
Special notarial bonds over moveable assets	13 639	6 404	13 639	6 404
Mortgage bonds over fixed property	2 632	8 985	2 632	8 985
Cession over loan portfolio	–	–	–	–
Total collateral held	**175 626**	**38 735**	**175 626**	**38 735**

The net proceeds for collateral repossessed amounted to R308 000 during the 2022 financial year for both Group and Company. (2021: The net proceeds for collateral reposessed amounted to R3.2 million during the 2021 financial year for both Group and Company.)

The impact of collateral included in the Expected Credit Loss amounts to R46.8 million (2021: R35.3 million). The impact was limited to the value of the Expected Credit Loss per facility.

Collateral was valued externally by an independent team of valuers as at 31 March 2022.

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.6 Credit loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during this period, as well as releases for financial instruments de-recognised in the period;
- Impact of the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Group – 2022	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 April 2021	91 514	121 789	587 666	800 969
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(31 299)	122 893	–	91 594
Transfer from Stage 1 to Stage 3	(19 947)	–	73 094	53 147
Transfer from Stage 2 to Stage 3	–	(76 164)	122 266	46 102
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	5 267	(15 607)	–	(10 340)
Transfer from Stage 3 to Stage 2	–	3 436	(6 782)	(3 346)
Transfer from Stage 3 to Stage 1	708	–	(2 745)	(2 037)
Changes in PDs/ LGDs/ EADs	(472)	(3 748)	(8 433)	(12 653)
New financial instruments issued	98 810	87 023	15 808	201 641
Financial assets settled during the year	(1 131)	(4 921)	(22 602)	(28 654)
Financial assets written off	–	(207)	(41 718)	(41 925)
Total net profit or loss charge during the year	51 936	112 705	128 888	293 529
Loss allowance as at 31 March 2022	**143 450**	**234 494**	**716 554**	**1 094 498**

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.6 Credit loss allowance

Group – 2021	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 April 2020	38 839	74 429	594 925	708 193
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(9 683)	15 646	–	5 963
Transfer from Stage 1 to Stage 3	(7 492)	–	33 313	25 821
Transfer from Stage 2 to Stage 3	–	(46 649)	55 651	9 002
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	6 077	(26 237)	–	(20 160)
Transfer from Stage 3 to Stage 2	–	54	(386)	(332)
Transfer from Stage 3 to Stage 1	–	–	–	–
Changes in PDs/ LGDs/ EADs	(5 923)	(1 230)	2 676	(4 477)
New financial instruments issued	70 181	105 879	31 184	207 244
Financial assets settled during the year	(485)	(103)	(73 523)	(74 111)
Financial assets written off	–	–	(56 174)	(56 174)
Total net profit or loss charge during the year	52 675	47 360	(7 259)	92 776
Loss allowance as at 31 March 2021	**91 514**	**121 789**	**587 666**	**800 969**

Company – 2022	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 April 2021	91 381	121 748	563 567	776 696
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(31 299)	122 893	–	91 594
Transfer from Stage 1 to Stage 3	(19 814)	–	72 961	53 147
Transfer from Stage 2 to Stage 3	–	(76 123)	122 225	46 102
Decrease in credit risk				–
Transfer from Stage 2 to Stage 1	5 267	(15 607)	–	(10 340)
Transfer from Stage 3 to Stage 2	–	3 436	(6 782)	(3 346)
Transfer from Stage 3 to Stage 1	708	–	(2 745)	(2 037)
Changes in PDs/ LGDs/ EADs	(472)	(3 748)	(9 415)	(13 635)
New financial instruments issued	98 810	87 023	15 808	201 641
Financial assets settled during the year	(1 131)	(4 921)	(10 534)	(16 586)
Financial assets written off	–	(207)	(40 260)	(40 467)
Total net profit or loss charge during the year	52 069	112 746	141 258	306 073
Loss allowance as at 31 March 2022	**143 450**	**234 494**	**704 825**	**1 082 769**

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.6 Credit loss allowance

Company –2021	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 April 2020	38 706	74 354	538 915	651 975
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(9 683)	15 646	–	5 963
Transfer from Stage 1 to Stage 3	(7 492)	–	33 313	25 821
Transfer from Stage 2 to Stage 3	–	(46 649)	55 651	9 002
Decrease in credit risk				–
Transfer from Stage 2 to Stage 1	6 077	(26 237)	–	(20 160)
Transfer from Stage 3 to Stage 2	–	54	(386)	(332)
Transfer from Stage 3 to Stage 1	–	–	–	–
Changes in PDs/ LGDs/ EADs	(5 923)	(1 230)	2 676	(4 477)
New financial instruments issued	70 181	105 879	31 184	207 244
Financial assets settled during the year	(485)	(69)	(44 719)	(45 273)
Financial assets written off	–	–	(53 067)	(53 067)
Total net profit or loss charge during the year	52 675	47 394	24 652	124 721
Loss allowance as at 31 March 2021	**91 381**	**121 748**	**563 567**	**776 696**

7.5.7 Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts that is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery. All amounts written off in the current and prior year are still subject to enforcement activity. Loans to the value of R44.56 million were written off during the year in the Group (Company: R43.10 million).

7.5.8 Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Restructuring is based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue.

The Group monitors the subsequent performance of modified assets and may determine that the credit risk has significantly improved where assets have performed for twelve-consecutive months or more.

Loans with a carrying value of R413 million (2021: R186 million) were modified during the year in both Group and Company.

The additional interest on loans that were modified amounts to R14 million (2021: R6 million).

7. Financial risk (continued)

7.5 Credit risk measurement (continued)

7.5.9 Loans and advances: Sectoral analysis

Carrying value per sector – loans and advances	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Agriculture, forestry and fishing	47 480	21 233	46 883	18 913
Basic chemicals	3 173	–	3 173	–
Basic iron and steel	16 114	5 677	16 114	5 677
Beverages	4 413	5 596	4 413	5 596
Building construction	51 636	49 507	51 636	49 507
Business services	33 227	1 194	33 227	1 194
Catering and accommodation services	1 963	2 995	1 963	2 995
Electricity, gas and steam	31 229	32 218	31 229	32 218
Finance and insurance	256 087	191 351	256 087	191 351
Food	161 879	11 426	161 879	11 426
Footwear	4 097	2 395	4 097	2 395
Furniture	3 573	1 603	3 573	1 603
Glass and glass products	783	885	783	885
Machinery and equipment	26 357	868	26 357	868
Medical, dental and other health and veterinary services	26 053	2 764	26 053	2 764
Metal products excluding machinery	50 250	7 342	50 250	7 342
Motor vehicles, parts and accessories	72 868	94 651	72 868	94 651
Non-metallic minerals	39 936	35 181	39 936	35 181
Other community, social and personal services	76 367	107 253	76 367	107 253
Other chemicals and man-made fibres	9 558	7 564	9 558	7 564
Other industries	32 720	10 874	32 720	10 874
Other mining	47 879	30 246	47 879	30 246
Other services	127 179	3 680	127 179	2 448
Paper and paper products	185	119	185	119
Plastic products	8 443	10 126	8 443	10 126
Printing, publishing and recorded media	176	–	176	–
Television, radio and communication equipment	2 652	–	2 652	–
Textiles	79 134	6 541	79 134	6 541
Transport and storage	90 643	67 972	90 643	67 972
Water supply	–	–	–	–
Wearing apparel	26 395	3 816	26 395	3 816
Wholesale and retail trade	162 193	159 967	162 193	159 968
Wood and wooden products	32 563	11 642	32 563	11 642
Loans and advances net of impairments	**1 527 626**	**886 686**	**1 526 608**	**883 135**

7. Financial risk (continued)

7.6 Liquidity risk

Liquidity risk is the risk that the Group or Company will not be able to meet its financial obligations as they fall due. The Group and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group or Company's reputation.

Due to the nature of the business, the Group and Company's cash management process aims to maintain flexibility in funding by keeping committed credit lines available. Cash requirements and inflows are monitored by management to ensure that sufficient cash is available to meet all financial commitments including operational expenditure. Typically the Group and Company ensure that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted; such as natural disasters.

The following are the remaining contractual maturities at the end of the reporting period of recognised and unrecognised financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Group				
	Carrying value	Total	Within 1 year	2 – 5 years	More than 5 years
Group – 2022	R'000	R'000	R'000	R'000	R'000
Trade payables (excluding non-financial liabilities)	47 534	47 534	47 534	–	–
Managed funds	51 983	51 983	51 983	–	–
Credit guarantees/indemnities issued to financial institutions[1]	26 845	26 845	26 845	–	–
Shareholder loans	734 043	923 211	–	15 000	908 211
Total recognised financial and non-financial liabilities	**860 405**	**1 049 573**	**126 362**	**15 000**	**908 211**
Undrawn financing facilities approved	–	186 433	186 433	–	–
Operating lease commitments	–	529	254	275	–
Liabilities for lease obligations	27 090	27 090	12 430	14 660	–
Undrawn guarantees/indemnities approved[2]	–	–	–	–	–
Total off-balance sheet items	**27 090**	**214 052**	**199 117**	**14 935**	**–**
Total contractual maturities	**887 495**	**1 263 625**	**325 479**	**29 935**	**908 211**

Credit indemnities issued	R148,9 million	Actuarial reserves	R26,8 million
Undrawn indemnities approved	R1 040,7 million	Possible future claims	R187,6 million

(1) Total credit guarantees/indemnities issued to financial institutions amount to R148.9 million. The full balance will, however, not result in future outflows of cash. The reserve calculations by external actuaries amounting to R26.8 million was used for liquidity risk exposure purposes.

(2) Undrawn guarantees/indemnities approved at year end amounts to R1040.7 million. It is estimated that R187.6 million of undrawn facilities may result in future claims. Due to the timing of these claims being uncertain, the full balance is allocated to the 1 year period.

7. Financial risk (continued)

7.6 Liquidity risk (continued)

	Group				
	Carrying value	Total	Within 1 year	2 – 5 years	More than 5 years
Group – 2021	R'000	R'000	R'000	R'000	R'000
Trade payables (excluding non-financial liabilities)	40 024	40 024	40 024	–	–
Managed funds	69 704	69 704	69 704	–	–
Credit guarantees/indemnities issued to financial institutions[1]	31 446	31 446	31 446	–	–
Shareholder loans	679 436	923 211	–	15 000	908 211
Total recognised financial and non-financial liabilities	**820 610**	**1 064 385**	**141 174**	**15 000**	**908 211**
Undrawn financing facilities approved	–	284 071	284 071	–	–
Operating lease commitments	–	–	–	–	–
Liabilities for lease obligations	34 025	52 713	13 002	39 711	–
Undrawn guarantees/indemnities approved[2]	–	134 893	134 893	–	–
Total off-balance sheet items	**34 025**	**471 677**	**431 966**	**39 711**	**–**
Total contractual maturities	**854 635**	**1 536 062**	**573 140**	**54 711**	**908 211**

Credit indemnities issued	R113,6 million	Actuarial reserves	R31,4 million
Undrawn indemnities approved	R682,4 million	Possible future claims	R138,4 million

(1) Total credit guarantees/indemnities issued to financial institutions amount to R113.6 million. The full balance will, however, not result in future outflows of cash. The reserve calculations by external actuaries amounting to R31.4 million was used for liquidity risk exposure purposes.

(2) Undrawn guarantees/indemnities approved at year end amounts to R682.4 million. It is estimated that R138.4 million of undrawn facilities may result in future claims. Due to the timing of these claims being uncertain, the full balance is allocated to the 1 year period.

	Company				
	Carrying value	Total	Within 1 year	2 – 5 years	More than 5 years
Company – 2022	R'000	R'000	R'000	R'000	R'000
Trade payables (excluding non-financial liabilities)	26 823	26 823	26 823	–	–
Managed funds	51 983	51 983	51 983	–	–
Shareholder loans	734 043	923 211	–	15 000	908 211
Total recognised financial and non-financial liabilities	**812 849**	**1 002 017**	**78 806**	**15 000**	**908 211**
Operating lease commitments	–	529	254	275	–
Liabilities for lease obligations	27 090	52 713	13 002	39 711	–
Undrawn financing facilities approved	–	186 433	186 433	–	–
Total off-balance sheet items	**27 090**	**239 675**	**199 689**	**39 986**	**–**
Total contractual maturities	**839 939**	**1 241 692**	**278 495**	**54 986**	**908 211**

7. Financial risk (continued)

7.6 Liquidity risk (continued)

	Company				
	Carrying value	Total	Within 1 year	2 – 5 years	More than 5 years
Company – 2021	R'000	R'000	R'000	R'000	R'000
Trade payables (excluding non-financial liabilities)	24 113	24 113	24 113	–	–
Managed funds	69 704	69 704	69 704	–	–
Shareholder loans	679 436	923 211	–	15 000	908 211
Total recognised financial and non-financial liabilities	**773 253**	**1 017 028**	**93 817**	**15 000,00**	**908 211**
Operating lease commitments	–	–	–	–	–
Liabilities for lease obligations	43 427	52 713	13 002	39 711	–
Undrawn financing facilities approved	–	284 071	284 071	–	–
Total off-balance sheet items	**43 427**	**336 784**	**297 073**	**39 711**	**–**
Total contractual maturities	**816 680**	**1 353 812**	**390 890**	**54 711**	**908 211**

7.7 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group and Company do not deal in derivatives and their not have exposure to price risk nor exchange rate risk.

Interest rate risk

Interest rate risk is the risk that arises on an interest-bearing asset or liability, due to variability of interest rates.

The Group and Company's income and operating cash flows are substantially dependent on changes in market interest rates and the Group and Company have significant interest-bearing assets. The Group and Company's policy is to maintain most of its investments in the form of money market instruments. Interest rate risk is limited to the Group and Company's investment in floating-rate instruments such as deposits, negotiable certificates of deposits and banker's acceptances as well as loans which are normally issued at rates linked to the prime interest rate. The investment management function has been outsourced to the IDC. Regular management and Board sub-committee meetings are held in order to review **sefa**'s interest rate view, which would affect the level of interest rate risk taken in respect of surplus funds.

7. Financial risk (continued)

7.7 Market risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Variable rate instruments				
Financial assets	5 914 274	–	5 273 818	3 655 165
Financial liabilities	–	(297 012)	–	(297 012)
Total variable rate instruments	5 914 274	3 881 021	5 273 818	3 358 153

Cash flow sensitivity analysis for variable rate instruments

A change in 250 basis points (2021: 250 basis points) in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
250 basis points increase (2021: 250 basis points)	147 857	97 026	131 845	83 954
250 basis points increase (2021: 250 basis points)	(147 857)	(97 026)	(131 845)	(83 954)

7.8 Capital risk management

The Board's policy is to achieve a capital base that will ensure the long term sustainability of **sefa** and it monitors progress towards this goal so as to maintain shareholder, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between sustainable returns and its developmental mandate. There were no changes in the Group or Company's approach to capital management during the year. A subsidiary, KCG is subject to capital requirements imposed on it by the Prudential Authority in terms of The Insurance Act 18 of 2017. Neither the company nor any of its other subsidiaries are subject to externally imposed capital requirements.

The Group and Company's objectives when managing capital are:

- To comply with capital requirements required for insurers as determined by The Insurance Act;
- To safeguard the Group's ability to continue as a going concern so that it can provide returns for the shareholder and benefits for other stakeholders.

KCG submits quarterly and annual returns to the Prudential Authority in terms of the The Insurance Act. The Company is required at all times to maintain a statutory surplus asset ratio as defined in the The Insurance Act. Adequate capital requirements were maintained throughout the year.

7. Financial risk (continued)

7.9 Insurance risk

Insurance risk arises from normal operations of the Group, through credit indemnities provided by Khula Credit Guarantee through the following:

- indemnifying financiers for defaults on outstanding loans to SMMEs;
- indemnifying suppliers for defaults on trade credit facilities.

The Board and executive committee manage the insurance risk according to the Group's risk appetite.

The risk under any one indemnity contract is the likelihood that the indemnified event will occur, and the uncertainty of the amount of the resulting claims. For a portfolio of indemnity contracts where the theory of probability is applied to provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of the indemnity liabilities. By the very nature of an indemnity contract, the risk is random and, therefore, unpredictable. Changing risk parameters and unforeseen factors, such as economical and geographical circumstances, may result in unexpectedly large claims. Indemnified events are random from one year to the next and the actual number of claims will vary from the estimate established by means of statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location covered. Experience shows that the larger the portfolio of similar indemnity contracts, the smaller the relative variability of the expected outcome will be, therefore, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group only underwrites indemnity contracts in South Africa.

The Group does not have the right to re-price and change the conditional risks on renewal of individual indemnities.

The Group establishes a provision for claims using independent actuarial methods.

Limiting exposure to insurance risk

The Group limits its exposure to insurance risk through setting a clearly defined underwriting strategy and adopting appropriate risk assessment techniques. Each of these risk management aspects is dealt with below in more detail:

- Underwriting strategy and limits and policies for mitigating insurance risk

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio of insurance risks. To this end the Group underwrites a wide variety of risks spread across financial and commercial indemnity holders, which includes the underwriting of risks in niche markets with favourable claims expectations. On an annual basis the Group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years. The underwriting strategy is updated for changes in the underwriting results of the Group and the industry, the Group's available risk capital, its developmental mandate as well as existing concentrations of insurance risk.

- Risk assessment

The Group relies on a rigorous process followed by the indemnified parties before they propose and accept a specific insurance risk. Some of the factors considered during the underwriting stage include:

  - past loss experience associated with the proposed risk
  - indemnifiable interest
  - probability of success
  - level of mitigation procedures adopted
  - location of the proposed risk
  - past and proposed rating terms of the risk
  - scope and terms of cover considered
  - results of surveys completed, where applicable
  - possible variations that may be applied to the risks indemnified

Concentration of insurance risk

The concentration of insurance risk is managed by different levels of diversification mainly through the financial institutions that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country.

7. Financial risk (continued)

7.10 Loans and advances

Loans and advances arise when the Group or Company provides money, goods or services directly to a debtor. These assets are held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI'). Loans and advances are measured at amortised cost less any provision for impairments (expected credit losses).

The Group and Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and that the Group or Company does not intend to sell immediately or in the near term. After initial measurement, loans and advances are measured at their amortised cost less any provision for impairment (incurred credit losses).

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Loans and advances to clients	2 622 124	1 687 655	2 609 376	1 659 831
Less: Credit loss allowance	(1 094 498)	(800 969)	(1 082 768)	(776 696)
Loans and advances net of credit losses	**1 527 626**	**886 686**	**1 526 608**	**883 135**
Reconciliation credit loss allowances of loans and advances				
Credit loss allowance for loans and advances – opening balance	800 969	708 193	776 696	651 975
Credit loss for the year	338 089	148 950	349 174	177 788
Bad debts written off during the year	(44 560)	(56 174)	(43 102)	(53 067)
Credit loss allowance for loans and advances – closing balance	1 094 498	800 969	1 082 768	776 696
Maturity of loans and advances				
Due within one year	1 034 422	738 045	1 021 675	710 817
Due after one year but within two years	631 799	433 265	631 799	432 912
Due within two to three years	418 840	225 478	418 840	225 235
Due within three to four years	286 151	127 457	286 151	127 457
Due within four to five years	119 412	85 474	119 412	85 474
Due after five years	131 500	77 936	131 499	77 936
Credit loss allowances on loans and advances	(1 094 498)	(800 969)	(1 082 768)	(776 696)
Loans and advances net of credit loss allowances	1 527 626	886 686	1 526 608	883 135

7. Financial risk (continued)

7.10 Loans and advances (continued)

The loans and advances in the **sefa** portfolio are not traded in active markets. **sefa** is a development finance institution and the loans and advances are provided to clients at terms that are below commercial market rates and credit risk is measured in consideration with developmental impact as part of granting loans. The loans and advances are initially fair valued using principal amount advanced to clients, as per loan agreements, and interest rates per the loan agreements, using the discounted cash flow method. The carrying amount of the loans and advances is a reasonable approximation of their fair value due to the following: the loans advances are to non- related parties; the loans and advances are on terms that are within **sefa**'s normal mandate; and **sefa**'s principal market is determined with reference to its developmental mandate. Refer to note 7.1 and 7.4 for further detail.

7.11 Investments

Investments are non-derivative financial assets consisting of equity investments where the Group does not control the entity to such an extent where consolidation is required and excludes investments where the group has significant influence or joint control.

The terms of these investments do not solely represent the payment of principal and interest and is therefore measured at FVTPL. These assets are not held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI') neither are these assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI'). These assets accordingly are carried at FVTPL.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening carrying value	29 790	29 210	29 790	28 053
Movement on fair value adjustments	(9 339)	(3 495)	(9 339)	(3 860)
(Disposal)/ Acquisition of investments	12 886	4 075	12 886	5 597
Closing carrying value	**33 337**	**29 790**	**33 337**	**29 790**

The fair value of the investment in equity instruments was determined by reference to the net asset value (NAV) of the underlying entity.

NAV is an appropriate valuation model as the assets and liabilities of the underlying investments are held at market value in the investee companies.

The fair value of the underlying entity already includes impacts for COVID-19 and no further adjustments were considered necessary.

The fair value movement in the current financial year was R6.5 million (2021: R3.5 million), and it was recognised in profit or loss. There was no realised gain or loss in the financial statements.

8. Equity structure

8.1 Share Capital

Share capital consists of ordinary shares and is classified as equity. Issued share capital is measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the Par value of the shares issued is presented as share capital. Subsequent to initial recognition, equity is not re-measured.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Authorised				
500 000 000 ordinary shares at R1 each	**500 000**	**500 000**	**500 000**	**500 000**
Issued and paid				
308 300 000 ordinary shares at R1 each	**308 300**	**308 300**	**308 300**	**308 300**

Share Capital is fully paid.

8.2 Shareholder reserves

Shareholder reserves consist of a subordinated loan to **sefa** from the IDC that is interest-free and not repayable.

	Group		Company	
	2022	2021	2022	2021
	R'000	R'000	R'000	R'000
Opening shareholder reserves	2 300 782	2 103 996	2 300 782	2 103 996
Government allocations advanced by the shareholder[1]	251 706	196 786	251 706	196 786
Closing shareholder reserves	**2 552 488**	**2 300 782**	**2 552 488**	**2 300 782**

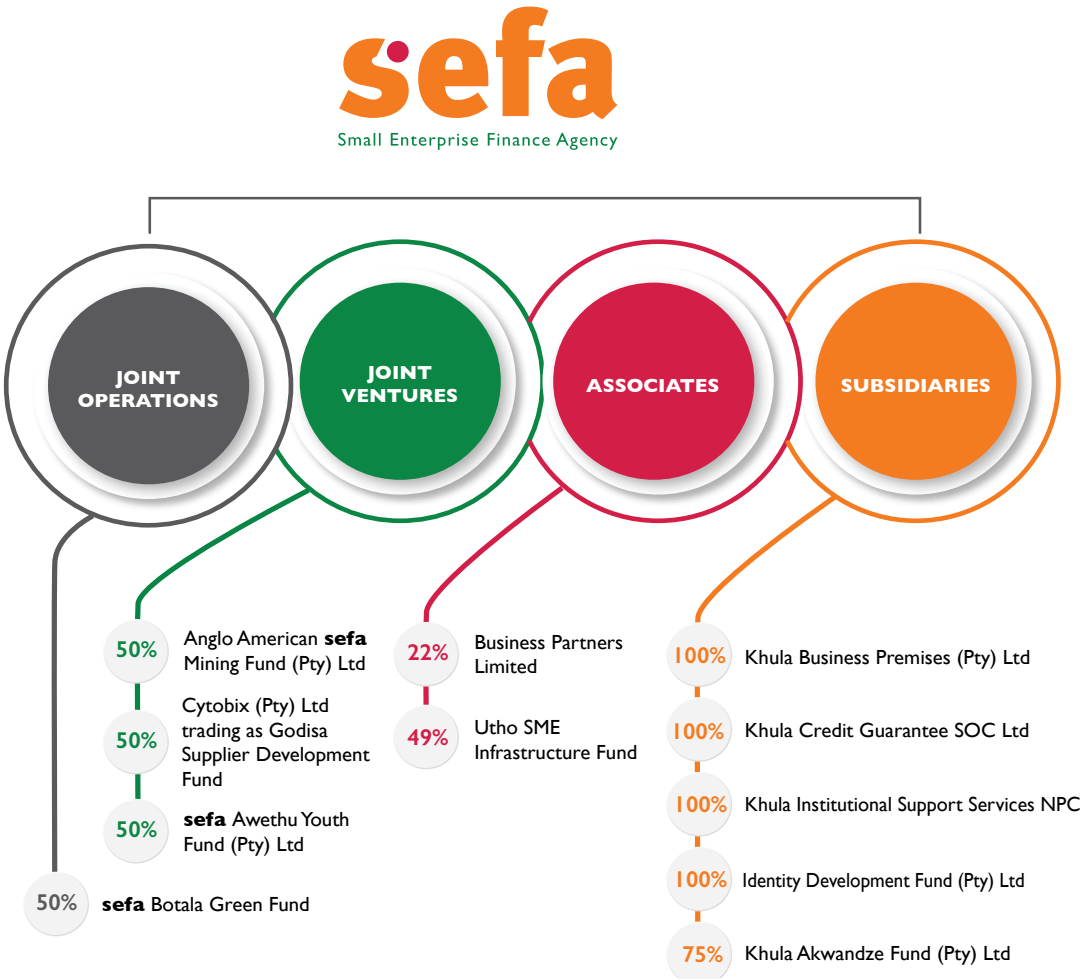
(1) All government allocations (MTEF) received from the shareholder are allocated to a subordinated, non-repayable and interest-free loan that is classified as shareholder's reserves.

Notes to the Annual Financial Statements (continued)

for the Year Ended 31 March 2022

9. Group composition

9.1 Interest in other entities and operations



Subsidiaries		Principal place of business:
Identity Development Fund Partnership	100%	21 Fricker Road, Illovo, Johannesburg
Khula Akwandze Fund (Pty) Ltd	75%	Mhlathi Farm, 1320 Malelane, Mpumalanga
Khula Business Premises (Pty) Ltd	100%	11 Byls Bridge Boulevard, Doringkloof, Centurion
Khula Credit Guarantee (SOC) Ltd	100%	11 Byls Bridge Boulevard, Doringkloof, Centurion
Khula Institutional Support Services NPC	100%	11 Byls Bridge Boulevard, Doringkloof, Centurion

Associates		Principal place of business:
Business Partners Limited	22%	37 West Street, Houghton Estate, Johannesburg
The Utho SME Infrastructure Fund	49%	2nd Floor, Progress House, 354 Rivonia Boulevard, Johannesburg

Joint ventures		Principal place of business:
Anglo **sefa** Mining Fund (Pty) Ltd	50%	44 Main Street, Johannesburg
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	50%	11 Byls Bridge Boulevard, Doringkloof, Centurion
sefa Awethu Youth Fund (Pty) Ltd	50%	11 Kotze Street, Braamfontein, Johannesburg

Joint operation		Principal place of business:
sefa Botala Green Fund	50%	11 Byls Bridge Boulevard, Doringkloof, Centurion

9. Group composition (continued)

9.2 Investments in subsidiaries

Subsidiaries are entities that are controlled b**y sefa**, which has rights to the variable returns and has the ability to use its control to affect the amount of returns. Refer to 1.4.1 for information regarding the Group and Company's accounting policies.

	Company	
	2022	2021
	R'000	R'000
Investments in subsidiaries		
Unlisted shares in subsidiaries	479 214	422 837
Loans receivable	30 562	31 612
Total exposure to subsidiaries before impairments	509 776	454 449
Impairments on investments in subsidiaries	(30 142)	(44 718)
Total exposure to subsidiaries net of impairments	479 634	409 731

Companies	2022 % interest	2021 % interest	Nature of activities	Exposure before impairments 2022 R'000	Exposure before impairments 2021 R000
Identity Development Fund Partnership[2]	100%	100%	SME Financing	24 950	26 000
Khula Akwandze Fund (Pty) Ltd	75%	75%	SME Financing	5 612	5 612
Khula Business Premises (Pty) Ltd	100%	100%	Property rental	–	–
Khula Credit Guarantee (SOC) Ltd[1]	100%	100%	Credit indemnities	479 214	422 837
Khula Institutional Support Services NPC	100%	100%	Capacity building	–	–
Exposure to subsidiaries before impairments				**509 776**	**454 449**

*(1) The increase in exposure in the **sefa** company for Khula Credit Guarantee (SOC) Ltd was a capitalisation of the subsidiary of R56.377 million (2021: R367.837 million).*
*(2) The decrease in exposure in the **sefa** company for Identity Development Fund Partnership was a loan repayment by the subsidiary of R1.05 million (2021: R2 million).*
(3) The decrease in exposure in the sefa company for Khula Akwandze Fund (Pty) Ltd was a loan repayment by the subsidiary of R0 million (2021: R5.445 million).

All subsidiaries are incorporated in the Republic of South Africa and have the same reporting date as the holding company.

The entities classified as subsidiaries are all under the control of **sefa**, which has rights to the variable returns and has the ability to use its control to affect the amount of returns.

The investments in subsidiaries are all non-current assets.

9. Group composition (continued)

9.2 Investments in subsidiaries

The aggregate net profits and losses after taxation of subsidiaries attributable to **sefa** were as follows:

	Group	
	2022	2021
	R'000	R'000
Profits	16 961	577
Losses	(64 340)	(65 699)
Aggregate net loss from subsidiaries	(47 379)	(65 122)

9.2.1 Derecognition of small business growth trust

On 2 October 2020, following an arbitration process, a settlement agreement was reached and resulting outcome was the dissolution of the Small Business Growth Trust.

At the date of dissolution the carrying amounts of the Small Business Growth Trust were as follows:

	2022	2021
	R'000	R'000
Loans and advances[1]	–	–
Cash and cash equivalents	–	28
Total Current Assets	–	28
Total Assets	–	28
Trade and other payables	–	(7 995)
Total Current Liabilities	–	(7 995)
Total Liabilities	–	(7 995)
Total negative net asset value	–	(7 967)
Accounting gain on dissolution of the Small Business Growth Trust	–	7 967

The accounting gain on dissolution of subsidiary was included in other income for the group at 31 March 2021.

(1) Loans and advances balance of R29 710 410.00 was fully impaired and therefore carrying value of nil at the date of dissolution

9.3 Investments in joint operations

Joint operations are arrangements that are jointly controlled by **sefa** and another party where **sefa** has rights to the variable returns and has the ability to use its control to affect the amount of returns. Refer to note 1 for information regarding the Group and Company's accounting policies.

	Company	
	2022	2021
	R'000	R'000
Investments in joint operations		
Loans receivable	19 084	19 084
Impairments of investments in joint operations	(19 084)	(19 084)
Total exposure to joint operations net of impairments	–	–

9. Group composition (continued)

9.3 Investments in joint operations (continued)

Companies	2022 % interest	2021 % interest	Nature of activities	Total company exposure before impairments 2022 R'000	Total company exposure before impairments 2021 R'000
sefa Botala Green Fund	50%	50%	SME Financing	19 084	19 084

All joint operations are incorporated in the Republic of South Africa and have the same reporting date as the holding company.

The investments in joint operations are all non-current assets.

sefa Botala Green Fund is dormant.

The aggregate net profits and losses after taxation of joint operations attributable to **sefa** were as follows:

	Group	
	2022 R'000	2021 R'000
Loss from joint operations		
Profits	9 916	–
Losses	–	–
	9 916	–

9.4 Investments in associates

Associates are companies where **sefa** owns between 20% and 50% of issued shares, but does not have significant control over the company. Refer to note 1 for information regarding the Group and Company's accounting policies.

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Investments in associates	98 622	98 622	98 622	98 622
Unlisted shares in associates				
Accumulated equity-accounted income, losses and impairments	708 835	653 376	–	–
Loans receivable	29 366	29 366	29 366	29 366
Impairment of loans	–	–	(29 033)	(28 994)
Total exposure to associates	836 823	781 364	98 955	98 994

9. Group composition (continued)

9.4 Investments in associates (continued)

Associate	2022 % interest	2021 % interest	Nature of activities	Total company exposure before impairments 2022 R'000	Total company exposure before impairments 2021 R'000
Business Partners Limited	22%	22%	SME Financing	98 622	98 622
The Utho SME Infrastructure Fund[1]	49%	49%	SME Financing	29 366	29 366
Total exposure to associates before impairments				**127 988**	**127 988**

[1] *Although the ownership interest in The Utho SME Infrastructure Fund is 49%, the voting interest is only 40%.*

The following information summarises the financial information of the associates as included in its own financial statements adjusted for differences in accounting policies. The table also reconciles the summarised information to the carrying amount of the Group's interest:

	Group	
	2022 R'000	2021 R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	5 836 665	5 686 096
Current assets	778	837
Non-current liabilities	(2 016 558)	(2 123 434)
Current liabilities	(97)	(76)
Net assets at 100%	**3 820 788**	**3 563 423**
Group's share of net assets	807 457	751 998
Loan to associate	29 366	29 366
Costs capitalised on shares acquired	–	–
Total exposure to associates	**836 823**	**781 364**
Statement of comprehensive income		
Revenue	601 541	470 874
Expenses	(341 631)	(375 143)
Other comprehensive income	(2 679)	21 685
Profit and total other comprehensive income at 100%	257 231	117 416
Group's share of loss and total comprehensive income	55 458	25 433

There are no significant restrictions on the ability of the associates to transfer funds to **sefa** in the form of cash dividends or to repay loans advanced. There are no additional risks associated with **sefa**'s investments other than impairment recognised and the risks identified in the financial risk management note. All investments in associates are non-current assets.

9. Group composition (continued)

9.5 Investments in joint ventures

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Investments in joint ventures	163 340	188 185	163 340	188 185
Loans receivable				
Accumulated equity-accounted income, losses and impairments	(61 693)	(47 275)	–	–
Impairment of loans	–	–	(60 926)	(53 855)
Total exposure to joint ventures	101 647	140 910	102 414	134 330

Investments in joint arrangements were assessed and it was concluded that these agreements should be classified as joint ventures. In performing the assessment, the group considered the structure of the arrangements, the legal form of any separate vehicle, the contractual terms of the arrangements and other facts and circumstances.

Companies	2022 % interest	2021 % interest	Nature of activities	Total exposure 2022 R'000	Total exposure 2021 R'000
Anglo **sefa** Mining Fund (Pty) Ltd	50%	50%	Financing mining activities	84 582	84 582
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund[2]	50%	50%	SME Financing	36 059	43 603
sefa Awethu Youth Fund (Pty) Ltd[1]	50%	50%	SME Financing	42 699	60 000
Total exposure to joint ventures before impairments				**163 340**	**188 185**

[1] The decrease in exposure in 2022 for sefa company is due to capital repayments of R17.3 million (2021: Rnil) from sefa Awethu Youth Fund (Pty) Ltd.

[2] The decrease in exposure in 2022 for sefa company is due to a reduction in the intercompany loan account of R7.54 million (2021: R3.557 million).

9. Group composition (continued)

9.5 Investments in joint ventures (continued)

	Group	
	2022	2021
	R'000	R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	69 307	102 333
Current assets	192 717	195 435
Non-current liabilities	–	–
Current liabilities	(349 633)	(356 541)
Net assets at 100%	(87 609)	(58 773)
Group's share of net assets	(61 693)	(47 275)
Loans to joint ventures	163 340	188 185
Total exposure to joint ventures	**101 647**	**140 910**
Statement of comprehensive income		
Revenue	8 035	18 244
Expenses	(35 625)	13 537
Total other comprehensive income / (Loss) at 100%	(27 590)	31 781
Group's share of total comprehensive income / (loss)	(10 968)	23 183

There are no significant restrictions on the ability of the joint ventures to transfer funds to **sefa** in the form of cash dividends or to repay loans advanced. There are no additional risks associated with **sefa**'s investments other than impairment recognised and the risks identified in the financial risk management note. All investments in joint ventures are non–current assets.

9. Group composition (continued)

9.6 Profit from equity accounted investees

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Profit/(loss) from Equity Accounted Investees				
Anglo **sefa** Mining Fund (Pty) Ltd	(14 021)	19 872	–	–
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	3 053	2 966	–	–
sefa Awethu Youth Fund (Pty) Ltd	–	345	–	–
Income from joint ventures	(10 968)	23 183	–	–
Loss and other comprehensive income from associates				
Business Partners Limited [1]	55 497	25 425	–	–
The Utho SME Infrastructure Fund	(39)	8	–	–
Income from associates	55 458	25 433	–	–
	–	–		
Profit from equity accounted investees	45 069	43 941		
Other comprehensive (loss)/income from equity accounted investees	(579)	4 675		
Total profit and other comprehensive income from equity investees	44 490	48 616	–	–

[1] *The income from Business Partners consists of R55.5m profit (2021: R20.75m) and R0m (2021: R4.67m other comprehensive income) other comprehensive loss.*

10. Related parties and directors emoluments

10.1 Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Group and a party related to the Group, regardless of whether a price is charged. For the purposes of defining related party transactions with key management, key management has been defined as directors and the Group's executive committee and includes close members of their families and entities controlled or jointly controlled by these individuals.

Related parties

Description	Relationship
The Department of Trade, Industry and Competition (DTIC, previously EDD)	Shareholder of the IDC
Business Partners Limited	An associate of **sefa**
The Utho SME Infrastructure Fund	An associate of **sefa**
Godisa Supplier Development Fund (Pty) Ltd	A joint venture of **sefa**
Anglo **sefa** Mining Fund (Pty) Ltd	A joint venture of **sefa**
sefa Awethu Youth Fund (Pty) Ltd	A joint venture of **sefa**
Industrial Development Corporation (IDC)	Parent and controlling party of **sefa**
Khula Business Premises (Pty) Ltd	Wholly owned subsidiary of **sefa**
Khula Credit Guarantee (SOC) Ltd	Wholly owned subsidiary of **sefa**
Khula Institutional Support Services NPC	Wholly owned subsidiary of **sefa**
Khula Land Reform Empowerment Facility	Wholly owned subsidiary of **sefa** (1)

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated in the Group financial statements, these are however not eliminated in the individual Company financial statements.

10. Related parties and directors emoluments (continued)

10.1 Related party transactions (continued)

The following transactions were entered into with related parties:

	Group		Company	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Rental income received from related parties:				
DTIC	1 592	5 214	1 592	5 214
Total rental income from related parties	1 592	5 214	1 592	5 214
Investment income received from related parties				
Interest on cash balances managed by IDC	4 421	10 888	3 651	9 616
Management fees paid to related parties for travel management				
IDC	428	451	428	451
Management fees charged to related parties				
Khula Land Reform Empowerment Facility(1)	11 198	9 125	11 198	9 125
Khula Credit Guarantee (SOC) Ltd	–	–	8 042	7 355
Khula Institutional Support Services NPC(2)	(16)	(524)	3 857	3 492
Khula Business Premises (Pty) Ltd	–	–	13 417	12 139
Godisa Supplier Development Fund (Pty) Ltd	–	–	3 450	3 450
Total management fees charged to related parties	11 182	8 601	39 964	35 561
Transfer of grant funding to related party				
Khula Credit Guarantee (SOC) Ltd	–	–	(71 927)	(19 663)
Related party balances receivable/(payable)				
Khula Credit Guarantee (SOC) Ltd(3)	–	–	9 494	17 641
Khula Land Reform Empowerment Facility(1)	8 594	7 904	8 594	7 904
Khula Institutional Support Services NPC(3)	–	–	5 038	4 530
Khula Business Premises (Pty) Ltd(4)	–	–	472 705	417 694
Khula Business Premises (Pty) Ltd – impairment(4)	–	–	(284 791)	(226 058)
IDC – Cash managed	32 212	78 649	9 802	51 179
IDC – Shareholder's loan (liability)(5)	(734 043)	(679 436)	(734 043)	(679 436)
IDC – Shareholder's loan (equity)(5)	(2 552 488)	(2 300 782)	(2 552 488)	(2 300 782)
Aggregated related party balances payable	**(3 245 725)**	**(2 893 665)**	**(3 065 689)**	**(2 707 328)**

*(1) Registered as a Non-profit Company. This company has been exempted from consolidation as **sefa** is acting as an agent.*
(2) The management fee charged to Khula Institutional Support NPC reflects a negative amount on consolidated level due to the subsidiary not being able to claim the VAT charged on the management fee. The subsidiary company is not a registered VAT vendor.
(3) Any outstanding related party balances are unsecured and will be settled in cash. No guarantees have been given or received.
*(4) The loan issued to Khula Business Premises (Pty) Ltd is subordinated and bears interest at 70% of the prime lending rate. An impairment of R272 million has been raised on the loan in the **sefa** Company.*
(5) Refer to note 6.1 for specific terms.

Investments in related entities
Refer to notes 9.1 to 9.5 for investments held in related entities.

Transactions with key management personnel
No material contracts were entered into involving the interest of any director or executive management member. All compensation paid to key management is disclosed under note 10.2.

10. Related parties and directors emoluments (continued)

10.2 Directors' and prescribed officers' remuneration

Prescribed officers as prescribed by the Companies Act, are individuals who, despite not being a director of the Company:

- exercise general executive control over and management of the whole, or a significant portion, of the business and activities of the Company; or
- regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Company.

The Company considers all individuals at the level of executive management as the prescribed officers.

Key management, as defined in IAS 24 Related Party Disclosure, are individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of executive management up to the Board of Directors are regarded as key management. The remuneration of the directors and prescribed officers is disclosed below as per the Companies Act requirements.

10.2.1 Board of Directors:

The non-executive Directors are not involved in day-to-day operations of the business and do not draw any remuneration from **sefa** other than for board fees.

			Group		Company	
			2022 R'000	2021 R'000	2022 R'000	2021 R'000
Current Board members	*Appointment date*	*Retirement date*				
Mr M Mahosi[3]	01/08/19	30/04/22	996	926	602	725
Ms D Mabuza	01/08/19	30/04/22	343	353	343	353
Ms M Makara	01/08/19	31/05/21	76	466	56	405
Mr J Kganyago	01/08/19	–	524	531	502	460
Mr M Radebe	01/08/19	31/03/22	249	205	249	205
Mr LFV Mosupye[2]	04/12/14	–	113	118	–	28
Ms S Mudau	01/10/20	30/04/22	470	260	416	240
Ms Z Ngcobo	01/10/20	–	419	269	354	249
Ms H Tsoadi[1]	01/10/20	–	431	200	312	180
Ms N Mlonzi	01/08/19	31/07/20	–	110	–	110
NS Dlamini[1]	01/10/16	31/07/20	–	83	–	73
Dr GS Moseneke[4]	02/07/21	–	145	–	–	–
Mr MJ Pitjeng[4]	02/07/21	–	110	–	–	–
Total directors' fees paid			**3 876**	**3 521**	**2 834**	**3 028**

(1) Directors fees for the services rendered were paid to the IDC.

(2) This director only serves on the Board of the subsidiary company, KCG.

(3) The group amounts for 2022 (R238 000) and 2021 (R175 000) include remuneration paid to the director by Business Partners Limited (an associate of the sefa Group).

(4) These directors only serve on the Board of the subsidiary company, KBP.

10. Related parties and directors emoluments (continued)

10.2 Directors' and prescribed officers' remuneration (continued)

10.2.2 Executive management:

	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Executive management remuneration				
Employment benefits	11 167	12 678	11 167	12 678
Post-employment benefits	–	–	–	–
Total executive management remuneration	**11 167**	**12 678**	**11 167**	**12 678**

	2022				
	Basic salary and acting allowance	Incentive bonus (Short-term)	Incentive bonus (Long-term)	Retirement, medical and other benefits	Total
	R'000	R'000	R'000	R'000	R'000
Executive					
Mr MD Matshamba	2 789	–	–	494	3 283
Ms RV Ralebepa[1]	933	–	–	179	1 112
Ms B Sefolo	2 166	–	–	361	2 527
Ms N Shwala	2 253	–	–	278	2 531
Mr NS Mbatha[4]	155	–	–	28	183
Ms C Williams[5]	862	–	–	170	1 032
Mr E Kwadjo[6]	429	–	–	70	499
Total executive management remuneration	**9 587**	**–**	**–**	**1 580**	**11 167**

	2021				
	Basic salary and acting allowance	Incentive bonus (Short-term)	Incentive bonus (Long-term)	Retirement, medical and other benefits	Total
	R'000	R'000	R'000	R'000	R'000
Mr MD Matshamba[2]	1 144	–	–	203	1 347
Mr SA Molepo[3]	1 349	–	–	253	1 602
Ms RV Ralebepa	2 198	–	–	424	2 622
Ms B Sefolo	2 130	–	–	345	2 475
Ms N Shwala	2 202	–	–	273	2 475
Mr NS Mbatha	1 821	–	–	336	2 157
Total executive management remuneration	**10 844**	**–**	**–**	**1 834**	**12 678**

(1) Resigned 31 August 2021

(2) Appointed 1 November 2020

(3) Seconded to the company by the National Empowerment Fund from 1 December 2018 up to 30 September 2020

(4) Seconded to the Small Enterprise Development Agency since 1 May 2021 up to date. All remuneration since 1 May 2021 for this executive has been on-charged by ***sefa*** *to Seda and is therefore not included in this table.*

(5) Acting as CFO since 1 August 2021.

(6) Acting as Post Investment Executive since 1 January 2022.

No member of executive management earned any income from any other company within the Group.

11. PFMA disclosure

11.1 Unauthorised, fruitless and wasteful and irregular expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2021: Rnil).

Fruitless and wasteful expenditure

The PFMA defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

	2022 R'000	2021 R'000
Fruitless and wasteful expenditure		
Opening balance	–	–
Relating to the current year	–	–
Relating to the prior year	–	–
Amounts recovered	–	–
Amounts not condoned and recoverable	–	–
Written off by Accounting Authority	–	–
Closing balance	–	–

Irregular expenditure

Irregular expenditure signifies expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have been implemented to ensure compliance with the PFMA, relevant tender regulations as well as any other relevant procurement regulations.

	2022 R'000	2021 R'000
Irregular expenditure		
Opening balance	7 529	7 529
Relating to the prior year	–	–
Relating to the current year	12	–
Condoned by Accounting Authority	–	–
Amounts not condoned and recoverable [1]	(7 529)	–
Closing balance	**12**	**7 529**

[1] This amount was not condoned by National Treasury but the Board had resolved to the removal thereof in terms of the National Treasury Regulations.

12. Fair value measurement

12.1 Fair value measurement of financial instruments

Financial assets and financial liabilities are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

Group – 2022	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets measured at fair value				
Investments	–	–	33 337	33 337
	–	–	33 337	33 337

Group – 2021	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets measured at fair value				
Investments	–	–	29 790	29 790
	–	–	29 790	29 790

Company – 2022	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets measured at fair value				
Investments	–	–	33 337	33 337
	–	–	33 337	33 337

Company – 2021	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets measured at fair value				
Investments	–	–	29 790	29 790
	–	–	29 790	29 790

The fair value of the investment in equity instruments was determined by reference to the net asset value of the underlying entity.

The fair value movement in the current financial year was (R1.0) million (2021: R3.5 million), and it was recognised in profit or loss. There was no realised gain or loss in the financial statements.

Refer to note 7.11 for the reconciliation of the carrying amounts of financial instruments.

12. Fair value measurement

12.2 Fair value measurement of non-financial assets

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis:

Group – 2022	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets				
Investment properties	–	–	185 133	185 133
	–	**–**	**185 133**	**185 133**

Group – 2021	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets				
Investment properties	–	–	183 480	183 480
	–	**–**	**183 480**	**183 480**

Company – 2022	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets				
Investment properties	–	–	–	–
	–	**–**	**–**	**–**

Company – 2021	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Assets				
Investment properties	–	–	–	–
	–	**–**	**–**	**–**

The fair value measurement for investment property has been categorised as level 3 fair value based on **sefa**'s fair value hierarchy due to unobservable inputs used.

The assumptions used in the valuations conducted at year end were assessed to be appropriate for the current financial year.

The following summarises the valuation technique used in measuring the fair value of Investment Properties, as well as the significant unobservable inputs used:

Valuation technique

sefa's property portfolio consists mainly of income producing properties and this is the fundamental basis on which the valuation of investment properties is determined. Investment properties produce a perpetual income stream and the capitalisation of such net revenue flow is an accurate means of determining the value. Included in the portfolio, are two properties which are sectional title in nature and one comprises of vacant land. These properties have been valued on the direct comparison basis. The capitalisation rates used range from 11.5% to 17.5% (2021: 9% – 15.5%).

In the current financial year, a desktop valuation on the investment property was performed. The investment properties were valued by independent valuators in the previous financial year (2021) using market related rentals and market related capitalisation rates. The significant inputs and assumptions are developed in close consultation with management. The prior year valuation was used as the starting point for the desktop valuation, minor adjustments were made for inflation on costs and capitalisation rates were compared to the latest Rodes Report.

Refer to note 5.4 and note 5.5 for the reconciliation of the carrying amounts of non-financial assets classified within Level 3.

13. Events after the reporting period

13.1 Events after the reporting period

On 22 June 2022 there was a fire and some of the units at one of the Properties in Soweto, Orlando West, were badly damaged. These properties are in Khula Business Premises (Pty) Ltd (subsidiary of **sefa**). This property was valued at R11 461 259. The total cost to rebuild and repair this property is still being quantified.

There are no other matters or circumstances arising since the end of the financial year and 19 July 2022, not otherwise dealt with in the annual financial statements that would affect the operations of the Group or Company significantly."

sefa
Small Enterprise Finance Agency

Small Enterprise Finance Agency SOC Limited Company
Registration Number: 1995/011258/06
Licensed Credit Provider: NCRCP 160

sefa Head office physical address
Bylsbridge Office PArk,
Cnr Olievenhoutbosch Street & Jean Avenue,
Building 14, Block D,
11 Blys Bridge Boulevard,
Highveld Extension 73,
Centurion, 0157
Tel: +27 12 748 9600
helpline@sefa.org.za
talktous@sefa.org.za

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