sefa

Small Enterprise Finance Agency

Annual Report 2020

Building Towards Economic Recovery by Deepening Access to Finance to the SMME sector

Contents

List of Acronyms

Absa	Amalgamated Banks of South Africa	KCG	Khula Credit Guarantee (SOC) Ltd
AC	Audit Committee	KLR	Khula Land Reform
AMEF	Authentique Memorial Empowerment Foundation	LREF	Land Reform Empowerment Fund
AURR	Additional Unexpired Risk Reserve	LDPs	Local Distribution Partners
BA	Bachelor of Arts	LGD	Loss Given Default
B-BBEE	Broad-Based Black Economic Empowerment	LLB	Bachelor of Law Degree
BEE	Black Economic Empowerment	LLC	Limited Liability Company
BProc	Baccalaureus Procurationis Degree	MANCOM	Management Committee
BSc	Bachelor of Science Degree	MAP	Management Advanced Programme
BRI	Barnes Reinforcing Industries	MBA	Master of Business Administration
BWO	Black Woman Owned	MFIs	Microfinance Institutions
CA(SA)	Chartered Accountant South Africa	MIS	Management Information System
CEO	Chief Executive Officer	ML	Micro Lending
CBDA	Co-operative Banks Development Agency	MPC	Monetary Policy Committee
CBSA	Co-operative Bank of South Africa	MRPG	Mr Price Group
CCBSA	Coca-Cola Beverages South Africa	NCA	National Credit Act
CIC	Credit and Investment Committee	NCR	National Credit Regulator
CIDB	Construction Industry Development Board	NDP	National Development Plan
CFIs	Co-operative Financial Institutions	NPC	Non-Profit Company
CIPC	Companies and Intellectual Property Commission	NGP	New Growth Plan
CISA	Compliance Institute of South Africa	NPL	Non-Performing Loans
COVID-19	Coronavirus Disease 2019	NPOs	Not-For-Profit Organisations
CRMPs	Compliance Regulatory Management Plans	PA	Prudential Authority
CTA	Cumulative Translation Adjustment	PCG	Partial Credit Guarantee
DFI	Development Financial Institution	PD	Probability of Default
DL	Direct Lending	PFIs	Partner Financial Institutions
DMA	Development Microfinance Association	PFMA	Public Finance Management Act
DOA	Delegation of Authority	PIM	Post Investment Monitoring
DSBD	Department of Small Business Development	PIMC	Post Investment Monitoring Committee
the dtic	Department of Trade, Industry and Competition	RC	Risk Committee
EAD	Exposure at Default	RFIs	Retail Finance Intermediaries
ECL	Expected Credit Loss	SAB	South African Breweries
EDD	Economic Development Department	SAICA	South African Institute of Chartered Accountants
ERM	Enterprise Risk Management	SARB	South African Reserve Bank
ESD	Enterprise and Supplier Development	SARS	South African Revenue Service
EWP	Employee Wellness Programme	SBIF	Small Business and Innovation Fund
EXCO	Executive Committee	SBL	School of Business Leadership
FASA	Franchise Association of South Africa	Seda	Small Enterprise Development Agency
Fintech	Financial Technology	SEF	Small Enterprise Foundation
FNB	First National Bank	sefa	Small Enterprise Finance Agency (SOC) Ltd
FY	Financial Year	SFSs	Structured Finance Solutions
GACP	Generally Accepted Compliance Practice Framework	SICR	Significant Increase in Credit Risk
GDP	Gross Domestic Product	SMEs	Small and Medium Enterprises
GIBS	Gordon Institute of Business Science	SMMEs	Small, Medium and Micro Enterprises
HCE	Household Consumption Expenditure	SOC	State Owned Company
HCM	Human Capital Management	SSP	Start-Up Support
HPO	High-Performance Organisation	STIA	Short Term Insurance Act 53 of 1998
IDC	The Industrial Development Corporation of South Africa	TAP	Talent Acquisition Programme
IFRS	International Financial Reporting Standards	TCBS	Transaction Capital Business Solutions
IMC	Investment Monitoring Committee	UIF	Unemployment Insurance Fund
IoDSA	The Institute of Directors in South Africa	UKZN	University of KwaZulu-Natal
IPAP	Industry Policy Action Plan	UNISA	University of South Africa
ISA	Instalment Sale Agreement	Wits	University of the Witwatersrand
IT	Information Technology	WL	Wholesale Lending
JVs	Joint Ventures	YEP	Youth Empowerment Programme
		ZAR	South African Rand

SECTION 01

Strategic Overview

Strategic Overview

Background

Small Enterprise Finance Agency (**sefa**) was established on 01 April 2012 in terms of Section 3(d) of the Industrial Development Corporation Limited (IDC) Act as a Development Finance institution (DFI) to contribute towards job creation and economic growth by providing financial and non-financial support to Small, Medium and Micro Enterprises (SMMEs) and Co-operatives. The agency derives its legislative mandate to be a catalyst of SMME and Co-operative enterprise development, growth, and sustainability from the IDC Act of 1940 (amended in 2001). **sefa** reports to the Minister of Small Business Development.

Mandate

sefa's mandate is to be the leading catalyst for the development of sustainable SMMEs and Co-operatives through the provision of funding.

Corporate Plan

sefa's Corporate Plan contributes to the Department of Small Business Development (DSBD) medium-term strategic framework objectives and is guided by the following legislation, policies and strategies:

- The Public Finance Management Act of 1999 as amended (PFMA);
- National Small Business Act of 1996 and as amended in 2004;
- The National Credit Act 34 of 2005;
- The Short-Term Insurance Act 53 of 1998;
- The Co-operatives Act of 2013;
- B-BBEE Act 46 of 2013;
- The Integrated Small Business Development Strategy (2004);
- The Medium-Term Strategic Framework (Outcome 4: Decent employment through inclusive growth);
- The New Growth Path (NGP);
- The Industrial Policy Action Plan (IPAP);
- The National Development Plan (NDP); and
- The DSBD 2015-2019 Strategic Plan.

sefa is in its fourth year of implementing a five year strategy to achieve High-Performance Organisation (HPO) status. This positioning will ensure high levels of delivery against its mandate. **sefa** recognises the critical role that it plays in assisting the Government to achieve its mandate towards poverty alleviation, job creation and economic growth on targets in the National Development Plan (NDP).

The agency has also implemented a Gearing for Growth strategy to expand its support to SMMEs and Co-operatives. This imperative is aligned to support Government's small business job creation targets.

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 practice on the dissemination and sharing of information with all stakeholders; and
- **Innovation:** Continuously looking for new and better ways to serve our clients.

Group Structure

sefa
Small Enterprise Finance Agency

Joint Operation

- **sefa** Botala Green Fund

Joint Ventures

- Anglo American **sefa** Mining Fund (Pty) Ltd
- Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund
- **sefa** Awethu Youth Fund (Pty) Ltd

Associates

- Business Partners Limited
- Utho SME Infrastructure Fund

Subsidiaries

- Identity Development Fund
- Khula Akwandze Fund
- Khula Institutional Support Services NPC
- Khula Business Premises (Pty) Ltd
- Khula Credit Guarantee (SOC) Ltd
- Small Business Growth Trust Fund

Distribution Channels and Products

Clients

SMMEs and Co-operatives

Distribution Channels

- **sefa** Main Offices
- **sefa** Co-locations (IDC, Seda, Business Hubs)
- Commercial Banks
- Corporates
- Co-operatives Financial Institutions (CFIs)
- Microfinance Institutions (MFIs)
- Retail Finance Institutions (RFIs)
- Strategic Partnerships (Funds and JVs)
- Non-Bank Financial Institutions (NBFI)

Product Portfolio

Direct Lending

- Asset Finance
- Bridging Loans
- Revolving Loans
- Term Loans

R50 000 – R15 Million

Wholesale Lending

- Credit Guarantees
- Equity
- Revolving Loans
- Structured Finance Solutions (SFSs)
- Term Loans

R500 – R5 Million

Other Support Services

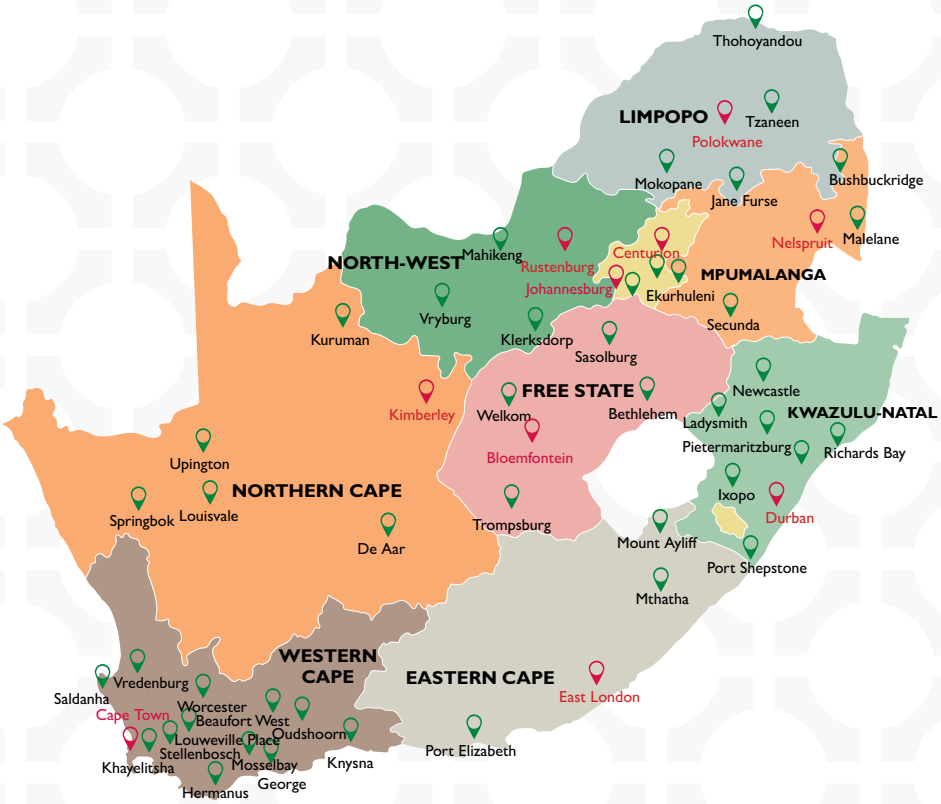
- Post Investment Monitoring
- Workout and Restructuring
- Business and Technical Support
- Commercial and Industrial Property Rental
- Institutional Strengthening
- Investee Companies Board Representation
- Fund Management Services

Note: Wholesale intermediaries lending facilities go up to R150 million.

Geographic Footprint

sefa Offices
Co-locations

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



Loan Criteria

- Be a South African citizen;
- Be compliant with generally accepted corporate practices appropriate to the client's legal status;
- Be a registered entity, including sole traders with a fixed physical address;
- Be within the required legal contractual capacity;
- Be domiciled in South Africa;
- Have a written proposal or business plan that meets **sefa**'s loan application criteria;
- Demonstrate the character and ability to repay the loan;
- Provide personal and/or credit references;
- Be the majority shareholder and the owner-manager of the business; and
- Have a valid Tax Clearance Certificate.

Target Market

sefa's loan financing programmes primarily focus on black people, women, the youth, rural communities and people living with disabilities. These programmes are aligned with the NGP, IPAP and the 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;
- Mining services; and
- Green industries (water, energy and waste).

sefa Balanced Scorecard Results - 2019/20

Measure	Annual Performance View/Results		% of Annual Target Achieved	% of Annual Target Achieved
	Annual Target	Annual Achievement		
Customer Perspective				
Total Approvals (R'000)	929 784	**1 411 431**	152%	The over performance in this area emanated from funding activities through the new financing instruments, namely the Small Business and Innovation Fund (SBIF) and Blended Finance.
Total Disbursements to SMMEs and Co-operatives (R'000)	793 930	**1 311 984**	165%	Over performance in disbursements resulted from the revolving loan facilities extended via the wholesale loan programmes to financial intermediaries. These Financial Intermediaries revolve their loan books / facilities three to four times in the year. Also the implementation of new financing instruments, namely the SBIF and Blended Finance.
Number of SMMEs and Co-operatives financed	90 178	**74 472**	83%	The under performance in this area emanated from tough economic conditions and issues relating to the broader SMME operating environment.
Number of jobs facilitated	91 997	**87 828**	95%	
Facilities disbursed to black-owned businesses (R'000)	665 255	**921 243**	138%	**sefa** remained focused in the implementation of its mandate by providing access to finance to SMMEs and Co-operatives from previously disadvantaged groups, women, youth and enterprises located in townships, rural towns and villages. The over-achievement recorded in the black and women-owned performance indicators was due to effective marketing outreach and the group lending in the microfinance programme, where majority of the participants are black women. The targets for disbursements to youth-owned and township-based businesses and people with disabilities were not met due to lack of viable business proposals. To improve performance in the underperforming indicators, a dedicated Township and Rural Entrepreneurship Programme was introduced.
Facilities disbursed to women-owned businesses (R'000)	448 055	**446 084**	100%	
Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	239 229	**211 932**	89%	
Facilities to people with disabilities (R'000)	15 949	**6 340**	40%	
Facilities disbursed to enterprises in rural towns and villages (R'000)	448 055	**371 151**	83%	
Disbursements to township-based enterprises (R'000)	324 254	**124 627**	38%	
Facilities less than R500K disbursed to end-users - number of enterprises	89 952	**74 265**	83%	
Level of customer satisfaction	85%	**63.10%**	74%	Under performance emanated from the lack of frequent communication during the application process and streamlined application process impacting the turnaround times.
Finance Perspective				
Cost-to-income ratio	83.0%	**79.00%**	105%	Increased savings during the year resulted in the Cost to Income ratio being achieved. The favourable cost to income ratio was driven mainly by positive expenditure variances in Operating Expenses and Investment Property Expenses, and Personnel expenses.
Accumulated Impairment provision as a percentage of total loans and advances	33.0%	**41.00%**	80%	The tough economic operating conditions, the risk level that **sefa** assumes on the clients, the technical recession and electricity supply interruptions negatively affected the performance of funded SMMEs.
Collection Rate (All in cash)	85.0%	**87.00%**	102%	Performance in the indicator was due to increased investment in new loans and strengthening of the collections function.
People, Learning and Growth				
Labour Turnover Rate (LTO) of critical strategic positions	10.0%	**4.48%**	223%	Over achievement in this indicator relates to the stability of the organisation and the organisation being able to attract the right employees that aligns with its culture.
Percentage of staff (P band and above) that scores 3.1 or more in the annual performance assessment *Calculation: Staff Performance (in P- band and above)* *= (Total Number of employees ÷ Number of employees with Performance Score of 3.1 or above) x 100*	80.0%	**84%**	105%	Performance in the measurement indicator is as a result of the strengthening of performance measurement and the talent and skills acquisition initiatives.

SECTION 02

Governance

Foreword by the Honourable Minister of Small Business Development

Ms Khumbudzo Ntshavheni, MP

The 2019/20 financial year was both a period of great promise and great trepidation. Also, it was a year of great promise as it ushered the beginning of the sixth democratically elected administration led by President Cyril Ramaphosa who prioritised the promotion of and improved support to small, micro, and medium enterprises.

President Ramaphosa set the tone for the sixth administration, by centering the economic development trajectory as one that must be driven by SMMEs in line with the Vision 2030 targets, as outlined in the National Development Plan. This central role of SMMEs was also informed by the need to build an inclusive economy that requires meaningful participation of black people, women, youth and people with disabilities in the ownership structures of the economy.

A a well-recognised fact that is widely accepted all over the world, is that access to finance is a critical component in the development and growth of SMMEs. In South Africa, we have long acknowledged that there are key SMME market segments that cannot be served profitably by commercial players in the micro-finance and formal banking sectors. It is therefore necessary to constantly reiterate the mandate of **sefa** as key in addressing this market failure and rationalising Government's SMME lending policies and mandates. In response to the priorities outlined by the State President, we directed **sefa** to focus on improved access to finance, including initiatives to make SMME finance more affordable through the implementation of the blended finance model. The blended finance model involves the mixing of grants and loans to lower the cost of capital for borrowers – with increased access to funding. In addition, the blended funding model strengthens SMME capital structures, and consequently increases their chances of sustainability.

Therefore, this Annual Report for the financial year 2019/20 is a report on the performance of **sefa** against very high targets that were set for the organisation. The sixth South African administration continues to simplify the business environment for SMMEs, giving businesses every chance to flourish, succeed and grow. As Government, we have identified the need to stimulate early-stage entrepreneurship, especially youth-owned entrepreneurs. To this extent, **sefa** introduced the SBIF to support business development via our Incubation Programme. Additionally, to encourage youth entrepreneurship, the 'Pitch for Funding' business development platform was launched. Sessions were held across the country and provided youth-owned entrepreneurs with the opportunity to present their business plans for funding. 'Pitch for Funding' is a core element of the Department's strategy to finance a hundred thousand youth-owned entrepreneurs over the Medium-Term Expenditure Framework planning period.

The DSBD, through its implementing agency, **sefa**, is committed to narrowing the gap that SMMEs experience when seeking funding. Towards this end, the DSBD and its agencies (**sefa** and Seda) introduced a common funding application template to facilitate increased funding for SMMEs. This template is a critical measure that significantly reduces administrative red tape for our SMMEs and Co-operatives, especially in streamlining the process and the time it takes when developing business plans for various DFIs and reducing the onboarding cost of sourcing support from DFIs.

The Phakamani Foundation: Micro-finance funding recipient, Maria Nyundu

For **sefa**, the 2019/20 financial year saw the organisation at the cusp of governance arrangements with the end of the term of office of its Board of Directors coinciding with the appointment of a new Minister. The transition would have brought its own anxieties but the ability of the interim board to take charge of its responsibilities like a fish to water, demonstrated strength, clarity and sure-footedness of the interim board on focusing their collective efforts on behalf of the organisation. I would like to thank the Board of Directors and management of **sefa** for their resilience and ability to steady the ship while simultaneously chasing delivery against set targets.

The 2019/20 financial year was also a year of trepidation, caused by the sudden and rapid global spread of the COVID-19 pandemic which forced governments to shutdown economic activities. As we were forced to redirect the plans of the fourth quarter of the 2019/20 financial year, we were already anticipating the worst in economic outcomes, more so that the COVID-19 pandemic was preceded by a technical recession. Economic recovery was predicted to be slow, with the National Treasury forecasting a GDP contraction of 7% in 2020, the first full-year decline since 2009. The anticipated deterioration represents a substantial shock to the economy – the worst full-year GDP performance in South Africa since the Second World War.

To stimulate economic recovery as a result of the COVID-19 pandemic for the SMME sector, the Department, through **sefa**, will introduce various SME and informal and micro-enterprise programmes to the value of R1.23 billion for economic recovery and R776 million for COVID-19 response (R1.9 billion). These programmes will comprise debt relief, credit guarantees and other instruments that address the different funding constraints that SMMEs currently face. Our priority focus is to rebuild the economy with a meaningful participation of SMMEs, more especially in the manufacturing sector of the economy.

Small businesses are the hardest hit by the impact of the pandemic and the challenges they are facing at present are enormous and will impact on sector growth. However, there is global consensus that if sufficiently supported, small businesses are the sector that will drive the economic recovery of South Africa as they are more resilient and adapt easily. Thus, it is critical for the Government to continue to secure procurement of locally- and SMME-produced goods to re-invigorate economic growth and to create new market opportunities for the South African small business sector. The Department of Small Business Development's Import Replacement Plan that is supported by the Small Enterprise Manufacturing Programme that is implemented through **sefa**, the Public Sector Procurement set-asides and products/services reservations would be interesting targets to monitor.

The challenge of supporting SMMEs financially, in particular the previously excluded ones, remains a daunting but noble one, it is worth confronting as it is about building an inclusive economy for this generation and those to come. In conclusion, I wish to thank the Board of Directors, management and staff of **sefa** for their dedication and continued commitment to building a sustainable organisation, to the benefit of all South Africans.

Ms. Khumbudzo Ntshavheni, MP
Honourable Minister of Small Business Development

Chairperson's Statement

Mr Martin Mahosi

I take great pleasure in presenting the **sefa** Annual Report for the 2020 Financial Year (FY2020) to all stakeholders.

When the current Board started its term, little did we anticipate that the year would turn out to be such a rollercoaster. We set off with a great sense of enthusiasm, driven by a shared desire to make a meaningful impact in the lives of our people.

We knew it was going to be a mammoth task, given the pressure our economy had been experiencing leading to 2019 and given the expectation that the SMME community places on **sefa**. We rallied behind the challenge set by His Excellency, President Cyril Ramaphosa. We took leaf and courage from the leadership provided by Minister of Small Business Development, Honourable Khumbudzo Ntshavheni, to 'sharpen our tools to deliver on our national duty'. We embraced their wisdom to build up capacity of the SMME sector to contribute towards reviving the country's economic fortunes.

Operating Environment

The FY 2019/20 was characterised by a set of socio- economic challenges that adversely impacted on the overall economy, and in particular, the business sector. **sefa** was not spared since most of our clients operate in sub-sectors of the economy that cover the informal sector, semi-formal and formal sectors. These economic conditions constrained the growth of small business, and by implication, the sector's contribution to job creation and poverty reduction.

Despite this bleak economic environment, **sefa** continued to play a meaningful role, with the support of the Executive Authority (the Department of Small Business Development) and the Shareholder (the Industrial Development Corporation), of providing access to finance to its target market by ensuring that practical solutions, business support initiatives, relevant products and differentiated service offerings are provided to our clients.

The onset of the COVID-19 in the last quarter of the financial year and the subsequent national lockdown in March 2020, had an adverse impact on our clients in respect of their ability to continue to operate.

Organisational Performance

A significant number of **sefa**'s clients are businesses that are in the start-up phase, with an operating history that spans less than three years. Our task is to alleviate the challenges that these SMMEs face, primarily through the provision of finance and non- financial support, to mitigate the risk of business failure and enhance enterprise sustainability. **sefa** has already introduced a number of


Basil Technologies

interventions aimed at stimulating economic activity through the small business sector. These interventions are expected to bear fruit in the medium term as we increase **sefa**'s reach within this sector, even though it will be a challenging operating environment.

During the 2019/20 financial year, **sefa** approved loans to the value of R1.4 billion and disbursed R1.3 billion into the South African economy. Of the funds disbursed, R921 million was made available to black-owned businesses, R446 million to women-owned enterprises, R212 million to youth-owned businesses and R371 million to businesses in rural towns and villages. This massive financial support benefitted 74 472 SMMEs and Co-operatives, who in turn helped create and sustain 87 828 jobs.

The SBIF and Blended Finance account for the significant increase in funding approvals. The Pitch for Funding sessions, in partnership with the DSBD and the Small Enterprise Development Agency (Seda), gave us much-needed impetus in increasing awareness and access to finance for SMMEs.

sefa holds a sizeable property portfolio that has not historically performed at an optimum level. These properties present a mixed bag of challenges and opportunities. Most of them are in strategic locations that can be turned into vibrant spaces of economic activity and enterprise development. During the financial year, we implemented limited measures to stabilise this portfolio. In 2020, we will outline a coherent and sustainable turnaround strategy for the portfolio. We firmly believe that the strategy will present a compelling opportunity to enhance SMME development and strengthen **sefa**'s balance sheet.

Our performance was not without challenges. Small businesses thrive in a vibrant economy and as alluded to earlier, 2019 was indeed a tough year, particularly as the country experienced a technical recession and downgrades in credit rating. Our clients felt the impact of the sluggish economy and as a result **sefa**'s developmental impact, particularly with regard to youth-owned businesses, enterprises operating in townships and rural areas as well as businesses owned by entrepreneurs with disabilities, was hindered.

sefa achieved a significant improvement in the growth and quality of the loan book, which resulted in a 6% reduction in loan impairments. The goal to reduce this further is within reach.

Corporate Governance

sefa 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.

The previous Board's tenure ended on 31 July 2019 and current Board was engaged on 01 August 2019. The Constitution of the Board Committees and related activities undertaken during the year under review is set out in the Corporate Governance Report on page 22.

On behalf of the current board, I extend our heartfelt thanks and sincere appreciation to the previous Board for the high

standard of leadership displayed and for easing the transition and laying a solid ground for us to deliver on the 2019/20 FY mandate.

My sincere gratitude for the diligence and support of the Executive Management Team, led by the Acting Chief Executive Officer Mr Setlakalane Molepo, in executing the daunting tasks assigned to **sefa**. Our frontline team in the regional offices carry the burden of being the face of **sefa**, in whom our nation looks up to for responsive SMME support. Without the support of the entire **sefa** family, it would have been quite daunting to attain the achievements we present in this annual report.

Mr Molepo is set to exit **sefa** after being at the helm since December 2018. The Board is cognisant of the need for stable leadership, hence we anticipate that the appointment of a CEO will be concluded during the course of the FY 2020/21.

Strategic Partnerships

The Board recognises the need for strategic engagements and partnerships with stakeholders in the SMME ecosystem, between and across the public and private sectors. We are cognisant of the fact that **sefa** leverages these relationships to enhance access to our products and services by our target clientele. During the year under review, **sefa** sought greater integration of activities between ourselves and Seda. We also initiated and strengthened partnerships with financial and non-financial institutions to enhance business support services and to increase provision of supplier credit, individual and portfolio guarantees.

Outlook

The International Monetary Fund (IMF) projects the world economy to contract by at least 4.9%, whilst the South African economy is forecasted to plummet by 8% in 2020. In the medium term, economic growth is expected to show a moderate recovery as economic activity gradual unwinds.

The COVID-19 pandemic has created global uncertainty in the investment environment and estimating its economic impact for the period ahead is exceedingly difficult for both policy makers and entrepreneurs.

There is no doubt that Government's fiscal response to the crises has been swift. The President has called on all South Africans to reimagine a new economy. To this end, expectations are that the SMME sector will continue to rely on state support as the country emerges from the pandemic and the global economy gradually re-opens. Given our unique history, COVID-19 will definitely reverse significant gains in the transformation of the South African economy. We are therefore faced with a dual challenge of building the SMME sector and making a significant contribution to economic transformation. The face of small business must not only change, but change in a meaningful and sustainable manner. It is for this reason that our role cannot be limited to simply providing finance. Rather, it must include providing creative, responsive and effective business support services.

In the coming year, **sefa** plans to improve its brand presence and increase awareness of its programmes in target markets. We understand that **sefa** and its programmes must not only be readily known, but also readily accessible. Our journey to improve operational efficiency at **sefa** will be the bedrock on which our overall success will lie. We are conscious that without these interventions, our dream to elevate SMMEs to become a significant contributor to the GDP will elude us.

LNP Brand Printing Solutions (Pty) Ltd

> ***At sefa, we are cognisant of the role we are entrusted to play in building and sustaining the small business sector – especially considering the role that the sector plays in the economy***

KIK Refrigerator Rentals

Appreciation

It is a privilege and an honour to be entrusted with the responsibility to lead the **sefa** Board, to guide the team and oversee its operational performance. I lean on the collective wisdom and support of my fellow Board members to navigate the complex and challenging terrain that we face. Thank you for your unwavering support and commitment in always availing yourselves to execute **sefa**'s mandate.

I am grateful to Mr Molepo, the Executive Team and the wonderful staff at **sefa** for your continued commitment to serve the small business community. Without your hard work, **sefa** would not be recognised for the significant financial injections it continues to make into the South African economy.

A deep sense of appreciation goes to the IDC and in particular the Chairperson of the Board, Ms Busi Mabuza, for their confidence and commitment to lend the shareholder's continuous support to ensure that **sefa** succeeds in its mission.

I extend my heartfelt gratitude to the Honourable Minister Khumbudzo Ntshavheni, for her leadership and guidance during the difficult economic climate. Without your enormous energy and brilliance, we would not have reached these heights. Rest assured that we remain steadfast in our commitment to rally behind the government's vision to elevate SMMEs to the centre of South Africa's future economic development trajectory.

Finally, to our clients, we reaffirm that **sefa** remains focused in its quest to help you build and grow your businesses. Ours is a mutually beneficial and long-term relationship that I believe will continue to grow and flourish in the coming years.

Nala dza vhathu. Rea leboga. Ha khensa. Siyabulela. Siyathokoza. Siyabonga. Thank you. Baie dankie

Mr Martin Mahosi
Board Chairperson

Board of Directors

Mr Andrew Martin-Robert Mahosi (51)
Chairperson

Qualifications
- B Admin Honours in Industrial Psychology (University of the North / Limpopo)
- BA Industrial Psychology (University of Venda)

Ms Nonkululeko Sylvia Dlamini (46)
Director
(Retired on 31 July 2020)

Qualifications
- CA(SA)
- Post Graduate Diploma in Accounting (University of KwaZulu-Natal)
- BCom (University of the Witwatersrand)

HCRC AC

Mr Mmatlou Justice Kganyago (39)
Director
Chairperson of CIC

Qualifications
- B Com Hons – Economics (University of the Witwatersrand)
- B Com Economics & Finance (University of the Witwatersrand)

CIC SEC RC

Ms Mphokolo Makara (38)
Director
Chairperson of RC

Qualifications
- B Com (Hons) Investment Management (Rand Afrikaans University)
- B Com Finance, Economics & Marketing (University of KwaZulu-Natal)

RC CIC AC

AC	Audit Committee
RC	Risk Committee
CIC	Credit and Investment Committee
HCRC	Human Capital and Remuneration Committee
SEC	Social and Ethics Committee

Ms Delicate Lindi Mabuza (40)
Director

Qualifications

- B Tech Marketing (Vaal University of Technology)
- National Diploma in Marketing (Vaal University of Technology)

HCRC SEC

Mr Maurice Radebe (59)
Director
Chairperson of HCRC & SEC

Qualifications

- Master's in Business Administration (Wits Business School)
- General Management Programme (Harvard Business School)
- Management Advanced Programme (Wits Business School)
- Higher Diploma for Educators (University of the Witwatersrand)
- BSc (Applied Mathematics & Physics) (University of Limpopo)

RC SEC HCRC

Ms Nothemba Rosette Mlonzi (54)
Director
Chairperson of AC
(Retired on 31 July 2020)

Qualifications

- Business Management and Administration (Hons) (Stellenbosch University)
- LLB (University of Fort Hare)
- B Proc (University of Transkei)

HCRC AC CIC

Chief Executive Officer's Overview

Mr Setlakalane Molepo

The 2019/20 year was characterised by a set of socio-economic challenges that adversely impacted on the overall economy and in particular, the small business sector. A large percentage of our clients operate in the informal sector, the resulting economic hardships brought by the lockdown and the subsequent job losses has been marked. The resultant impact on reductions in disposable incomes, has had an adverse impact on the sustainability of our clients.

Operating Environment

The South African economy entered into a technical recession in December 2019, resulting in the real GDP growth for the year reaching only 0.2%. The economic conditions were already weak for most of the year across all broad economic sectors, evidenced by a positive GDP growth that was last seen in the second quarter of the year. The onset of the COVID-19 pandemic worsened the already weakened growth environment, with the real GDP growth registering a further contraction of 2% during the quarter ending March 2020. The implications of this economic activity deadlock has been evident in various business closures and a great many that continue to remain in distress. These conditions have had an adverse impact on jobs.

According to Statistics South Africa's Quarterly Labour Force Survey (QLFS), unemployment deteriorated to 30.1% by the end of March 2020 from 29.1% that was recorded in the previous quarter. This turn of events, together with subdued confidence levels, have also led to less-than-anticipated revenue collection by the State. Consequently, the consolidated budget deficit is projected to reach 15.7% of GDP in FY2020/21 (from 6.8% projected in February 2020), while government debt to GDP is projected at 81.8% over the same period, also much higher than the 65.6% estimated in February 2020. (Treasury's Emergency COVID-19 Budget, June 2020).

The overall organisational governance, financial and operating environment remains stable with no major risk in wasteful and fruitless expenditure being identified and reported. Governance structures meet regularly for decision making in respect of the organisation's Delegation of Authority (DoA) and to review the organisational performance against the approved Corporate and Annual Performance Plans.

Loan Book

Despite the tough operating environment, **sefa** implemented its mandate to increase access to finance to SMMEs and Co-operatives. The organisation's innovative programmes and partnerships have been launched in both the public and private sectors. To support the implementation of its loan programmes, **sefa** strengthened its partnerships with intermediaries to expand its reach to the most distant parts of the country. These partnerships have been founded through our Wholesale Lending and Khula Credit Guarantee (KCG) channels.


Basil Technologies

During the year under review, **sefa** introduced the following loan programmes:

- **Small Business and Innovation Fund (SBIF)**
  This is a fund established by DSBD to benefit small businesses particularly those in their early stages of development. The fund is designed to address the gap in funding of early stage business ventures so as to enhance the businesses viability. This fund is highly developmental in nature, it promotes financial inclusion and transformation as well as enhancing the participation of the private sector in the support of the small business sector.

- **Blended Finance**
  The programme offers a combination of a grant and a loan to SMMEs and Co-operatives who are unlikely to be funded through **sefa**'s current funding instruments. The blended finance instrument aims to reduce the gearing of businesses and improve the long term sustainability of small businesses. As announced in the Minister's inaugural budget speech, the blended finance programme targets businesses in the start-up phase especially those owned by youth, women and those located in townships and rural areas. In addition, both **sefa** and Seda provide the funded clients with pre- and post-investment support.

- **KCG Portfolio Guarantees**
  Portfolio guarantees with non-bank financial institutions support enterprise and supplier development and trade credit in the form of a supplier guarantees. SMMEs targeted by the scheme are those not eligible to be funded without the support of an indemnity cover.

These programmes have contributed significantly to the growth of the loan book, introducing new channels to SMMEs and Co-operatives to access **sefa**'s product offerings. As at 31 March 2020, total approvals amounted to R1.4 billion, which represented a 99% increase relative to the R703 million achieved in the previous financial year. Disbursements to end-users (loan recipients) for the current year stood at R1.3 billion or an 8.3% increase compared to R1.2 billion attained during the same period last year. The above-mentioned loan book activity resulted in 74 472 SMMEs financed and 87 828 jobs facilitated.

In fulfilment of our mandate, **sefa** provided developmental support to the following targeted groups:

- 74 323 black-owned businesses to the value of R921 million;
- 73 952 women-owned enterprises to the value of R446 million;
- 58 086 businesses operating in rural towns and villages to the value of R371 million; and
- 18 193 youth-owned businesses to the value of R212 million.

Notwithstanding the tough economic environment, **sefa** achieved an all-inclusive collection rate of 87%. In terms of loan impairments, a rate of 41% was recorded in the current year representing an improvement from 47% that was reported last year. The relatively high impairment rate must be seen in the context of the weak economic environment, which had an adverse impact on **sefa** funded clients and hence their ability to repay the loans.

Financial Performance

The total **sefa** loan portfolio including funds, is currently at R1.9 billion comprising of R1.2 billion Wholesale Lending and R645 million Direct Lending. During the year under review, **sefa** noted an increase in the carrying value of loans and advances, largely as a result


Ditsobotla Co-operative Bank (CFI)

During the year under review, the organisation was in the growth phase of this journey, with the emphasis being on talent management through upskilling the workforce to ensure that it is fit for purpose and ready to execute the organisational strategy and mandate effectively

of higher disbursements during this year relative to the previous year. Furthermore, the cash and cash equivalent also increased largely on the back of SBIF allocation of R700 million and the R150 million through the European Union Support Programme.

In respect of the total disbursements for the year, an over achievement in this indicator was recorded, thanks to the implementation of the SBIF and Blended Finance programmes. Similarly, the cost-to-income ratio of 79% was achieved against the annual target of 83%. The clean-up on the legacy book continued in the current year, with R143.8 million written-off in Direct Lending's old or legacy book and R20 million in its new book. We also recorded a R10 million fair value loss on our property portfolio investment due to the adverse impact of the COVID-19 pandemic.

Human Capital

During the FY 2019/20, HCM focused on interventions aimed at creating impact, enhancing productivity and workforce efficiencies. **sefa** embarked on the High-Performance Organisation framework that was initiated in 2014. During the year under review, the organisation was in the growth phase of this journey, with the emphasis being on talent management through upskilling of the workforce. This was done to ensure that the talent within the organisation is fit for purpose and ready to execute the organisational strategy and mandate effectively. In addition, the organisation has placed measures in place to ensure that it does not only acquire talent but also retains a high-performing workforce. As a dynamic organisation, where developmental areas were identified, appropriate interventions were implemented. Following the onset of COVID-19, a response plan was executed to protect the health and safety of all employees while ensuring business continues at the same time.

Risk Management

sefa manages enterprise risk at both strategic and operational levels, with the key focus being placed on the risks pertaining to governance and oversight, assurance, control and management. On an annual basis, strategic risks are identified, risk mitigation and controls are put in place to track progress made in addressing the identified risks.

As a development finance institution, we are exposed to numerous risks that affect our business activities given the target market we serve. To this extent, we find ourselves facing rising impairments and the FY 2019/20 was no exception. Although our impairments remained higher than desired, there is traction of improvement on an annual basis.

Other risks associated with our impairment rate are externally-driven and will take some time to be adequately addressed, these include the moral hazard originating from our clients, which affects our ability to collect repayments timeously. Compounding our efforts is the weak GDP growth, which has diminished the prospects of our target market's growth. There is also a possible loss of loan recoveries from our clients due to failure of businesses impacted by COVID-19.

The onset of COVID-19 in the closing quarter of the financial year posed a great threat to business continuity. However, **sefa** acted with speed to implement the health protocols issued by the Department of Health to contain the spread of COVID-19 in the workplace. These cautionary measures are on-going and plans are underway to implement new strategies to ensure business continuity.

During the year under review, an increase in fraud incidents was detected and appropriate mitigating measures were applied.

Challenges

Even though the present situation remains bleak, we hold a positive outlook towards the future. However, we cannot look to the future through rose-tinted glasses and negate the challenges that we currently face. The challenges of a difficult economic environment and businesses facing a tough trading space continue to hamper future growth, which has also affected our organisation. **sefa** could not make inroads in its developmental impact support, in particular, to small businesses based in townships, or to businesses run by entrepreneurs with disabilities.

Loan impairments remain a strategic challenge that impacts the long-term sustainability of **sefa**. To this extent, we are looking at capacitating the Post Investment Monitoring Division so as to implement support strategies to improve clients' business sustainability.

In addition, **sefa** conducts customer surveys each year to assess the level of customer satisfaction. During the year under review, the overall score of 63.1% showed a slight deterioration compared to 67.5% and 64.1% registered in 2019 and 2018 respectively. Respondents who showed the most dissatisfaction are those whose applications were declined, namely, 41%, while the sample group with approved applications gave a satisfaction level score of 81%.

To improve clients' satisfaction levels, a dedicated customer relations and management programme will be implemented across the **sefa** value chain in the 2020/21 financial year.

Outlook

The South African economy is forecast to experience a significant recession registering a GDP contraction of 8.2% in 2020 (SARB, Monetary Policy Committee Press Report). This performance will have dire implications for demand, confidence levels as well as employment. Businesses in general are being adversely impacted by the economic status and small businesses in particularly, are hit hard. The Government interventions currently underway will provide a much-needed buffer to curb the weakening cash flows of the small businesses until the lock down restrictions are eased and an increase in economic activity is realised. The sectoral impact of the lockdown varies across sectors with the hospitality sector among the most severely impacted. Worth noting is the fact that government finances are over-stretched, and reforms are inevitable in the coming months.

Acknowledgements

My heartfelt gratitude goes to the Hon. Minister Khumbudzo Ntshavheni and the Department of Small Business Development at large, for the guidance and continued support. Your assistance has helped us reach more SMMEs and Co-operatives who needed both financial and non-financial support to weather the storm of a sluggish economy. The intensity of which was further exacerbated by the economic shock of the COVID-19 pandemic. A word of thanks goes to our Shareholder, the IDC for its continued support during the difficult trading year.

Furthermore, a word of appreciation to the previous Board of Directors, who retired in July 2019. I extend my gratitude to the Chair of the current Board, Mr Martin Mahosi and the rest of the Board members for your guidance and constructive engagements. A word of thanks goes to the Executive Management and the broader staff for your commitment to deliver on our mandate. Last - but not least - to **sefa** clientèle, for allowing us to have a positive impact in the growth of your business ventures, and most importantly, to those who repaid their loans so that we can continue assisting other entrepreneurs.

Mr Setlakalane Molepo
Acting Chief Executive Officer

Corporate Governance Report

Governance

sefa continues to improve and strengthen the application of the recommended best governance practices, and is committed to principles of responsibility, fairness, accountability, and transparency. The Board ensures accountability for **sefa**'s performance and oversees the implementation of the approved strategy by management.

Composition of the Board

The Board comprises five Directors all of whom are independent Non-executive Directors. A majority of the directors are appointed by the Executive Authority, the Minister of Small Business Development. The former Board retired on 31 July 2019.The current Board was appointed to serve an initial 1-year term as an interim Board, effective 01 August 2019 to 31 July 2020. This term was extended from 01 August 2020 to 30 September 2021.

The CEO is appointed by the Board in consultation with the Shareholder and the Executive Authority. The role of the CEO was occupied by an Acting incumbent from December 2018 who was not appointed as an Executive Director.

The independent Non-executive Directors have diverse skills, experience and backgrounds. They are principally free from any business relationships 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 interest of fulfilling their responsibilities as Non-executive Directors.

The Non-executive Directors further 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 interest of the Company at all times and avoid potential political connections or exposures through the use of a range of governance instruments in the execution of their fiduciary duties.

The Role of the Board

The Board provides strategic leadership and guidance to the Company. The Board is ultimately responsible for governance and effective control of **sefa**. It is 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, and the Companies Act 71 of 2008 (the Companies Act) and all applicable laws and regulations.

The Chairperson of the Board is an independent Non-executive Director. The Chairperson provides leadership to the Board and ensures 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 terms of legal requirements;
- Represented by the Chairperson of Board or his delegate, reports to the Parliamentary Portfolio Committee on Small Business Development;
- Reviews and approves strategic plans, budgets and annual performance plans as proposed by management;
- Reviews and approve policies;
- Reviews processes for the identification and management of business risk and processes for compliance with key regulatory and legal requirements; and
- Provides oversight on organisational performance against targets and objectives.

Board Skills Matrix

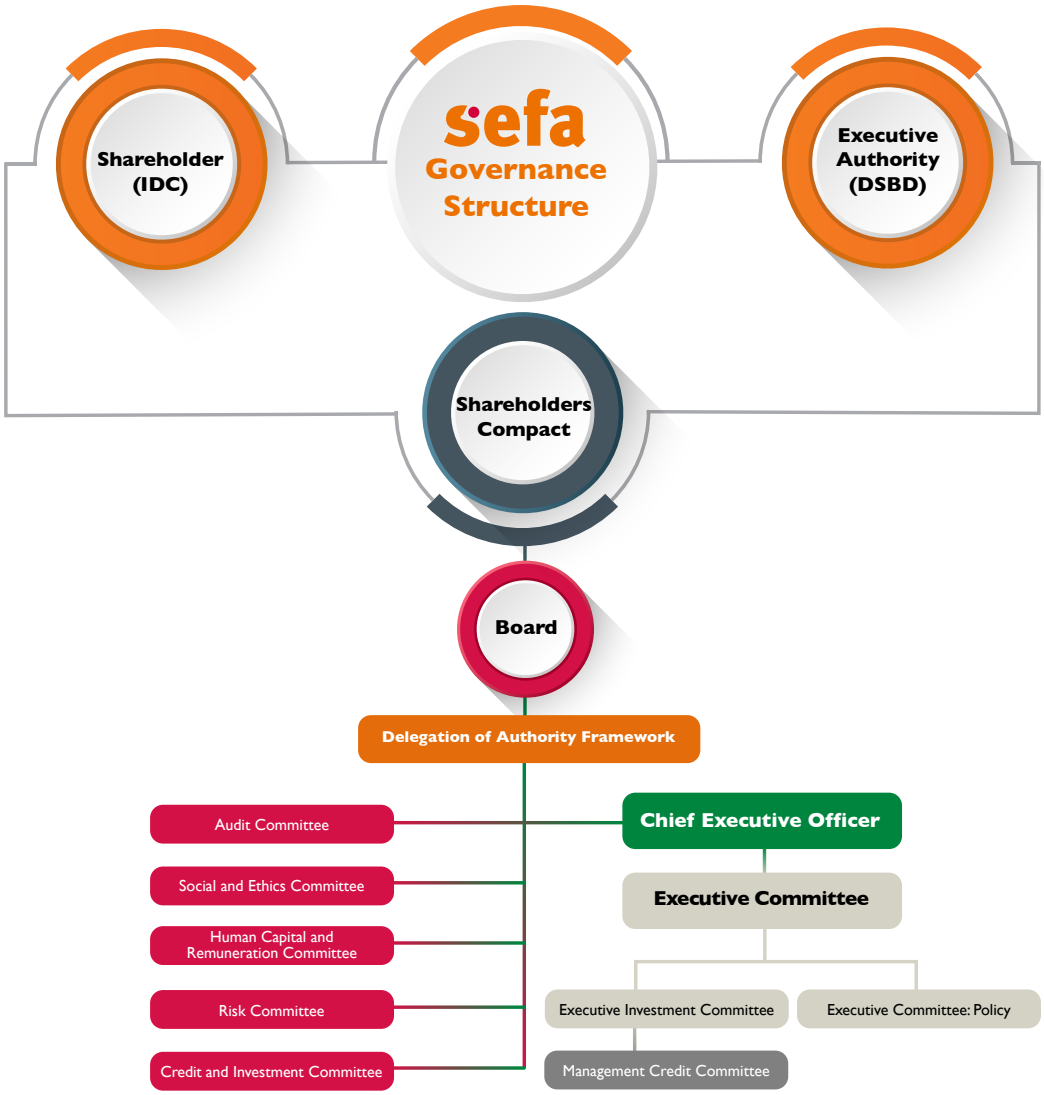
The Non-executive Directors contribute a variety of skills, business acumen, accounting, financial and investment management, legal, independent judgement and experience on various matters, including strategy, corporate governance, performance and general leadership. The Board has identified a need for additional skills to augment its expertise and as such, is engaging the Shareholder and the Executive Authority for additional members, with the following skills: accounting, human resources and information technology. Additional Members will further assist with the adequate composition of the Board Committees, thus avoid over stretching of the Directors.

The Board fulfilled its role and function, and undertook the following:

- Considered the IFRS9 Implementation Report
- Ethics related matters
- Approved Annual Report FY2018/19
- Approved Group Annual Financial Statements FY2018/19
- Approved a Salary Increases Mandate
- Approved the Payment of Short Term Incentives
- Moderated the Prescribed Officers (Executive Committee Members) performance
- Approved the Board hand-over Report for the incoming Board
- Nominated Directors to Board Committees
- Appointed Directors to Strategic Investments Companies and **sefa** Subsidiaries
- Initiated the CEO Appointment Process
- Approved the **sefa** Corporate Plan and Budgets for the 2020/21FY-2024/25FY
- Approved Supply Chain related matters in line with the Delegation of Authority
- Recommend the appointment of External Auditors per the recommendation of the Audit Committee
- Considered the **sefa** Materiality and Significance Framework
- Appointed the **sefa** Public Officer
- Considered the AGM Notice and Agenda
- Conducted Site Visits to **sefa** Investment Properties
- Revised the Delegation of Authority Matrix
- Approved the Board Annual Work Plan
- Approved a revised Delegation of Authority Matrix
- Considered transactions and investment matters within the DoA
- Revised the MoI and recommended to shareholder

Structure and Composition of Governance Committees

The Board of Directors has delegated powers to the Board Committees, comprising Members who are specialists in their respective fields. The Board of Directors further delegated powers to the Chief Executive Officer to implement and execute the Company Strategy. The CEO provides direction to the Company, with the assistance of the Executive Committee. The Company further carries out its mandate through different Divisions and Governance Structures which receive delegations of authority from the CEO.



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. The roles and functions of each Committee are clearly defined in the respective Committee Charters, and related authorities are set out in the Delegation of Authority Matrix.

Committee members were nominated by the Board from amongst directors based on experience and expertise. The composition and key decisions of the Committee are reflected below:

Committee	Members	The committees considered and reviewed the following:
Audit Committee	• NR Mlonzi (Chairperson) • NS Dlamini • ME Makara	• Group Annual Financial Statements • Annual Budget • Quarterly Management Accounts including KCG • KCG Prudential Authority related returns • Internal Audit Reports • Internal Audit Plan • Annual Work Plan • External Auditor appointment, audit plan and reports • Committee handover report, fraud risk matters • Internal audit chapter appointment of the Internal Audit • Bad debts write-off for Direct and Wholesale Lending
Credit and Investment Committee	• MJ Kganyago (Chairperson) • ME Makara • NR Mlonzi	• Committee Annual Work Plan • Credit guarantee and wholesale lending transactions in line with the Delegation of Authority Matrix • Quarterly post investment monitoring reports, including the Top 20 Investments • Committee handover report
Human Capital and Remuneration Committee	• M Radebe (Chairperson) • NR Mlonzi • DL Mabuza	• Annual workplan • Annual salary adjustments • Annual performance bonus incentives in line with approved Performance Management Policy • CEO's performance agreement • CEO Balanced Scorecard • Quarterly Human Capital reports • Results of employee engagement surveys • Human Capital Policies • Committee handover report
Risk Committee	• ME Makara (Chairperson) • MJ Kganyago • M Radebe	• Committee Charter • Strategic and Operational Risk Reports • Risk Policies (**sefa** and KCG) • Legal and IT Reports • Recommended the Delegation of Authority Matrix to the Board • Committee Handover Report • Considered the IFRS9 Implementation Report • Enterprise Risk Management Policy Framework • Annual Risk Management Plan • Anti-Money Laundering Client Risk Rating Methodology • Document Resource Management Policy • Fair Value Adjustment on Investment Properties
Social and Ethics Committee	• M Radebe (Chairperson) • MJ Kganyago • DL Mabuza	• Compliance reports • Employment Equity reports • Customer Escalations reports • B-BBEE status reports • Committee handover report • Marketing and Communications Report • Fraud and Corruption Report • Supply Chain Management Report

All Board committees have charters which guide the execution of their respective mandates, which are achieved through effective meetings, execution of the annual work plans and periodical Board workshops. The Board workshops focus on strategic planning and review of the Corporate Plan, which incorporates 5-year budgets. Deep Dive Sessions are held to discuss specific matters as part of ongoing development and to attain a deeper understanding of the Company's operations.

Board and Committees Meetings Attendance

During the year under the review, the Board of Directors were retired with effective from 31 July 2019, and a new Board appointed effective from 01 August 2019. The attendance set out below covers the financial year, and therefore the two separate Boards.

	Board	Audit Committee	Risk Committee	Human Capital and Remuneration Committee	Credit and Investment Committee	Social and Ethics Committee
Number of meetings held	15	9	4	7	6	2
HM Lupuwana-Pemba□ (Chairperson)	3					
NA Dlamini△	5	1	2			2
NS Dlamini○	7	5		1		
C Groves△	6			6	2	
PM Mainganya△	6		1		2	
K Molewa△	6	5		6		
KK Moloto△	6	5		6		
NA Osman△ (Interim Chairperson)	6				2	2
H Ralinala△	3	4	2			
AMR Mahosi✿ (Chairperson)	9					
MJ Kganyago✿	9		2		4	-
DL Mabuza✿	9			1		-
ME Makara✿	4	3	2		4	
NR Mlonzi○	6	3		1		
M Radebe✿	4			1		-

□Resigned with effect from 30 June 2019

△Retired with effect from 31 July 2019

✿Appointed with effect from 01 August 2019

○Retired with effect from 31 July 2020

Performance Appraisal

The Board views assessment of its performance as a vital tool to enhance its effectiveness. Generally, an independent service provider is procured to conduct the Board performance appraisal annually. The outcome of the appraisal process and recommended remedial actions are considered by the Board for implementation. The Board did not conduct any performance appraisals in the year under review due to the changes effective from 01 August 2019.

Executive Authority and Shareholder Engagements

In order to facilitate effective performance monitoring by the Executive Authority and in line with Treasury Regulation 29.3.1, the Minister meets with the Board on a regular basis. **sefa** has concluded a shareholder's compact with the Executive Authority and the Shareholder. Additionally, **sefa** has concluded a formal Governance Framework with its Shareholder. The Governance Framework governs the relationship between **sefa** and the Shareholder.

Conflicts of Interest

The Companies Act codified the fiduciary duties of directors and prohibits the use of position, privileges or confidential information for personal gain, or to improperly benefit another person.

In instances where Non-executive directors have a direct or indirect personal business interest in a particular matter, they must be recused from the proceedings when the matter is considered, unless, the Board or Committee decides that the member's interest in the matter is irrelevant.

The Board recognises the importance of acting in the best interests of the Company and applies the provisions of the Companies Act and the Directors Code of Conduct, Declaration of Interest and Ethics Policy, and avoiding conflicts of interest. Directors are required to declare their general interests annually, as and when such interests change and at each Board and Committee meeting, in accordance with the Companies Act.

Board Remuneration

sefa Non-executive Directors are remunerated for meetings attended, and other ad hoc non-meeting duties performed on behalf of the Company at the rate which has been approved by the shareholder in accordance with the applicable process. **sefa** does not pay any performance-based remuneration or retainer fees to the Non-executive directors.

Delegation of Authority Matrix

The Board has delegated authority 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 reviewed the Company's Delegation of Authority Matrix during the year under review.

Company Secretary

The Company Secretary 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. Directors regularly receive information relevant for the proper discharge of their duties through the Company Secretary. The Company Secretary makes the Board aware of any contraventions to policies and applicable legislation.

Internal Audit

Internal Audit is an independent appraisal function which provides the Board with assurance on the adequacy and effectiveness of the Company's systems of Internal Control, as well as providing consultative and forensic investigation services. The internal audit division assesses risk and conducts internal audit activities. The division reports functionally to the Audit Committee and administratively to the Chief Executive Officer.

Risk Management

Effective risk management is integral to **sefa**'s objective of consistently adding value to the business. Management continuously develops and enhances its risk and control procedures to improve mechanisms for identifying, monitoring, and mitigating risks.

The Board conducted a risk and opportunity assessment during the year under review. Through the Risk Committee, the Board of Directors continues to monitor areas of significant business risk on an ongoing basis. The Board is ultimately responsible for the management of risk and opportunity to ensure that management takes such action as required to mitigate and minimise all identified risks.

Internal Controls

The Board has the overall responsibility of establishing and maintaining the Company's internal controls and for reviewing the effectiveness thereof. The directors, through relevant committees have reviewed the effectiveness of the internal controls in **sefa** operations throughout the year. The role of management is to implement approved policies on risk and internal control. Management implements ongoing risk management processes for identifying, evaluating and managing significant risks faced by the Company. This process is reviewed by the Board during the course of the year.

sefa and its subsidiaries maintain financial and operational systems of internal controls in order to fulfil its responsibility in providing reliable financial information. These controls are designed to provide reasonable assurance that transactions are concluded in accordance with management's authority, that assets are adequately protected against material loss or unauthorised acquisition, use, or disposal and that transactions are properly authorised and recorded.

This system includes a documented organisational structure and division of responsibility, established policies, and procedures, including a Code of Ethics to foster a strong ethical climate, which are communicated throughout the Company.

The internal auditors assist the Board in monitoring the operation of the internal control system and report their findings and recommendations to management and the Audit and Risk Committee. Corrective actions and any other measures are taken to address identified control deficiencies and to improve controls. The Board, through its Audit Committee, provides oversight on the financial reporting and internal controls.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the avoidance or overriding of controls. Therefore, effective internal control systems can only provide a reasonable assurance regarding the preparation of financial statements and the safeguarding of assets.

Audit Committee Report

The Audit Committee (AC) has pleasure in submitting this report to the Shareholder in accordance with the Companies Act, 71 of 2008 (the Companies Act), and as recommended by King Report on Corporate Governance for South Africa (King IV).

Composition

The Audit Committee comprises the following members: Ms NR Mlonzi (Chairperson), Ms NS Dlamini and Ms ME Makara.

The roles and responsibilities of the Audit Committee

The Audit Committee has complied with section 77 of the PFMA, and its responsibilities as contained in Treasury Regulation 3.1 the Companies Act, and the Short-Term Insurance Act 53 of 1998 (STIA).

The Committee is satisfied that, during the year under review, it performed the functions required by law including, those requirements as set out in section 94 (7) of the Companies Act, Treasury Regulations 27.1.8 – 13, the PFMA, and the Insurance Act 18 of 2017.

In the discharge of its duties, the Committee identified certain internal control weaknesses in the operational environment. The Committee continues to closely monitor the implementation of corrective action by management to address these issues. The Committee has adopted a formal Charter which regulates its affairs, roles and responsibilities and has discharged all its responsibilities as contained in the Charter. These include inter alia:

- Ensuring that the respective roles and functions of external audit and internal audit are sufficiently clarified and coordinated and that the combined assurance received was appropriate to address all significant risks;
- Reviewing the effectiveness of the **sefa** Group systems of internal controls, policies, financial control and management systems, processes and procedures for detecting and preventing fraud;
- Reviewing and monitoring the effectiveness and performance of the internal audit function, its standing, staffing plans and audit plans to provide adequate support to enable the committee to meet its objectives;
- Ensuring that the scope of the internal audit function had no limitations imposed by management and that there was no impairment on its independence;
- Evaluating the independence, effectiveness and performance of the external auditors, and obtained assurance from the auditors that adequate accounting records were being maintained and appropriate accounting principles were in place and had been consistently applied;
- Reviewing and approving the audit fees and fees in respect of any non-audit services, including the external audit plan;
- Reviewing the external auditors' findings and reports submitted to management and the independence and objectivity of the external auditors;
- Reviewing the effectiveness of the finance function;
- Reviewing the annual report, as well as annual financial statements to ensure that they present a balanced, and true position and performance of the Group;
- Assisting the Board in its evaluation of the adequacy and efficiency of the internal systems, accounting;
- Practices, information systems and auditing processes applied by the subsidiary short-term insurer (Khula Credit Guarantee (SOC) Limited) in the day-to day management of its business; and
- Reviewing and advising on matters referred to the Committee by the Board.

Auditor Independence

The Audit Committee recognises the importance of maintaining the independence of both external and internal auditors and is satisfied that SNG Grant Thornton and the internal auditors are independent of management.

Financial Management

The Committee reviewed the annual financial statements of the Group and related information and it is satisfied that they comply with International Financial Reporting Standards. In addition, the Committee has reviewed management's assessment of going concern and recommended to the Board that the going concern concept be adopted by the Group.

Approval

The Committee recommended the approval of the Annual Financial Statements for the year ended 31 March 2020 to the Board of Directors.

(On 9 September 2020, the Board resolved that the Audit and Risk Committees should be merged as an interim measure pending the filling of Board vacancies, post the retirement of Ms Mlonzi and Ms Dlamini.)

Signed on behalf of the Audit Committee:

Mphokolo Makara.

Ms ME Makara
Audit and Risk Committee Chairperson

Executive Management

Mr Setlakalane Molepo (58)
Acting Chief Executive Officer

Qualifications
- Master of Business Leadership (University of South Africa - Graduate School of Business Leadership)
- BSc (Civil) Engineering (University of the Witwatersrand)
- National Diploma Civil Engineering (Tshwane University of Technology)
- Certificate in Financial Management (Rand Afrikaans University)

Ms Reshoketswe Ralebepa (43)
Chief Financial Officer

Qualifications
- CA(SA)
- BCompt (Hons) (University of South Africa)
- B Com (Tax and Management Accounting (University of Natal)
- Advanced Certificate in Accountancy (University of Natal)
- Executive Development Programme in Inclusive Finance (Gordon Institute of Business Science)

Mr Nkosikhona Mbatha (38)
Executive Manager: Post Investment Monitoring

Qualifications
- Post Graduate Diploma in Finance, Banking and Investment Management (University of KwaZulu-Natal)
- B Com Accounting (University of Natal)

Ms Boitumelo Sefolo (44)
Executive Manager: Direct Lending

Qualifications
- Master of Business Administration (Gordon Institute of Business Science)
- B Com in Management (University of South Africa)

Ms Nokonwaba Shwala (51)
Executive Manager: Human Capital Management

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

SECTION 03

Performance

Human Capital Management (HCM)

Ms. Nokonwaba Shwala
Executive Manager: Human Capital Management

The Human Capital Management (HCM) division continues to play the role of a strategic business partner, ensuring the progressive transformation of people-related services. The HCM strategic work plan execution for the FY 2019/20 was centred on interventions geared towards creating impact, enabling sustainability, enhancing productivity and streamlining workforce efficiency. This was in the achievement of the growth phase of the HPO. HPO is a concerted effort towards the continuous improvement of organisational performance. **sefa**'s journey towards the achievement of an HPO status started in 2014. During the reporting period HCM focused on ensuring that **sefa** has a skilled workforce that is fit for purpose and geared to effectively execute the **sefa** strategy and mandate.

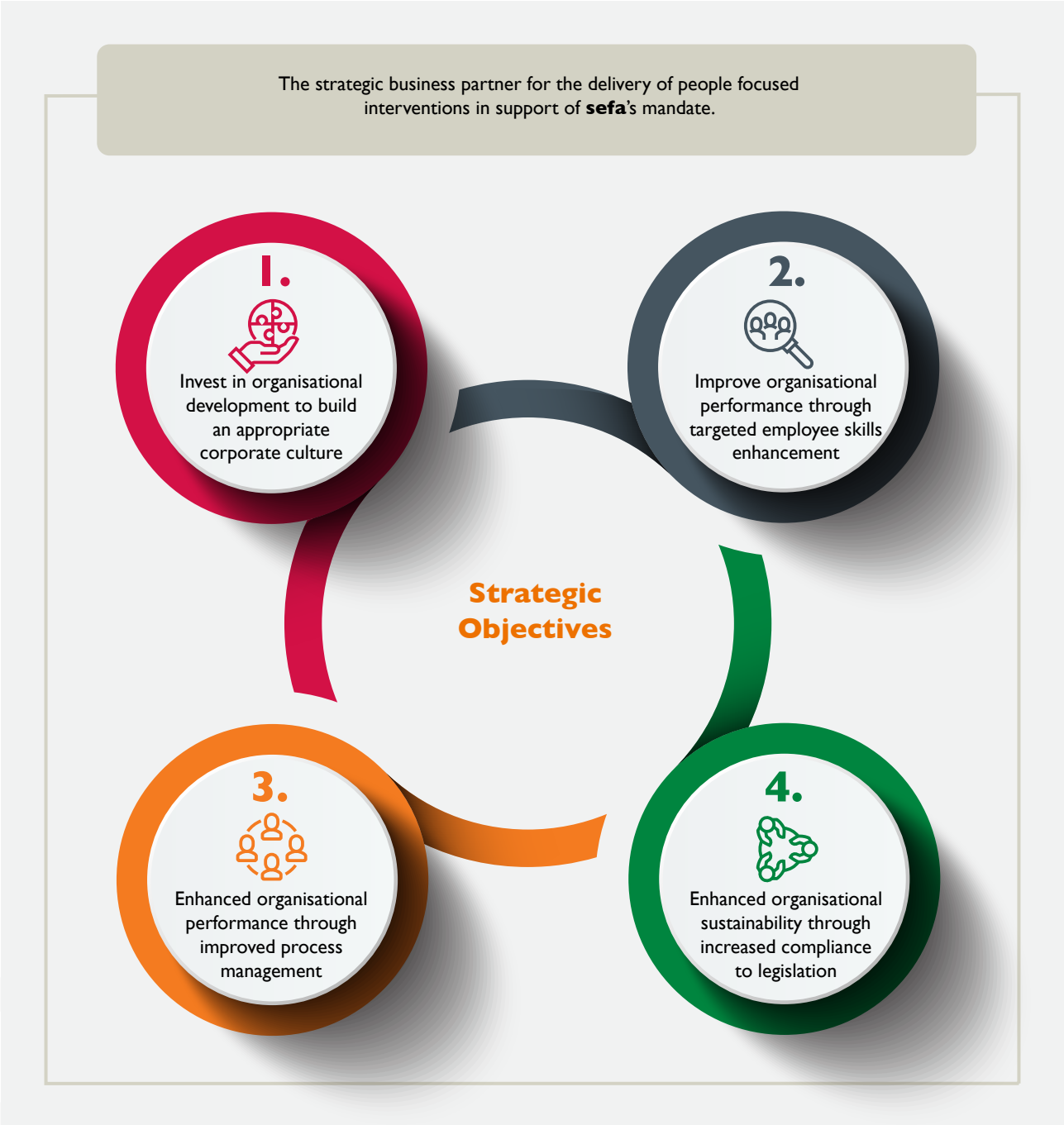
Performance achievements, at a glance

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

- Initiation of a **sefa** culture transformation process aligned to the Investors in People standard;
- Continuous implementation of people development interventions geared at increasing performance and productivity;
- Implementation of Organisational Development and Change Management interventions aimed at enhancing business effectiveness;
- Implementation of Occupational Health and Safety projects aimed at ensuring the provision of a safe, healthy, and secure working environment;
- Implementation of employee engagement and wellness interventions aimed at enhancing and harnessing the overall wellbeing of employees; and
- Implementation of a COVID-19 Response Plan aimed at prioritising the health and safety of **sefa** employees whilst supporting business continuity during the pandemic.

HCM's Strategic Work Plan

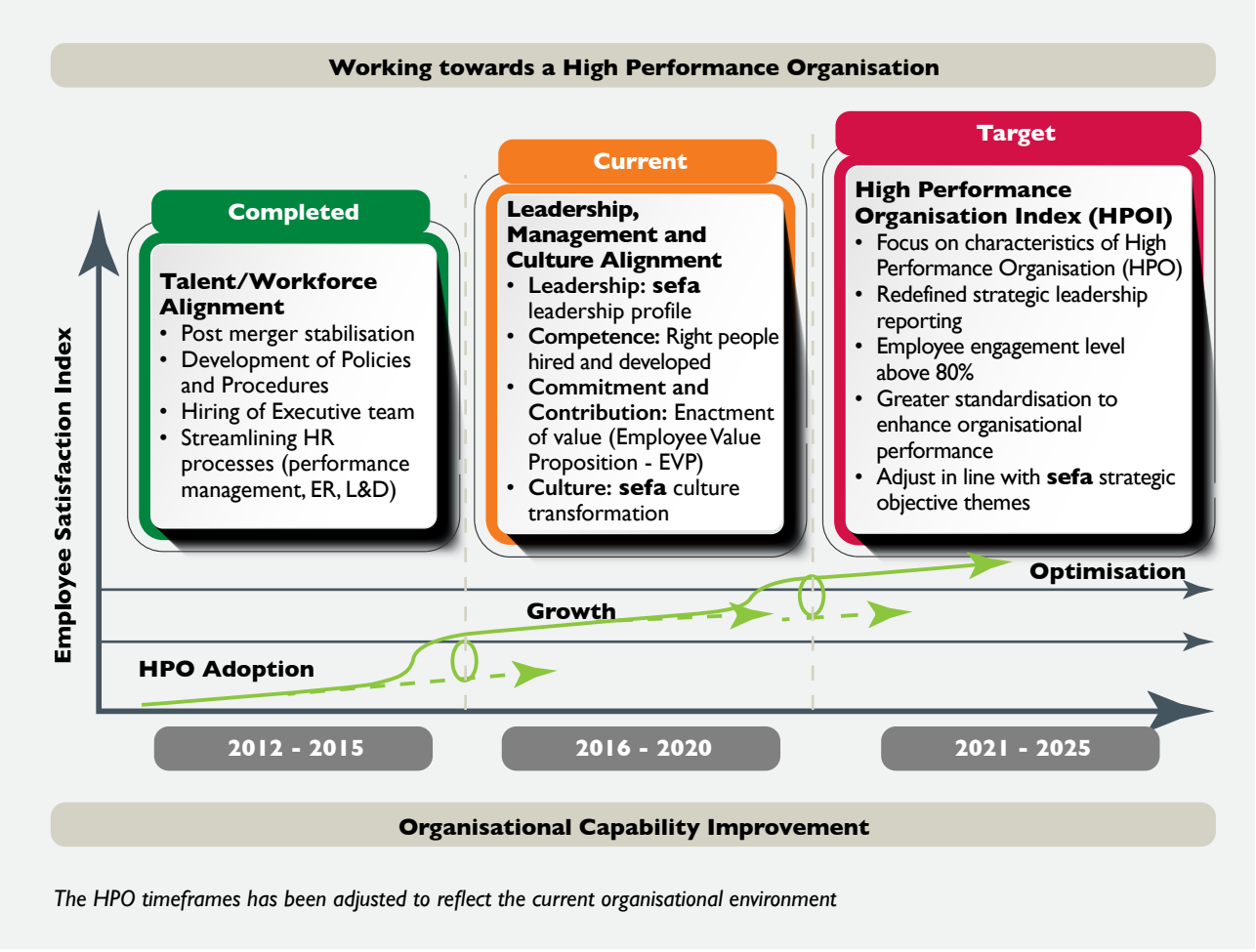
The FY 2019/20 HCM strategic work plan execution is centred on improving impact, sustainability, productivity and efficiency within **sefa**. The following strategic objectives underpinned the HCM's Work Plan for the period in review;



sefa's HPO Journey

sefa's journey towards the achievement of a HPO status began in 2014 and the organisation is currently in the Growth Phase of the HPO journey. The FY 2019/20 Human Capital strategic work plan execution was centred on interventions geared towards creating impact, enabling sustainability, enhancing productivity and work efficiency through the alignment and integration of programmes, procedures and systems. The Growth phase implementation period had to be extended beyond the initially targeted period of completion as a result of late adoption of employee engagement culture by the agency. As a result, programmes to enhance employee engagement practices (Investors-In-People) are underway to fully bed-down this growth-phase cycle.

The initiatives are aimed at channelling the organisation through the growth phase of the HPO journey where the focus is to enhance talent contribution and commitment to organisational performance.



The HPO timeframes has been adjusted to reflect the current organisational environment

Our People

sefa's employee profile consists of various job categories in both core and support function with the employees representing a diverse demographic collective.

The role of Human Capital Management is the acquisition, development, and retention of a high performing workforce. Our talent acquisition processes are aimed at ensuring that the organisation is equipped with the relevant talent, that is a fit-for-purpose appointment. The critical and core skills set of the organisation is aimed at ensuring that the organisation is making correct investment decisions when executing its mandate.

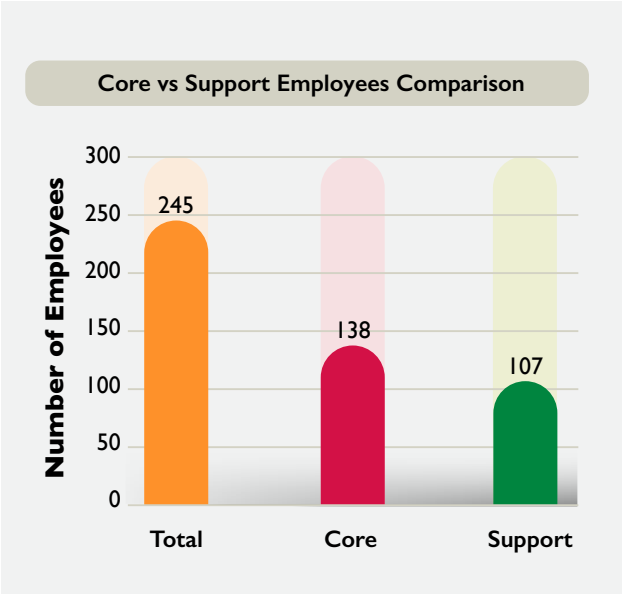
Talent Acquisition and Retention

HCM continues to ensure that its talent acquisition processes are aligned to the business strategy and the overall achievement of business results. The talent acquisition processes are streamlined towards attracting, recruiting and retaining a fit-for-purpose candidate that ensures that the organisation is adequately resourced.

Headcount

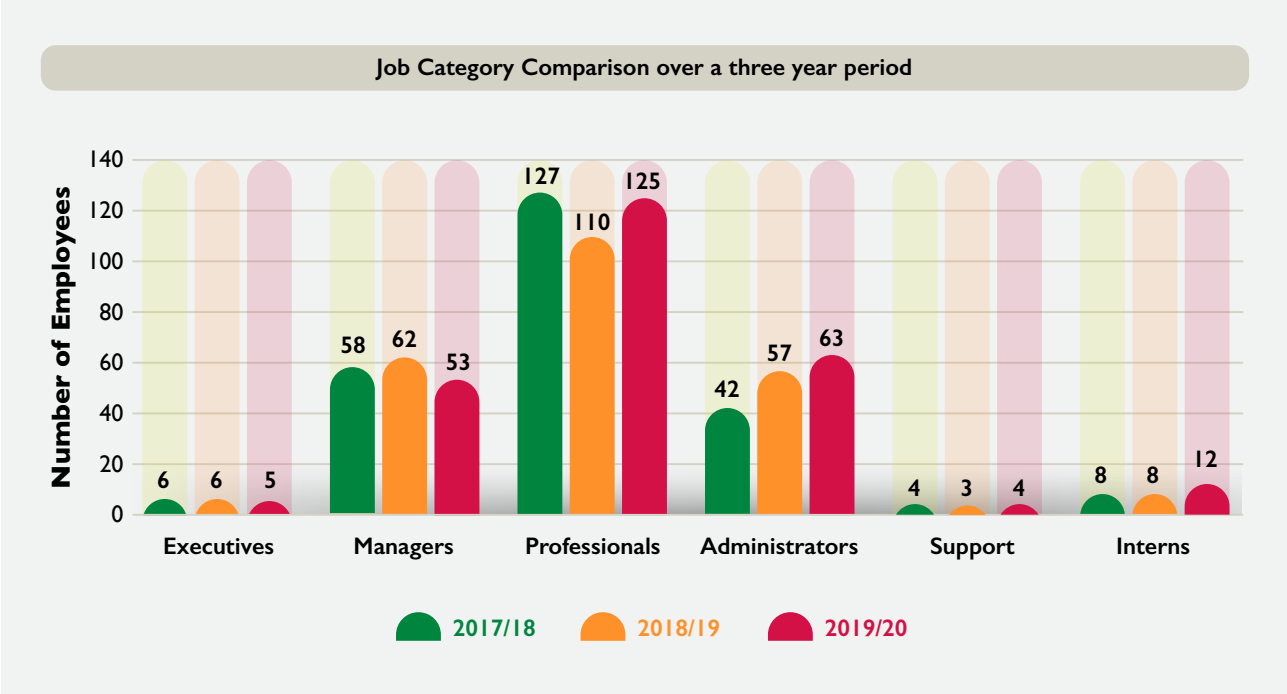
During the period under review, **sefa**'s headcount was 249 employees, this included Fixed Term Contractors and Interns. The organisation continues to keep a flexible component of its workforce at a minimal in alignment with the cost containment measures in support of the long-term financial sustainability of the organisation.

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



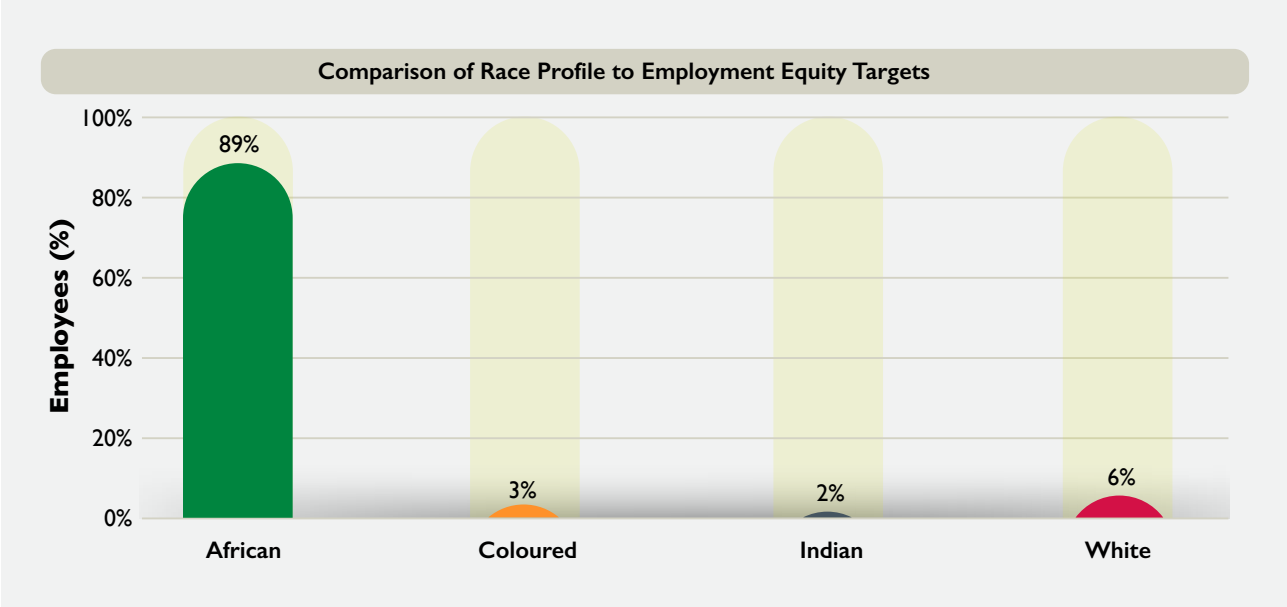
An analysis of the staff profile reflects that 56% of the employees are in core functions and 44% are in support functions. Core business functions include Direct Lending, Wholesale, Credit, Post Investment and Workout. Support business functions include: HC & Facilities, Finance and Procurement, Strategy, Legal Services, Enterprise Risk, Compliance, IT, Company Secretary, Marketing & Communications and Internal Audit.

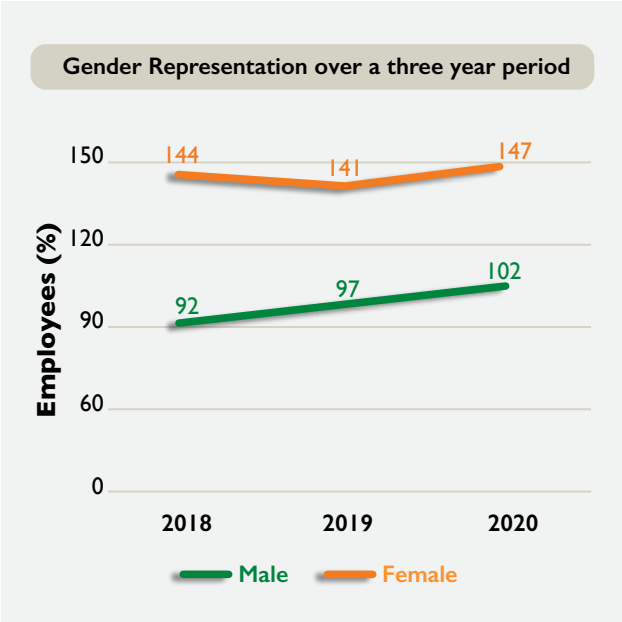
sefa has maintained a steady profile in the Executive, Management, Professional, Administrators and Support Employees. During the reporting period, the HCM division contributed to the sustainability of the organisation through cost containment interventions which curbed the escalation of employee related costs. Such interventions resulted in the freezing of some vacancies and consolidation of resources. During the last month of the financial year there was a need for additional resources to support the implementation of COVID-19 Relief funds.



Employment Equity Profile

The **sefa** employee profile for the reporting period reflects a 92% black representation, comprising African, Coloured and Indian individuals. A comparison against the numerical goals, as per the employment equity plan, reflects a slight over-representation of African employees and future efforts are to drive the increase of coloured and Indian representation, when opportunities arise.
The gender profile trend, show an increase in both male and female representation over a three year period.





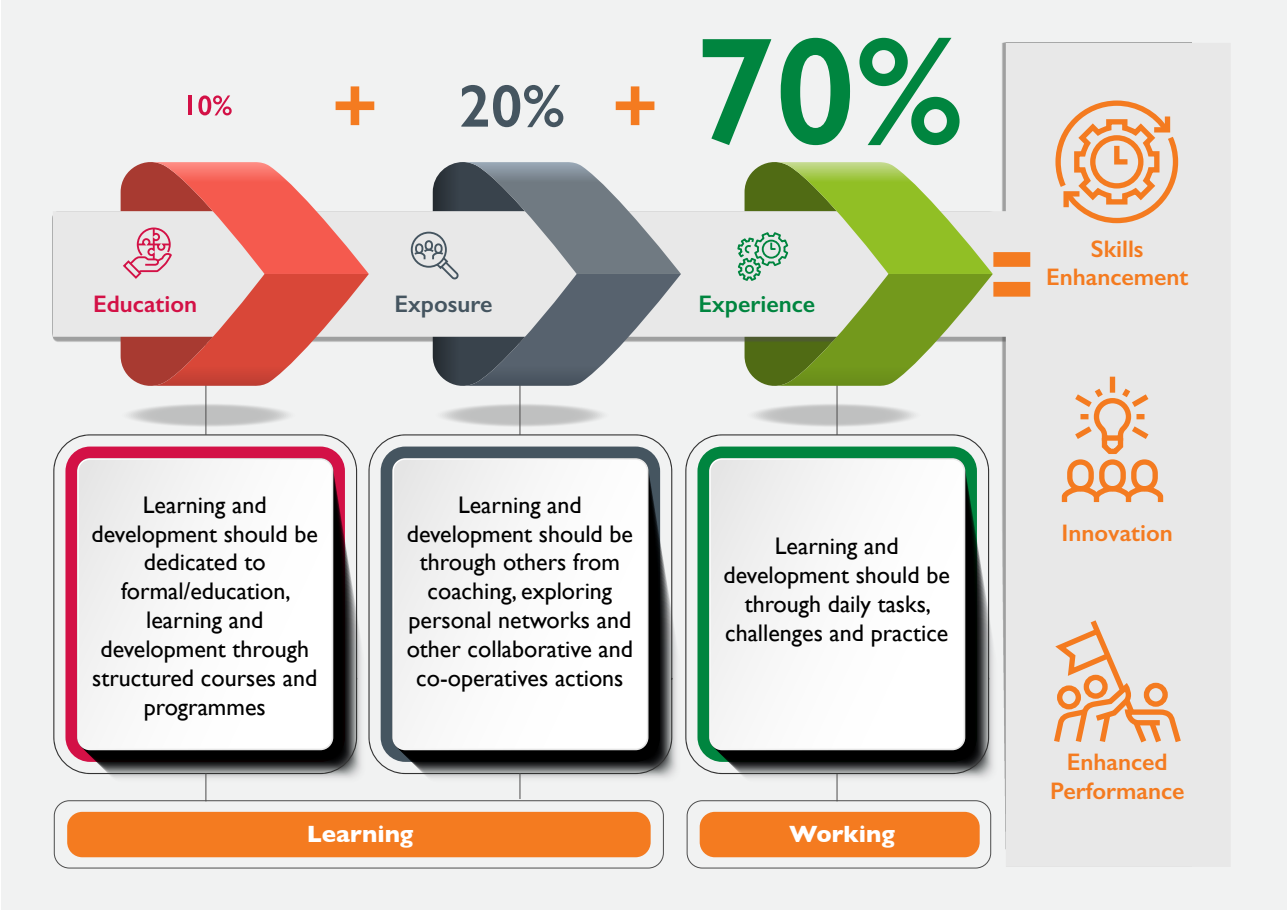
Implementation of a Comprehensive Skills Enhancement Approach

The people-development interventions implemented during the period under review, were underpinned by HCM's strategic priority to invest in people by enhancing their capabilities for transitioning into the optimisation stage of the HPO journey.

One percent of the staff costs budget, was allocated for skills development for FY 2019/20, with 233 employees (91%) trained across the organisation. The learning interventions focused on strengthening the following skills:

- Financial analysis/modelling
- Due diligence
- Credit management
- Risk management
- ENNEAGRAM Coaching Model (ENNEA)Team Effectiveness
- Employee relations for managers
- Customer relationship management

The skills enhancement solutions were based on **sefa**'s 3E Learning and Development Framework to ensure that organisational performance is improved through (Education, Exposure and Experience).



On education (formal learning) perspective in line with the 3E Learning and Development Framework the following interventions were implemented:

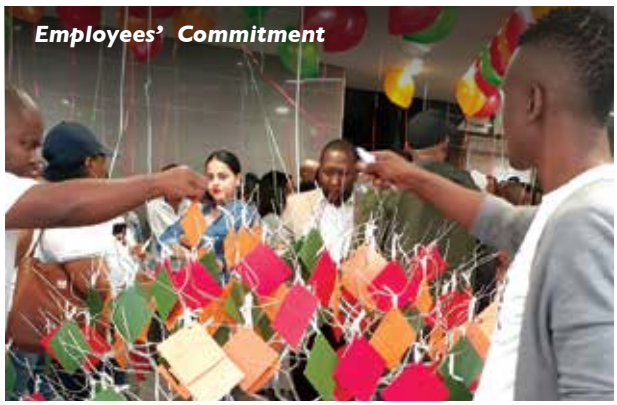
- Twenty-eight (28) employees were funded through the graduate tertiary programmes at various institutions to enhance their skills and competencies in various key areas.

The focus on the Exposure element of the 3E Learning and Development Framework included the implementation of the following programmes:

- As part of the **sefa** Coaching Programme, the ENNEA team intervention continues to empower employees using coaching principles to identify performance gaps and design developmental action plans to improve team synergy.

Through the Experiential learning element implementation of the following programmes were realised:

- The Talent Acquisition Programme (TAP), **sefa**'s Work Experience Programme which targets the development of young unemployed graduates, eight Interns and three experiential learners were appointed.



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

A key component of the Growth Phase of the HPO journey includes the culture and values integration. The following interventions were implemented:

- **sefa** initiated a Culture Change Project aligned to the Investors in People standard. The project is envisaged to be completed in three years and is aimed at establishing a unified, high-performance culture and aligning our business practices to a world-renowned people management standard.
- A **sefa** Organisational Design Review project was started during this reporting period. The project seeks to assess the existing business operating model, key processes, structure, and establishing realignment of such against the approved **sefa** strategy. The project is scheduled to be completed in the first quarter of FY 2020/21.
- The HCM Division provided performance management support through the provision of refresher training for line managers and employees including advisory support for mid-year and annual performance reviews.
- Change Management support was also provided to ensure the seamless implementation of key business projects such as the **sefa** Business Automation Project aimed at driving organisational performance. Change Management interventions were also implemented in support of the **sefa** Head Office Relocation Project, such interventions ensured a smooth transition into the new office environment with minimal work disruptions.
- Employee engagement remains a critical element to a high performing workforce and the HCM Division made strides to implement various interventions to retain an engaged workforce.

Such interventions included the following:

Launch of Youth Empowerment Programme (YEP)

Women's Day Event

Opening of the New Head Office

Improved Employee Relations and Discipline

As the organisation transitioned into the Growth phase of the HPO journey, the focus has been on strengthening constructive workplace relations through the implementation of the following initiatives:

- Revision of human capital policies, and processes;
- Implementation of interventions to improve increase in awareness to the changes in relevant legislation;
- The disputes and disciplinary cases were handled efficiently, within reasonable time to avoid disruption of productivity;
- Consultative forums and bi-laterals with stakeholders, this helped in improving the relationships between stakeholders; and
- Salary negotiations were completed on time without any hindrances.

Provision of an adequate, safe and secure employee working environment

The HCM division is a custodian of the Occupational Health and Safety function which was responsible for the implementation of the **sefa** Head Office Relocation Project that was implemented during the reporting period. The project included the successful migration of approximately 160 employees from the Teak Close 5 Office Park to the Bylsbridge Office Park in Centurion. The new office environment offers a state-of-the-art workspace conducive for growth, improved efficiency, and employee wellbeing.

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

1. Timeous provision of adequate work space for employees at all **sefa** locations and co-locations.
2. Reported zero incidents as a result of non-compliance with the Occupational Health and Safety Act and the Policy reported for the period under review.
3. Establishment of relevant structures, systems and processes to ensure a safe and secure working environment in HO and regions in order to maintain compliance with the standards of the Occupational Health and Safety Act No. 85 of 1993.
4. Security enhancement interventions were implemented at Head Office and in some Regional Offices.

Employee Wellness

As part of **sefa**'s commitment to its employees, the organisation has invested in an Employee Wellbeing Programme (EWP). Key strategic objectives driving attention to employee health and wellbeing are the following:

a) Employee Wellbeing
- Establish a positive culture of employee engagement and wellbeing.

b) Sustaining high performers
- Supporting and ensuring the effectiveness of employees.

c) Productivity and absence control
- Controlling the overall costs associated with the management and deployment of human resources.

d) Cost of ill-health provision
- Focus on managing costs associated with employee health and wellbeing benefits.

e) Compliance and risk management.
- The programme provides confidential counselling to employees and their immediate family members 24/7/365.
- It consists of several services that are accessible to employees, employee's dependents alike.

sefa Heritage Day

The following are the service offerings for the programme:

The **sefa** Wellness Programme is supported by the following:

- Toll-free call-centre technology which provides psychological counselling - professional support line services 24/7/365.
- Staffed by registered experienced psychologists in different language groups that facilitates professional, efficient and effective service delivery on a national basis.
- Face to face counselling service x 6 sessions near the residence or place of work of each person entitled to use the scheme.

Strategic outlook in the year ahead

The Human Capital strategic work plan for the year ahead will be centred on interventions geared towards transitioning **sefa** through the growth phase of the HPO status through focus on Leadership Development and Culture Transformation.

Whilst the HCM strategic plan is centred around culture transformation, the execution of this plan will be primarily focused on the integration and alignment of interventions in response to the COVID-19 pandemic.

Stakeholder Engagement, Marketing and Communication Report

Overview

The **sefa** Marketing and Communications department is the custodian of the agency's customer-centric strategy, aimed at putting our customers at the heart of everything we do. During the period under review, we have ramped up our integrated marketing and communications programme to balance brand building, product messaging and awareness, stakeholder communication and overall reputation management. Our partnering strategies with our principals at DSBD and other third-parties progressed our effort to expand our market reach and visibility, while creating brand activation properties and unlocking subsequent value during the current year, as well as in the succeeding years to follow. Plans are in place to strengthen and build the capacity of the marketing team as we advance in support of the agency's goal to improve access to finance for SMMEs and Co-operatives. In this report, we highlight key achievements thus far and provide a glimpse into future plans that will enable **sefa** to deliver on its mandate.

Key Focus Areas

The FY 2019/20 saw **sefa** strategically reaching out to underserved areas and priority demographic groupings, namely townships and rural communities, youth-owned and female-owned businesses respectively. This was in line with **sefa**'s corporate strategy to increase its footprint, catalyse economic development and job creation by directly supporting and impacting SMME's and Co-operatives dependant on township and rural economies.

A further strategic area for attention was the customer service, which was a critical step in transforming **sefa** into a customer-driven agency. Towards this end, **sefa** customer surveys have provided invaluable feedback which highlighted areas of improvement in delivering value to our clients while also identifying areas of positive achievement, such as a general satisfaction with our product offering.

Internally, **sefa** has pro-actively initiated better alignment between the Marketing and Communications department, Operations (which includes our regional office footprint) and the CEO's office to market engagement goals and highlight processes. This has enabled a coherent route-to-market strategy, a well co-ordinated stakeholder engagement process and better-focused third-party partnerships.

Market Engagement Highlights

sefa launched the 'Inyamazane Funding Scheme' for military veterans at Mount Frere, Eastern Cape in April 2019. In addition to hosting local villagers and sharing access to finance information, the event also attracted more than 100 military veterans with participants coming from as far afield as the Western Cape.

Stakeholder Engagement in uMlazi, Durban

The District Development Model (DDM), driven by Co-operative Governance and Traditional affairs (CoGTA) is a strategic initiative to integrate Government service delivery at local level. Following the successful pilot on the OR Tambo District Municipality in Lusikisiki and more recently, in eThekwini Municipality in Durban, President Cyril Ramaphosa, officially launched the DDM programme in October 2019. This model will direct National, Provincial and Local government resources towards the developmental priorities at District Municipal level.

Towards this end, **sefa** has aligned its operating model to the DDM and is working in collaboration with DSBD, Seda and the Local Economic Development (LED) offices at District Municipal level. The aim is to streamline SMME support services based on the identified needs at this level. Various outreach initiatives in support of the DDM were subsequently launched during the period under review.

November 2019, Provincial Interventions

sefa and the Minister of Small Business Development rolled out the 'Pitch for Funding' programme targeting start-ups to improve access to finance for youth-owned businesses. 'Pitch for Funding' provided an opportunity for entrepreneurs to sell their business ideas to the DSBD and its agencies in an effort to secure on the spot financial and non-financial support. Towards the end of March 2020, the programme was rolled out in 6 provinces namely Gauteng, Limpopo, Mpumalanga, North West, Northern Cape and KwaZulu-Natal. In each of these provinces, the sessions hosted 60 pitching participants. KZN, however, had a significant drawcard in the final leg of the campaign with more than 700 entrepreneurs participating. In total, 'Pitch for Funding' had a direct reach of more than 1000 entrepreneurs and proved as a successful channel to bring services to SMMEs across the country.

November 2019, Ekurhuleni West TVET College Katlehong

sefa and the Minister of Small Business Development in partnership with other agencies, launched the New Funding Instruments to townshipbased entrepreneurs and the media. Township entrepreneurs shared their experiences, providing **sefa** with vital market intelligence to provide better-targeted lending solutions and access to finance.

Ongoing Stakeholder Events

sefa provincial offices that continue to remain the frontline of stakeholder relations in their respective regions, participated in various platforms aimed at sharing information. Additionally, these offices also focussed on enabling access to finance for township and villagebased businesses. Approximately 100 information-sharing events were held nationally in which **sefa** either exhibited or made presentations to SMME's. To improve access to finance, **sefa** also forged relationships with District Municipalities on a national level to ensure extended reach and ease of accessibility for all South Africans. The implementation of these partnership programmes is currently underway in the present FY 2020/21.

Brand Development

To increase its visibility and foster favourable brand association, **sefa**, sponsored events aimed at supporting SMMEs by collaborating with similar organisations that nurture entrepreneurship. **sefa** was able to support meaningful SMME-related initiatives, namely, the Cotton Industry Indaba and the Black Umbrella Global Entrepreneurship programme. The visibility of the **sefa** brand at these engagements has always remained a priority. During the period under review, **sefa** updated its marketing collateral and content on all client-facing material.

Through social media, both broadcast and print media – which the agency uses as principal channels for publicity, **sefa** utilised provincial and community radio stations, national and provincial newspapers and community media to target under-served areas, townships and rural areas. On social media platforms, **sefa** relied on Twitter and Facebook for campaign activations and information sharing. In the traditional media space, **sefa** gained exposure through the placement of radio, adverts, supported by **sefa** personnel interviews on radio strategically linked to topical events such as product launches. Going forward **sefa** is formulating a more robust media engagement strategy that will be proactively driven. The strategy will ensure integration with all other marketing campaigns, brand and product campaigns as well as customer-centric information sharing and engagement.

The 'Pitch for Funding' programme underway

Post Investment Monitoring and Workout (PIM and Workout)

Mr Nkosikhona Mbatha
Executive Manager: Post Investment Monitoring

The Post Investment Monitoring (PIM) and Workout Division manages all **sefa** investments through a pro-active portfolio management approach. There is an inherent high risk of default by SMMEs due to the nature of some businesses that are given a funding opportunity by **sefa**. It is therefore important that this risk is effectively managed, so as to:

- Protect **sefa**'s capital base through improved portfolio collections;
- Build sustainable investee companies that will create value for the entrepreneurs and preserve the jobs that have been created; and
- Contain and reduce portfolio impairment rates.

The core functions of the PIM and Workout Division extend to cover the following:

- Portfolio management (Proactive Monitoring)
- Debtors Management
- Turnaround, Workout & Restructure (TWR); and
- Business Support.

Overview

An enabling economic environment is essential for SMMEs to thrive. However, South Africa has experienced a subdued economic growth during the FY 2019/20. The ailing economy, coupled with unpredictable electricity supply had a negative impact on the growth and sustainability of SMMEs. At the back of the technical recession, **sefa** funded SMMEs that continued to remain vulnerable, and this was evidenced by reduced total portfolio collections of 87%, as compared to 95% during the 2018/19 financial year. Direct Lending clients struggled to meet monthly debt obligations for various reasons, including not being paid on time by Government departments, loss of market, increases in raw material prices and other factors which came into play, rendering their businesses non-viable.

Despite the above operating conditions, **sefa** has managed to contain impairments, which have reduced slightly from 47% (2018/19) to 41% in 2019/20. It must, however, be noted that the emergence of the COVID-19 pandemic brings an additional threat to SMME survival. It is therefore expected that the portfolio at risk will increase in the new financial year.

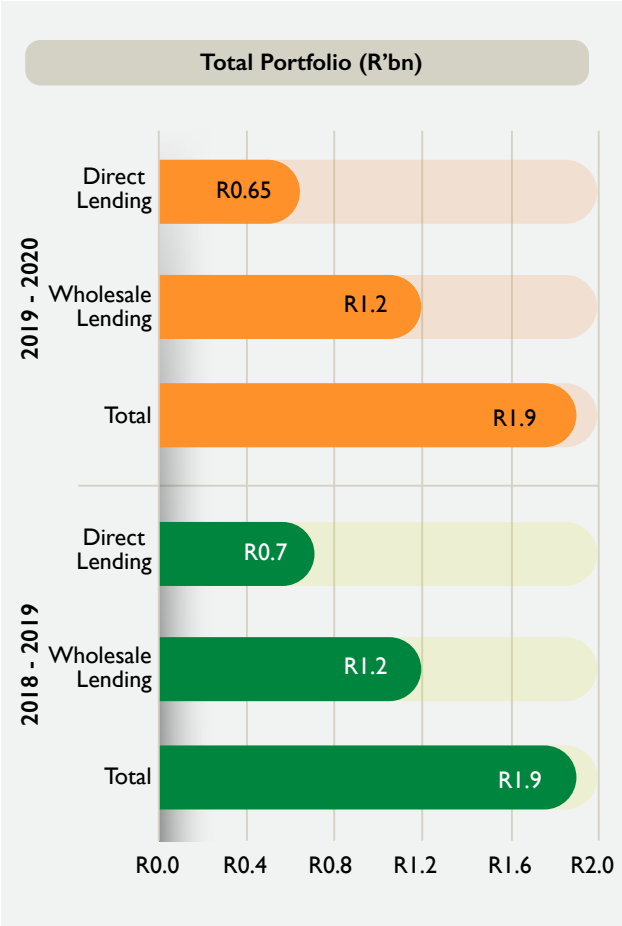
The effective management and the mitigating of client exposure risk remained a high priority during the year under review.

The resulting "Top 20" client list for acute client management and the resulting reporting strategy was adopted by **sefa**. PIM and Workout pro-actively monitored these Top 20 active clients very closely with a view to minimising defaults on this portfolio.

A further consequence of the harsh trading conditions resulted in a marked increase in the number of distressed businesses. Continued support of these entities to improve their sustainability and a bid to save the jobs that they provide has remained a priority in the FY 2019/20.

Total Portfolio under Management

sefa has a total loan book of R1.9 billion as at 31 March 2020. The R1.9 billion comprises the R1.2 billion Wholesale Lending (WL) book and R645 million Direct Lending (DL) book. The total portfolio remained unchanged year-on-year due to the contraction of the DL portfolio which was offset by the WL portfolio. The portfolio is made up of 45 WL partners and 489 DL clients.

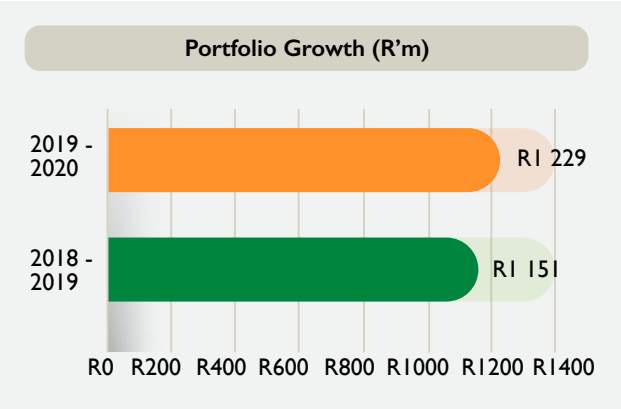


The portfolio is further differentiated between Loans and Advances and Funds as follows:

PD	Risk Segment	Exposure
Loans and advances	Direct Lending	R645 332 887
	Wholesale Lending	R892 879 447
Subtotal		**R1 538 212 334**
Funds	Wholesale Lending	R335 827 315
Total		**R1 874 039 649**

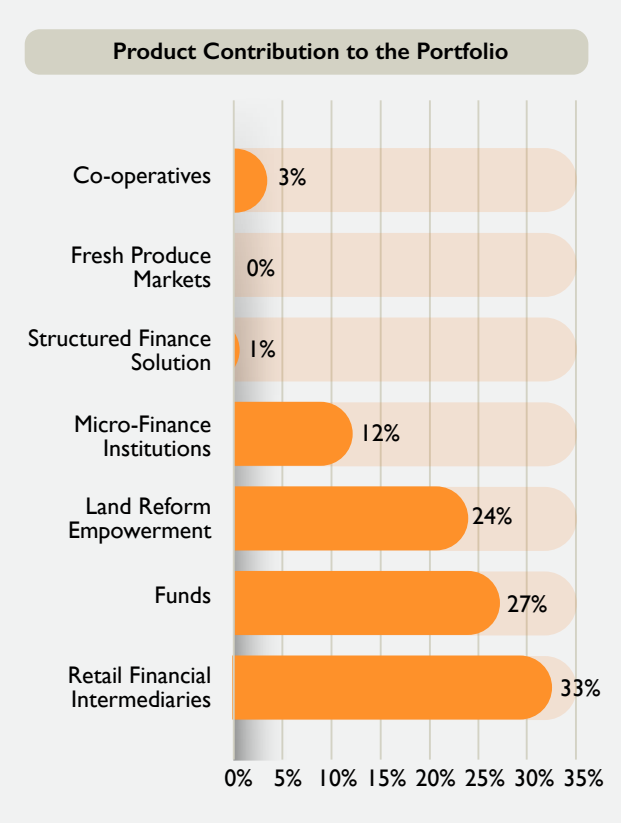
a) Wholesale Lending Portfolio

The WL portfolio stands at R1.2 billion as at 31 March 2020 and has increased slightly year-on-year by 7% from R1.151 million reported in March 2019 to R1.229 million. A combination of new disbursements, portfolio collections and write-offs has resulted in the marginal growth of the book.



The portfolio comprises of Co-operatives (Co-ops), Structured Finance Solutions (SFS), Microfinance Institutions (MFIs), the Land Reform Empowerment Facility (LREF), Specialised Funds and Joint Venture (Funds) and Retail Finance Intermediaries (RFIs) cash distribution.

Product Contribution to the Portfolio



Co-Operatives (Co-Ops)

As at 31 March 2020, this portfolio consisted of 16 primary and two secondary Co-ops. The exposure is diversified to different types of investment such as feeding schemes,

waste recycling and hydroponic vegetable farming. As of 31 March 2020 the total exposure was R42 375 895.

Structured Finance Solutions

The Structured Finance Solutions comprise of facilities provided to seven Coca-Cola Beverage South Africa (Pty) Ltd (CCBSA) Local Distribution Partners (LDPs). The exposure declined by 28% from R9 543 328 reported on 31 March 2019 to R6 868 890 as at 31 March 2020 mainly due to repayments received.

Fresh Produce Market Exposure

Fresh Produce Markets specialises in micro-enterprises that buy and sell fresh produce in Durban and Mangaung. The Fresh Produce Market has an exposure decline of 7% from R631 212 reported on 31 March 2019 to R587 750 as at 31 March 2020.

Microfinance Institutions (MFIs)

The MFI portfolio consist of nine partners and provides funding to micro-enterprises across all sectors. The purpose is to increase access to finance for informal and micro-enterprises, particularly those in rural and peri-urban areas.

Year-on-year, the MFI exposure recorded a sharp increase of 105% from R72 068 904 in March 2019 to R147 887 221 on 31 March 2020. The increase was mainly due to disbursements to Small Enterprise Foundation and the Phakamani Foundation.

Land Reform Empowerment Facility (LREF)

The LREF portfolio consists of ABSA Bank Ltd, First Rand Bank Ltd, Ithala Development Finance Corporation, Akwandze Agricultural Finance, Capital Harvest Emerging Farmers and Lona Group (Pty) Ltd. These are the organisations that **sefa** partnered with to on-lend to SMMEs within the agricultural sector.

Year-on-year, the exposure increased by 3%, from R284 737 154 reported on 31 March 2019 to R294 589 649 as at 31 March 2020. The increase in the loan portfolio was mainly due to increase in disbursements.

Specialised Funds and Joint Venture Investments (Funds)

This portfolio is made up of **sefa**'s investment in 11 various entities. The investments consist of entities that operate in various sectors such as mining, agriculture, construction, manufacturing and related services, supply chain and general services.

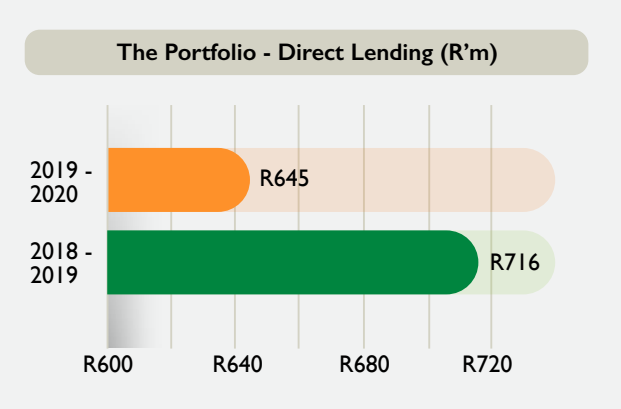
The exposure declined by 2% year-on-year from R344 135 123 reported on the 31 March 2019 to R335 827 315 for the year ended March 2020. The decline in the loan portfolio was mainly due to R22 172 724.66 write off.

Retail Financial Intermediaries (RFIs)

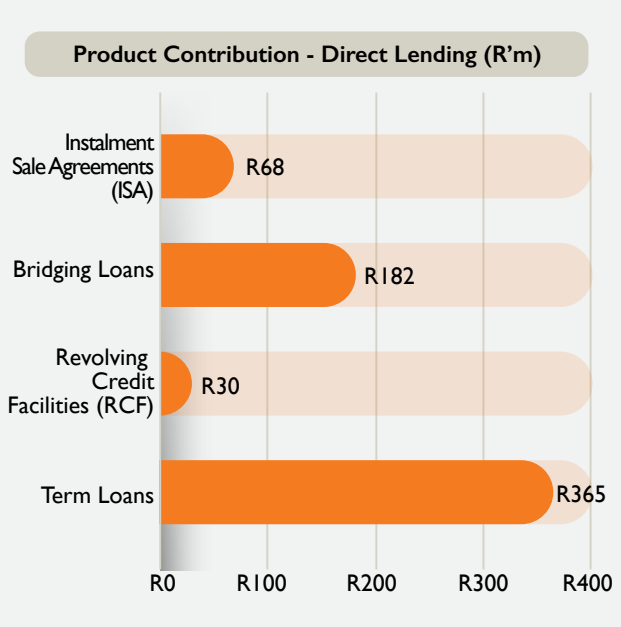
The RFIs exposure is diversified to different types of investments such as transport (taxis), property management, supplier development, agriculture, invoice discounting and general services. The portfolio recorded a 9% year on year growth from R367 891 197 reported on the 31 March 2019 to R400 570 041 for the year ended March 2020.

b) Direct Lending Portfolio

The DL loan book has a balance of R645 million as at 31 March 2020. The book contracted by 11% year-on-year. This contraction is largely due to the net effect of the irrecoverable debtors amounting to R284 million that was written off and collection activities on the loans that were due and payable.



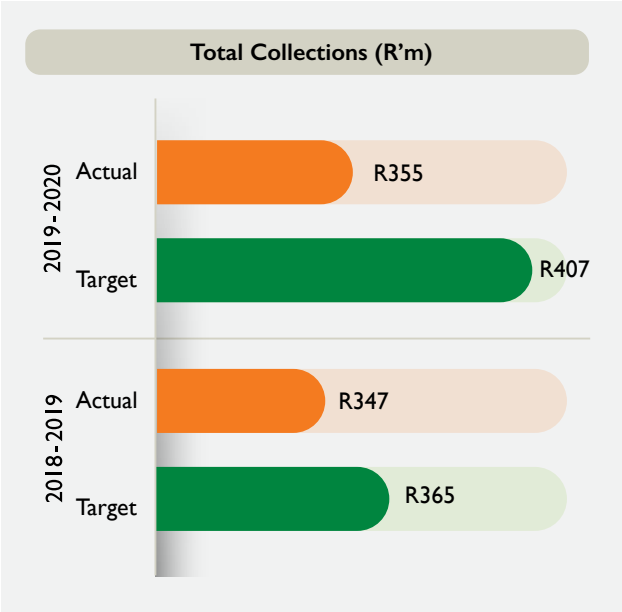
The loan portfolio consists of Term Loans (R365 million), Revolving Credit Facilities (R30 million), Instalments Sale Agreements (ISA) (R182 million) and Bridging Loans (R68 million). The Term Loans, Revolving Facilities and Bridging Loans have reduced by 13%, 71% and 46% respectively. Historically, collections on Bridging Loans and Revolving Facilities have been difficult to manage, resulting in high impairments. There is a deliberate tactical approach to manage the growth of these products.



Total Collections

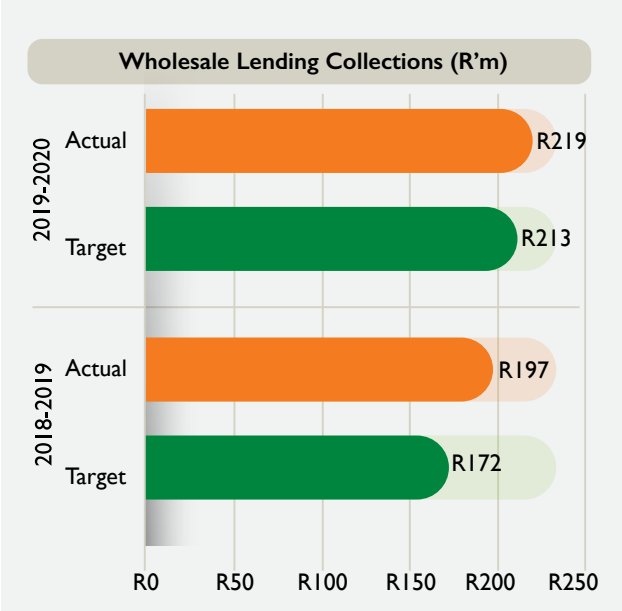
The total collections for FY 2019/20 amounted to R355 million versus the budgeted R407 million. The targeted collection rate was 85%, however 87% was achieved. It must be noted that the 2019/20 achieved collection rate is 8% below the previous year's collections rate of 95%. The lower collections rate, year-on-year, was due to the to the fact that **sefa**'s investees were affected by sluggish economic growth coupled with load shedding

which negatively affected businesses and their loan repayment capabilities. **sefa** witnessed an increase in the number of first-time defaulters at the end of March 2020, with the impact of COVID-19, beginning to be felt.



Collections management was re-prioritised, and a separate collections unit was established during the fourth quarter of the FY 2019/20. This will improve the concentrated efforts on collections as well as providing timeous reports and solutions for defaulting Investees.

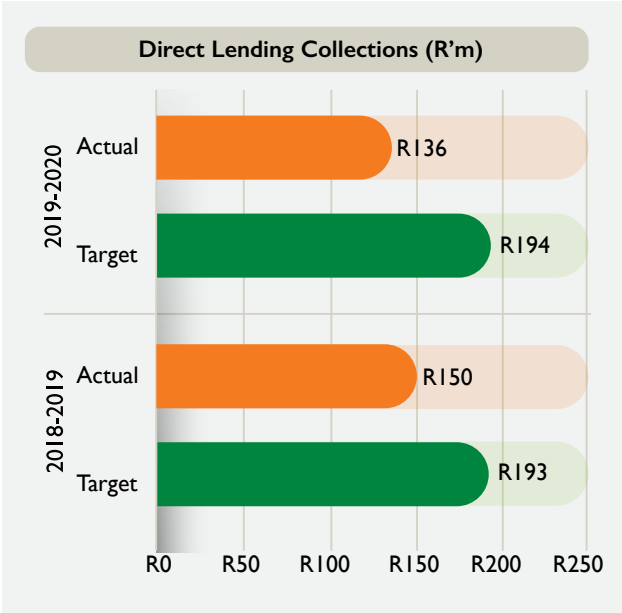
a) Wholesale Lending Collections



Year-on-year actual WL collections remain above the 100% mark, mainly due to better performance of investees and repayment of revolving facilities by MFIs such as the Small Enterprise Foundation (SEF).

b) DL Collections

Direct Lending collections amounted to R136 million which is 70% of the R194 million target. SMMEs in the manufacturing and service industry were impacted by the unfavorable economic conditions resulting in missed loan instalments. Bridging Finance loans also experienced delays in payments by Government departments. The drive to collect on the arrears book was intensified through improved litigation strategies against defaulting clients.



Portfolio per industry sector

The largest exposure at 24% is in the wholesale and retail trade sector. This includes, among others, personal and household goods, hotels and restaurants. This is followed by the construction sector at 17%, as outlined below.

Industry Sector	Balance	Portfolio %
Agriculture, hunting, forestry and fishing	R57 423 036	9%
Community, social and personal services	R82 721 747	13%
Construction	R111 730 942	17%
Electricity, gas and water supply	R3 284 765	1%
Financial intermediation, insurance, real estate and business services	R39 733 970	6%
Manufacturing	R93 745 534	15%
Mining and quarrying	R7 154 902	1%
Transport, storage and communication	R96 343 652	15%
Wholesale and retail trade	R153 194 340	24%
Grand Total	R645 332 887	100%

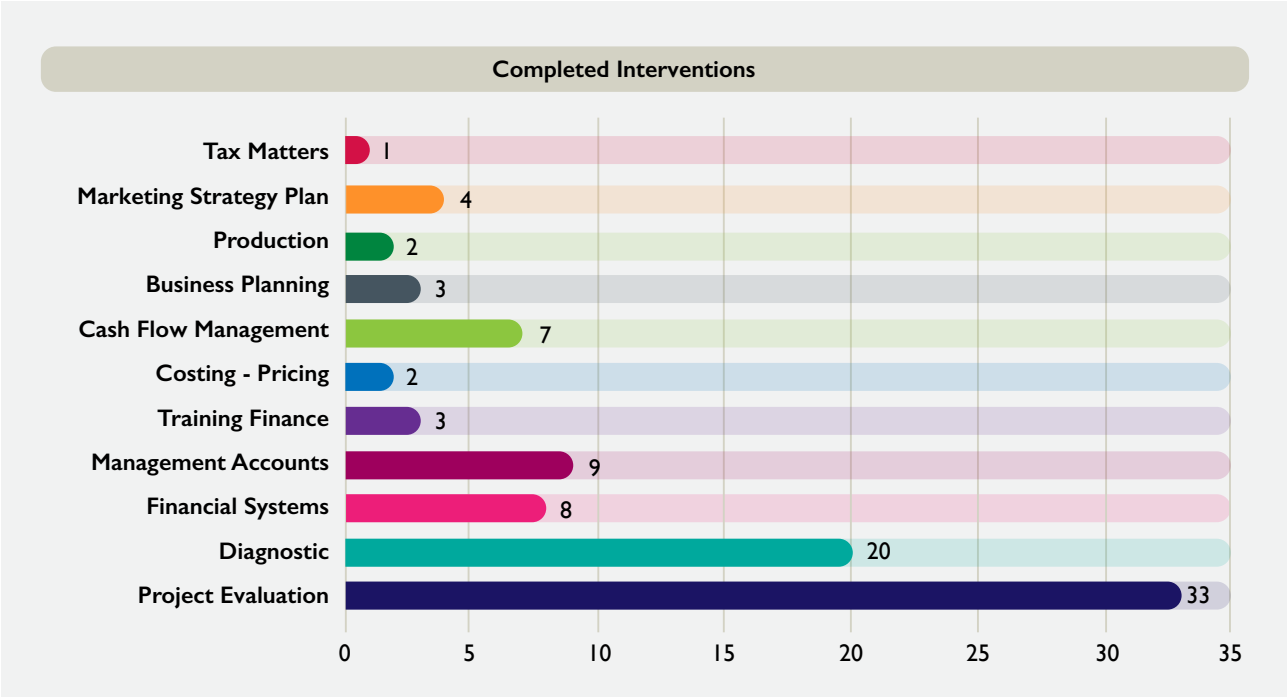
Workout and Restructuring

A total of 9 accounts with an exposure of R20.7 miilion were restructured during the year under review. This involved the deferring of payments on some of the accounts. The restructuring and turnaround efforts resulted in 267 jobs being saved. The number and value of the restructured accounts were lower than the previous financial year (FY 2018/19), where 20 accounts with a total value of R44.6 million were restructured.

This unit remains very strategic given that more businesses were negatively impacted by the slow economy and that COVID-19 will result in more businesses becoming distressed. Plans to capacitate the unit with qualified staff began during the year under review and a Senior Workout and Restructure Specialist was appointed. Additional staff members will be appointed in the new financial year to ensure that the unit is effective in assisting SMMEs to remain viable entities.

Portfolio Mentorship and Business Support Panel

The provision of mentorship and businesses support continues. During the year under review, there were 92 interventions that were initiated and completed. The interventions ranged from diagnostic analysis to business planning, cash flow management, and setting up of financial systems, among others. In one typical example, Beyond Risk Project Managers (Pty) Ltd lacked proper financial systems and the entrepreneur's lack of pricing skills resulted in shortfalls which affected the overall profitability of products. A mentor was appointed to assist. The entrepreneur was trained on pricing, financial management and cash-flow management systems were developed. It must be noted that within three months after the training, the client started to show positive cash-flows. The client managed to settle **sefa**'s loan. Furthermore, the mentor assisted the entrepreneur to obtain an overdraft from the bank which enabled him to service other projects. The interventions completed during the year under review are outlined in the chart below.



Credit Risk Management

Definition

Credit Risk represents a significant risk and mainly arises from exposures to Direct and Wholesale loans and advances as well as credit guarantees. 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 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 losses arising from the decline in the value of **sefa**'s investment.

sefa as a Development Finance Institution, 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 separately managed to reflect the differing nature of assets. Wholesale Lending is through Intermediaries, while Direct Lending is directly targeted to the end user. Wholesale balances tend to be larger while Direct lending balances are greater in number but lesser in value.

Approach to Credit Risk Management

The granting of credit is **sefa**'s major source of income and its most significant risk and arises from both Direct 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**.

sefa meets its credit risk management objectives through:

- Maintaining sound credit granting standards;
- Maintaining a framework of controls to oversee credit risk;
- Identify, assess, measure, monitor and control credit risk; and
- Development of credit risk measurement models.

Managing credit risk is attributed to **sefa**'s *three lines of defense* framework. The business functions own the credit risk assumed by **sefa** and as the first line of defense, is primarily responsible for credit risk management, control and optimisation, during the course of business generation.

The Credit function acts as the second line of defense 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 take into consideration the underlying risk, which is appropriately 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; with due regard to monitoring the systemic nature of risks as well as the assurance that the necessary tools and Information Technology (IT) systems for overall risk management and monitoring are in place.

The Board of Directors has delegated the operational responsibility for managing credit risk to its Credit and Investment Committee (CIC), Executive Investment Committee (EXCO), Management Credit Committee (MANCOM) and SMME Credit Committee. The primary objective of **sefa**'s credit risk management and those of the 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 in place Board and corporate level credit committees 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 Executive Investment Committee; MANCOM, the SMME and the Investment Monitoring Committee (IMC). The CEO chairs the EXCO. These structures provide both management and the Board with the appropriate forums to evaluate credit risk and evaluate how effectively it is being managed.

Given the nature of the inherent risk contained in small business transactions, **sefa**'s credit risk framework directs that the risks assumed by **sefa**, in the pursuit of its vision and mandate, are consistent with its nature and size and that such risk should also be commensurate with its capital structure, management expertise and risk appetite, as outlined in **sefa**'s corporate plan.

Structure of Credit Risk Management

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 practice for credit risk management 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 the Credit Risk Management Unit is to ensure that **sefa**'s risk is in keeping with the institution's risk appetite and threshold. Additionally, the Unit ensures that all risk issues integral to **sefa**'s lending decisions are duly lessened and properly managed.

The Unit performs an independent credit risk assessment of all transactions which indicate the unit's support or rejection of a transaction, based on the assessment data. The Credit Risk Managers, therefore, seek to provide an objective view of the quality of individual investments and transactions under consideration. The credit team works closely with the frontline staff, who work together with the Unit to critically identify and assesses the risks, and to propose appropriate additional risk mitigation suggestions by analysing the entrepreneur's commitment, skills, knowledge and experience, project, and market risk, including cashflow projections. In view of the fact that most of **sefa**'s loan transaction are limited to non-recourse basis, 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 scrutinized for and stress-tested against key performance drivers.

Credit Risk Control and Governance: Committee Structure

The aforementioned Credit 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 financial year under review

During the financial year under review, **sefa** embarked on the mandatory implementation and migration to IFRS 9. The standard is intended to replace the superseded accounting standard for financial instruments (IAS 39). The standard contained requirements for a new impairment model which is aimed at the early recognition of losses. **sefa**, during the period under review, calibrated and validated its internally developed Credit Risk rating models.

These models quantify and ranks the credit risk profile of **sefa**'s clients. They 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 all financial years commencing on or after 1 January 2018, **sefa** applies a three-stage approach to the measuring of Expected Credit losses (ECL) on debt instruments accounted for at amortised cost.

sefa's Credit and Investment Risk policy provides guidance for the informed and knowledgeable acceptance of tolerable risk and ensuring that the credit and investment risk culture is strong and robust within the institution.

Assessment of the Impact of the Novel Coronavirus (COVID-19) on **sefa**'s Loan Book

The COVID-19 outbreak is one of the largest human tragedies to take place in recent years. The virus has also had a growing negative impact on the global economy including South Africa. In March 2020, the President of South Africa declared a National State of Disaster and a National Lockdown. The lockdown resulted in a significant decrease in activities for all industries which were deemed non-essential. In the same month, the ratings agency Moody's took the decision to downgrade the Sovereign Credit Risk Rating from Baa3 to Ba1 (sub investment grade) with a negative outlook. These two events, albeit the latter to a lesser extent, have had a significant impact on the macroeconomic outlook of South Africa which will have a direct impact on **sefa**'s lending environment.

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

In the second quarter of 2020, the GDP forecast for South Africa is expected to be 11.78% lower than the pre-COVID-19 estimation of approximately R3.2 trillion, resulting in a GDP of around R2.8 trillion. In the second quarter of 2020, HCE is expected to be 8.27% lower than its initial pre-COVID-19 estimation of approximately R2 trillion. Employment is expected to be impacted significantly by COVID-19. Employment figures are expected to decrease quarter-on-quarter in post-COVID-19 economic assumptions until at least the first quarter of 2021 (IDC Macro-Econometric Model).

This is significantly different to the employment growth throughout 2020, as forecasted pre-COVID-19.

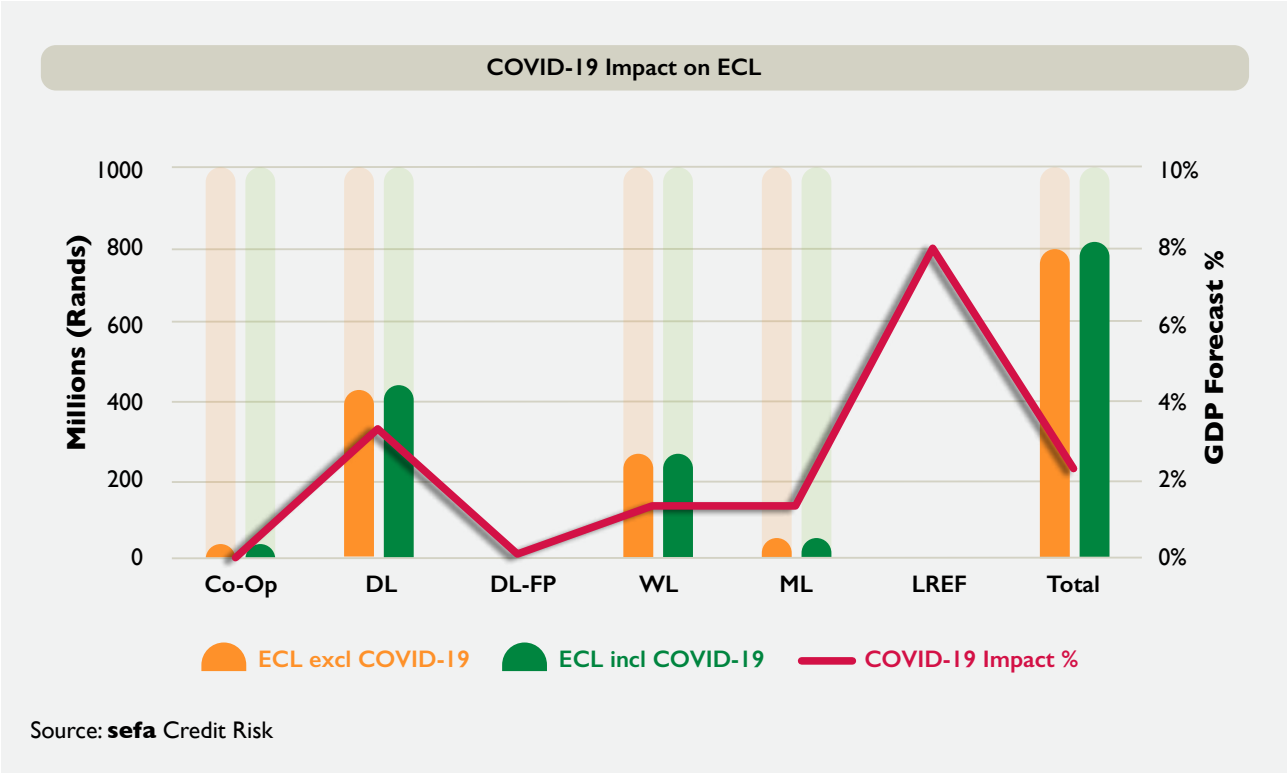
In calculating its ECL, **sefa** incorporates the impact of forward-looking economic information. The main components of the calculation are the Probability of Default (PD), Loss given default(LGD), Exposure at Default (EAD) and Staging (SICR). In the calculation, macroeconomic information forms a subcategory 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 no 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-19 macroeconomic results against the post-COVID-19 macroeconomic results.

The figure below demonstrates a comparison of pre- versus post- COVID-19 ECL calculations for different divisions on a probability weighted scenario of base, optimistic and pessimistic macroeconomic outlooks.

Under the weighted ECL scenario, which is the actual scenario applied by **sefa** in calculating ECL, impairments increase by R18.9 million to R819 million, 2.36% increase from what was forecasted prior to COVID-19. The contributors to the increase are Direct Lending (DL) (R14.1 million), Wholesale Lending (WL) (R3.6 million) and Micro Finance (MF) (R0.8 million).

Note: The figures in the graph below as well as the tables on pages 50 to 54 include suspended interest



Source: **sefa** Credit Risk

Approach to Credit Modelling

Credit Risk ratings have become increasingly critical to the credit risk management function of **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 proposed 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 quantitative assessment of credit risk possible, to which **sefa** is exposed to, from the level of individual facilities, up to and including the total portfolio. **sefa** Credit Risk rating systems also ensures that **sefa** prudently classifies loans in terms of its risk factor as a basis for determining the appropriate pricing and loan loss provisioning.

The key credit parameters used in **sefa**'s quantitative assessment of expected loss (EC) 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 Wholesale and Direct Lending.

During the period under review, these PD and LGD models were validated and calibrated by quantitative experts within the Credit Risk Unit with the intention of improving their predictability, accuracy and reliability. The main objectives of the rule sets are to rank **sefa**'s client base according to risk and to estimate the 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.

Additionally, one of the objectives of **sefa** is to continue refining these models continuously to ensure that they are up to-date in line with regulators. The risk classification process within **sefa** ensures that there is a shared understanding across the institution of the credit risk that clients pose.

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 mapping scale below provides an indicative description of the internal grades to rating description.

sefa's Internal risk grading and PD mapping scale

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

The above credit quality descriptions 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 as such clients within this range requires careful monitoring.
- 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

Risk Segment	Balance	Expected Credit Loss (ECL)	Net Carrying Amount	Coverage Ratio
Low	R518 748 037	R37 205 345	R481 542 692	7.2%
Medium	R47 724 885	R9 855 926	R37 868 959	20.7%
High	R138 588 263	R56 390 453	R82 197 811	40.7%
Default	R833 151 531	R716 124 586	R117 026 945	86.0%
Total	**R1 538 212 716**	**R819 576 310**	**R718 636 407**	**53.3%**

Note: Loan Balance exclude equity in investment in Financial Intermediaries

12 Month PDs by Product Description

Business Units	12m PD			
	0 Days	0-30 Days	31-60 Days	61-90 Days
Co-Operative loans	50.4%	71.4%	79.6%	98.2%
Direct lending loans	44.4%	68.6%	81.8%	91.9%
Land Reform loans	11.8%	74.1%	88.0%	98.3%
Micro loans	9.6%	36.3%	74.8%	92.3%
Wholesale lending loans	15.3%	19.4%	36.9%	83.0%

Implementation of IFRS 9

Having adopted IFRS 9, **sefa** applies a three-stage approach to the measuring of ECL on debt instruments accounted for at amortised cost. The measurement of ECL involves increased complexity and judgement, including estimation of PD, LGD, a range of unbiased future economic scenarios, estimation of expected lives, estimation of 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 ECL are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). The 12-month ECL are the expected credit losses that result from default events that are possible within twelve months after the 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 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).

Credit Risk Mitigation

sefa relies on the generation of cash flows for repayments, however **sefa** takes collateral on transactions if and when it is available. In circumstances where business assets are financed under Instalment Sale Agreement (ISA), such assets are deemed as collateral 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 knowledge gained and the increasing level of impairments, collateral has now become an important instrument to enhance the quality of credit and mitigate 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. Such collateral is only considered 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 accepted collateral reflect 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 a client's commitment.

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

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. As such, improvements 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. During the period under review, the portfolio report was enhanced to include the quantification of the loan book. This resulted in an increased, more consistent and insightful portfolio analysis, evaluation and reporting through the use of improved metrics. In coming financial years, it is envisaged that portfolio reporting will be further enhanced, as more granular data becomes available. It is imperative that the asset portfolio be comprehensively reviewed and significant risk indicators impacting the valuations and impairments be reflected timeously and adequately in the financial results.

The table below indicates the asset classifications of the Direct Lending total loan book.

Asset Classification of Direct Lending Loan Book for the period ending 31 March 2020

Loan Type	Balance	Arrears	No. of Accounts
Standard	**R145 047 205**	**-**	**281**
Bridging Loan	R13 194 723	-	42
Instalment Sale	R56 532 460	-	111
Revolving Credit	-	-	10
Term Loan	R75 320 021	-	118
Special Mention	**R12 831 186**	**R4 139 288**	**22**
Bridging Loan	R1 810 687	R1 810 687	4
Instalment Sale	R1 634 041	R98 535	6
Term Loan	R9 386 458	R2 230 065	12
Substandard	**R23 723 761**	**R8 720 148**	**20**
Bridging Loan	R1 627 737	R1 627 737	5
Instalment Sale	R5 242 199	R829 627	6
Term Loan	R16 853 825	R6 262 783	9
Default	**R463 730 735**	**R350 604 900**	**360**
Bridging Loan	R51 315 103	R51 315 103	65
Instalment Sale	R119 152 286	R70 684 021	116
Revolving Credit	R30 072 580	R30 072 580	13
Term Loan	R263 190 767	R198 533 195	166
Grand Total	**R645 332 887**	**R363 464 335**	**683**

- 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.
- Sub-standard: Clients with two missed payments, showing well defined weakness as high-risk.
- Default: Clients with three or more missed payments, defined as extremely high-risk clients.

Expected Credit Losses and Coverage ratio for the Period Ending 31 March 2020

Asset Class	Total Outstanding Balance	ECL	Net Carrying Amount	Coverage Ratio
Co-Operative loans	R42 375 895	R41 776 918	R598 977	98.6%
Direct lending loans	R645 332 887	R443 946 802	R201 386 085	68.8%
Wholesale loans	R407 438 932	R271 628 957	R135 809 975	66.7%
Micro loans	R148 475 354	R58 208 088	R90 267 266	39.2%
Sub Total	**R1 243 623 068**	**R815 560 766**	**R428 062 302**	**65.6%**
Land Reform loans	R294 589 649	R4 015 544	R290 574 105	1.4%
Total	**R1 538 212 716**	**R819 576 310**	**R718 636 407**	**53.3%**

Expected Credit Losses and Coverage ratio for the Period Ending 31 March 2019

Asset Class	Total Outstanding Balance	ECL	Net Carrying Amount	Coverage Ratio
Co-Operative loans	R72 435 420	R70 689 774	R1 745 646	97.6%
Direct lending loans	R726 233 199	R543 929 968	R182 303 231	74.9%
Wholesale loans	R377 442 442	R206 397 300	R171 045 142	54.7%
Micro loans	R72 700 116	R53 882 356	R18 817 760	74.1%
Sub Total	**R1 248 811 177**	**R874 899 398**	**R373 911 779**	**70.1%**
Land Reform loans	R284 737 154	R3 417 288	R281 319 867	1.2%
Total*	**R1 533 548 332**	**R878 316 686**	**R655 231 646**	**57.3%**

* *Note the figures are inclusive of suspended interest.*

The above table demonstrates **sefa**'s total Expected Credit Losses by business unit, the total Net Carrying Amount, as well as the coverage ratio per Business unit.

Wholesale lending realised a coverage ratio of 66.67% (2019: 54.68%). The increase is due to defaults on significant exposures within the book. The direct lending loan book realised a coverage ratio of 68.79% (2019: 74.90%). The decrease in the coverage ratio was largely assisted by bad debt write-offs of R284 million which occurred during the financial year.

Stage approach of the Total Loan outstanding balances on debt instruments as at 31 March 2020

Asset Class	Total Outstanding Balance			
	Total	Stage 1	Stage 2	Stage 3
Co-Operative loans	R42 375 895	R195	R0	R42 375 700
Direct lending loans	R645 332 887	R151 372 791	R79 454 084	R414 506 012
Wholesale loans	R407 438 932	R80 380 672	R79 681 439	R247 376 820
Micro loans	R148 475 354	R94 807 035	R75 751	R53 592 568
Sub Total	**R1 243 623 068**	**R326 560 693**	**R159 211 274**	**R757 851 100**
Land Reform loans	R294 589 649	R234 615 133	R0	R59 974 516
Total	**R1 538 212 716**	**R561 175 826**	**R159 211 274**	**R817 825 616**

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 Expected Credit losses (ECL) on debt instruments accounted for at amortised cost as at 31 March 2020

Asset Class	ECL			
	Total	Stage 1	Stage 2	Stage 3
Co-Operative loans	R41 776 918	R70	R0	R41 776 848
Direct lending loans	R443 946 802	R29 013 478	R43 851 079	R371 082 246
Wholesale loans	R271 628 957	R5 724 187	R30 889 867	R235 014 904
Micro loans	R58 208 088	R4 836 157	R47 053	R53 324 878
Sub Total	**R815 560 766**	**R39 573 892**	**R74 787 999**	**R701 198 876**
Land Reform loans	R4 015 544	R1 016 818	R0	R2 998 726
Total	**R819 576 310**	**R40 590 710**	**R74 787 999**	**R704 197 601**

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 2020

Asset Class	Net Carrying Amount			
	Total	Stage 1	Stage 2	Stage 3
Co-Operative loans	R598 977	R125	R0	R598 852
Direct lending loans	R201 386 085	R122 359 314	R35 603 005	R43 423 766
Wholesale loans	R135 809 975	R74 656 486	R48 791 572	R12 361 917
Micro loans	R90 267 266	R89 970 877	R28 698	R267 690
Sub Total	**R428 062 302**	**R286 986 802**	**R84 423 275**	**R56 652 225**
Land Reform loans	R290 574 105	R233 598 315	R0	R56 975 790
Total	**R718 636 407**	**R520 585 116**	**R84 423 275**	**R113 628 015**

The table above demonstrates the net carrying amount of **sefa**'s loan book according to the 3 stages of IFRS 9. Funds are not included in the table above.

Stage approach according to Coverage Ratio as at 31 March 2020

Asset Class	Coverage Ratio			
	Total	Stage 1	Stage 2	Stage 3
Co-Operative loans	98.6%	36.1%	-	98.6%
Direct lending loans	68.8%	19.2%	55.2%	89.5%
Wholesale loans	66.7%	7.1%	38.8%	95.0%
Micro loans	39.2%	5.1%	62.1%	99.5%
Sub Total	**65.6%**	**12.1%**	**47.0%**	**92.5%**
Land Reform loans	1.4%	0.4%	-	5.0%
Total	**53.3%**	**7.2%**	**47.0%**	**86.1%**

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

The table below indicates the different industry exposures of the direct lending loan book as at 31 March 2020.

Industry Exposures of the Direct Lending Loan Book

Industry	Total Outstanding Balance	ECL	Coverage Ratio
Agriculture, hunting, forestry and fishing	R42 890 170	R28 658 175	66.8%
Community, social and personal services	R82 721 747	R49 794 715	60.2%
Construction	R111 730 942	R95 809 058	85.7%
Electricity, gas and water supply	R3 284 765	R1 522 542	46.4%
Financial intermediation, insurance, real estate and business services	R39 733 970	R31 321 902	78.8%
Manufacturing	R93 745 534	R68 280 765	72.8%
Mining and quarrying	R7 154 902	R2 560 165	35.8%
Transport, storage and communication	R96 343 652	R61 599 337	63.9%
Wholesale and retail trade	R167 727 207	R104 400 144	62.2%
Total	**R645 332 887**	**R443 946 802**	**68.8%**

The book is mainly concentrated in four industries. wholesale & retail trade (26%); construction (17%); transport, storage and communication (15%) as well as manufacturing (15%). Wholesale and retail trade encompasses a wide variety of sub-sectors which explains the large distribution of the book within this industry sector. The economic outlook prior to COVID-19 was already dire for the construction and manufacturing industry. COVID-19 is expected to have a negative impact in most industries and these four industries are expected to contribute the most to impairments of the **sefa** Direct Lending book.

Sectorial Number (#) Weighted and Balance (ZAR) weighted PDs as at 31 March 2020

Industry	# Weighted	ZAR Weighted PD
Manufacturing	92%	88%
Financial intermediation, insurance, real estate and business services	90%	91%
Wholesale and retail trade	85%	74%
Transport, storage and communication	78%	86%
Agriculture, hunting, forestry and fishing	83%	86%
Community, social and personal services	72%	76%
Construction	93%	91%
Electricity, gas and water supply	83%	77%
Mining and quarrying	89%	45%
Grand Total	**84%**	**83%**

The figures in the tables above include suspended interest.

Enterprise Risk Management and Compliance

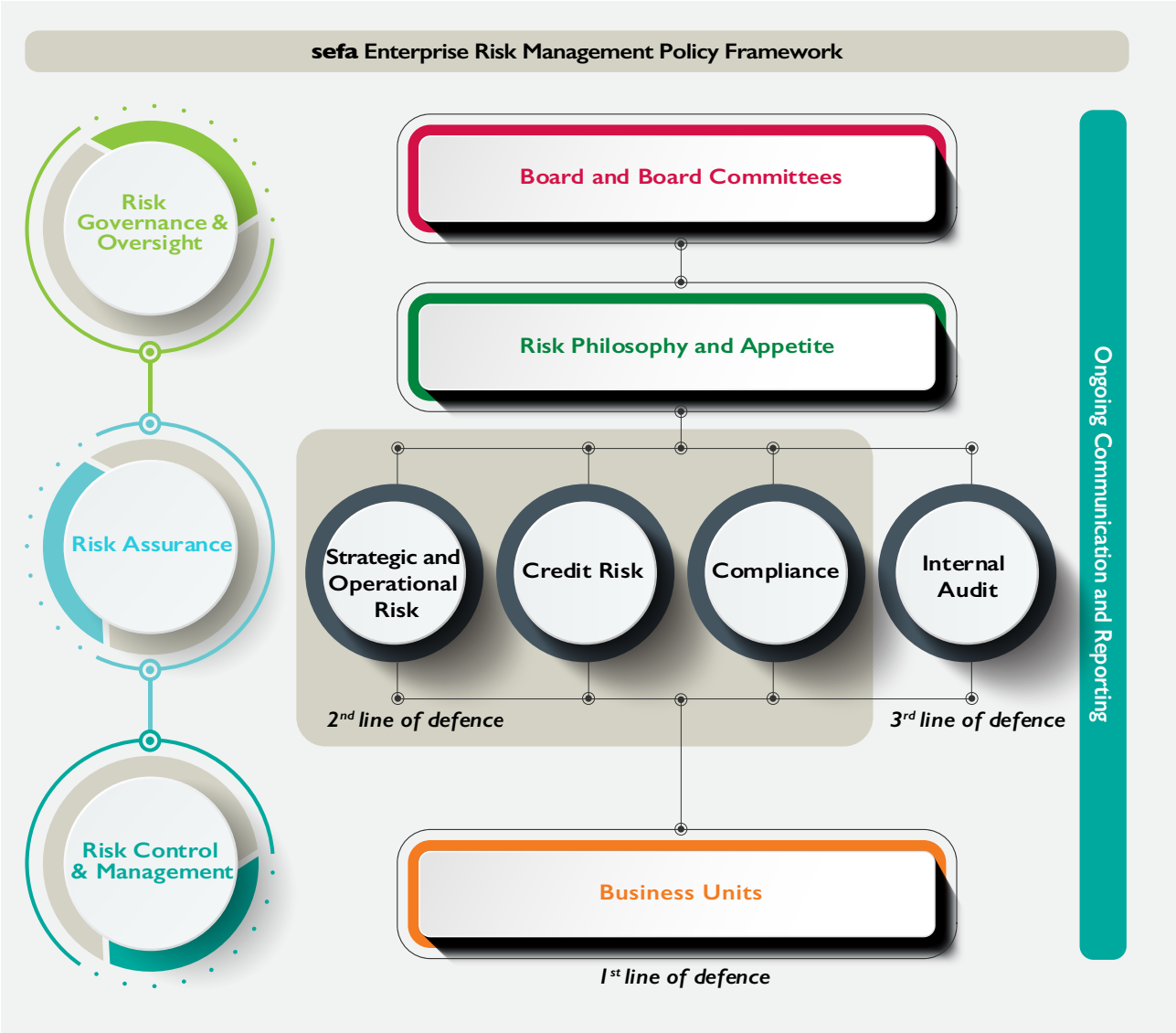
Risk management plays a crucial role in ensuring that **sefa** delivers on its mandate and remains financially sustainable in its interventions. The roles and responsibilities for risk management within **sefa** are clearly defined in its Enterprise Risk Management (ERM) policy framework. The ERM approach to managing risk exposures has been developed, and this involves the embedding of frameworks, policies, methodologies, processes and systems for managing all risk exposures inherent in **sefa**'s strategies, operations and business processes.

The **sefa** Board has overall responsibility for the effective management of risks and has mandated the Risk Committee (RC) to assist in executing its responsibilities concerned with risk and compliance management. The adoption and implementation of the Enterprise Risk Management Policy Framework led to the enhancement of risk management at both strategic and operational risk levels within the organisation.

The Risk and Compliance Management Department provides risk policies, strategies and best practice standards to mitigate the main risk exposures inherent in **sefa's** mandate. The department undertakes risk assessment and monitoring, while other departments within **sefa** are responsible for controlling risks they face in their operating environment.

sefa adopted an integrated risk management framework based on the King IV Report on Corporate Governance (King VI) and international best practice such as the Committee of Sponsoring Organisations of the Treadway Commission (COSO), to ensure the achievement of its stated objectives. This strategy incorporates an integrated model for risk management roles and responsibilities which were adapted from the internationally recognised three lines of defence model, as depicted in the Figure below, the Enterprise Risk Management Policy Framework.

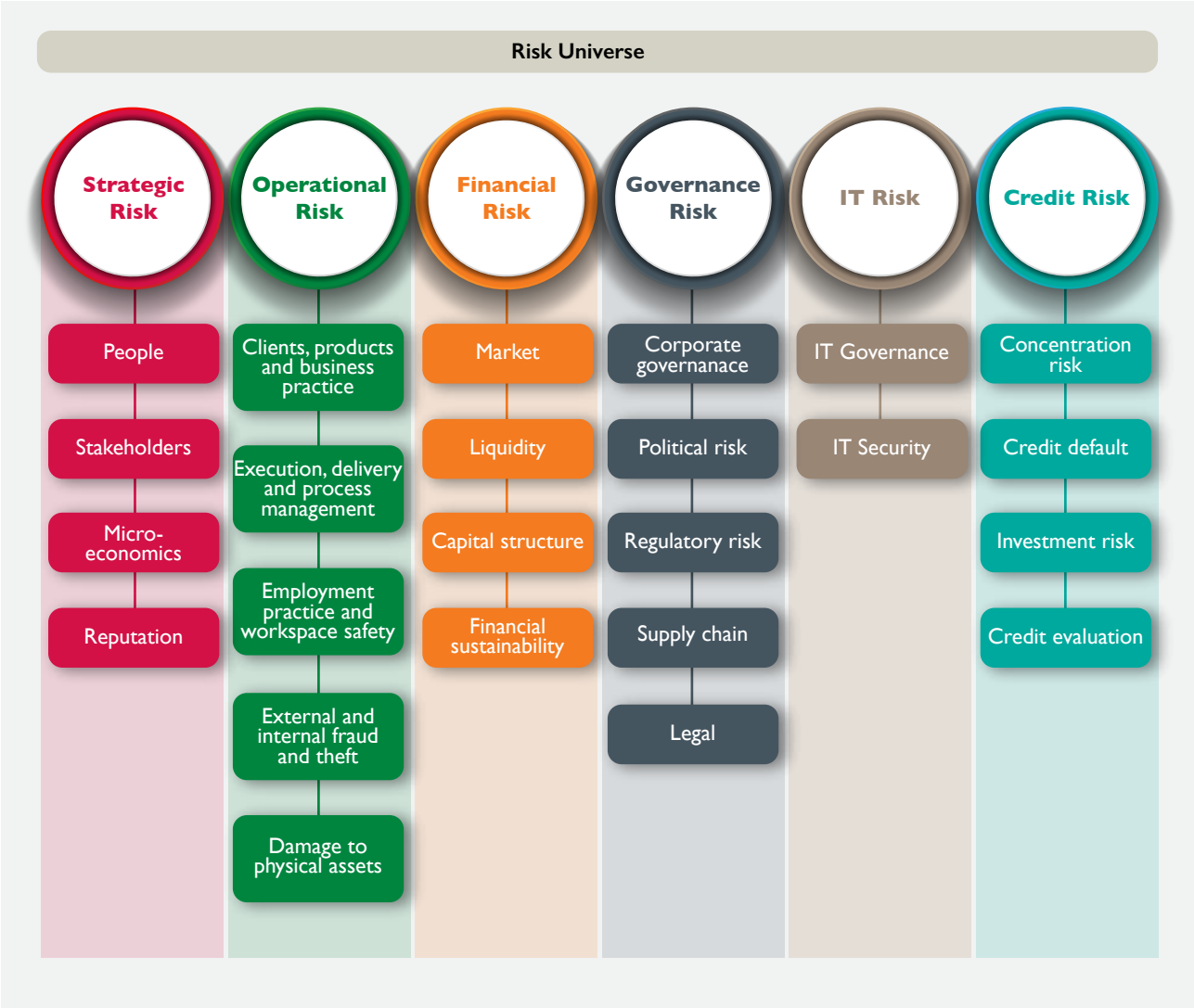
During the past financial year, **sefa** managed its strategic risks by ensuring that these risks are identified annually and monitored continuously, as guided by the strategic objectives and direction of the organisation. **sefa**'s focus was on enhancing the risk culture, monitoring and reporting. Quarterly reports are submitted to the RC, ensuring that management is able to execute its risk management responsibility in terms of the Public Finance Management Act (PFMA), COSO and King IV.



The key components of **sefa**'s ERM policy framework include risk governance and oversight, assurance, control and management. These risks are managed on both strategic and operational levels.

In line with our approved ERM policy framework, risk assessments are conducted annually with the publication of the risk registers. Controls are in place for the identified risks tracked on the risk register. Where additional controls are required, management has developed detailed risk mitigation plans to asses and address the exposure.

sefa's process for identifying top risks and emerging threats reflects the organisation's continuous threats and opportunities. These are assessed from both a local and global point of view, which may have a negative or positive bearing on **sefa**'s operating environment. Early identification of these risks, position us to leverage related opportunities and proactively mitigate these threats.



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

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

Compliance

sefa operates in a highly regulated environment and we consider all applicable legislative and regulatory requirements when determining our strategic objectives. Regulatory compliance ensures that **sefa** meets legal and regulatory requirements across the industry. Failure to comply could lead to potential litigation for not complying with the applicable regulatory requirements.

Additionally, **sefa**'s compliance function acts as an independent operational unit to identify, advise, monitor and report on regulatory compliance risk within the organisation.

sefa has adopted a compliance risk management framework that is aligned with the Generally Accepted Compliance Practice Framework (GACP) of the Compliance Institute of South Africa (CISA), which supports the active management of compliance risk. CISA uses a four-phase approach guiding us to identify, assess, manage and monitor compliance risk.

Compliance focus for 2019/20

The objective of Compliance Management within **sefa** is to establish and maintain regulatory compliance processes and to embed a regulatory compliance culture within **sefa**. The Unit has directed the concept of proactive compliance. This is entailed in the application of an anticipatory and responsive approach towards regulations and compliance standards. **sefa** has taken steps to implement best practice while ensuring that it addresses any potential regulatory challenges proactively.

Some of the key controls that have been put in place to mitigate this risk include the development of a Compliance Policy, Framework and Compliance Regulatory Management Plans (CRMPs). During the past financial year our focus was on improved compliance methodologies, policies and the development of CRMPs, thereby embedding a compliance culture within **sefa**.

The Board of Directors is ultimately responsible for directing and monitoring the total process of compliance risk management, which includes the implementation of an effective compliance management framework to guide compliance with regulatory requirements and internal policies within **sefa**.

Top 10 legislation as extracted from the regulatory universe:

1. Financial Intelligence Amendment Act 38 of 2001; Amendment Act 01 of 2017
2. National Credit Act 34 of 2005
3. Financial Sector Regulation Act 09 of 2017
4. Public Finance Management Act 01 of 1999
5. Preferential Procurement Policy Framework Act 05 of 2000
6. Protection of Personal Information Act 04 of 2013
7. Occupational Health & Safety Act 85 of 1993
8. Companies Act 71 of 2008
9. Compensation for Occupational Injuries and Disease Act 130 of 1993
10. Consumer Protection Act 68 of 2008

Future Focus

In 2020/21, **sefa** will pursue the following risk management objectives:

- Increased integration of risk management through further embedding the risk culture into the organisation's day-to-day activities;
- Improvement in implementing the combined assurance model to ensure efficient, continuous monitoring and reporting by direct and independent assurance function;
- Strengthen compliance monitoring; and
- Utilise communication platforms for effective compliance to cultivate a culture of proactive compliance.

Wholesale Lending – SMMEs and Co-operatives

The goal of WL is to increase access to finance by SMMEs and Co-operatives through leveraging private and public-sector finance and technical know-how. This enhances the establishment and growth of small businesses which in turn contribute to economic growth, job creation and economic transformation. The WL division focuses on specific products that complement direct lending offerings, extend the reach of **sefa** and deliver support to SMMEs and Co-operatives in a cost-effective manner. Its products and services include business loans, equity, credit guarantees, fund management services and structured finance solutions. Structured finance solutions crowd in public and private sector resources for small business and co-operatives, as well as financial and non-financial support, where such institutions have no intention of being a financial services provider.

The WL distribution channels are diverse and serve the needs of end-users at different localities. They are as follows:

- Co-operatives Financial Institutions (2 CFIs)
- Secondary Cooperatives (6)
- Microfinance Institutions (21 MFIs)
- Retail Finance Institutions (27 RFIs)
- Strategic Partnerships (19 Specialised Funds and Joint Ventures, 6 LREF partners and 12 KCG partners)

Highlights (Wholesale Lending)

- **R1.07 billion** was disbursed to **74 331** small businesses;
- **R234 million** was disbursed as loans that were less than **R500 000**;
- **R692 million** was disbursed to black-owned businesses;
- **R361 million** was disbursed to women-owned businesses; and
- **R141 million** was disbursed to youth-owned businesses.

The division delivers its products through the following functional units/programmes:

a) Informal sector and Micro-Enterprise Finance;
b) SME Wholesale and Co-operatives; and
c) Credit Indemnity Scheme. The Credit Indemnity Scheme is administered by the Khula Credit Guarantee SOC Limited a wholly-owned subsidiary of **sefa**.

In addition, these units assume responsibility for managing Funds under **sefa**. The Land Reform Empowerment Facility (LREF) is fully funded by the Department of Rural Development and Land Reform and is registered as a **sefa** wholly owned not-for-profit company. **sefa** also has the fund management responsibility for the Godisa Supplier Development Fund which finances the Transnet ESD programme. In addition, **sefa** is tasked to manage the €30 million wholesale facility of the EU Employment Promotion through the SMME Support Programme.

a) SMME Wholesale Lending

The SMME Wholesale Lending Division of **sefa** provides funding to intermediaries and specialised funds that share **sefa**'s objective of increasing access to finance to SMMEs. **sefa** also enters into 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. The SMME Wholesale programme is a significant contributor to **sefa**'s loan book performance, with R570.4 million approved in 2020 and R588.5 million disbursed to SMMEs between April 2019 and March 2020.

A total of 474 SMMEs have been financed, facilitating 7 849 jobs from April 2019 and March 2020. Approvals from April 2012 until March 2020 stands at R2.97 billion, where a total of 7 072 SMMEs have been financed and 45 993 jobs have been facilitated.

In direct response to the limited capitalisation, SME Wholesale Lending has embarked on several fundraising initiatives to expand its Fund Management Services. This strategy is to enable **sefa** to deepen its development by leveraging third-party funds to extend reach to underserved SMMEs. To this extent, the SME Wholesale Lending programme has achieved the following:

Structured Finance Solutions

sefa is positioned to expand the Structured Finance Solutions (SFS) product and Fund Management services to enhance the sustainability of SMMEs; crowd-in public and private sectors financial, technical and other resources; optimise the use of existing **sefa** infrastructure and scale up developmental impact. This enables access to finance which would otherwise not be available to very high-risk small businesses. However, the uptake of SFSs has been slower than expected owing to corporate actions, sluggish economic growth and the limited capacity of Wholesale Lending to assess individual transactions.

Fund Management Services

sefa has developed an in-house fund management capacity to deliver third-party funds. The management of third-party funds is intended to leverage existing financial and non-financial resources in order to improve access to funding for SMMEs.

- **sefa** took over and is still responsible for the Fund Management Services of the Godisa Supplier Development Fund aimed at Transnet suppliers. It has achieved significant progress in this portfolio and in the year under review, more than R31 million was approved.
- The European Union Commission has allocated budget support of €30 million for the Employment Promotion through SMME support Programme (EPSSP), to **sefa**. The €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 years to come. This funding provides an opportunity for **sefa** to increase access to finance, crowd-in private sector investment and scale up support to SMMEs.

Small Business and Innovation Fund

sefa is the appointed implementing agency for an R2.7 billion SBIF 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.

New partnerships include the following:

One Bio Africa

In December 2019, **sefa** approved a R10 million grant to OneBio (Pty) Ltd in order to provide non-financial support (through incubation) to start-up SMMEs in the biotech space. Targeted sectors are energy, agriculture, healthcare and biodata. The support covers highly specialised BDS including mentorship, coaching, specialist consulting, IP management, legal services and resources to provide market access.

OneBio is a private company located in Cape Town, Western Cape Province. They have an existing partnership with Seda among others. Their operational footprint is in the Western Cape and cuts across the urban and peri-urban geographies including townships.

This grant will support and benefit nine to 12 SMMEs over a period of three years. 70% of start-ups will be black-owned SMEs, 45%women-owned whilst 30% will be youth-owned. It is expected that around 18 jobs will be created in the short term and more jobs will be created once businesses become operational.

Enable Capital

sefa approved a R30 million business loan under SBIF to Enable Capital in order to provide invoice-discounting to SMMEs who are suppliers or sub-contractors to large corporate entities in the telecommunications infrastructure sector. Enable Capital is a black-owned entity established in 2018, since inception the company has serviced 56 SMMEs across South Africa and provided funding worth more than R75 million.

The loans are provided to assist black-owned entities with working capital requirements for invoices already verified by the relevant corporate entity. The funding will benefit approximately 483 SMMEs for a duration of five years, of which at least 70% of them are black-owned and facilitate the creation of 811 jobs.

TUHF Limited

TUHF Limited focuses on financing property for previously disadvantaged SMMEs who are in the business of purchase, construction, conversion and/or improvement of property with the objective of supplying affordable rental accommodation for low to moderate income households within inner-cities throughout South Africa.

sefa has funded TUHF with a 10-year facility amounting to R60 million, in order to on-lend to the previously disadvantaged aspirant property owners. The funding is expected to create at least 12 SMMEs and 68 jobs or more.

Propella Business Incubator

Propella is based in Port Elizabeth in the Eastern Cape. Propella's vision is to be the "Go To", High-Tech Incubator and Accelerator for innovators and ventures delivering Smart City Solutions and Industry 4.0 Technologies. Its aim is to provide a significant entrepreneurial experience within Nelson Mandela Bay where innovation and technology convergence is facilitated

to create sustainable and profitable ventures in the advanced manufacturing, renewable energy, energy efficiency, Internet of Things and ICT (Information, Communication and Technology) sectors by means of exceptional management, leadership & infrastructure. Exciting new IT and advanced manufacturing businesses share the same building to encourage cooperation between innovators in both sectors.

Propella helps commercialise the research and development being conducted at the NMU, as well as other technology entrepreneurs who either approach Propella for support or who are identified by Propella.

Developmental impact

A total sum of funding monies, valued at R588.5 million was disbursed to 474 SMMEs 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 SMMEs.

Highlights of the year include:

- **R588.5 million** disbursed to SMMEs
- **474 SMMEs** received funding and **7 849** Jobs were facilitated.

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

	No. of SMMEs	Amount disbursed in 2019/20 (Rands)
Total	474	R588.5 million
Black	381	R334.8 million
Female	155	R96.9 million
Youth	52	R87.9 million
Priority provinces	310	R117.3 million
Productive sectors	299	R127.8 million

The locality of intermediaries (being mainly in Johannesburg and Cape Town), combined with limited interventions on specific developmental impact targets, has influenced the underachievement of support to SMMEs in townships and priority provinces. To this end, **sefa** will seek strategic interventions in partnership with provincial DFI's and other strategic partners, to encourage support to SMMEs in priority provinces. In addition, **sefa** will consider concessionary lending products to encourage participation by township-based SMMEs and those owned by people with disabilities.

Key challenges and strategic outlook

The SME Wholesale Lending and Co-operatives channels have faced numerous challenges with the provision of finance through the intermediaries and have embarked on several initiatives to overcome these issues. This is outlined in the table below:

Challenge	Measure to address the challenges
Over-gearing of intermediaries that affect sustainability	• A financial instrument policy has been developed to improve the sustainability of intermediaries through the use of equity/quasi-equity instruments and to improve the capital structures of intermediaries • Providing capacity building grants to intermediaries • Stipulate an ownership contribution as an equity buffer
The inability of intermediaries to access additional funding, leading to dependence on **sefa** as a funder	• Targets to be built-in for intermediaries to incrementally crowd-in additional funding • The Equity/Quasi-equity investments into funds will allow for intermediaries to access additional third-party funding
A concentration of intermediaries in Gauteng and Western Cape has limited the capacity to have a national footprint and to reach priority provinces	• Expanding Structured Finance Solutions (in partnership with direct lending) in order to grow provincial reach (with technical partner support) • Build value-adding partnerships to expand reach to underserved provinces (e.g. with provincial DFIs)
• There is a high-cost structure to reaching individual SMMEs • The cost of non-financial support/ business development support to SMMEs is not subsidised	• To focus on intermediaries that have found innovative ways to crowd-in private sector support/funding to reduce the overall cost of funding and offer business development support to SMMEs • Create targeted interventions to support SMMEs directly through structured finance solutions in partnership with technical partners and corporates

Key strategic initiatives for the FY 2019/20 included the following:

- Improve the sustainability of end-users through the use of equity/quasi-equity to provide funding to niche intermediaries with mandates closely aligned to that of **sefa** and its donor funding partners;
- Build value-adding partnerships to expand outreach to under-served Provinces;
- Increase revenues through leveraging government, DFI, Donor, and ESD Resources;
- Managing costs by maintaining a lean Wholesale Lending structure; and
- Preserve capital in Wholesale Lending business.

Co-operatives

sefa partnered with several stakeholders in the private sector involved in such economic sectors, to provide technical support to the Co-operatives. As a result, there was substantial growth in the Co-operatives portfolio over a period of three years from R1 million at the end of the 2014/15 financial year to an unchanged R66.7 million at the end of the current financial year (unchanged from the previous financial year).

The Co-operatives portfolio continues to have significant challenges relating to the implementation of approved projects, resulting in impairment of more than 95%.

As a result of the high failure rate and associated lessons learnt, **sefa** has refrained from on-boarding new Co-operatives as there is limited capacity to implement new projects. **sefa** is in the process of reviewing the offering to Co-operatives in reducing the overall risk associated with this sector. Similarly, DSBD is in the process of evaluating the implementation of the Integrated Strategy on the Development and Promotion of Co-operatives.

Historically, **sefa** has supported Co-operatives that are mainly in the start-up stage with reliance on non-financial support. The use of third-party technical partners to support Co-operatives has consistently proven unsuccessful, due to non- performance by the partners. The risk profile associated with Co-operatives (particularly those in the pre-formation and start-up stages) is therefore excessively high as evidenced in the level of impairments in this portfolio, with minimal recourse. The debt funding is not considered the most suitable instrument for the support of Co-operatives as it results in the Co-operative Enterprises being over-indebted along with an increased need to reschedule loans.

sefa as a loan financier, in the absence of other support, is therefore not well-positioned to meaningfully serve this sector, nor drive the developmental impact thereof. This is due to the unavailability of appropriate funding instruments (mainly grants) and the limited capacity and resources to provide non-financial support to them.

Developmental impact

sefa did not disburse to Co-operatives for the FY 2019/20.

Key challenges and strategic outlook

Challenge	Measure to address the challenges
The capacity of technical partners to implement agreed loan programme activities.	• **sefa** will review the use of technical partners in providing funding to Co-operatives, with a view to reducing the reliance placed on technical partners to ensure the successful implementation of projects. • **sefa** will support Co-operatives that are already part of an ongoing incubation programme. • Due to the limited capacity of **sefa** to provide ongoing non-financial support to Co-operatives, the entity will rely on Seda and other players for deal origination and will instead focus on Co-operatives that have a track record of at least two years of trading history. • Multi-disciplinary Co-operatives' stakeholder forums for the development and support of Enterprising Co-operatives has been established. • **sefa** will explore risk-sharing mechanisms in funding Co-operatives.
The challenge in lending to social enterprises which relate to social mobilisation, group dynamics, management capacity of co-operative members (particularly in the formative years).	
Over-gearing of the enterprise where **sefa** provides 100% plus more of required funding.	

In view of the challenges that exist in the Co-operatives portfolio, **sefa** will review its funding model to Co-operatives in the new financial year.

b) Land Reform Empowerment Facility (LREF)

In the year 2000, the Department of Rural Development and Land Reform (DRDLR) appointed **sefa** (then Khula) to manage an R63 million Land Reform Empowerment Facility (LREF). The LREF was established as an intervention aimed to facilitate finance for farm worker communities, as well as emerging black farmers to enable them to acquire farm land, 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 of the fund until FY2019/20, **sefa** (through LREF) has approved facilities to the value of R764.9 million to financial intermediaries and disbursed R556 million to 818 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, were funded; 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 R556 million; financed 818 Agriculture and Land Reform projects which altogether created at least 7 843 jobs, of which at least 40% thereof, were women-owned businesses.

In regard to 2019/2020 developmental impact indicators, the Fund facilitated the following:

- R88.0 million was disbursed to 268 emerging farmer projects;
- R73.1 million was disbursed to majority black-owned businesses;
- R6.7 million was disbursed to a majority of women-owned businesses;
- 543 jobs were facilitated (created and sustained); and
- R41.6 million was disbursed to businesses in priority provinces.

Financial Performance

Profitability Ratios	31 March 2020 (R'000)	30 March 2019 (R'000)	31 March 2018 (R'000)
Interest income – loans	R16 166	R15 867	R15 933
Interest income – cash	R12 524	R12 269	R12 007
Operating expenses	R10 193	R 9 665	R 9 154
Return on assets	3.8%	2.4%	4.2%
Return on equity	3.8%	2.4%	4.3%

Profitability analysis

The Land Reform Empowerment Facility (LREF) interest Income on loans marginally increased by 1.86% to R16.1 million from R15.8 million (2019), whereas the interest income generated from cash and cash equivalents increased by 2.4% to R12.5 million from R12.2 million (2019). This resulted in overall growth in revenue generated from interest income on interest-bearing assets of 1.86%. This was largely due to 3.1% growth in loans and advances to customers to the value of R290.5 million from R281.3 million (2019), which were also largely compensated by positive endowment effect from higher interest rates. The operating expenses had a marginal increase of 4.9% in 2020 to R10.1 million from R9.6 million (2019). This was largely **sefa**'s management fee which was charged to LREF.

Liquidity and Gearing	31 March 2020 (R'000)	31 March 2019 (R'000)	Increase / (decrease) %
Loans and advances	R290 574	R281 320	3.1%
NPLs (% of advances)	-	-	-
Cash and cash equivalents	R186 750	R178 639	4.3%
Debt equity ratio	1.8%	2.1%	-

Liquidity Analysis

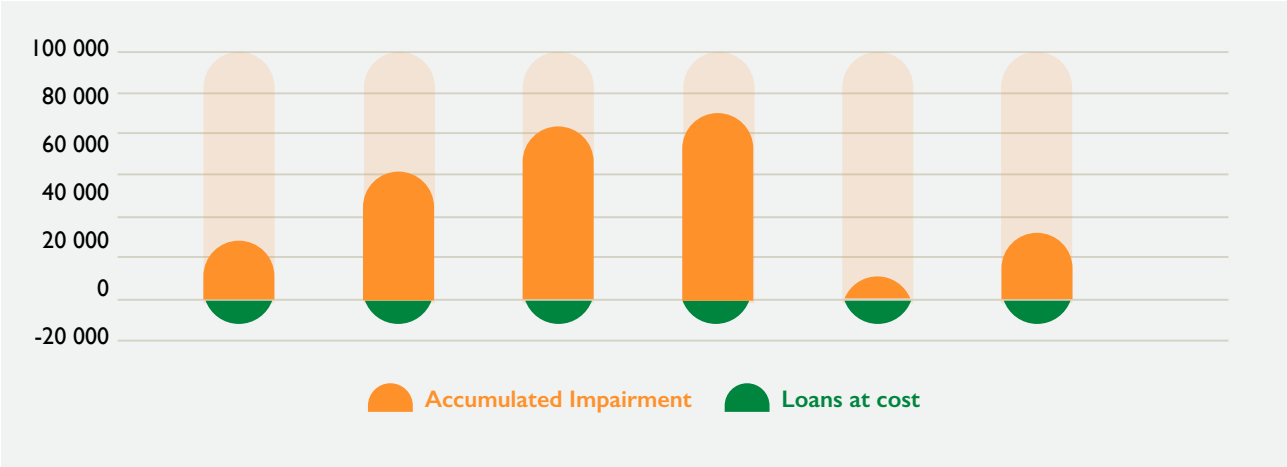
The loans and advances grew by 3.1% to R290.5 million from R281.3 million (2019) mostly due to LREF funded loans. There are no non-performing loans due to the fact that LREF lending is done via intermediaries, mostly commercial banks with strict lending criteria. Cash and cash equivalents grew by 4.3% to R186.7 million from R178.6 million (2019) largely due to interest earned on money markets accounts as well as the capital and interest repayments.

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 at 31 March 2020 is shown below. The current portfolio consists of 818 projects collectively adding up to a value of R294.6 million. Funds available for new investments equals R123.0 million, after taking into account undrawn commitments.

	R'000
Outstanding balance from projects	R294 589
LREF money market balance	R186 750
Undrawn commitments	R63 750
Available for new investments	R123 000



LREF Portfolio analysis by Loans and Advances

The portfolio also indicates that the greater share (62%) of the wholesale facility is still held by non-bank financial intermediaries such as Akwandze, CHEFF, Ithala and Lona. This diversified intermediary approach will rapidly broaden the LREF lending base and in that way also spread the credit default risk over a broader spectrum of participating financial intermediaries.

In order to increase the LREF footprint beyond its current outreach, strategic partnerships will be sought with key agricultural organisations such as (AFGRI, Senwes, OVK, GWK, NWK etc) with a view to proposing 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.

Wholesale Lending – Microfinance

Purpose of Programme: To increase and innovatively expand access and reduce the cost of end-user financing to informal and micro-enterprises, particularly those in rural and peri-urban areas.

Objectives

- Provide affordable loans to microenterprises;
- Significantly extend **sefa**'s microenterprise distribution channels to localities of end users;
- Increase the number of microenterprises supported directly and indirectly by **sefa**; and
- Leverage existing private and public sector resources for development and financing of sustainable enterprises.

sefa generally supports informal and microenterprise financing through specialised Micro Finance Intermediaries (MFIs). The majority of these are registered as Not-For-Profit Organisations (NPOs). In the last eight years, **sefa** has maintained a relationship with two large MFIs and several smaller ones. While the two larger MFIs have survived and continued to grow, almost all the smaller ones have buckled under the pressure of constrained resources.

As a result, financing informal and microenterprises is a big challenge. This is largely due to the fact that informal and microenterprise owners do not necessarily operate on commercial principles. Rarely would one find such businesses registered with the CIPC, SARS or UIF. In most cases, these businesses operate without any form of documentation and neither have dedicated bank accounts nor financial records. Funding decisions to informal and microenterprises are mainly based on past relationships with financing intermediaries or character assessment outcomes.

The FY 2019/20 was not immune to the challenges that were previously faced over the past eight years of **sefa**'s involvement with informal and microenterprises. The biggest challenge being the cost of delivering micro loans to the market.

Despite the persistent challenges noted above, **sefa** continued to discharge its mandate to increase access to credit to previously excluded communities. The recipients included informal and microenterprises. The rural reach through **sefa**'s larger MFI partners, the Small Enterprise Foundation (SEF) and Phakamani Foundation funding levels dropped slightly over the 2018/19 financial year. The total funds circulated among informal and microenterprises dropped from R310 million to slightly over the R226 million mark. However, the number of new clients remained at the same figure during the 2018/19 year, this being 68 000. This was largely due to SEF drawing down the approved capital at lower rates than was expected. Phakamani Foundation on the other hand, grew significantly and distributing capital among the informal and microenterprises segment, respectively.

North West Dellarey - Product owner at work

Nqubeko Investments, Middleburg

Service Delivery Methodology

As discussed, **sefa** is designed to serve informal and microenterprises through a network of Microfinance Institutions or MFIs. MFIs have infrastructure that can lend amounts from as little as R500 up to a maximum of R50 000 to street vendors, weavers, dressmakers, small-scale manufacturers (for example, metal fabricators, wood workers, potters, amongst others.) in rural areas and townships, spaza shops, tiny construction projects and others.

Apart from IT systems tailored for their operations, they utilise the services of Loan Officers trained to rapidly and accurately assess the needs of the multiple credit applicants, disburse funds, monitor and enforce repayments. In the bigger and stronger MFIs, the Loan Officers build solid relationships with their clients who are usually organised in groups of between five and 15 entrepreneurs bound together by either business, cultural or social obligations.

The utilisation of MFIs provides a viable solution to support micro businesses through their group methodologies. They also hire Loan Officers in the localities where they serve to minimise transportation costs. The Loan Officers are appropriately trained to work with businesses that do not have financial records.

sefa's delivery methodology, therefore, involves MFIs accessing wholesale funds, and then retailing them to end users. The MFIs on-lend to the end users at rates in compliance with the National Credit Regulator (NCR). The NCR closely monitors the operations of the MFIs and ensures that they conform to the National Credit Act (NCA). The monitoring is done through periodic statutory returns and reports that the MFIs submit.

In the FY 2019/20, **sefa** supported informal and microenterprises in eight of the nine provinces through a network of three MFIs. These included a strategic partnership with CCBSA, two public partnerships with the Municipalities of eThekwini and Mangaung, and a fintech company in Tshwane.

Performance

The following table shows the movement in the key indicators from 2018/19 to 2019/20:

Indicator	2018/19	2019/20	Percentage Growth
Number of SMMEs supported	68 162	71 520	5%
Amount disbursed to end users (Rands)	R310 200 000	R232 623 860	-7.5%
Number disbursed to women	68 032	71 497	5%
Amount disbursed to women (Rands)	R240 300 000	R230 213 931	-4%
Jobs created and sustained	76 573	71 512	-6.6%

As can be seen from the Performance Table, the performance over the FY 2019/20 was not significantly different from the previous year.

- While there was a 5% growth in the number of SMMEs supported, the rand value dropped by 7.5%.
- Similarly, while there was a 5% growth in the number of supported women, the rand value disbursed fell by 4%.
- The number of jobs facilitated fell by 6.6%. This was due to the low level of disbursements that did not support job creation beyond the financed entrepreneur themselves. Higher levels of disbursement in the previous year enabled some of the SMMEs to hire additional people, thus increasing the number of jobs beyond the number of financed SMMEs.

Other performance matters worthy of noting over the FY 2019/20:

- A new partnership with Cede Capital that provides support to microenterprises in Gauteng was initiated and approved; and
- A healthy pipeline of FinTech companies that support microenterprises countrywide was developed. This pipeline will enable **sefa** to accelerate lending through FinTech over 2020/21. FinTech are key to **sefa**'s ability to respond rapidly to the needs of larger microenterprises affected by COVID-19 and the subsequent lockdowns.

Basil Technologies, Mpumalanga

Further, several smaller MFIs that received funding from **sefa** either shut down their businesses or become insolvent and failed to service their facilities. This continued to underline the costly nature of supporting informal and microenterprises. The effect of such closures and failures is that fewer MFIs remain active to support this sector. **sefa** only records new loans that are financed by its facilities within its partners. Similarly, although SEF grew its portfolio significantly in FY 2019/20, its underutilisation of the **sefa** funds meant that very few of its new clients were funded. In 2020/21, **sefa** will continue its current discussions with its partners to ensure that more clients are reached with **sefa** facilities. Other non-financial partnerships will be sought to build an eco-system that will promote the financing of more informal and microenterprises that require support.

Challenges

- Approvals for the year were lower than the targeted performance, due to the closure of the Fresh Produce Markets projects, the suspending of the **sefa**/CCBSA partnership activities, and the closure of some smaller MFIs due to a general harsh economic environment and costly informal and microenterprise operations;
- SEF underutilised the **sefa** facility because of the obligations it had to drawdown on facilities approved by foreign funders. It is critical that SEF maintains its contractual obligations with the foreign funders as **sefa** alone cannot provide the full requirements of the MFI to expand its business.

Strategic Outlook in the next Financial Year

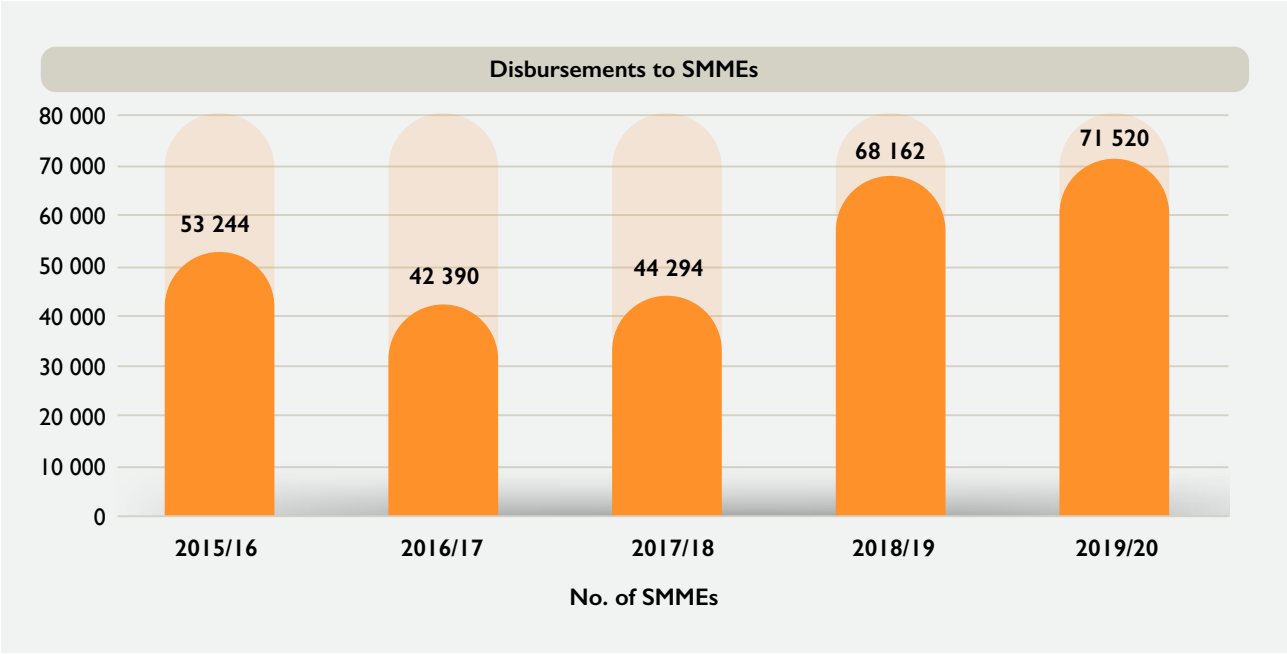
In 2020/21, **sefa** will focus its energies on the implementation of three strategic initiatives, which are:

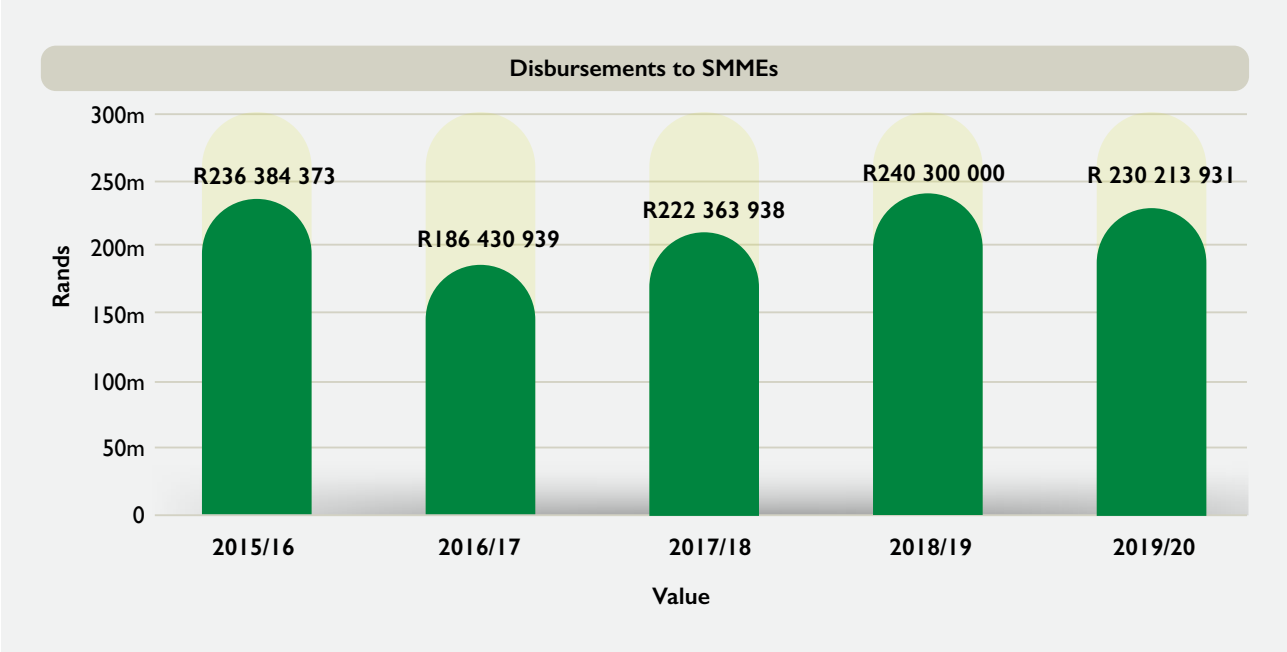
- **Strategic Initiative 1** - In addition to the informal and microenterprise traditional lending channel of MFIs being expanded to include innovative and alternative ways of offering credit, specific interventions will be implemented through individual lending companies with Fintech platforms to minimize the cost of delivery.
- **Strategic Initiative 2** - The Informal and Microenterprise Lending Department will co-operate with various public and private sector institutions to continuously bring awareness of the **sefa** products to potential end users throughout the country. With the joint **sefa**/Seda co-operate to support several distressed informal and microenterprise sectors due to COVID-19 and the attendant lockdowns, **sefa** will leverage the Seda publicity to expand its brand.
- **Strategic Initiative 3** - The Informal and Microenterprise Lending Department will identify and utilise benchmarking tools for microfinance.

The continuing common thread along these three strategic initiatives, is the pursuit of value-adding partnerships to empower end users of **sefa** credit. This is in keeping with the National Development Plan, especially at a time when informal and microenterprises are faced with serious economic and environmental challenges.

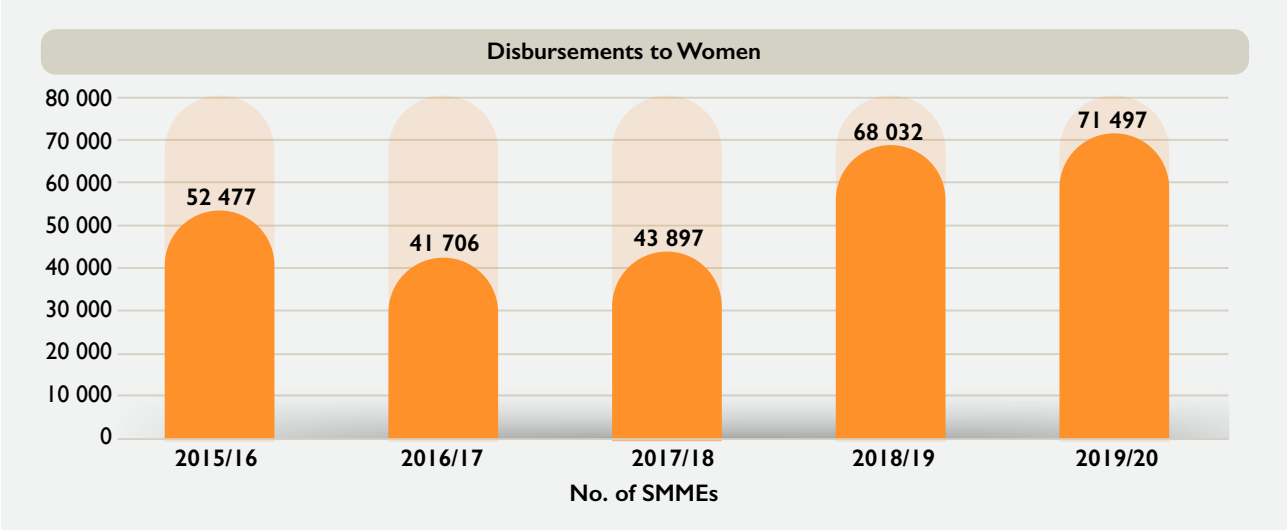
Citrus Farm, Limpopo

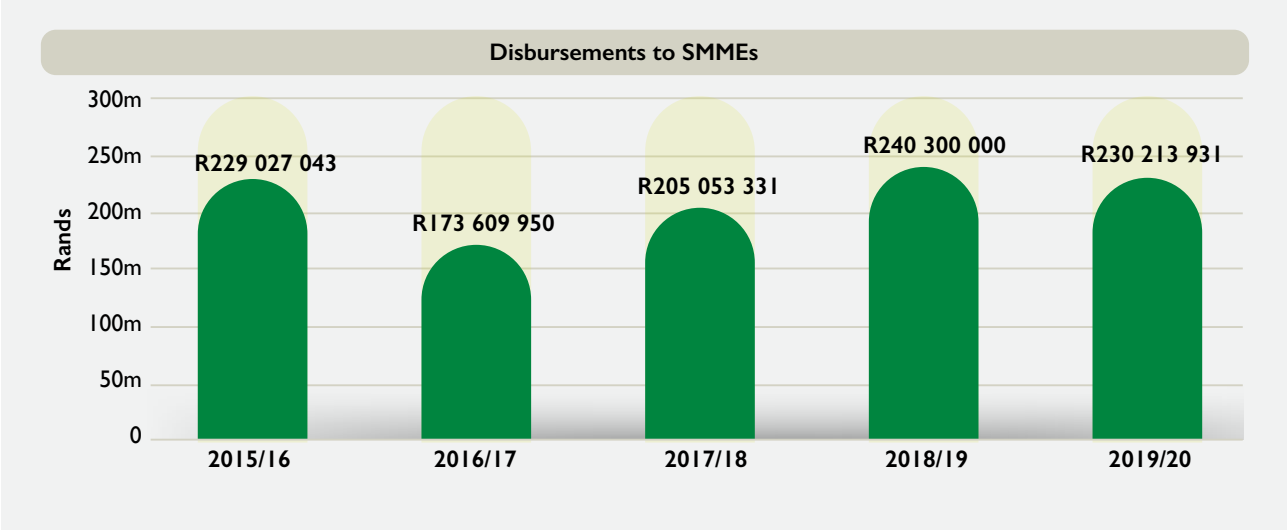
Disbursements to End Users



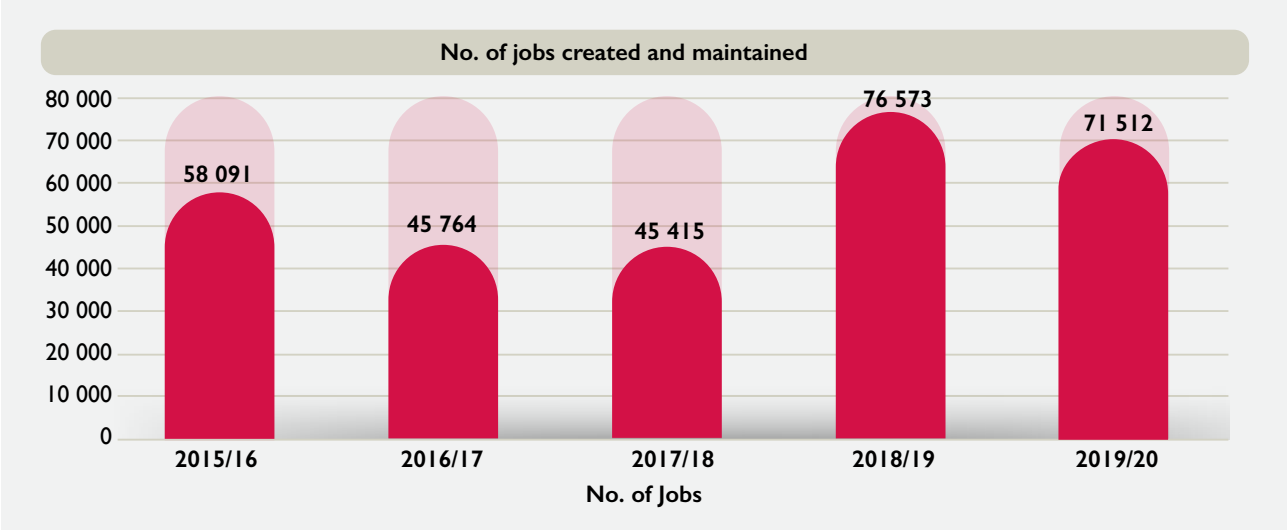


Loans to Women





Jobs Created and Maintained



Wholesale Lending – Khula Credit Guarantee (KCG)

Khula Credit Guarantee (SOC) Limited is a wholly-owned subsidiary of Small Enterprise Finance Agency (SOC) Limited, and is registered as a short-term insurer with the Financial Sector Conduct Authority (FSCA). The KCG Board of Directors is ultimately responsible for ensuring that KCG adheres to the principles and requirements of the Prudential Authority Standards as well as the governance and effective control of KCG. It is responsible for providing sound judgement in directing KCG to achieve its mandate and growth in the best interests of all its stakeholders. The Board comprises four Directors, namely, Mr LF Mosupye, the Chairperson, who is an independent Non-Executive Director, Ms NS Dlamini, Ms ME Makara and Mr MJ Kganyago who are non-executive Directors. The KCG Board Chairperson ensures that the Board discharges its responsibilities effectively. The Chairperson presides over the Board meetings and facilitates sound decision makingand ensures that discussions are focused and encourages members to air their views on matters brought before the Board. No individual director has unfettered powers in relation to decision making.

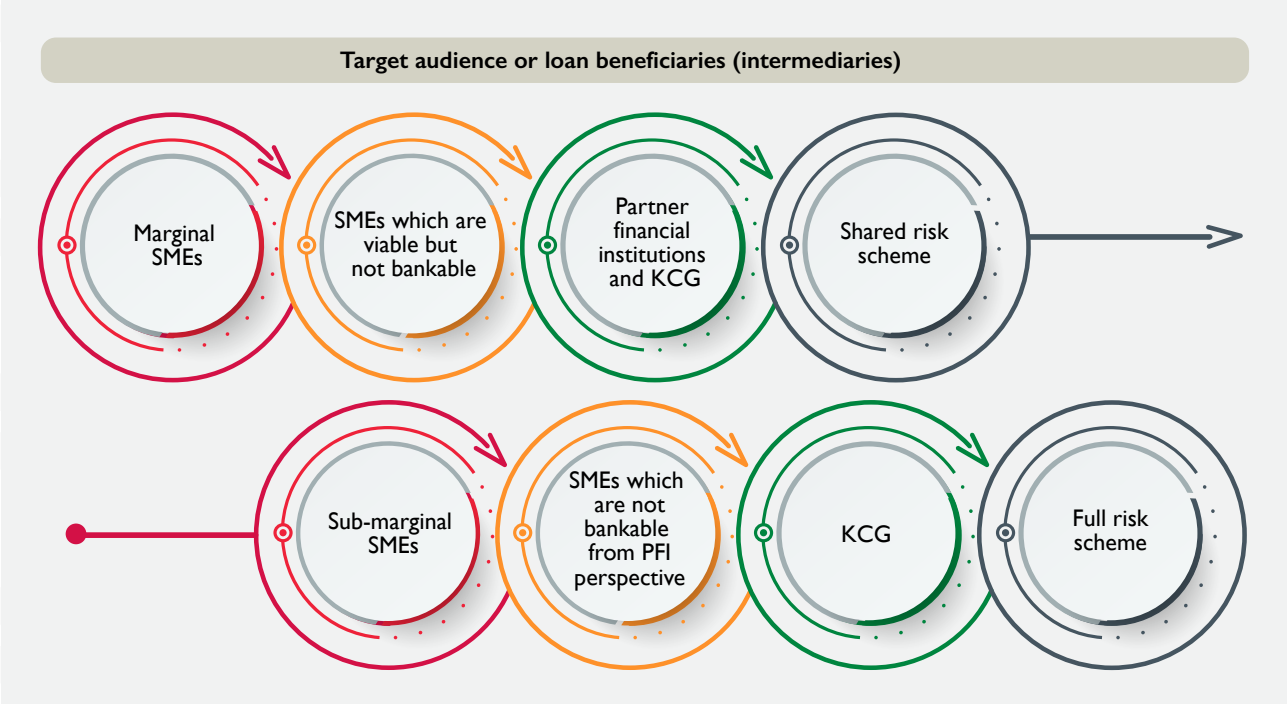
Mr LF Mosupye (45)
Khula Credit Guarantee: Chairperson

Qualifications

- CA(SA)
- BCom (Honours) (certificate in the Theory of Accounting) (Rand Afrikaans University)
- Bcom (University of the Witwatersrand)

The Non-Executive Directors Profiles are reported on page 16.

It was created to house a fund, established to operate an indemnity scheme aimed at assisting SMEs to obtain financing from financial institutions to enable them to establish, expand or acquire new or existing businesses. In circumstances where SMEs would not be eligible to make an offer of purchase, without the support of an indemnity cover for such financing in terms of the participating financial institution's SME lending criteria. Under the scheme, the targeted clients are the marginal and sub-marginal SMEs.



Rationale for the Guarantee Programme

The South African financial system contains a highly developed and well-capitalised banking sector, which, however, caters mainly to the advanced segments of the South African economy. The financial sector is highly concentrated, dominated by four large banks, which have catered to the higher-end segments of the economy, leaving the middle segment (SMEs) under-serviced. While consumer indebtedness has increased over the last decade, access to credit for SMEs remains limited. High administrative costs of small-scale lending, the perception that risk is higher in lending to SMEs, and their lack of collateral and financial records are some of the main reasons for lenders not tapping into this market.

Studies have confirmed that over half of the SMMEs who indicated willingness to borrow from a bank, stated that they believe they would have difficulties obtaining such a loan. SMMEs list complex application procedures, high interest rates, and unattainable collateral requirements among the reasons why they do not apply for loans.

In order to address the financing gap for SMMEs, the South African Government undertook several reforms, one of which included determining the role and impact of a well-designed Partial Credit Guarantee (PCG) scheme that would reduce risks for lenders to serve the SMME segment. The objective of the Khula Credit Guarantee scheme is to issue partial credit guarantees to lenders for SME 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 by SMEs, even though they lacked insufficient or unacceptable collateral for the acquisition, establishment, or expansion of a business.

KCG Product offering

KCG offers the following products to PFIs:

- Supplier credit guarantees
- Individual bank guarantees
- Portfolio guarantees

Individual Guarantees refer to guarantees where each loan application is reviewed by the bank and by KCG before financial cover can be granted. Portfolio Guarantees typically provide insurance cover to the entire portfolio of a lending institution for a designated client segment (SMEs), while Supplier Credit Guarantees enable trade credit by corporates, retailers, manufactures and other incidental credit providers to SMEs.

Individual and portfolio guarantee schemes are both commonly used, in addition to a combination of the two, namely, a hybrid. The important distinction between the different types is the way in which the credit guarantees are delivered.

In the individual guarantee scheme, each client of the guarantee fund is screened by the guarantor (KCG) after it has been taken through the credit vetting process of the lender. While this could be a duplication of work and is labour intensive, establishing clearly defined criteria usually facilitates the process of review and approval. Typically, for institutions delving into the SME market for the first time, KCG will start with individual guarantee approvals until the institution has developed a track record in the sector.

In a portfolio guarantee scheme, the scheme providing the guarantee (KCG) does not look at the credentials of each SME applicant. Instead, it gives financial institutions permission to attach a credit guarantee to any SME that fulfils certain eligibility criteria. The financial institutions simply inform the guarantee fund (KCG, usually on a monthly basis) of the approved new loans. Portfolio guarantee schemes are less labour-intensive for the guarantee scheme than individual guarantees since screening of clients is done by the financial institutions only. The potential disadvantage is that KCG has less control over the quality of its guaranteed portfolio. A portfolio scheme can only work if KCG trusts the capacity of the partner financial institutions to evaluate the entrepreneurs who apply for a loan. This is affected by stringent due diligence which KCG conducts on all its preferred partner financial institutions. KCG also needs to review the most important financial indicators of the partner financial institutions such as the Non-Performing Loans (NPL) rate, the repayment rate, the loan loss rate, and the amount of loans written-off. In a portfolio guarantee scheme, the guarantee scheme does not issue individual guarantee certificates. Instead, the rights and duties of the partner financial institutions and of the guarantee scheme are laid out in a contract between the two parties.

FY 2019/20 performance

The major focus for the FY 2019/20 was to strengthen strategic partnerships with non-bank financial institutions. Of importance for **sefa** was increasing the utilisation of the guarantee scheme at financial institutions and corporates. Extending coverage to include a wider range of financial institutions and commercial suppliers of inputs to SMMEs (Supplier Credit Guarantee) was a focal point that was greatly needed to re-ignite the scheme.

The key performance indicators for the FY 2019/20 are shown below:

Indicator	FY2019/20	
	Target	Actual
Value of approvals (R'000)	R226 800	R310 000
Value of guarantees taken up (R'000)	R80 850	R248 531
No. of participating registered financial institution on the credit guarantee programme	3	2
No. of participating suppliers on guarantee programme	3	1 (new)
No. of SMMEs and Co-operatives financed through the guarantee scheme	39	87
No. of SMMEs and Co-operatives financed through the participating suppliers	423	14
No. of jobs facilitated (created and sustained)	1 579	4 114

Actual performance achieved of the KCG Portfolio book in relation to target

The Portfolio Guarantee facilities approved in FY 2019/20 amounted to R310 million against a target of R226 million, being positive variance of 136.7% above target. This was largely due to R60 million from Praxis Financial Services, R100 million from FNB Business Agriculture and R150 million from Absa Alternative Lending Solutions.

The taken ups usually lag behind the approvals in any given year. Transactions approved in one year would normally be taken ups in subsequent years. During the year under review, there was more active portfolio management done by KCG management with regular quarterly visits to the prior years approved transactions. This has resulted in the taken ups exceeding the target throughout the year and ending with an actual of R143.5 million in the Portfolio Guarantees over the target of R80.8 million being a positive variance of 80% above target.

Transaction Capital Business Solutions (TCBS) was approved in May 2016 with a purpose to provide guarantees to SMEs who apply for financial assistance from TCBS (then Rand Trust Financiers) to unlock more working capital, invoice discounting and to establish, expand or acquire new or existing businesses but lack sufficient collateral. TCBS contributed 29% of the total taken ups of the portfolio guarantees for the year and the facility is 83% utilised. The facility has assisted 36 SMEs and created and maintained 1 891 jobs in the FY 2019/20.

Absa Agriculture was approved in May 2018 and it took a while to be utilised (taken-up) due to a lengthy legal agreement process and approval hierarchy within the bank. The facility was created to facilitate equity acquisitions by Worker's Trusts 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 agricultural based financial solutions towards acquisition, expansion and joint venture initiatives where there is a strong business case but there exists a lack of sufficient collateral.

Absa Agriculture has contributed to 32% of the taken ups at R46.1 million and it is 76.8 % utilised. The facility has assisted three farmers with average transaction size of R15 million, and it has created 1 032 jobs during the year under review.

Sasol Siyakha's first (R20 million all taken up) facility was approved in 2016 to provide guarantees to SMEs who apply for financial assistance from Sasol Siyakha through the Enterprise and Supplier Development programme.

The second facility (R30 million to R10 million taken up) was funded under a Sasol BEE trust 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 delivering successful Broad-Based Black Economic Empowerment Enterprises (B-BBEE) to the local economies in the areas in which Sasol Group has a presence and for the benefit of the Sasol Group.

The facility has contributed to 20% of the portfolio guarantees taken up at R29.2 million, and it has assisted 10 SMMEs who have created and maintained 673 jobs.

FNB Business Agriculture facility exists to pro-actively promote black economic empowerment in the agriculture sector. The facility focuses on 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 facility was approved at R60 million in February 2017, and it was further increased by R100 million in March 2020, due to envisaged deal pipeline in the calendar year 2020 which is likely to exceed the available balance. The FNB Business agriculture has assisted two major projects at R21.2 million thus, creating 19 jobs in the year under review.

Mr Price (MRPG) facility was approved in November 2017 for R30 million to assist the group of co-operatives in the Nkomazi Cotton Project to get funding of R16.6 million from the interest-free loan from MRPG. MRPG availed funds to 900 small-scale farmers participating in the Nkomazi Cotton project. The funds were offered to the farmers to buy inputs for the cotton planting season, and the resulting produce would then be bought for value chain conversion into garments and home textiles for MRPG. The facility assisted 22 Co-operatives in the cotton farming industry and maintained 350 jobs with a utilisation of R5.3 million during the year under review.

Barnes Reinforcing Industries (BRI) facility was approved in July 2016 for R30 million with the purpose of providing guarantee 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 facility's main aim 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 supplier credit guarantee facility assisted 14 SMMEs in the steel supply business to maintain 150 jobs with a revolving taken-up facility of R105 million utilised during the year under review.

The taken-up indemnity facilities include facilities approved in the previous year and the renewals of existing individual guarantees from commercial banks. The current year results are summarised in the portfolio performance table:

Portfolio Performance for the period ended 31 March 2020

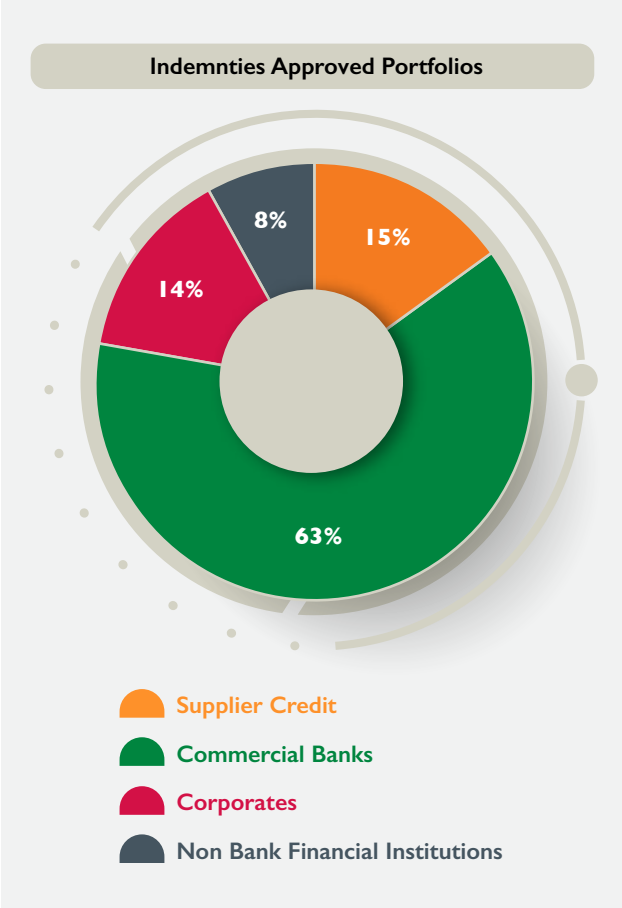
Institution	Guarantee Type	Location	No. SMMEs	Jobs	Status	Indemnity Value
Sasol Siyakha ESD	Portfolio	National	10	672	Active	R29 225 231
Transaction Capital Business Solutions	Portfolio	National	36	1 894	Active	R41 706 000
Mr Price Group	Portfolio	Mpumalanga	22	350	Active	R5 300 332
ABSA Agriculture	Portfolio	National	3	1 032	Active	R46 065 548
FNB Agriculture	Portfolio	National	2	19	Active	R21 234 000
Total active portfolio guarantees			**73**	**3 964**		**R143 531 111**
Barnes Reinforcing Industries	Supplier Credit	Gauteng	14	150	Active	R105 000 000
Total active supplier credit guarantees			**14**	**150**		**R105 000 000**
Total			**87**	**4 114**		**R248 531 111**

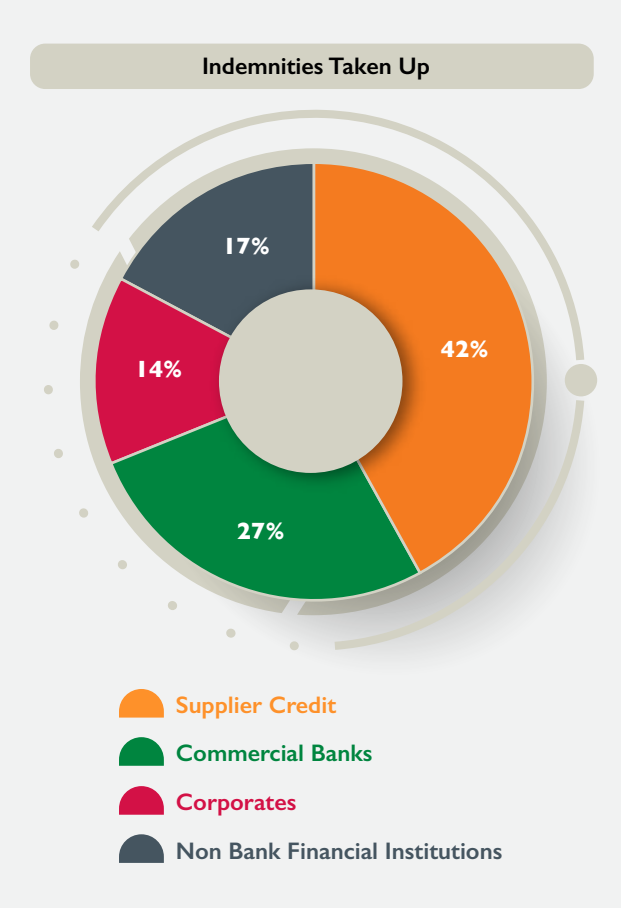
As part of the plan to increase the contribution of small scale farmers to cotton production, Khula Credit Guarantee provided Facility Guarantee that ensures that farmers can receive loans without a requirement for collaterals, whilst Mr Price provided input funding.

The Cluster programme presented an ideal opportunity for a public-private partnership to make soft loans available to small-scale cotton farmers. For its part in assisting these farmers to access funding, **sefa** was awarded a recognition Award in the Retail Sector under the Category Transformation and Development in the Cotton Industry) at the Cotton Indaba event held at Birchwood Hotel in Boksburg on 13 November 2019.

The event, hosted by Cotton South Africa in partnership with the South African Cotton Cluster (SACC), saw thought leaders and key industry stakeholders present on a variety of topics relating to the cotton industry, with exhibitors showcasing their services and products.

Portfolio split for the period 31 March 2020

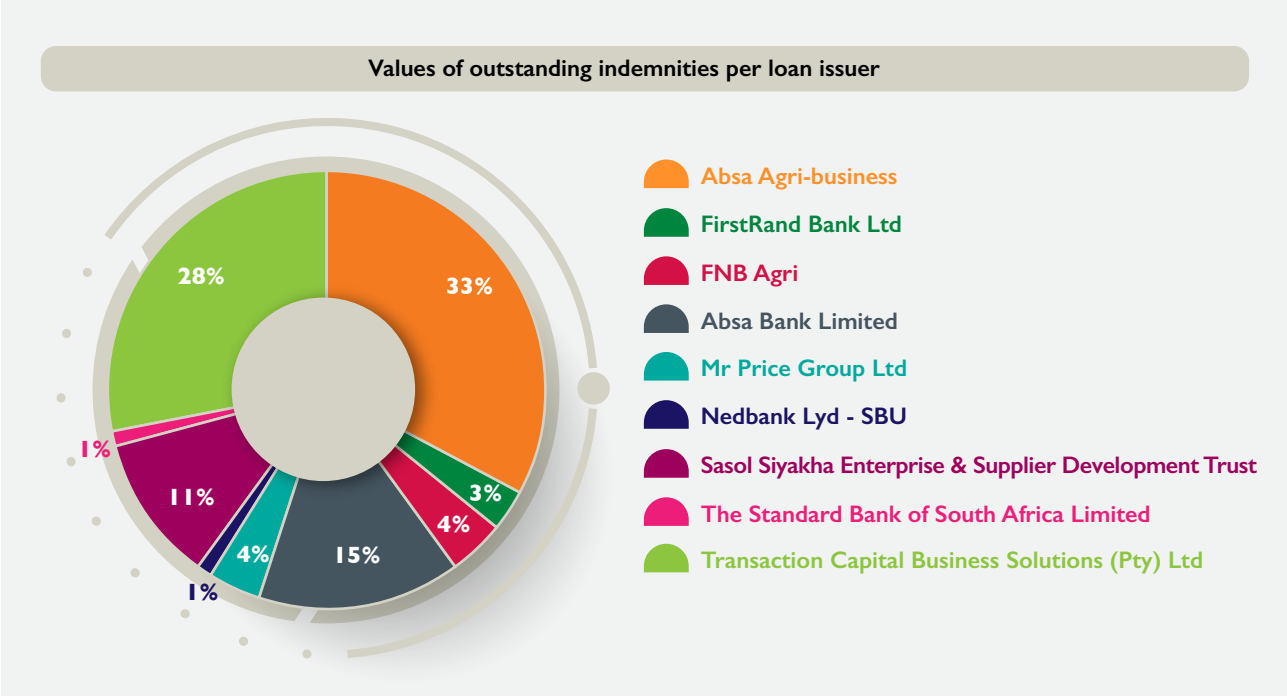




Concentration of Insurance Risk

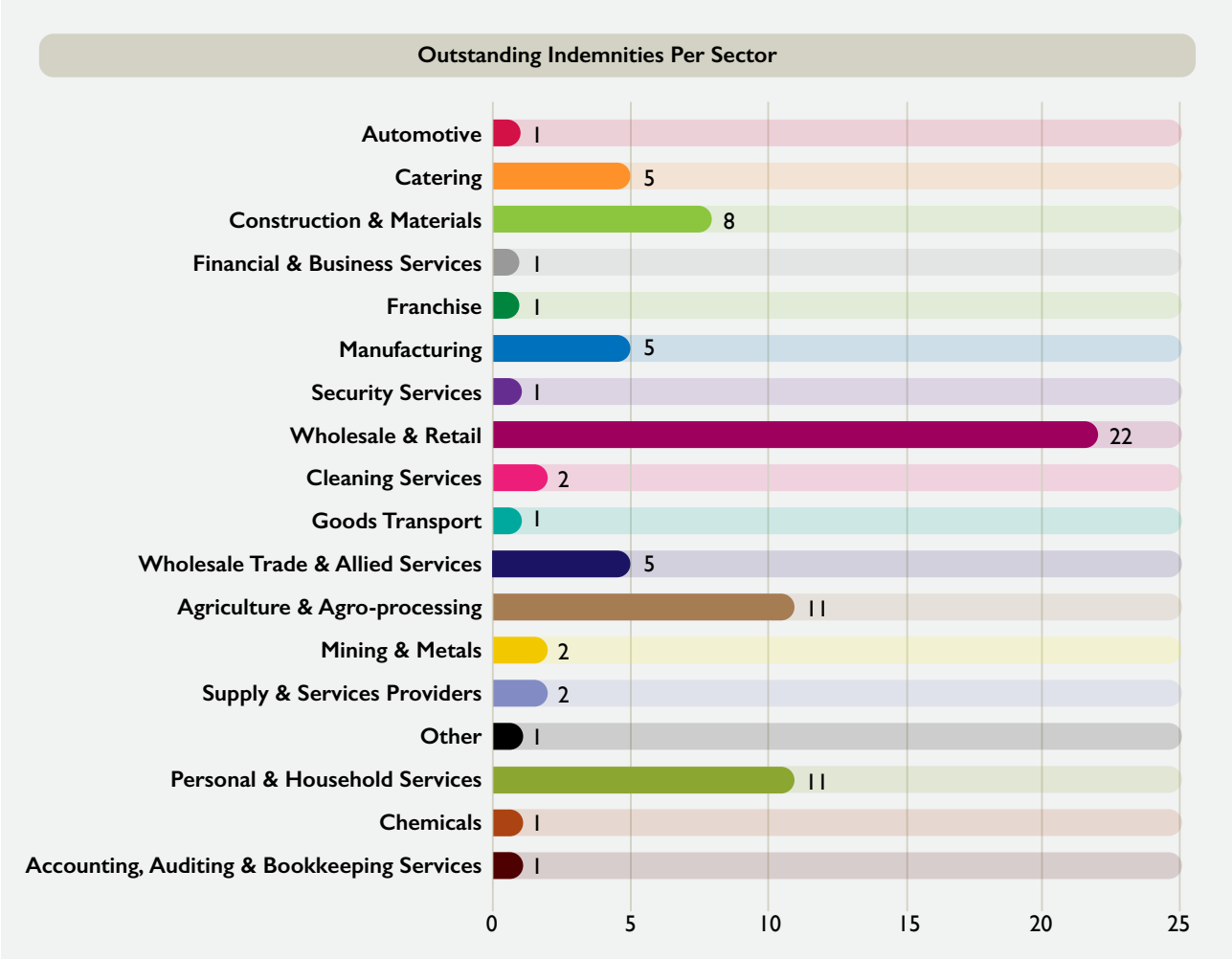
Risk across Funders

Portfolio Guarantee split is as shown below: Absa Agri has 33% of risk, followed by TCBS with 28% of the risk, FNB Agriculture at 15% and Sasol Siyakha at 11% for the period ended 31 March 2020.



Business Sector

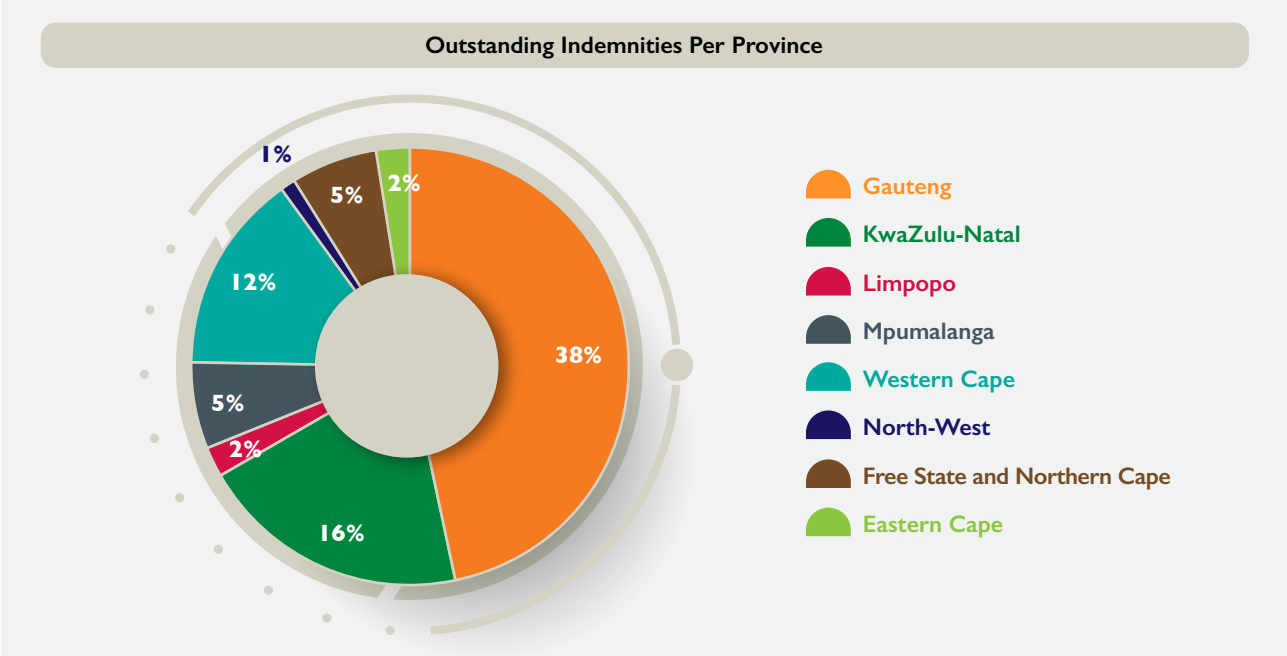
The 27% risk is in wholesale and retail businesses, 14% of risk is in agriculture and agri-processing units as well as in personal and household sectors. The remaining sectors all have a share of 10% or less.



Avocado farms - Makgoba Afrika Dieplaagte

Province

Spread of indemnities across provinces is indicative of spread of economic activity for KCG policies.



KCG Partner Financial Institutions

Mercantile Bank Approved facility R150 million	Sasol Siyakha Approved facility R50 million	Transaction Capital Aproved facility R50 million
Mr Price Group Approved facility R30 m	Absa Agribusiness Approved facility R60 million	Barnes Reinforcing Industries Approved facility R30 million
FNB Business Agriculture Approved facility R160 million	Praxis Financial Services Approved facility R60 million	Absa Alternative Lending Approved Facility R150 million

Key challenges

- Low level of banking participation in the guarantee
- Low visibility of KCG
- Regulatory compliance complexity in relation to the standards, as set out by the financial sector authority
- System challenges in relation to MIS

For KCG to be successful in addressing the challenges it currently experiences, the proposed strategy requires that the current manner in which KCG operates, is changed. This involves re-engineering KCG to a more efficient operation in line with international best practice so that the revamped institution can manage to shed its legacy problems and poor reputation.

A new risk-based fee structure has been put in place. Therefore, higher risk profile clients will be offered higher cover at an increased fee. This approach is taken, to encourage partner financial institutions to utilise guarantees to fund much riskier SMMEs.

The documentation and approval process have been minimised and simplified. All correspondence between KCG and partner financial institutions is now mostly conducted via e-mail.

A new Portfolio Guarantee system has been developed to enable an automated MIS and a comprehensive loan tracking system.

A range of financial products that meet the needs of SMEs will be developed in the forthcoming years by KCG, who are planning to develop several products. A few of these include working capital loans, trade finance, 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 the widely accepted standard operating procedure by the PFIs.

Strategic Outlook for the next financial year

Summary of strategic initiatives as contained in the 2020/21 Corporate Plan

Strategic Focus for the credit guarantee programme:

- To expand the utilisation of the Credit Indemnity Scheme by increasing the number of participating institutions, introduction of new products, and the streamlining of business processes and systems;
- To implement the COVID-19 programmes as part of the economic recovery initiatives: Spaza Shop Support Programme and the Small-Scale Support Automotive Programme; and
- To increase the capitalisation of the scheme to broaden its impact by reaching out to more participating institutions.

The new product initiatives for the 2020/21 are:

Product Development

The following new guarantee products could be introduced over the short- to medium-term, to facilitate increased uptake of the indemnity facility and thus reach higher impact.

Guarantee product	Guarantee product description
Performance Guarantees	Performance Guarantees are issued mostly in the construction industry, based on the full contract price to provide a guarantee against any failure by the contractor to meet the completion of the obligations of the contract. The contract is normally awarded with the request for a performance guarantee.
Franchise Financing Scheme	Franchisor needs to be registered with the Department of Trade and Industry (dti) and the Franchise Association of South Africa (FASA). Net asset of shareholders funds from R7 million to R10 million. Loan tenure of 5 to 7 years.
Micro-Insurance Scheme	Facility amount extended to the end user is approximately R300 000 and the facility is normally between 12 and 24 months, guarantee cover is up to 50%. It covers against production risk, natural resources, financial risk, and marketing risk.
Wholesale Guarantees	Blanket guarantee on loans already underwritten by PFIs. PFIs benefit from capital relief, PFIs obtain additional security to unsecured or partially secured SME loans (reduction in credit exposure) fixed guarantee fees are payable yearly.
Portfolio Guarantees	Improved methodology: pricing fixed and agreed upfront, issuance of individual LG not required, turnaround time three days, method of submission online, easy selling by PFI sales team in view of pre-fixed terms.

Afrique du Sud, Bidonvilles (ABS)

ABS, a NPC established in 2001 with a commitment to creating meaningful and sustainable economic opportunities for women in South Africa's township communities. ASB achieves this by providing women with the skills to establish and run independent sewing co-operatives within their communities. Collectively these co-operatives manufacture clothing under a vibrant, township brand which is aptly named, Township®. ASB provides a route to the market for the brand by assisting with design ideas, overseeing the marketing leveraging off their strong retail networks to distribute the brand ASB provides this assistance through a subsidiary company, Township Patterns.

Inyosi was first introduced to ASB in 2019 by one of our investees, The Clothing Bank, another NPC with a like minded business model. The introduction was initiated due to ASB seeking a flexible, competitively priced financing solution to acquire the building that housed their operations.

Darchem (Pty) Ltd

In 2014 Darchem (Pty) Ltd (Darchem) an importer, stockist and distributor of specialty chemicals in the South African market, approached Inyosi for funding after failing to obtain any funding from either the private or public sector.

Inyosi was the first major funder to invest into Darchem by means of a three year term loan, from our Supplier Development Fund to fund working capital and growth. Prior to our involvement, Darchem suffered from a suboptimal working capital cycle stemming from unfavourable creditor terms and a stretched debtors book. Furthermore, we highlighted significant customer concentration as a risk factor. By providing access to funding markets, Inyosi played a key role in mitigating these issues: 1. Excess cash allowed Darchem to increase its order sizes and ramp up production, consequently resulting in more favourable credit terms and a tightening of their working capital cycle 2. Inyosi was instrumental in facilitating an introduction to Engen Petroleum (Engen) which resulted in the signing of a supply contract to Engen with a water based, eco friendly degreasing agent.

Ditsobotla Co-operative Bank (CFI)

Ditsobotla Co-operative Bank Ltd (Ditsobotla) is a Village Bank funded by **sefa**. The bank is pleased to announce that the organisation has repaid the business loan of R1 million which was issued in 2016. Ditsobotla was established as a Savings and Credit Co-operative in 2000, following the merger of three worker-based Savings And Credit Co-operatives (SACCOs) in the North West Province, namely Itireleng SACCO (formed by Lafarge Cement employees), Ikageng SACCO (formed by the Ditsobotla Local Municipality employees) and Aganang SACCO (formed by Holism employees).

The Ditsobotla Co-operative Bank's common bond applies to individuals who reside in the greater Ditsobotla Municipality and includes employees of Lafarge Cement. It is the second largest primary Savings and Credit Co-Operative Bank that is registered and operational in South Africa, and, at the time of registration, had accumulated R7.3 million in assets. The co-operative is member-based and only caters to the needs of members with paid up subscriptions.

The Bank is registered as a credit provider with the National Credit Regulator in terms of the National Credit Act 34 of 2005 and is duly authorised to issue loans. The bank is also registered with the South African Reserve Bank (SARB) and subscribes to the terms of the Co-operative Banks Act as an authorised financial institution to accept and deposit membership fees.

Case Studies - Wholesale Lending

Goabane Sewing

Goabaone Sewing company owners, Motlagosebatho Motlashuping and Matshidiso Tshilo, identified a new business opportunity, when President Cyril Ramaphosa made the wearing of face masks mandatory in public places.

This was in response to the global coronavirus pandemic. The two business partners had been stuck at home in Delareyville, a village outside Mafikeng, living on meagre savings since the start of the nationwide lockdown at the end March. The need for masks was exacerbated by the fact that factory-made face masks were unaffordable for many people, living in a country crippled by poverty and hyperinflation.

Motlagosebatho (40) and Matshidiso (50) acted on the opportunity to make money by sewing and selling cheaper cloth masks for their customers, using brightly printed fabrics, that they sold from home and at intersections.

"We saw it as an opportunity to grow our business and also to play our own part in fighting the pandemic and started selling these masks after noticing that people intending to board buses were being turned away," said Motlagosebatho. Matshidiso, who owns an informal trading stall, won't be able to reopen her stall until the lockdown is lifted, concluded by saying, "During this time of the coronavirus, selling these masks is helping us make a considerable income. We only started sewing these face masks now because of the coronavirus. We can sew up to 100 of them per day, but there is a shortage of fabric."

Madibogo branch DF, Hellen Baloyi, added, "I admire the creativity of our clients by being adaptable and finding ways to fit within today's market. However, I have noticed that some people are keeping their face masks dangling below their chin and then quickly pulling them over their mouth and nose at the sight of police or government officials. It seems many are wearing their masks for the wrong reasons. They are doing it more out of fear of arrest than for their own safety," she concluded.

Mabunda Citrus Farmers

Mabunda Farmers started their farming operations in the early 2000s and have produced citrus, mangoes and vegetables over the years. However, it is the citrus production that has proven to be the most viable way forward for these predominantly black, emerging farmers, and why the farm had been developed primarily for citrus fruit production. However, through a series of failed strategic partnerships, drought conditions and a lack of investment to grow the orchards and infrastructure, the farming operations at Mabunda Citrus were either operating at a loss or at break-even levels. In 2016, it became clear that in order for the farm to generate a sustainable income flow, a new operating structure was required. The Mabunda Citrus farmers then approached the Lona Group, a consortium that was established in 1996 in the wake of the deregulation of the agricultural industry in South Africa. The Lona Group is funded, and authorised to on-lend by **sefa**, and the subsequent partnership formed between Mabunda Citrus and the Lona Group enabled the transfer of much needed capital to Mabunda Citrus. The partnership commenced operations on 1 February 2017.

The new re-structuring provided the following benefits:

- The goals of both parties were perfectly aligned – and this profitable business benefits both joint-venture parties equally.
- Shared developmental infrastructure in training and development, operational best practices, administrative structures, IT platforms, etc.
- Lona has the security to help finance significant loans to fund planned expansion of farming activities.

Currently the term of the Joint venture is for 30 years with the option to renew if both parties are happy with the way in which the JV is performing.

Orchard Profile

Variety		Hectares
Turkey	Valencias	17.92
Midknights	Valencias	86.17
Du Roi Valencias	Valencias	62.42
Gusocora Seedless	Valencias	33.9
Star Ruby	Grapefruit	45.15
Eureka	Lemons	24.7
		270.26

Farm Performance

- 2016 Export cartons (actual) - 135 000 (last year of Mabunda Farmers operations)
- 2017 Export cartons (actual) - 372 000 (first year of Mabunda Citrus operations)
- 2018 Export cartons (actual) – 589 576
- 2019 Export cartons (actual) – 313 452
- 2020 Export cartons (forecast) – 421 600

A significant investment was procured in 2017 to get the production of the orchards up to the recommended commercial level. Results of this investment are seen on actual exported cartons post 2016.

Headcount

- Current permanently employed staff – 67
- Average peak-season temporary employees – 300

This figure is expected to increase due to higher yields which will require extra pickers to be employed. These headcount numbers do not include pack-house employees.

Case Studies - Wholesale Lending

Matongoni

In 2018 Matongoni, the largest black-owned recycler of post consumer waste in South Africa, received approval for black industrialist grant funding from the public sector with a prerequisite that it was equally matched with additional debt or equity funding.

Inyosi provided a solution for the matched funding through a term loan (Growth Funding) from our Supplier Development Fund and through small committed funding from our business networks. Red tape resulted in a protracted finalisation of the grant funding process which threatened the continuation of Matongoni as a going concern. To alleviate this strain on the business, Inyosi provided financing to settle overdue creditors and to fund the full cost of the plant and equipment requirements until receipt of the grant funding (a year later than promised).

Matongoni's impressive growth has culminated in over 100 new jobs being created in the surrounding community.

The Phakamani Foundation: Microfinance

Annah Hlebeya

Annah Hlebeleya started sewing back in 1999 after a Government training programme empowered her with the skills and equipment. She partners with her neighbour Joyce to sew bedding and caps. Several years ago she lost her husband and has been raising her three children on her own since then. To pass on the empowerment she has taught her eight-year-old daughter to sew.

Annah started with Phakamani in 2015 with a R1 200 loan. She paid back that loan and several subsequent loans as she has continued to grow her business. There is not much of a market locally, therefore Annah and Joyce have to travel about an hour and a half by cab to sell their goods door-to-door. On these trips they also collect money from prior deliveries. When a client places an order, a down payment is required, followed by monthly payments. Following this business model, the ladies are able to generate a gainful monthly income.

Maria Nyundu

Maria applied for her first loan with Phakamani in the beginning of 2014. Since then she has borrowed and repaid seven additional loans. Access to this capital has enabled her to expand her seamstress services by purchasing fabric, bedding rolls and taffeta.

Partnering with Phakamani has helped Maria to accomplish numerous goals for her business. She purchased two new sewing machines and has built a garage to run her business from. Her business success has enabled her to send her children for driving lessons and to afford her family a healthier lifestyle. Maria's goals include purchasing a vehicle and relocating her business to be in closer proximity to her clients. Phakamani is honoured to partner with entrepreneurs like Maria who contribute to a stronger future for South Africa.

Pristeen Body Works (Midrand)

Pristeen Body Worx is an established, insurance approved panel beater and spray painter located in Halfway House, Midrand. Their equipment and qualified staff comply with all Major Insurance Companies and Manufacturer standards. They signed up with Mettle in November 2016 and currently employ 16 staff members.

They have a Level 2 B-BBEE rating. They have a total Turnover with Mettle, for the period November 2016 to 8 July 2020, in the amount of R18 934 190 and deal with various reputable insurance companies.

Silulo Ulutho Technologies

Silulo started with a dynamic entrepreneur, Luvuyo Rani selling refurbished computers out of his car as he lacked the funding for a store. Today Silulo is a national business which comprises 42 stores throughout peri rural and remote locations in the Eastern Cape, Western Cape and KwaZulu-Natal.

Silulo's offering has evolved over the years into a comprehensive bouquet of IT Services, including internet services, web design, business services and MICT SETA-accredited training in end-user and office administration applications. Silulo's positive impact on these marginalised communities is unquantifiable as they are empowering and equipping low income communities with crucial tools to accessing mainstream economies. To date, Silulo has provided computer based training courses to over 53 000 students.

Luvuyo's rise to success has seen him receiving numerous accolades and invitations, this includes: being part of team South Africa that attended the World Economic Forum at Davos, receiving invitations to attend leadership courses at the Harvard University, being awarded the Schwab Foundation Social Entrepreneur of the Year in 2016 and achieving international acclaim and recognition for his groundbreaking work in bridging the digital divide which separates marginalised communities from the internet and fourth generation skills.

Springfontein Dairy

In 2018 Inyosi was introduced to the Springfontein Dairy, Nestlé South Africa's largest black-owned milk supplier.

The Dairy, owned by the Makhoba community, is born out of patience and restitution. The Makhoba Clan were forcibly removed from their land in 1946 and following nearly a 60 year campaign, only received the land back in 2002.

The dairy is the lifeblood of the Makhoba community, which today is a 1 400-family strong community with an estimated population of 7 000. Inyosi welcomed the opportunity to provide growth and working capital funding that would help the Dairy acquire new farming equipment to unlock further growth and ultimately create a positive impact in the community.

Direct Lending

Ms Boitumelo Sefolo
Executive Manager: Direct Lending

Background

Direct Lending delivery channel provides one of the pillars that enables **sefa** to deepen its impact and reach by targeting specific niche markets of the SMME market as well as the Co-operatives. This channel targets early stage as well as growing enterprises through the provision of tailored financing instruments. These financing instruments range from contract-based financing; asset financing as well as term loans.

Businesses that are funded through the Direct Lending channel should, amongst others, have the following attributes:

a) Potential to create and/or maintain sustainable employment
b) Contribute towards economic reconstruction, in respect of:
   - Gender parity
   - Youth economic emancipation
   - Township and/or village development
   - Supporting entrepreneurs with disabilities
c) Supporting State's priority economic sectors (such as manufacturing; infrastructure; water and sanitation; energy; mining; etc)

Direct Lending provides loans to qualifying enterprise from a minimum of R50 000 to a maximum of R15 million (per enterprise). These facilities enable eligible and deserving entrepreneurs to start, expand or acquire businesses.

During the course of the FY 2019/20, the Department of Small Business Development introduced blended finance – which is implemented by its agencies (**sefa** and seda). The blended finance instrument is a combination of grant and loan facility. This scheme was introduced to compliment Direct Lending market offering. Its primary purpose is to reduce the gearing levels which is typically a challenge for most early stage businesses. This facility also reduces the effective cost of capital for qualifying enterprises.

It is crucial for **sefa** to play a direct role in closing a financing gap and address market failures as this intervention enables the State to deepen access to SMME finance and contribute towards economic recovery and sustainable growth.

Approval and Disbursement Activities

The following table outlines the approval and disbursement activities per financing instrument as well as blended finance:

Financing Instrument	No. of Clients	Amount Approved R'000	Amount Disbursed R'000
Working Capital/Bridging Loans	88	R48 715	R41 503
Asset Finance	75	R149 439	R64 115
Term Loans	104	R246 260	R131 640
Revolving Credit	1	-	R101
Total	**268**	**R444 414**	**R237 359**

Blended Finance	No. of Clients	Amount Approved R'000	Amount Disbursed R'000
Loan Portion	38	R160 533	R22 283
Grant Portion	34	R50 296	R11 158
Total		**R210 829**	**R33 441**

Annual Performance – 2019/20 Financial Year

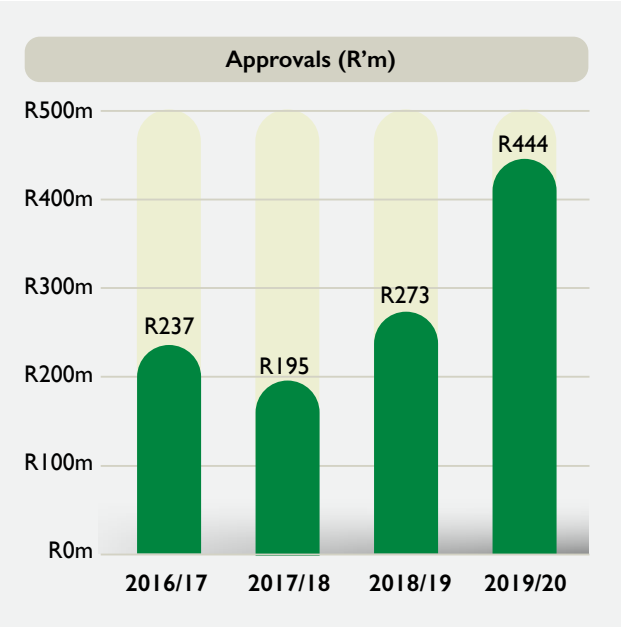
The primary strategic focus of Direct Lending for the FY 2019/20 was to deepen empowerment of small businesses and co-operatives. This was done to ensure that SMMEs and Co-operatives are supported and put at a centre stage and can contribute towards economic growth and recovery.

During the year under review, Direct Lending managed to record the following development impact (outcomes):

- R444 million value of funding approvals
- R237 million disbursed to the economy
- R63 million disbursed to youth-owned businesses
- R91 million disbursed in priority rural provinces
- R52 million disbursed to township businesses
- R78 million disbursed to women-owned businesses
- R6.3 million disbursed to entrepreneurs with disabilities
- R207 million disbursed to black-owned businesses
- 3064 jobs facilitated
- 141 SMMEs funded
- 80 facilities less than R500 000 disbursed to end-users

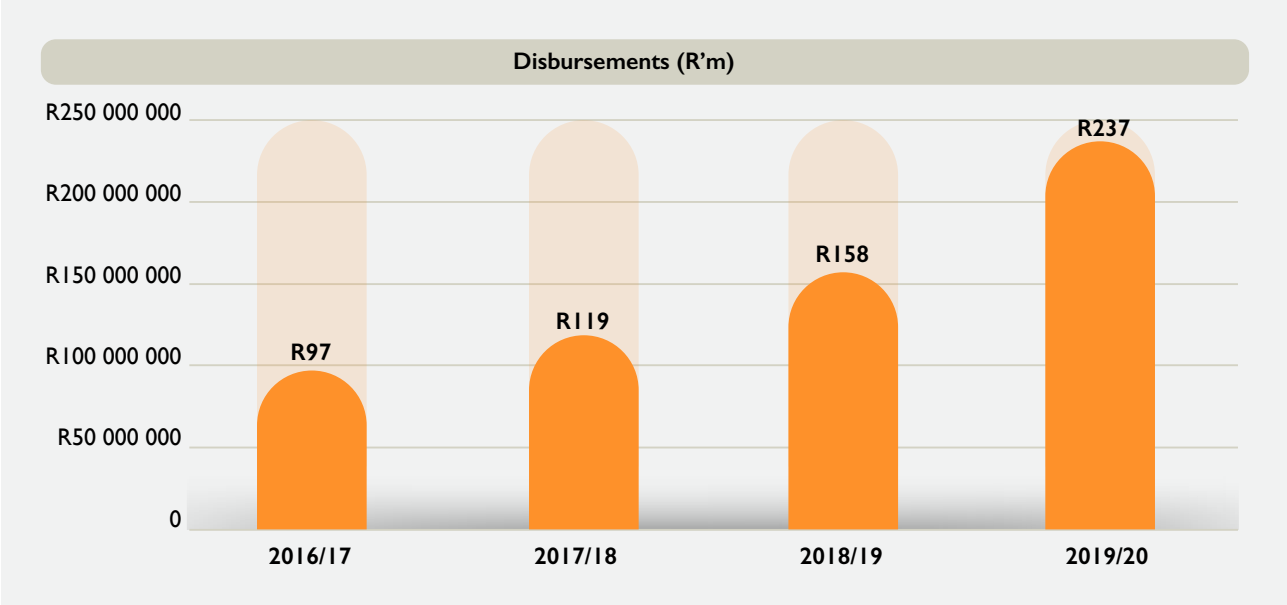
Approvals

During the year under review the Direct Lending division approved loan facilities amounting to R444 million (annual target = R280 million) to 141 SMMEs.



Disbursements

The Direct Lending Division disbursed R237 million for the 2019/20 FY, which is 106% of the annual target.



sefa only recognises its development impact based on disbursed funds to SMMEs. The division achieved and exceeded its targets on the following indicators:

- Number of jobs facilitated (target = 764; actual = 3 064)
- Facilities disbursed to entrepreneurs with disabilities (target = R4.4 million; actual = R6.3 million)
- Facilities disbursed to black-owned enterprises (target = R156 million; actual = R207 million)

Strategic Initiatives

In terms of the 2019/20 Corporate Plan, Direct Lending identified key strategic initiatives to be executed. This section outlines such initiatives, intentions thereof as well as progress to date.

Strategic Initiative 1 Grow and enhance the quality of investments through a sector-driven investment strategy	
Strategic Indicators	**Progress Update**
Develop an in-house specialist skill to improve quality of investments	In tandem with Direct Lending's strategic intent of proactively creating a diversified portfolio (in franchising, light manufacturing, contract finance as well as commercial), deal makers continue to gain insight of writing deals in these sectors.
Improved financial sustainability of Direct Lending in order to lower impairments	Introduction of blended finance as well as SBIF in the market is a crucial intervention that will positively contribute towards financial sustainability of funded enterprises. It is also envisaged that closer collaboration with Seda in the provision of business development support services will also contribute towards the financial sustainability of funded clients and lower impairments.
Portfolio diversification incorporating longer-term investments with more significant impact and sustainable jobs	Despite proactive measures taken to construct a diversified portfolio, Direct Lending continues to be overweight in contract finance transactions. This is due to the demand-driven approach that has been custom in the previous years.

Strategic Initiative 2 Leverage public and private sector partnerships in the SMME Ecosystem	
Strategic indicators	**Quarterly Progress**
Access grants and non-financial support to reduce the gearing in SMMEs businesses	Blended Finance as well as SBIF are already operational and are in the market.
Building a quality transaction pipeline	Direct Lending continues to establish partnerships with institutions that have enterprise development initiatives. The impact of this is more evident in the franchising sector (for example: OBC, Mochachos, and Chicken Licken).
Ring-fencing support to SMMEs to enhance sustainability	The introduction of blended finance as well as SBIF will contribute towards the financial sustainability of funded enterprises. The collaboration with Seda through the pitching sessions as well as provision of business development support services will also enhance the provision of comprehensive support to SMMEs.

Strategic Initiative 3 Develop and implement technology solutions that will enhance the customer experience and operational efficiency	
Strategic indicators	**Quarterly progress**
Data analytics to address customer needs and experience, resource allocation, profitability, risk and recovery rates	Through the implementation of the common business planning template, **sefa** can gather some SMME data. At this stage, the data can only be used to assess customer needs – in terms of funding requirements.
Operational efficiency – aligning business processes to facilitate the processing of Finfind matches through application screening, credit scoring and basic assessment	Direct Lending team is working with the Project Management Office in respect of the automation project. This project is aimed at automating most functions in the lending value chain, covering an entire client journey (from origination to exit).

Strategic Initiative 4 Improve collaboration between post investment and direct lending to facilitate proactive management of the portfolio and reduce impairments	
Strategic indicators	**Quarterly progress**
Enhance collaboration between post-investment and regions to ensure quick turnaround times on agreed actions	CRM currently utilises a Handover Report to Post Investment after the disbursement of funds, detailing the agreed upon conditions of approval, which PIM is to ensure is adhered to on that particular risk. A first site visit report is also compiled by business to confirm the utilisation of funds disbursed. Proactive management by PIM of the said conditions is crucial to enable identification of any weaknesses on the account. The inclusion of business at IMC also assists in understanding any adverse items for future investments to be considered over and above the existing book, where some assistance may be sought by PIM to address any problems with the client.
Risk grade the new book	Each transaction that is approved under Direct Lending gets risk graded as part of the pricing model. Going forward, management will perform periodic reviews in order to adjust the grading of individual accounts where necessary.
Set standard mentorship rate on the panel of mentors for faster appointment and better cost management	A call for expression interest for the provision of business support services was jointly advertised by Seda and **sefa**. This will lead to both agencies using a common database of service providers.

Case Studies - Direct Lending

Bazil Technologies (Pty) Ltd

Key information

Location: Witbank, Mpumalanga
Jobs maintained: 24
Funding amount: R4 071 417
Sector: Heavy Industrial

Bazil Technologies (Pty) Ltd is an existing business that specialises in the provision of temporary support platforms and scaffolding to the heavy industrial and engineering sectors in the Mpumalanga region.

The business is wholly owned and operated by Mr Basil Khoza, a qualified boilermaker with over 15 years of heavy industrial experience within the Eskom Power Station environment.

It is a registered service provider to Eskom. They have been awarded a purchase order for the provision of temporary support platforms to the Kriel Power Station in Mpumalanga. The client's business operations are also based in Mpumalanga.

sefa has funded R4 071 417 which went toward the purchase of 14 temporary support platforms and working capital

Jacobs Jam Company (Pty) Ltd

Key information

Location: Ceres, Western Cape
Job creation: 10 - 19
Target group: Youth employment
Funding amount: R2 508 173
Business Cycle: Start-up
Sector: Jam Manufacturing

Jacobs Jam (Pty) Ltd is a start-up agro-food processing and manufacturing business that produces a variety of jam products. The business is 100% black and 51% youth female-owned, with a Level 1 B-BBEE status. The company was registered in 2018.

Entrepreneurs, Mr. Nigel and Mrs. Christynn Jacobs, a husband-and-wife team are highly-qualified and collectively have almost 20 years of experience in the food manufacturing and FMCG industries.

The factory will be situated in Ceres, located approximately 170km northeast of Cape Town. It is from this region that fresh fruit, fruit juices and fruit concentrates are sold locally and internationally. The factory layout and equipment schedule has been planned, based on the world's best practice and state of the art equipment. At approximately 580 square metres the leased premises will be well suited to servicing clients.

LNP Brand Printing Solutions (Pty) Ltd

Key Information

Location: Polokwane, Limpopo
Jobs maintained: 16
Jobs created: 5
Funding amount: R4 111 281
Sector: Marketing and branding

LNP Brand Printing Solutions (Pty) Ltd was formed by Mr Martin Mashishi and registered with CIPC on 14 October 2016. The company operates from 20 Rissik Street, in Polokwane and provides digital printing, branding services such as signage, embroidery, branding, sub lamination and sewing to public and private companies.

The company was approved for blended finance for a loan amounting to R2 569 551 and a grant funding of R1 541 730. Funding was utilised towards the acquisition of fabrics and embroidery machines to assist with the expansion of the current operations.

Metallurgza (Pty) Ltd

Key information

Location: Newcastle, KwaZulu-Natal
Jobs maintained: 2
Funding amount: R4 572 630
Sector: Mining

Metallurgza (Pty) Ltd is an existing business that specialises in metallurgical consulting and provision of ore and other consumables to the mining industry. The business is majority owned and operated by Mr Gcinumuzi Makhoba, a qualified metallurgical engineer with over nine year's core metallurgical experience in the commercial space.

Metallurgza is registered as a service provider to Steelmaker. They have been awarded a purchase order for the provision of lump iron ore to the Steelmaker plant in Newcastle. The lump iron ore is sourced and purified at a slag dump located near the mine. The client's business operations is also based in Newcastle. **sefa** has funded R4 572 630 which went towards the purchase of the iron ore and transport to the plant.

Nqubeko Investments (Pty) Ltd

Key information

Location: Enkangala, Gauteng
Jobs maintained:18
Funding amount: R2 500 000
Sector: Mining

Nqubeko Investments (Pty) Ltd is a 100% black woman-owned company. The company is in the mining sector with a focus on providing services to the Mining industry. Hlengiwe Mbatha the owner presented Nqubeko Investments R2.5 million loan application during the **sefa** Small Business Innovation Fund and was recommended for Blended Finance.

Nqubeko Investments has three concurrent contracts with Steffanutti Stocks Mining Services and as a result the company applied for a loan to execute the contract. On 31 March 2020, the committee approved a loan amounting to R2.5 million for the client to acquire assets required to execute the contract.

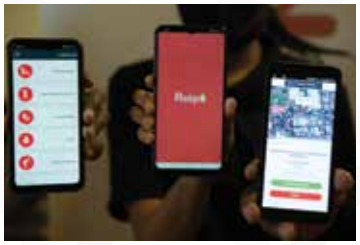
Case Studies - Direct Lending

Parel Holdings (Pty) Ltd

Key Information

Location: Durban, KwaZulu-Natal
Jobs maintained: 8
Funding amount: R1 000 000
Sector: Leasing and hiring

Parel Holdings (Pty) Ltd t/a Keep It Kool Refrigerators was formed in 2017 by Mr. Kwanele Mngoma. The company is a 100% black youth-owned company. The business offers convenience to students who cannot afford to purchase their own fridges, as well as students who do not want the hassle of storage and transportation during university vacations. The entrepreneur has approached **sefa** under the SBIF to fund the expansion to the tune of R1 million. **sefa** has funded R1 million towards the acquisition of 400 additional top freezer fridges for rental purposes.



Respo Technology (Pty) Ltd

Key information

Location: Durban, KwaZulu-Natal
Jobs maintained: 4
Funding amount: R1 000 000
Sector: ICT

Respo Technology (Pty) Ltd was formed by Mr. Blessing Nzuza in June 2018. The business is a 100% youth black-owned company based in Durban. The company developed a mobile app solution in-house called Respo. The app uses GPS technology to find the exact location of a patient and notifies the next of kin when an emergency occurs. This solution is aimed at reducing the time it takes for an ambulance to reach a patient, resulting in more lives saved during medical emergencies. The entrepreneur approached **sefa** under the SBIF to fund working capital and asset finance. **sefa** has funded R1 million which went toward the working capital and asset finance, the purchase of the iron ore and transport to the plant.

World Focus 1801 CC

Key information

Location: Khayelitsha, Western Cape
Job creation: 55
Funding amount: R7 288 177
Sector: Gas Distributor

World Focus, trading as Nomenti Gas was established and registered in 2008, and is well-established, having been in existence for approximately 12 years. The business is located in the township of Khayelitsha, Western Cape, and is run by husband-and-wife team Mr Sithembile and Mrs Nowowo Nongongo. The business operations involve refilling and supplying gas for cylinders ranging from 3kg to 48kg. The couple have built up a respectable name within the challenging LP gas industry, and as a result, clients prefer doing business with them due to their affordable prices and prompt service. Also, Nomenti Gas is an approved TotalGaz Southern Africa LPG Gas retailer. The company entered into a distribution agreement with TotalGaz in 2017 which has significantly contributed towards the growth of the business, which is now the only black female-owned major distributor of LP gas in the Western Cape region.

Chief Financial Officer's Statement

Ms Reshoketswe Ralebepa
Chief Financial Officer

The Finance Division's main objective is to ensure financial sustainability of **sefa**.

Overview

sefa continues to balance financial sustainability and developmental impact, which assumes a strategic posture that seeks to strike a balance between the delivery of its mandate, the pressing need to be financially sustainable. At the same time, **sefa** must also be responsive to changes in the economic environment, such as the COVID-19 pandemic and the sovereign credit downgrade.

sefa continued to work in a challenging economic environment exacerbated by the downgrade of South Africa's rating by Moody's to junk status at the end of quarter one 2020, and the subsequent exit from the FTSE World Government Bond Index which saw a further weakening of the Rand and a negative impact on GDP and noticeably weaker consumer and business confidence.

sefa's main purpose is to foster the establishment, development and growth of SMMEs and Co-operatives through providing SMMEs and Co-operatives throughout South Africa with simple access to finance in an efficient and sustainable manner. In addition **sefa** contributes towards poverty alleviation, job creation and economic growth.

Despite the challenging economic environment in the 2020 financial year, **sefa** embarked on a journey to grow its balance sheet by adding several new products, including Blended Finance and SBIF to its portfolio of loans and advances. This was initiated to stabilise the loan book, including the impairment ratio and also to further the containment of costs initiatives. The Blended Finance product is a new approach to financing the social outcomes sector, and was designed to support established social enterprises and for-purpose organisations requiring a combination of financing to meet their needs, e.g. part debt, part equity and/or grants.

In previous years, **sefa** encountered rapid growth in the loan book resulting in high impairments raised. A strategic decision was taken to enhance the credit quality of loans issued, reduce risk and redirect focus on post investment monitoring in order to address and arrest the high impairments being experienced. This shift in focus was intended to ensure the sustainability of the entity while continuing to make funds accessible to SMMEs and Co-operatives in the market. **sefa** has managed to stabilise the impairment ratio for Direct Lending, and has established a platform to issue loans with a higher credit quality and to drive collections. With this in place **sefa** is ready to drive higher disbursements and to grow the loan book further, which will

generate additional revenue on the path to financial sustainability. The IDC has made funding available to **sefa** to be used specifically for on-lending to support loan portfolio growth. The first disbursement of R150 million on the facility from IDC was advanced to **sefa** in July 2018. Further draw downs on this facility are planned for FY 2020/21.

Financial Performance

The Group reported a total comprehensive loss of R424.8 million (2019: R292.5 million). Drivers of financial performance are discussed below:

Revenue

Interest on loans and advances grew by R1.4 million compared to the preceding year. This growth was driven by the increase in the Group's loan portfolio. Other interest and revenues amounted to R2.4 million, an increase from the previous year, driven by the increase in fee income on loans and advances.

Investment Property Portfolio

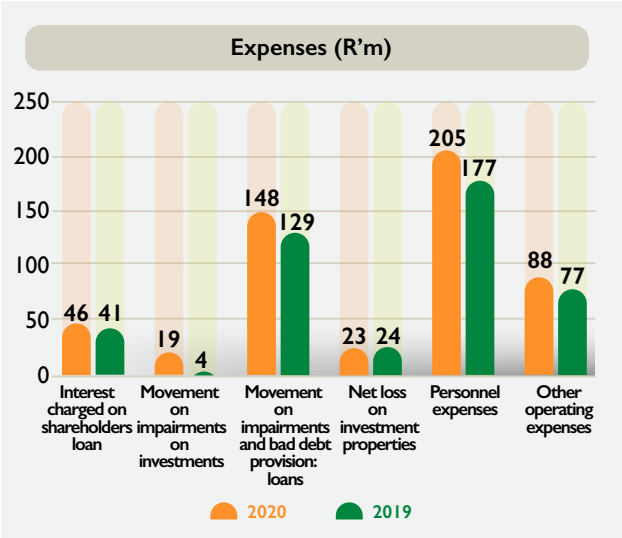
All activities relating to the investment property portfolio were transferred from **sefa** to Khula Business Premises (Pty) Ltd (a wholly-owned subsidiary) with effect from 1 April 2017.

Rental Income of R26.3 million was reported in the current year compared to R27.6 million recorded the previous year.

Property expenses declined by 5% (R54 million in the prior year to R51 million in the current year). A strategy has been developed to turn the investment property portfolio into a feasible portfolio and to implement additional cost savings and collections measures. In the current year, no properties were disposed, therefore, no properties were classified in the financial statements as held-for-sale. A net downward revaluation was recognised in the current year on the investment property portfolio of R10 million.

The vision is to accomplish this sustainability through partnerships with all departments within **sefa**, our clients and all other key stakeholders.

Expenses



Operating expenditure increased with R152 million (34%) year on year which is attributable to higher impairments and bad debt provisions (R60 million), the net loss on investment properties improved (R1 million), fair value loss of R10 million was recorded (R15 million movement from the prior year gain of R5 million), new expenses in this year relate to grant expenses (R29 million, offset my same amount of grant income) and lease liability finance cost of R3 million. Other operating expenses increased (R11 million). Interest on shareholder's loan increased by R5 million.

The biggest increase being personnel expenses (R28 million), in the prior year there was a head count freeze that resulted in significant cost savings compared to the current year. The increase in other operating expenses is due to increased spending on management information systems and computer expenses, additional consulting fees, subscriptions costs and higher rental expenditure.

Movement on impairments in investments includes an R18 million increase in impairments on equity investments, these have been negatively impacted by the future impact of COVID-19. In addition an amount of R22 million was incurred in the current year for the write-off of a non-performing wholesale loan. Movement on impairments and bad debt provisions on loans and advances increased by R18.9 million driven by bringing in the future impact of COVID-19. **sefa** has updated the economic variable assumptions (forward looking) used in the Expected Credit Loss model.

Loans and Impairments

The direct lending portfolio makes up 52% of the **sefa** company's total loans and advances at cost. Total impairments on loans and advances relating to the direct lending portfolio decreased from 67% last year to 62% in the current year. This indicates that **sefa** has been able to arrest and marginally decrease the overall provision for impairments on the portfolio, owing to the additional emphasis placed on Post Investments Monitoring and the addition of better credit quality loans.

Total loan book disbursements exceeded targets set for the year ended 31 March 2020, this is largely due to the implementation of the SBIF, which approved a total of R190 million and Blended Financing which approved a total of R173 million.

Impairments on Wholesale Lending (which represents 48% of **sefa** company's total loans and advances at cost) decreased from 62% to 59%. This decrease was mainly due to new loans issued in the micro loans portfolio.

Financial Sustainability

For **sefa** financial sustainability is defined as the entity's ability to continue to fulfil its mandate to develop sustainable SMMEs and Co-operatives through the provision of funding. **sefa** as an organisation acknowledges the importance of sustainability for both **sefa** and its clients.

In order for **sefa** to be sustainable, **sefa** needs to build a strong balance sheet and a solid loan book. It remains essential for **sefa** to maintain the balance between financial sustainability and developmental impact. The sustainability focus is directed to scaling the loan portfolio to a size where it generates adequate revenue to subsidise operating expenses and generate adequate cash inflows to sustain loan book growth.

SECTION 04

Financial reports

Small Enterprise Finance Agency (SOC) Limited Group And Company Annual Financial Statements for the Year Ended 31 March 2020

Registration Number: 1995/011258/06

Contents

The annual financial statements have been prepared under the supervision of the Group's Chief Financial Officer, Ms RV Ralebepa.

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

Statement of Responsibility by the Board of Directors

for the Year Ended 31 March 2020

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 98-100.

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 2020.

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 13 October 2020 and are signed on its behalf by:

Mr AMR Mahosi
Board Chairperson

Directors' Report

for the Year Ended 31 March 2020

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 Co-operatives 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 (previously **sefa** received allocations from the Department of Economic Development Department, which was then incorporated with the Department of Trade and Industry) through **sefa**'s shareholder, the IDC (Refer to note 8.2).

An allocation of R241 million (2019: R229 million) was received from Government to support **sefa**'s activities.

The allocation was paid to the IDC, and was made available to **sefa** for operational purposes through a shareholder's loan which is recognised directly in the statement of changes in equity.

The IDC committed to additional funding in the amount of R921million (2019: R921million).

Public Finance Management Act

sefa's Board of Directors is 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.

Short Term Insurance Act

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

Significant matters

During March 2020, the South African Government declared a national state of disaster due to the COVID-19 pandemic and a national lockdown ensued from 27 March 2020. The COVID-19 virus has had a significant impact on the global economy, South African economy and **sefa**'s clients. The estimated impact of this has been incorporated into these financial statements and further disclosure is also provided on the relief measures provided to clients, risk mitigation and further information around going concern.

The Group adopted IFRS 16 during the period under review, the effect thereof is reflected in notes 5.6.

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 (2019: Rnil).

Share capital

The authorised and issued share capital remained unchanged during the year (2019: 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**
AMR Mahosi (Chairperson)	1 August 2019	
NS Dlamini	1 October 2016	31 July 2020
DL Mabuza	1 August 2019	
ME Makara	1 August 2019	
MJ Kganyago	1 August 2019	
M Radebe	1 August 2019	
NR Mlonzi	1 August 2019	31 July 2020
HN Lupuwana-Pemba	1 September 2012	30 June 2019
NA Dlamini	1 October 2016	31 July 2019
C Groves	1 October 2016	31 July 2019
PM Mainganya	1 October 2016	31 July 2019
K Molewa	1 October 2016	31 July 2019
KK Moloto	1 October 2016	31 July 2019
NA Osman	1 October 2016	31 July 2019

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 R44 million has been adopted. Materiality has been set at R221 178 on a transactional level.

Unauthorised, Fruitless and Wasteful and Irregular Expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2019: 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

The Directors are not aware of any other matters or circumstances arising since the end of the financial year and 13 October 2020, 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 2020

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
13 October 2020

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 102 to 174, which comprise the consolidated and separate statement of financial position as at 31 March 2020, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, the statement of cash flows for the year then ended, as well as the 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 consolidated and separate financial position of the Group as at 31 March 2020, and their 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 of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa.

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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of professional conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants and the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) respectively.

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 Standard and the requirements of the PFMA and 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.

Independent Auditor's Report

to Parliament and the Shareholder of Small Enterprise Finance Agency (continued)

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa 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 approved performance planning documents of the Group. We have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. Our procedures also do not extend to any disclosures or assertions relating to 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 annual performance report of the Group for the year ended 31 March 2020:

Objectives	Pages in the annual performance report
Objective – Customer perspective	8
Objective – Financial perspective	8

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 raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives indicated above.

Achievement of planned targets

Refer to the annual performance report on page 8 for information on the achievement of planned targets for the year and explanations provided for the under-/ over-achievement of a number of targets. This information should be considered in the context of conclusions expressed on the usefulness and reliability of the reported performance information in preceding paragraph of this report.

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 a statement of responsibility by the board of directors, the directors' report, the audit committee's report and the declaration by group company secretary as required by the Companies Act of South Africa.

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.

Independent Auditor's Report

to Parliament and the Shareholder of Small Enterprise Finance Agency (continued)

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.

If, based on the work we performed, we conclude that there is a material misstatement in this other information, we are required to report the fact. We have nothing to report in this regard.

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 various parties 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.

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 Small Enterprise Finance Agency for 3 years.

Kelello Hlajoane
SizweNtsalubaGobodo Grant Thornton Inc.
Director
Registered Auditor

13 October 2020

20 Morris Street East, Woodmead, 2191

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 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 to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 related to events or conditions that may cast significant doubt on Small Enterprise Finance Agency and its subsidiaries ability 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 the opinion on the financial statements. Our conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause the public entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Group 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.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

Statements of Financial Position

for the Year Ended 31 March 2020

	Note	Group		Company	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Assets					
Cash and cash equivalents	4.1	1 531 064	664 962	1 407 122	538 201
Trade and other receivables	4.2	28 503	32 569	207 265	221 822
Current tax asset	3.1	61	579	-	-
Deferred grants receivable	4.4	10 322	-	10 322	-
Loans and advances	7.10	433 898	389 441	427 593	374 068
Investment properties held-for-sale	5.4	-	36 399	-	-
Equipment, furniture and other tangible assets	5.1	7 772	5 532	7 772	5 532
Intangible assets	5.2	2 507	588	2 507	588
Right-of-use asset	5.6	39 104	-	39 104	-
Investment properties	5.3	177 115	151 070	-	-
Investments	7.11	29 210	53 894	28 053	50 931
Deferred tax asset	3.3	49	4 454	-	-
Investments in subsidiaries	9.2	-	-	51 943	77 951
Investments in joint operations	9.3	-	-	-	-
Investments in associates	9.4	755 931	754 662	98 986	98 993
Investments in joint ventures	9.5	117 620	117 628	123 716	111 896
Total Assets		**3 133 156**	**2 211 778**	**2 404 383**	**1 479 982**
Equity and Liabilities					
Share capital	8.1	308 300	308 300	308 300	308 300
Shareholder reserves	8.2	2 103 996	1 862 543	2 103 996	1 862 543
Other reserves		14 052	17 971	-	-
Retained earnings		(1 148 119)	(726 831)	(1 803 014)	(1 392 427)
Equity attributable to owners of the parent		**1 278 229**	**1 461 983**	**609 282**	**778 416**
Non-controlling interest		(184)	11	-	-
Total equity		**1 278 045**	**1 461 994**	**609 282**	**778 416**
Liabilities					
Trade and other payables	4.3	147 420	145 062	121 187	117 929
Lease liability	5.6	43 427	-	43 427	-
Deferred grants payable	4.4	1 000 980	503	1 000 980	503
Outstanding claims reserve	6.2	5 557	8 123	-	-
Unearned risk reserve	6.2	28 220	12 962	-	-
Post-retirement medical liability	6.3	443	554	443	554
Shareholder loans	6.1	629 064	582 580	629 064	582 580
Total liabilities		**1 855 111**	**749 784**	**1 795 101**	**701 566**
Total Equity and Liabilities		**3 133 156**	**2 211 778**	**2 404 383**	**1 479 982**

Statements of Profit or Loss and Other Comprehensive Income

for the Year Ended 31 March 2020

	Note	Group		Company	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Net interest income on loans and advances	2.2	68 060	66 709	66 842	61 514
Increase in credit losses on loans	2.4.3	60 397	6 091	58 228	7 781
Bad debts written off[1]	2.4.3	(209 360)	(135 424)	(204 649)	(134 884)
Loss from lending activities		**(80 903)**	**(62 624)**	**(79 579)**	**(65 590)**
Other interest earned and other revenue	2.3	99 016	96 592	110 879	98 992
Grant income	2.6	28 524	-	28 524	-
Lease liability finance cost	5.6	(3 270)	-	(3 270)	-
Finance costs	6.1	(46 484)	(41 171)	(46 484)	(41 171)
Gross (loss)/ profit after finance costs		**(3 117)**	**(7 203)**	**10 070**	**(7 769)**
Net fair value gain/ (loss) on investment properties	5.5	(10 354)	5 254	-	-
Increase in impairments on related party loans	10.1	-	-	(62 907)	(36 425)
Increase in impairments on cash	4.1	(4 310)	-	(3 993)	-
Increase in impairments on investments	2.4.2	(40 820)	(3 777)	(52 960)	(37 416)
Investment property expenses		(50 996)	(53 524)	(29)	-
Personnel expenses		(204 618)	(177 180)	(204 618)	(177 180)
Grant expense	2.6	(28 524)	-	(28 524)	-
Other operating expenses		(86 878)	(76 964)	(67 055)	(56 908)
Operating loss	2.4	**(429 617)**	**(313 394)**	**(410 016)**	**(315 698)**
Profit from equity accounted investments, net of tax	9.6	13 629	13 738	-	-
Loss before tax		**(415 988)**	**(299 656)**	**(410 016)**	**(315 698)**
Income tax credit/ (charge)	3.2	(4 924)	3 535	-	-
Net loss for the year		**(420 912)**	**(296 121)**	**(410 016)**	**(315 698)**
Other comprehensive income after tax:					
Other comprehensive income from equity accounted investments		**(3 919)**	**3 653**	**-**	**-**
Other comprehensive (loss)/income for the year	9.6	**(3 919)**	**3 653**	**-**	**-**
Total comprehensive loss for the year		(424 831)	(292 468)	(410 016)	(315 698)
Loss and total comprehensive loss attributable to:					
Owners of the parent - loss for the year		(420 717)	(296 118)		
Owners of the parent - other comprehensive income		(3 919)	3 653		
Non-controlling interest - for the year		(195)	(3)		
Total comprehensive loss and loss for the year		**(424 831)**	**(292 468)**		

[1] 70% (2019: 64%) 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 2020

Group	Note	Share Capital R'000	Retained Earnings R'000	Shareholder Reserves R'000	Other Reserves[1] R'000	Non-Controlling Interest R'000	Total R'000
Balance at 31 March 2018		**308 300**	**(307 714)**	**1 529 455**	**14 318**	**14**	**1 544 373**
Adjustment on initial application of IFRS 9, net of tax		-	(92 814)	-	-	-	(92 814)
Share of IFRS 9 adjustment from associates and joint ventures		-	(30 185)	-	-	-	(30 185)
Balance at 1 April 2018 adjusted		**308 300**	**(430 713)**	**1 529 455**	**14 318**	**14**	**1 421 374**
Advances received on shareholder reserves	8.2	-	-	228 838	-	-	228 838
Day one gain recognised on advance on shareholders loan	6.1	-	-	104 250	-	-	104 250
Other comprehensive income from equity accounted investments		-	-	-	3 653	-	3 653
Total comprehensive loss for the year		-	(296 118)	-	-	(3)	(296 121)
Restated balance at 31 March 2019		**308 300**	**(726 831)**	**1 862 543**	**17 971**	**11**	**1 461 994**
Adjustment on initial application of IFRS 16, net of tax		-	(571)	-	-	-	(571)
Restated balance at 1 April 2019		**308 300**	**(727 402)**	**1 862 543**	**17 971**	**11**	**1 461 423**
Advances received on shareholder reserves	8.2	-	-	241 453	-	-	241 453
Other comprehensive loss from equity accounted investments		-	-	-	(3 919)	-	(3 919)
Total comprehensive loss for the year		-	(420 717)	-	-	(195)	(420 912)
Balance at 31 March 2020		**308 300**	**(1 148 119)**	**2 103 996**	**14 052**	**(184)**	**1 278 045**

[1] Other reserves consists of fair value and other reserves recognised by Business Partners Limited

Company	Note	Share Capital R'000	Retained Earnings R'000	Shareholder Reserves R'000	Other Reserves[1] R'000	Non-Controlling Interest R'000	Total R'000
Balance at 31 March 2018		**308 300**	**(983 915)**	**1 529 455**	**-**	**-**	**853 840**
Adjustment on initial application of IFRS 9, net of tax		-	(92 814)	-	-	-	(92 814)
Balance at 1 April 2018 adjusted		**308 300**	**(1 076 729)**	**1 529 455**	**-**	**-**	**761 026**
Advances received on shareholder reserves	8.2	-	-	228 838	-	-	228 838
Deemed equity contribution on interest-free shareholder loan	8.2	-	-	104 250	-	-	104 250
Total comprehensive loss for the year		-	(315 698)	-	-	-	(315 698)
Balance at 31 March 2019		**308 300**	**(1 392 427)**	**1 862 543**	**-**	**-**	**778 416**
Adjustment on initial application of IFRS 16, net of tax	8.2	-	(571)	-	-	-	(571)
Restated balance at 1 April 2019		**308 300**	**(1 392 998)**	**1 862 543**	**-**	**-**	**777 845**
Advances received on shareholder reserves		-	-	241 453	-	-	241 453
Total comprehensive loss for the year		-	(410 016)	-	-	-	(410 016)
Balance at 31 March 2020		**308 300**	**(1 803 014)**	**2 103 996**	**-**	**-**	**609 282**

Statements of Cash Flows

for the Year Ended 31 March 2020

	Note	Group		Company	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash flows from operating activities					
Cash utilised by operations	2.5	(223 705)	(198 918)	(205 644)	(179 708)
Loans and advances to customers or investees		(193 420)	(61 784)	(199 947)	(70 497)
Grant income received		1 029 000	-	1 029 000	-
Tax received/(paid)	3.1	518	(26)	-	-
Net cash generated from/(utilised by) operating activities		**612 393**	**(260 728)**	**623 409**	**(250 205)**
Cash flows from investing activities					
Purchase of equipment, furniture and other tangible assets	5.1	(5 534)	(2 673)	(5 534)	(2 673)
Purchase of intangible assets	5.2	(3 099)	(84)	(3 099)	(84)
(Acquisition) / disinvestment of investments		(16 135)	9 043	(14 758)	9 139
Interest and dividends received		51 060	52 740	41 974	42 705
Acquisition of equity accounted investments		(324)	(6 272)	(1 128)	1 568
Proceeds from sale of equipment, furniture and other tangible assets		-	42	-	42
Proceeds from sale of investment properties		-	1 659	-	-
Net cash generated by investing activities		**25 968**	**54 455**	**17 455**	**50 697**
Cash flows from financing activities					
Capital funding received from the shareholder	8.2	241 453	378 837	241 453	378 837
Lease liability finance cost	5.6	(3 270)	-	(3 270)	-
Capital portion of lease liability	5.6	(6 132)	-	(6 132)	-
Net cash from financing activities		**232 051**	**378 837**	**232 051**	**378 837**
Net increase in cash and cash equivalents		870 412	172 564	872 915	179 329
Cash and cash equivalents at beginning of year		664 962	492 398	538 201	358 872
Cash and cash equivalents at end of year	4.1	**1 535 374**	**664 962**	**1 411 116**	**538 201**

Index to the Notes to the Group and Company Financial Statements

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020

1. 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.

This has been assessed with the impact of COVID-19. The Group and the Company budgets were re- forecast post COVID-19 to account for all reasonably possible changes.

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

Refer to notes 1.5 and 5.6 for disclosure relating to the impact of the adoption of IFRS 16 – Leases on the Group.

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 non-controlling 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.

1. Accounting Framework and Critical Judgements (continued)

1.4 Principle accounting policies (continued)

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 non- controlling 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 non- controlling 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

1. Accounting Framework and Critical Judgements (continued)

1.4 Principle accounting policies (continued)

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 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

1. Accounting Framework and Critical Judgements (continued)

1.4 Principle accounting policies (continued)

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

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

In these financial statements, the Group has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 1.5.1 below.

1.5.1. IFRS 16-Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC- 15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019.

Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

1. Accounting Framework and Critical Judgements (continued)

1.5 New and amended standards and interpretations (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 April 2019:

- Right-of-use assets and corresponding liability of R52 million were recognised and presented in the statement of financial position within "Right-of-use assets" and "lease liability.
- The adoption of IFRS 16 had an R571 315 impact on the Group's retained earnings and a net impact of R2.9 million on profit and loss in the current year.

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	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. 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.	IFRS 17 will be effective for annual periods beginning on or after 1 January 2023

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. Further clarification is also provided on the key inputs and assumptions that were impacted by the COVID-19 Pandemic.

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. Accounting Framework and Critical Judgements (continued)

1.6 Critical accounting judgements, estimates and assumptions (continued)

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.

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.

Rental income

Rental income is generated from investment properties that are subject to operating leases. An operating lease is a lease where a significant portion 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

2. Results of Operations (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.2 Net interest income on loans and advance				
Interest received on loans and advances to clients	68 060	66 709	66 842	61 514
2.3 Other interest earned and other revenue				
Fee income	8 339	5 493	8 124	5 279
Indemnity premiums earned	2 823	2 074	-	-
Interest on overdue rental debtors	1 321	1 719	-	-
Investment property rental income	18 713	17 366	-	-
Investment property rental recoveries	7 625	10 269	-	-
Interest received on cash and cash equivalents	41 160	40 709	33 397	32 393
Interest received on related party loan	-	-	16 023	12 630
Dividends received on equity investments [1]	-	2 107	8 578	10 312
Bad debts recovered	2 911	2 009	2 607	1 929
Management fee - related parties	8 337	8 022	34 363	29 625
Other sundry income [2]	7 787	6 824	7 787	6 824
Total other interest and other revenue	**99 016**	**96 592**	**110 879**	**98 992**
Total other interest earned	42 481	42 428	49 420	45 023
Total other revenue	56 535	54 164	61 459	53 969

[1]The amount of R2.1 million for dividends received on equity investments at Group level relates to dividend withholding tax recovered in the prior year. The income was not previously accrued for.

[2]Rental income earned on a building that is sub-leased to a third party to the value of R7.5 million (2019: R6.5 million) is included in other sundry income. Other revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.4 Operating loss				
Is arrived at after taking into account the following:				
2.4.1 Specific items:				
Contributions to defined contribution plans	14 109	14 109	14 109	14 109
Depreciation	3 225	3 636	3 225	3 636
Amortisation	1 180	456	1 180	456
	18 514	**18 201**	**18 514**	**18 201**

2. Results of Operations (continued)

2.4 Operating loss (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.4.2 Increase/(decrease) in impairments on investments:				
Impairment of Investments in Associates	-	-	(383)	24 191
Impairment of Joint Ventures	-	-	(8 301)	6 090
Impairment of Other Investments	18 647	3 777	15 463	(1 045)
Impairment of Subsidiaries	-	-	24 008	8 180
Investment written off	22 173	-	22 173	-
Total increase in impairments on investments	40 820	3 777	52 960	37 416
2.4.3 Increase/(decrease) in bad debt provisions on loans and advances:				
(Decrease)/ increase in bad debt provision - loans and advances	(60 397)	(6 091)	(58 228)	(7 780)
Bad debt written off - loans and advances[1]	209 360	135 424	204 649	134 884
Total increase in bad debt provisions on loans and advances	148 963	129 333	146 421	127 104
[1]On a portfolio basis the split of bad debt written off is as follows:				
Micro Finance portfolio	4 189	-	4 189	-
Co-operatives portfolio	31 388	-	31 388	-
Direct Lending Portfolio *(Legacy Book)*	143 815	131 432	143 815	131 432
Direct Lending Portfolio *(New Book)*	20 219	3 452	20 219	3 452
New Business Finance portfolio *(Legacy book)*	5 038	-	5 038	-
Identity Development Fund	4 711	540	-	-
	209 360	135 424	204 649	134 884
2.4.4 Increases/(decreases) in bad debt provisions on rental debtors:				
Increase/ (decrease) in bad debt provision - rental debtors	(1 084)	11 514	-	-
Loss on disposal of rental debtors	-	-	-	-
Total increase in bad debt provisions on rental debtors	**(1 084)**	**11 514**	**-**	**-**
2.4.5 Increases/(decreases) in bad debt provisions on related party loans				
Increase in bad debt provision on Khula Business Premises (Pty) Ltd	**-**	**-**	**62 907**	**36 425**
2.4.6 Increase/(decrease) in provisions and reserves relating to the credit indemnity product:				
Indemnity claims incurred	(15)	2 173	-	-
Claims provision	(2 566)	4 433	-	-
Indemnity reserves	15 258	6 255	-	-
Total increase in indemnity provisions and reserves	**12 677**	**12 861**	**-**	**-**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

2. Results of Operations (continued)

2.4 Operating loss (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.4.7 Loans and advances: Impairment movement per sector				
Net increase / (decrease) in impairments - loans and advances				
Agriculture, forestry and fishing	(15 038)	(26 931)	(14 786)	(24 897)
Beverages	1 687	(2 406)	1 687	(2 406)
Building construction	(48 638)	(41 226)	(48 638)	(41 226)
Business services	(12 182)	(497)	(12 182)	(437)
Catering and accommodation services	(941)	(888)	(941)	(888)
Electricity, gas and steam	-	(1 174)	-	(1 174)
Finance and insurance	10 692	2 143	10 692	2 863
Food	193	1 413	193	1 413
Furniture	(1 037)	350	(1 037)	350
Government	(2 400)	(1 309)	(2 400)	(1 309)
Machinery and equipment	-	-	-	-
Medical, dental and other health and veterinary services	(983)	(81)	(983)	(1 732)
Metal products excluding machinery	1 920	2 957	1 920	2 957
Motor vehicles, parts and accessories	14 278	71 323	14 278	71 323
Non-metallic minerals	859	2 450	859	2 450
Other community, social and personal services	(3 660)	121	(3 660)	87
Other chemicals and man-made fibres	(22)	1 538	(22)	1 538
Other industries	(737)	(10 635)	(737)	(10 635)
Other mining	(8 543)	(1 206)	(8 543)	(1 146)
Other services	176	4 531	2 093	4 531
Plastic products	84	422	84	422
Printing, publishing and recorded media	496	37	496	37
Television, radio and communication equipment	(76)	110	(76)	110
Textiles	91	(3 564)	91	(3 564)
Transport and storage	4 825	109	4 825	(43)
Wholesale and retail trade	1 654	(4 676)	1 654	(7 402)
Wood and wooden products	(3 095)	998	(3 095)	998
Total movement on credit loss allowances	**(60 397)**	**(6 091)**	**(58 228)**	**(7 780)**

2. Results of Operations (continued)

2.4 Operating loss (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.4.8 Bad debts written off/ (recovered) per sector:				
Bad debts written off/(recovered) - Loans and advances				
Bad debts written off	209 360	135 424	204 649	134 884
Bad debts recovered	(2 911)	(2 009)	(2 607)	(1 929)
Total bad debts written off/ (recovered)	**206 449**	**133 415**	**202 042**	**132 955**
Bad debts written off/(recovered) - Per sector:				
Agriculture, forestry and fishing	6 284	10 298	6 284	10 298
Beverages	1 097	5 053	1 097	5 053
Building construction	39 714	49 969	39 714	49 969
Business services	21 812	3 791	21 812	3 791
Catering and accommodation services	(275)	-	(275)	-
Electrical machinery	(288)	-	(288)	-
Finance and insurance	30 300	2 562	30 300	2 562
Food	10 289	4 764	10 289	4 764
Furniture	1 681	-	1 681	-
Government	4 228	1 611	4 228	1 611
Medical, dental and other health and veterinary services	3 748	5 412	3 748	5 412
Motor vehicles, parts and accessories	-	-	-	-
Other community, social and personal services	3 721	-	3 721	-
Other industries	27 759	13 115	23 352	13 115
Other mining	15 036	4 804	15 036	4 804
Textiles	-	5 983	-	5 983
Transport and storage	17 208	11 750	17 208	11 750
Wholesale and retail trade	15 889	14 303	15 889	13 843
Wood and wooden products	8 246	-	8 246	-
Total bad debts written off/ (recovered)	**206 449**	**133 415**	**202 042**	**132 955**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

2. Results of Operations (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.5 Cash utilised by operations				
Loss before tax	(415 988)	(299 656)	(410 016)	(315 698)
Adjustments for:				
Depreciation	12 298	3 636	12 298	3 636
Amortisation	1 180	456	1 180	456
Fair value adjustment	10 354	(5 254)	-	-
Impairments - Investments	18 649	3 777	15 465	(1 045)
Impairments - Subsidiaries and equity accounted investees	-	-	15 324	38 461
Income from associates and joint ventures	(13 629)	(13 738)	-	-
Dividends received from associate	-	(2 107)	(8 578)	(10 312)
Increase in indemnity reserves	15 258	6 255	-	-
Interest charged on shareholder's loan	46 484	41 171	46 484	41 171
Lease liability finance cost	3 270	-	3 270	-
Interest on related party loans	-	-	(16 023)	(12 630)
Investment income and interest on overdue rental debtors	(42 481)	(42 428)	(33 397)	(32 393)
Grant income	(28 524)	-	(28 524)	-
Profit on sale of investment properties	-	(458)	-	-
Loss on disposal of equity investment	-	-	-	-
(Profit)/loss on sale of equipment	69	(23)	69	(33)
Provision for bad debts	(61 480)	5 423	(58 228)	(7 781)
Investment written off	22 173	-	22 173	-
Bad debts written off	209 360	135 424	204 649	134 882
Increase in impairments on cash	4 310	-	3 993	-
Increase in impairments on related party loans	-	-	62 907	36 425
Post-retirement liability	(111)	(70)	(111)	(70)
Increase in provision for indemnity claims	(2 566)	4 433	-	-
Operating loss before changes in working capital	**(221 374)**	**(163 159)**	**(167 065)**	**(124 931)**
Changes in working capital	**(2 331)**	**(35 759)**	**(38 578)**	**(54 778)**
(Increase)/ decrease in trade and other receivables	(6 865)	(15 004)	(11 842)	3 061
Loans issued to related parties	1 364	(511)	(30 808)	(50 839)
(Decrease)/ increase in trade and other payables	3 170	(20 244)	4 072	(7 000)
Cash utilised by operations	**(223 705)**	**(198 918)**	**(205 643)**	**(179 709)**

2. Results of Operations (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
2.6 Grant Income and grant expense				
Grant received: Blended Finance	449	-	449	-
Grant received: Small Business and Innovation Fund	28 075	-	28 075	-
	28 524	**-**	**28 524**	**-**

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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Tax receivable/ (payable) at the beginning of the year	579	35	-	-
Tax as per statement of comprehensive income (net of deferred tax)	-	518	-	-
Tax (refund received)/paid	(518)	26	-	-
Tax receivable at the end of the year	**61**	**579**	**-**	**-**

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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

3. Taxation (continued)

3.2 Income Tax Expense (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Current tax expense - current year	**-**	**(518)**	**-**	**-**
- Current year	-	(518)	-	-
- Prior year under/(over) provision	-	-	-	-
Deferred taxation - current year	**4 924**	**(3 017)**	**-**	**-**
- Current year	144	(3 017)	-	-
- Prior year under/(over) provision	4 780	-	-	-
Income tax expense	**4 924**	**(3 535)**	**-**	**-**
Reconciliation of taxation amount:				
Loss before taxation	(415 988)	(299 656)	(410 016)	(315 698)
Taxation at standard rate of 28% (2019:28%)	(116 477)	(83 904)	(114 804)	(88 395)
Tax effect of permanent differences[1]	15 998	(10 624)	12 877	(12 042)
Tax effect of deferred tax asset not recognised	100 623	91 522	101 927	100 437
Tax loss recognised	-	(529)	-	-
Taxation - Relating to prior year	4 780	-	-	-
Taxation (credit)/ charge to the statement of	**4 924**	**(3 535)**	**-**	**-**
Taxation expense relating to current year	144	(3 535)	-	-
Effective tax rate	-0.03%	1.18%	0.00%	0.00%

[1] Permanent differences are as a result of Amortisation of lease premiums and improvements to leasehold premises; Repairs and maintenance not deductible due to being capital in nature; Movement on day 1 gain on shareholder loan and irregular expenditure not deductible for tax.

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)

	Note	Group		Company	
		2020 R'000	2019 R'000	2020 R'000	2019 R'000
3.3.1 Net deferred tax					
Deferred taxation assets	12.2	96 899	72 829	89 720	63 431
Deferred taxation liabilities	12.3	(96 850)	(68 375)	(89 720)	(63 431)
Net deferred taxation asset		49	4 454	-	-
3.3.2 Deferred taxation assets					
Movement on the deferred taxation asset is as follows:					
At beginning of the year		72 829	60 021	63 431	56 357
Temporary differences recognised in profit or loss					
- Current year		27 580	12 808	26 289	7 074
- Previous year		(3 510)	-	-	-
At end of the year		**96 899**	**72 829**	**89 720**	**63 431**
Deferred taxation assets recognised:					
Income received in advance		2	2	-	-
Tax loss		96 834	68 375	89 720	63 431
Other provisions		63	4 452	-	-
Fair value adjustments on investment property		-	-	-	-
Impairment of investments		-	-	-	-
Fair value adjustments on investment property		-	-	-	-
Total deferred tax assets recognised		**96 899**	**72 829**	**89 720**	**63 431**
Unused deferred tax assets:					
Fair value adjustments		-	398	-	-
Other provisions		186 354	247 043	235 058	258 366
Fixed assets (owned)		-	99	-	-
Impairment of investments		54 386	32 490	107 303	81 117
Tax losses (Revenue in nature)		85 251	272 663	73 443	255 695
Total		**325 991**	**552 693**	**415 804**	**595 178**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

3. Taxation (continued)

3.3 Deferred Tax Assets and Liabilities (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
3.3.3 Deferred taxation liability				
Movement on the deferred taxation liability is as follows:				
At beginning of the year	(68 375)	(58 583)	(63 431)	(56 357)
Temporary differences recognised in profit or loss				
- Current year	(28 475)	(9 792)	(26 289)	(7 074)
At end of the year	**(96 850)**	**(68 375)**	**(89 720)**	**(63 431)**
Deferred taxation liabilities:				
Equipment, furniture and other tangible assets	21	18	21	18
Prepaid expenses	21	263	21	263
Debtor allowances	96 808	68 094	89 678	63 150
Fair value adjustments on investment property	-	-	-	-
Other provisions	-	-	-	-
Total deferred tax liabilities recognised	96 850	68 375	89 720	63 431

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 and bank overdrafts, all of which are available for use by the Group unless otherwise stated. Cash and cash equivalents are available within three months.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash in bank and on hand	1 043 782	120 817	955 332	33 115
Cash managed by shareholder	424 674	472 551	388 866	433 492
Cash managed on behalf of 3rd parties (note 4.3.4)	66 918	71 594	66 918	71 594
Gross carrying amount	**1 535 374**	**664 962**	**1 411 116**	**538 201**
Expected credit loss on cash	(4 310)	-	(3 994)	-
Total cash and cash equivalents	**1 531 064**	**664 962**	**1 407 122**	**538 201**

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.

An expected credit loss on cash has been raised in the current year due to the downgrading of South Africa's sovereign credit rating and also the downgrading of South African banks by ratings agencies.

The expected credit losses are 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.

4. Working Capital (continued)

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.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Trade receivables	26 820	26 406	3 823	2 849
Prepayments	3 726	6 921	3 655	3 065
Rental debtors	18 158	19 307	-	-
Related party loans (refer to note 10.1)	8 480	9 655	373 319	326 488
Study loans	411	456	411	456
Trade and other receivables before credit allowances	**57 595**	**62 745**	**381 208**	**332 858**
Credit allowances on rental debtors	(18 107)	(19 191)	-	-
Credit allowances on trade and receivables	(10 985)	(10 985)	-	-
Credit allowance on related party loan (refer to note 10.1)	-	-	(173 943)	(111 036)
Closing carrying value	28 503	32 569	207 265	221 822

Trade and other receivables are current assets and not pledged as security. Carrying amount approximates fair value.

4.3 Trade and Other Payables

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Trade payables	56 959	54 212	30 726	27 079
Provision for bonus (Refer to 4.3.1)	18 375	14 827	18 375	14 827
Provision for leave pay (Refer to 4.3.2)	5 168	4 429	5 168	4 429
Managed funds (Refer to 4.3.3)	66 918	71 594	66 918	71 594
Total trade and other payables	**147 420**	**145 062**	**121 187**	**117 929**
4.3.1 Provision for Bonuses				
Opening balance	14 827	21 451	14 827	21 451
Utilised during the year	(14 827)	(15 400)	(14 827)	(15 400)
Unutilised portion released during the year	-	(6 051)	-	(6 051)
Accruals raised during the year	18 375	14 827	18 375	14 827
Closing balance	**18 375**	**14 827**	**18 375**	**14 827**
4.3.2 Provision for leave pay				
Opening balance	4 429	4 299	4 429	4 299
Utilised during the year	(3 612)	(3 869)	(3 612)	(3 869)
Prior year (under provision) / over provision	(817)	(430)	(817)	(430)
Accruals raised during the year	5 168	4 429	5 168	4 429
Closing balance	**5 168**	**4 429**	**5 168**	**4 429**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

4. Working Capital (continued)

4.3 Trade and Other Payables (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
4.3.3 Managed funds				
The group is managing funds and holding cash balances on behalf of the following parties:				
Unops	52 840	49 123	52 840	49 123
Norad	-	9 085	-	9 085
European Union	14 078	13 386	14 078	13 386
Dr Kenneth Kaunda Municipality	-	-	-	-
Total managed funds	**66 918**	**71 594**	**66 918**	**71 594**

All trade and other payables are current liabilities. Carrying amount approximates fair value.

4.4 Deferred Grants Receivable and Payable

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Deferred grant receivable	10 322	-	10 322	-
Total deferred income/revenue	**10 322**	**-**	**10 322**	**-**
Deferred grants payable	1 000 980	503	1 000 980	503
Total deferred income/revenue	**1 000 980**	**503**	**1 000 980**	**503**

Funding relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs for which they are intended to compensate and is included in Trade and other payables.

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.

5. Fixed Assets (continued)

5.1 Equipment, furniture and other tangible assets (continued)

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.

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 less any impairment and expected 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.

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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

5. Fixed Assets (continued)

5.1 Equipment, furniture and other tangible assets (continued)

	Group			Company		
	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
2020						
Motor vehicles	679	(671)	8	679	(671)	8
Computer equipment	15 775	(12 529)	3 246	15 380	(12 134)	3 246
Office equipment	5 035	(4 587)	448	4 769	(4 321)	448
Furniture and fittings	10 429	(8 977)	1 452	7 404	(5 952)	1 452
Lease improvements	12 407	(9 789)	2 618	12 407	(9 789)	2 618
	44 325	**(36 553)**	**7 772**	**40 639**	**(32 867)**	**7 772**
2019						
Motor vehicles	679	(640)	39	679	(640)	39
Computer equipment	14 555	(11 601)	2 954	14 160	(11 206)	2 954
Office equipment	4 707	(4 390)	317	4 441	(4 124)	317
Furniture and fittings	9 264	(8 793)	471	6 239	(5 768)	471
Lease improvements	10 679	(8 928)	1 751	10 679	(8 928)	1 751
	39 884	**(34 352)**	**5 532**	**36 198**	**(30 666)**	**5 532**

The movement in the carrying value of office equipment, furniture and other tangible assets is as follows:

	Group					
	Motor vehicles R'000	Computer Equipment R'000	Office equipment R'000	Furniture and fittings R'000	Lease improvements R'000	Total R'000
2020						
Opening carrying value	39	2 954	317	471	1 751	5 532
Additions	-	2 313	327	1 165	1 729	5 534
Disposals	-	(69)	-	-	-	(69)
Depreciation charges	(31)	(1 952)	(196)	(184)	(862)	(3 225)
Closing carrying value	**8**	**3 246**	**448**	**1 452**	**2 618**	**7 772**
2019						
Opening carrying value	115	2 944	493	319	2 633	6 504
Additions	24	1 682	144	322	501	2 673
Disposals	-	(9)	-	-	-	(9)
Depreciation charges	(100)	(1 663)	(320)	(170)	(1 383)	(3 636)
Closing carrying value	**39**	**2 954**	**317**	**471**	**1 751**	**5 532**

5. Fixed Assets (continued)

5.1 Equipment, furniture and other tangible assets (continued)

	Company					
	Motor vehicles R'000	Computer Equipment R'000	Office equipment R'000	Furniture and fittings R'000	Lease improvements R'000	Total R'000
2020						
Opening carrying value	39	2 954	317	471	1 751	5 532
Additions	-	2 313	327	1 165	1 729	5 534
Disposals	-	(69)	-	-	-	(69)
Depreciation charges	(31)	(1 952)	(196)	(184)	(862)	(3 225)
Closing carrying value	**8**	**3 246**	**448**	**1 452**	**2 618**	**7 772**
2019						
Opening carrying value	116	2 944	493	319	2 633	6 505
Additions	23	1 682	144	322	501	2 672
Disposals	-	(9)	-	-	-	(9)
Depreciation charges	(100)	(1 663)	(320)	(170)	(1 383)	(3 636)
Closing carrying value	**39**	**2 954**	**317**	**471**	**1 751**	**5 532**

No equipment, furniture or other tangible assets are pledged as security for liabilities (2019: Rnil) and all assets are non-current assets.

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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

5. Fixed Assets (continued)

5.2 Intangible assets (continued)

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.

	Group			Company		
	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000
2020						
Software	9 236	(6 729)	2 507	9 211	(6 704)	2 507
	9 236	**(6 729)**	**2 507**	**9 211**	**(6 704)**	**2 507**
2019						
Software	6 136	(5 548)	588	6 111	(5 523)	588
	6 136	**(5 548)**	**588**	**6 111**	**(5 523)**	**588**

The movement in the carrying value of computer software is as follows:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening carrying value	588	960	588	960
Additions	3 099	84	3 099	84
Amortisation	(1 180)	(456)	(1 180)	(456)
Closing carrying value	**2 507**	**588**	**2 507**	**588**

No intangible assets are pledged as security for liabilities (2019: 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 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 two years.

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 2019.A desktop valuation was performed in 2020. Inputs included market related rental income and market capitalisation rates.

To account for COVID-19 the market capitalisation rates were increased. 1% for industrial properties and 0.5% for retail properties. An overall decline of 12% from 2019 was recorded.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening carrying amount	151 070	169 697	-	-
Reclassification from Investment Properties held-for-sale	36 399	12 518	-	-
Reclassification to Investment Properties held-for-sale	-	(37 582)	-	-
Fair value adjustments	(10 354)	6 437	-	-
Total investment properties	**177 115**	**151 070**	**-**	**-**

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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

5. Fixed Assets (continued)

5.4 Investment Properties Held-For-Sale (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening carrying amount	36 399	13 718	-	-
Reclassification from Investment Properties	-	37 582	-	-
Reclassification to Investment Properties	(36 399)	(12 518)	-	-
Disposals at fair value	-	(1 200)	-	-
Fair value adjustments	-	(1 183)	-	-
Closing carrying value	**-**	**36 399**	**-**	**-**

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 recalssififed in the current year back to investment property.

5.5 Net Fair Value Gain or Loss on Investment Properties

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Fair value gain/(loss) on investment properties	(10 354)	5 254	-	-
Impairments on investment properties held-for-sale	-	-	-	-
Net fair value gain and impairments	**(10 354)**	**5 254**	**-**	**-**

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.

The capitalisation rates used range from 11% to 17% (2019: 10.5% - 16%). To account for COVID-19 the market capitalisation rates were increased (1% increase for industrial properties and 0.5% increase for retail properties).

5. Fixed Assets (continued)

Sensitivity analysis for inputs to determine fair value

A change in 1% (2019: 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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Market related annual income 1% increase	3 593	3 551	-	-
Market related annual income 1% decrease	(3 593)	(3 551)	-	-
Capitalisation rate 1% increase	(1 793)	(2 148)	-	-
Capitalisation rate 1% decrease	1 793	2 148	-	-
Market related expenses 1% increase	(1 818)	(2 177)	-	-
Market related expenses 1% decrease	1 818	2 177	-	-

5.6 Right-of-use Asset and Lease Liability

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Effect of adoption of IFRS 16 as at 1 April 2019	48 177	-	48 177	-
Depreciation charge for the year	(9 073)	-	(9 073)	-
Closing carrying value	**39 104**	**-**	**39 104**	**-**

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:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Effect of adoption of IFRS 16 as at 1 April 2019	49 559	-	49 559	-
Accretion of interest	3 270	-	3 270	-
Payments	(9 402)	-	(9 402)	-
Closing carrying value	**43 427**	**-**	**43 427**	**-**

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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

5. Fixed Assets (continued)

5.6 Right-of-use Asset and Lease Liability (continued)

The following is a reconciliation of total operating lease commitments at 31 March 2019 (as disclosed in the financial statements to 31 March 2019) to the lease liabilities recognised at 31 March 2020.

	R'000
Total operating lease commitments disclosed at 31 March 2019	8 563
Recognition exemptions:	
Leases of low value assets	(176)
Operating lease liabilities before discounting	8 387
Discounted using incremental borrowing rate	(3 270)
Operating lease liabilities	5 117
Reasonably certain extension options	38 310
Finance lease obligations	-
Total lease liabilities recognised under IFRS 16 at 1 April 2019	43 427

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.

	2020 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	176
	176

Low value assets consists of 10 printers that are leased. Remaining term on the lease at year end was 11 months.

Rental income earned on a building (right-of-use asset), that is sub-leased to a third party, to the value of R7.5m (2019: R6.5m) is included in other sundry income. (Refer to note 2.3)

Maturity analysis for lease liability

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Due within one year	13 002	-	13 002	-
Due after one year but within two years	13 612	-	13 612	-
Due within two to three years	11 240	-	11 240	-
Due within three to four years	11 076	-	11 076	-
Due within four to five years	3 783	-	3 783	-
Carrying value of lease liability	52 713	-	52 713	-

6. Finance Structure and Commitments

6.1 Shareholder's Loan

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening balance	582 580	495 660	582 580	495 660
Advances	-	150 000	-	150 000
Deemed equity contribution on interest-free shareholder loan	-	(104 250)	-	(104 250)
Finance charges [1]	46 484	41 170	46 484	41 170
Total shareholder's loans	**629 064**	**582 580**	**629 064**	**582 580**

[1]The increase in finance charges is as a result of the unwind of interest on the fair value of the advance received from the shareholder. The difference between the fair value on initial recognition and the proceeds received was recognised as a deemed equity contribution on the interest free shareholder loan. The deemed equity contribution on the interest free shareholder loan has been recognised in equity and will not be subsequently re-measured.

The closing balance consists of two loans:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Loan terms				
Subordinated and non-interest bearing. Repayable after 10 years, commencing 11 June 2024	572 183	532 549	572 183	532 549
Subordinated and non-interest bearing. Repayable biannually in equal instalments over 10 years, commencing 20 June 2023	56 881	50 031	56 881	50 031
Total shareholder's loans	**629 064**	**582 580**	**629 064**	**582 580**

The finance charges reflected above is the result of the amortisation of a fair value gain (deemed equity contribution) that was initially recognised.

6.2 Unearned risk reserve 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

6. Finance Structure and Commitments (continued)

6.2 Unearned risk reserve 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. The group's own assessors individually assess claims. The claims reserve includes an estimated portion of the direct expenses of processing the claims. 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.

The provisions recognised in the statements of financial position are current and non-current liabilities and are detailed below:

6.2.1 Unearned risk reserve

	Group		
	Unearned premium reserve R'000	Additional unexpired risk reserve R'000	Total unearned risk reserve R'000
As at 31 March 2018	263	6 444	**6 707**
Movement recorded in profit or loss	161	6 094	**6 255**
As at 31 March 2019	**424**	**12 538**	**12 962**
Movement recorded in profit or loss	1 080	14 178	**15 258**
As at 31 March 2020	**1 504**	**26 716**	**28 220**

6. Finance Structure and Commitments (continued)

6.2 Unearned risk reserve and outstanding claims provision (continued)

6.2.2 Outstanding Claims Reserve

	Group		
	Notified outstanding claims reserve R'000	Incurred but not reported reserve R'000	Total outstanding claims reserve R'000
As at 31 March 2018	1 514	2 176	**3 690**
Movement recorded in profit or loss	3 831	602	**4 433**
As at 31 March 2019	**5 345**	**2 778**	**8 123**
Movement recorded in profit or loss	(2 157)	(409)	**(2 566)**
As at 31 March 2020	**3 188**	**2 369**	**5 557**

6.2.3 Total exposure

The calculation of the reserves was performed by an independent actuarial consulting firm, Matlotlo Group Proprietary Limited.

	Group	
	2020 R'000	2019 R'000
Credit indemnities issued to financial institutions	129 403	80 692
Less technical reserves already provided	(33 777)	(21 085)
Exposure after technical reserves	**95 626**	**59 607**

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:

	Group	
	2020	2019
Average ultimate probability of claim	13%	16%
Claim severity	81%	81%
Claim expense rate	4%	5%
Recovery rate	10%	7%
Discount rates (per government bond yield curve)	5.05% - 12.99%	6.88% - 10.13%

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

6. Finance Structure and Commitments (continued)

6.2 Unearned risk reserve and outstanding claims provision (continued)

The sensitivity of the total provisions to the key assumptions is as follows:

	Group			
	2020 R'000	2019 R'000	2020 %	2019 %
Probability of claim (+10%)	394	924	1.2%	4.4%
Claim severity (+10%)	3 437	2 248	10.2%	10.7%
Claim expense rate (+1%)	251	122	0.7%	0.6%
Discount rates (-1%)	389	105	0.0%	0.4%

6.3 Post-Retirement Medical Liability

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Post-retirement medical liability	443	554	443	554

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.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Analysis of the defined post retirement medical liability:				
Present value of unfunded obligations	443	554	443	554
	443	**554**	**443**	**554**

Changes in the present value of the defined benefit obligation are as follows:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening post-retirement medical aid obligation				
Current service cost	554	624	554	624
Interest cost	24	30	24	30
Actuarial gain	50	56	50	56
Employer benefit payments	(185)	(36)	(185)	(36)
Closing defined benefit obligation	-	(120)	-	(120)
	443	**554**	**443**	**554**

6. Finance Structure and Commitments (continued)

6.3 Post-Retirement Medical Liability (continued)

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	Group	
	2020 R'000	2019 R'000
Discount rate at 31 March	5.2% - 13.6% naca	9.94% naca
Medical inflation rate per annum	6.2% - 10.5% naca	9.36% naca
Take-up rate by retired employees	100%	100%
Retirement age	60 years	60 years
Pre-retirement mortality	SA85-90 Light	SA85-90 Light
	PA (90)	PA (90)
Post retirement mortality	2 year reduction	2 year reduction

The table below shows the sensitivity of **sefa**'s obligations, as at 31 March 2020, with respect to post-retirement medical aid benefits to key assumptions:

	Variation	% change in provision	Change in value of provision
Long-term interest rates	1%	-10%	(42)
	1%	11%	49
Retirement Age	+1 year	-14%	(63)
	-1 year	17%	75
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

6.4.1 Lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Equipment	**170**	**326**	**170**	**326**
Within 1 year	170	206	170	206
From 2 to 5 years	-	120	-	120
Total lease commitments	**170**	**326**	**170**	**326**

Due to the adoption of IRFS 16, the lease disclosure commitments are no longer required.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

6. Finance Structure and Commitments (continued)

6.4 Commitments (continued)

6.4.2 Loan and indemnity commitments

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Off-balance sheet items				
Undrawn financing facilities approved	90 299	95 715	90 299	95 715
Undrawn credit guarantee facilities approved	567 769	346 141	-	-
Total off-balance sheet commitments	**658 068**	**441 856**	**90 299**	**95 715**

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 at fair value, including transaction costs, 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;
- Designated as 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.

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.

7. Financial Risk (continued)

7.1 Financial instruments (continued)

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

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

Credit losses for rental debtors are based on the portfolio's collection rates and the number of outstanding payments from a debtor. Credit losses on related party loans were based on historical payment trends and the ability of the related party to settle the loan.

Refer to note 7.5.1 for rental debtors and 7.5.2 for related party loans.

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 committee reports 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

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 - 2020	Amortised cost R'000	FVTPL R'000	Designated as at FVTPL R'000	Total R'000
Assets				
Loans and advances	433 898	-	-	433 898
Investments	-	29 210	-	29 210
Trade receivables	24 777	-	-	24 777
Cash and cash equivalents	1 531 064	-	-	1 531 064
Total financial assets	1 989 739	29 210	-	2 018 949
Liabilities				
Shareholder loans	(629 064)	-	-	(629 064)
Trade and other payables	(123 878)	-	-	(123 878)
Lease liability	(43 427)			(43 427)
Total financial liabilities	(796 369)	-	-	(796 369)
Net financial assets and liabilities	**1 193 371**	**29 210**	**-**	**1 222 581**

Group - 2019	Amortised cost R'000	FVTPL R'000	Designated as at FVTPL R'000	Total R'000
Assets				
Loans and advances	389 441	-	-	389 441
Investments	-	53 894	-	53 894
Trade receivables	25 648	-	-	25 648
Cash and cash equivalents	664 962	-	-	664 962
Total financial assets	1 080 051	53 894	-	1 133 945
Liabilities				
Shareholder loans	(582 580)	-	-	(582 580)
Trade and other payables	(125 806)	-	-	(125 806)
Total financial liabilities	(708 386)	-	-	(708 386)
Net financial assets and liabilities	**371 665**	**53 894**	**-**	**425 559**

7. Financial Risk (continued)

7.3 Categories of financial instruments (continued)

Company - 2020	Amortised cost R'000	FVTPL R'000	Designated as at FVTPL R'000	Total R'000
Assets				
Loans and advances	427 593	-	-	427 593
Investments	-	28 053	-	28 053
Trade receivables	203 610	-	-	203 610
Cash and cash equivalents	1 407 122	-	-	1 407 122
Total financial assets	2 038 325	28 053	-	2 066 378
Liabilities				
Shareholder loans	(629 064)	-	-	(629 064)
Trade and other payables	(97 644)	-	-	(97 644)
Lease liability	(43 427)	-	-	(43 427)
Total financial liabilities	(770 135)	-	-	(770 135)
Net financial assets and liabilities	**1 268 190**	**28 053**	**-**	**1 296 243**

Company - 2019	Amortised cost R'000	FVTPL R'000	Designated as at FVTPL R'000	Total R'000
Assets				
Loans and advances	374 068	-	-	374 068
Investments	-	50 931	-	50 931
Trade receivables	218 757	-	-	218 757
Cash and cash equivalents	538 201	-	-	538 201
	1 131 026	50 931	-	1 181 957
Liabilities				
Shareholder loans	(582 580)	-	-	(582 580)
Trade and other payables	(98 673)	-	-	(98 673)
	(681 253)	-	-	(681 253)
Net financial assets and liabilities	**449 773**	**50 931**	**-**	**500 704**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Cash and cash equivalents	1 531 064	664 962	1 407 122	538 201
Trade receivables	28 503	32 569	207 265	221 822
Loans and advances	433 898	389 441	427 593	374 068
Investments	29 210	53 894	28 053	50 931
Total exposure at carrying amount	**2 022 675**	**1 140 866**	**2 070 033**	**1 185 022**

Cash and cash equivalents

The Group and Company limit its 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 (2019: nil).

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.

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 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. Financial Risk (continued)

7.5 Credit risk measurement

7.5.1 Trade receivables - 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.

	0 - 30 days Lifetime ECL	30 days+ Lifetime ECL	Total
Expected loss rate	53%	100%	100%
Rental debtors			
Gross carrying amount	107	18 051	18 158
Lifetime expected credit loss	(56)	(18 051)	(18 107)
Net carrying amount	51	-	51

7.5.2 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.

7.5.3 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)

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.

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.

7. Financial Risk (continued)

7.5 Credit risk measurement (continued)

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")

Impact of COVID-19 Pandemic

The COVID-19 pandemic is expected to have a direct impact on future events and economic conditions. In March 2020, the President of South Africa declared a national state of disaster and instructed that a National Lockdown would commence on 27 March 2020. The lockdown has resulted in a significant decrease in activities for all industries which are deemed non-essential. This is expected to have a significant impact on the macroeconomic outlook.

The following reasons have been identified as key indicators for motivating the updated macroeconomic forecasts:

- The national lockdown, which has negatively affected production activity and domestic expenditure is expected have long lasting effects through quarter 2 and quarter 3 in 2020. This is expected to directly impact HCE and GDP.
- Exports have been negatively impacted by a major drop in global demand which has contributed to a lower than expected GDP.
- The downgrade of South Africa's rating by Moody's to junk status at end of quarter 1 of 2020 and the subsequent exit from the FTSE World Government Bond Index saw further weakening of the rand and a negative impact on GDP.
- Noticeably weaker consumer and business confidence are expected to result in a considerable reduction in household consumption expenditure with confidence levels only expected to recover in the medium to long term.

In this regard **sefa** has updated the economic variable assumptions used in the ECL model to account for the possible future impact of the above on expected credit loss at year end.

7. Financial Risk (continued)

7.5 Credit risk measurement (continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate at 31 March 2020 are set out below:

		2021	2022	2023	2024
% GDP	Base	1.99	1.86	2.19	2.35
	Downturn	(1.50)	1.66	1.41	1.88
	Optimistic	2.40	1.49	2.06	2.16
% Employment	Base	(3.56)	0.72	(0.03)	1.26
	Downturn	(6.72)	(1.95)	(1.08)	0.15
	Optimistic	(0.69)	1.19	0.93	1.38
% CPI	Base	5.25	4.92	4.95	4.54
	Downturn	4.06	3.91	3.60	3.36
	Optimistic	5.55	5.26	4.68	4.15
% HouseCE	Base	1.77	1.92	2.23	2.33
	Downturn	(1.83)	1.64	1.79	1.98
	Optimistic	2.98	1.93	2.25	2.40

- 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 has also been revised for the impact of the COVID-19 pandemic.

The weights have also changed from 55% base, 15% downturn and 30% optimistic to 65% base, 25% downturn and 10% optimistic.

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

	Group 2020 R' 000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - Gross	
Group 2020 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	500 499	-	-	500 499
Special monitoring	-	62 107	-	62 107
Default	-	-	579 485	579 485
Gross carrying amount	**500 499**	**62 107**	**579 485**	**1 142 091**
Loss allowance	(36 861)	(74 394)	(596 938)	(708 193)
Carrying amount	**463 638**	**(12 287)**	**(17 453)**	**433 898**

	Group 2019 R' 000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - Gross	
Group 2019 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	207 309	-	-	207 309
Special monitoring	-	183 438	-	183 438
Default	-	-	767 284	767 284
Gross amount	**207 309**	**183 438**	**767 284**	**1 158 031**
Specific impairment	(22 329)	(56 134)	(690 127)	(768 590)
Carrying amount	**184 980**	**127 304**	**77 157**	**389 441**

	Company 2020 R' 000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - Gross	
Company 2020 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	496 669	-	-	496 669
Special monitoring	-	61 860	-	61 860
Default	-	-	521 041	521 041
Gross carrying amount	**496 669**	**61 860**	**521 041**	**1 079 570**
Loss allowance	(38 706)	(74 354)	(538 917)	(651 977)
Carrying amount	**457 963**	**(12 494)**	**(17 876)**	**427 593**

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for the Year Ended 31 March 2020 (continued)

7. Financial Risk (continued)

7.5 Credit risk measurement (continued)

	Company 2019 R' 000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - Gross	
Company 2019 (R'000)	Stage 1	Stage 2	Stage 3	Total
Standard monitoring	199 997	-	-	199 997
Special monitoring	-	180 446	-	180 446
Default	-	-	703 828	703 828
Gross amount	**199 997**	**180 446**	**703 828**	**1 084 271**
Specific impairment	(21 939)	(55 388)	(632 876)	(710 203)
Portfolio impairment	**-**	**-**	**-**	**-**
Carrying amount	**178 058**	**125 058**	**70 952**	**374 068**

7.5.5 Collateral

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Group 2020 R' 000			
	Gross exposure	Credit loss allowance	Carrying amount	Fair value of collateral held
Stage 1	500 499	(36 861)	463 638	785
Stage 2	62 107	(74 394)	(12 287)	2 930
Stage 3	579 485	(596 938)	(17 453)	14 311
	1 142 091	**(708 193)**	**433 898**	**18 026**

	Company 2020 R' 000			
	Gross exposure	Credit loss allowance	Carrying amount	Fair value of collateral held
Stage 1	496 669	(38 706)	457 963	785
Stage 2	61 860	(74 354)	(12 494)	2 930
Stage 3	521 041	(538 917)	(17 876)	14 311
	1 079 570	**(651 977)**	**427 593**	**18 026**

7. Financial Risk (continued)
7.5 Credit risk measurement (continued)
Nature of collateral held:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Vehicles under instalment sale agreement	583	583	583	583
Equipment under instalment sale agreement	7 197	7 197	7 197	7 197
Special notarial bonds over moveable assets	237	237	237	237
Mortgage bonds over fixed property	7 058	7 058	7 058	7 058
Cession over loan portfolio	2 951	2 951	2 951	2 951
Total collateral held	**18 026**	**18 026**	**18 026**	**18 026**

Collateral repossessed during the 2019 financial year resulted in net proceeds of R1.4m for both Group and Company.

No collateral values have been included in the calculation of the expected credit loss in current year and the collateral was not re-valued at 31 March 2020.

It was not possible to confirm the collateral at year end as the external team that was planned to inspect the collateral were not able to do the site visits during South Africa's national lock-down.

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 2020 R' 000			
	Stage 1	Stage 2	Stage 3	Total
Group 2020	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 1 April 2019	22 329	56 134	690 127	768 590
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(5 926)	18 544	-	12 618
Transfer from Stage 1 to Stage 3	(5 291)	-	60 605	55 314
Transfer from Stage 2 to Stage 3	-	(15 584)	28 041	12 457
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	4 353	(13 079)	-	(8 726)
Transfer from Stage 3 to Stage 2	-	77	(154)	(77)
Transfer from Stage 3 to Stage 1	2 929	-	(5 283)	(2 354)
Changes in PDs/ LGDs/ EADs	(1 694)	(6 749)	5 604	(2 839)
New financial instruments issued	22 755	35 544	15 131	73 430
Financial assets settled during the year	(2 594)	(493)	(689)	(3 776)
Financial assets written off	-	-	(196 444)	(196 444)
Total net profit or loss charge during the year	14 532	18 260	(93 189)	(60 397)
Loss allowance as at 31 March 2020	36 861	74 394	596 938	708 193

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for the Year Ended 31 March 2020 (continued)

7. Financial Risk (continued)

7.5 Credit risk measurement (continued)

	Group 2019 R' 000			
	Stage 1	Stage 2	Stage 3	Total
Group 2019	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 1 April 2018	30 173	94 841	649 667	774 681
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(9 969)	22 540	-	12 571
Transfer from Stage 1 to Stage 3	(4 061)	-	13 330	9 269
Transfer from Stage 2 to Stage 3	-	(82 955)	140 920	57 965
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	1 842	(7 505)	-	(5 663)
Transfer from Stage 3 to Stage 2	-	531	(3 184)	(2 653)
Transfer from Stage 3 to Stage 1	136	-	(455)	(319)
Changes in PDs/ LGDs/ EADs	(5 966)	(766)	19 002	12 270
New financial instruments issued	13 242	31 336	10 514	55 092
Financial assets settled during the year	(3 068)	(1 888)	(4 243)	(9 199)
Financial assets written off	-	-	(135 424)	(135 424)
Total net profit or loss charge during the year	(7 844)	(38 707)	40 460	(6 091)
Loss allowance as at 31 March 2019	**22 329**	**56 134**	**690 127**	**768 590**

	Company 2020 R' 000			
	Stage 1	Stage 2	Stage 3	Total
Company 2020	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 1 April 2019	21 939	55 388	632 876	710 203
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(5 892)	18 544	-	12 652
Transfer from Stage 1 to Stage 3	(5 078)	-	60 302	55 224
Transfer from Stage 2 to Stage 3	-	(15 010)	26 841	11 831
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	4 353	(13 008)	-	(8 655)
Transfer from Stage 3 to Stage 2	-	77	(154)	(77)
Transfer from Stage 3 to Stage 1	2 929	-	(5 283)	(2 354)
Changes in PDs/ LGDs/ EADs	(1 670)	(6 746)	5 646	(2 770)
New financial instruments issued	22 755	35 544	15 131	73 430
Financial assets settled during the year	(630)	(435)	0	(1 065)
Financial assets written off	-	-	(196 444)	(196 444)
Total net profit or loss charge during the year	16 767	18 966	(93 961)	(58 228)
Loss allowance as at 31 March 2020	38 706	74 354	538 915	651 975

7. Financial Risk (continued)
7.5 Credit risk measurement (continued)

	Company 2019 R' 000			
	Stage 1	Stage 2	Stage 3	Total
Company 2019	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance as at 1 April 2018	29 016	94 380	594 588	717 984
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(9 690)	22 101	-	12 411
Transfer from Stage 1 to Stage 3	(3 596)	-	12 080	8 484
Transfer from Stage 2 to Stage 3	-	(82 955)	140 920	57 965
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	1 842	(7 383)	-	(5 541)
Transfer from Stage 3 to Stage 2	-	507	(2 586)	(2 079)
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/ LGDs/ EADs	(5 955)	(740)	13 577	6 882
New financial instruments issued	13 095	31 336	10 514	54 945
Financial assets settled during the year	(2 773)	(1 858)	(1 331)	(5 962)
Financial assets written off	-	-	(134 886)	(134 886)
Total net profit or loss charge during the year	(7 077)	(38 992)	38 288	(7 781)
Loss allowance as at 31 March 2019	**21 939**	**55 388**	**632 876**	**710 203**

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 R209.4m were written off during the year in the Group (Company: R204.6m).

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 R20.7m (2019: R13.2m) were modified during the year in both Group and Company.

The additional interest on loans that were modified amounts to R3.1m (2019:R3.2m).

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for the Year Ended 31 March 2020 (continued)

7. Financial Risk (continued)

7.5 Credit risk measurement (continued)

7.5.9 Loans and advances: Sectoral analysis

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Carrying Value Per Sector - Loans and Advances				
Agriculture, forestry and fishing	17 201	19 938	13 789	10 794
Basic chemicals	-	-	-	-
Beverages	1 306	3 633	1 306	3 633
Building construction	18 508	21 273	17 860	21 273
Business services	430	4 096	430	3 659
Catering and accommodation services	189	406	189	406
Electrical machinery	-	-	-	-
Electricity, gas and steam	-	-	-	-
Finance and insurance	159 948	91 699	159 948	91 699
Food	9 628	17 779	9 406	17 779
Furniture	-	307	-	307
Government	-	155	-	155
Machinery and equipment	-	-	-	-
Medical, dental and other health and veterinary services	5 740	7 014	5 291	6 544
Metal products excluding machinery	5 011	3 071	5 011	3 071
Motor vehicles, parts and accessories	106 742	90 674	106 742	90 674
Non-metallic minerals	1 460	2 426	1 460	2 426
Other community, social and personal services	454	2 334	454	2 298
Other chemicals and man-made fibres	1 730	884	1 730	884
Other industries	18 286	11 626	18 286	11 068
Other mining	4 595	3 405	4 595	3 401
Other services	4 560	8 499	3 922	8 499
Plastic products	3 194	115	3 194	115
Printing, publishing and recorded media	403	515	83	515
Television, radio and communication equipment	74	20	74	20
Textiles	178	621	178	621
Transport and storage	39 846	45 853	39 846	45 149
Water supply	-	-	-	-
Wholesale and retail trade	33 568	50 830	32 952	46 809
Wood and wooden products	847	2 268	847	2 269
Loans and advances net of impairments	**433 898**	**389 441**	**427 593**	**374 068**

(1) Loans made to intermediaries are allocated to the finance and insurance sector.

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 R'000	Total R'000	Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
Group - 2020					
Trade payables (including non-financial liabilities)	80 502	80 502	80 502	-	-
Deferred grants payable	1 000 980	1 000 980	536 620	382 080	82 280
Managed funds	66 918	66 918	66 918	-	-
Credit guarantees/indemnities issued to financial institutions [1]	33 777	33 777	33 777	-	-
Shareholder loans	629 064	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**1 811 241**	**2 105 388**	**717 817**	**397 080**	**990 491**
Undrawn financing facilities approved	-	90 299	90 299	-	-
Operating lease commitments	-	170	170	-	-
Liabilities for lease obligations	43 427	52 713	13 002	39 711	-
Undrawn guarantees/indemnities approved [2]	-	90 448	90 448	-	-
Total off-balance sheet items	**43 427**	**233 630**	**193 919**	**39 711**	**-**
Total contractual maturities	**1 854 668**	**2 339 018**	**911 736**	**436 791**	**990 491**

Credit indemnities issued	R129.4m
Actuarial reserves	R33.8m
Undrawn indemnities approved	R567.8m
Possible future claims	R148.2m

[1] Total credit guarantees/indemnities issued to financial institutions amount to R129.4m. The full balance will, however, not result in future outflows of cash. The reserve calculations by external actuaries amounting to R33.8m was used for liquidity risk exposure purposes.

[2] Undrawn guarantees/indemnities approved at year end amounts to R567.8m. It is estimated that R148.2m 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

7. Financial Risk (continued)

7.6 Liquidity risk (continued)

	Group				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
Group - 2019					
Trade payables (including non-financial liabilities)	73 468	73 468	73 468	-	-
Deferred grants payable	503	503	503	-	-
Managed funds	71 594	71 594	71 594	-	-
Credit guarantees/indemnities issued to financial institutions [1]	21 085	21 085	21 085	-	-
Shareholder loans	582 580	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**749 230**	**1 089 861**	**166 650**	**15 000**	**908 211**
Undrawn financing facilities approved	-	95 715	95 715	-	-
Operating lease commitments	-	8 889	5 739	3 150	-
Undrawn guarantees/indemnities approved [2]	-	90 448	90 448	-	-
Total off-balance sheet items	**-**	**195 052**	**191 902**	**3 150**	**-**
Total contractual maturities	**749 230**	**1 284 913**	**358 552**	**18 150**	**908 211**

Credit indemnities issued	R80.7m
Actuarial reserves	R21.1m
Undrawn indemnities approved	R346.1m
Possible future claims	R90.4m

[1] Total credit guarantees/indemnities issued to financial institutions amount to R80.7m. The full balance will, however, not result in future outflows of cash. The reserve calculations by external actuaries amounting to R21.1m was used for liquidity risk exposure purposes.

[2] Undrawn guarantees/indemnities approved at year end amounts to R346.1m. It is estimated that R90.4m 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)

	Company				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
Company - 2020					
Trade payables (including non-financial liabilities)	54 269	54 269	54 269	-	-
Managed funds	66 918	66 918	66 918	-	-
Shareholder loans	629 064	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**750 251**	**1 044 398**	**121 187**	**15 000**	**908 211**
Operating lease commitments	-	170	170	-	-
Liabilities for lease obligations	43 427	52 713	13 002	39 711	
Undrawn financing facilities approved	-	90 299	90 299	-	-
Total off-balance sheet items	**43 427**	**143 182**	**103 471**	**39 711**	**-**
Total contractual maturities	**793 678**	**1 187 580**	**224 658**	**54 711**	**908 211**

	Company				
	Carrying value R'000	Total R'000	Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
Company - 2019					
Trade payables (including non-financial liabilities)	46 838	46 838	46 838	-	-
Managed funds	71 594	71 594	71 594	-	-
Shareholder loans	582 580	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**701 012**	**1 041 643**	**118 432**	**15 000**	**908 211**
Operating lease commitments	-	8 889	5 739	3 150	-
Undrawn financing facilities approved	-	95 715	95 715	-	-
Total off-balance sheet items	**-**	**104 604**	**101 454**	**3 150**	**-**
Total contractual maturities	**701 012**	**1 146 247**	**219 886**	**18 150**	**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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

7. Financial Risk (continued)

7.7 Market risk (continued)

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.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Variable rate instruments				
Financial assets	2 624 455	1 771 285	2 419 773	1 550 878
Financial liabilities	-	-	-	-
Total variable rate instruments	2 624 455	1 771 285	2 419 773	1 550 878

Cash flow sensitivity analysis for variable rate instruments

A change in 250 basis points (2019: 100 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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
250 basis points increase (2019: 100 basis points)	**65 611**	**17 713**	**60 494**	**15 509**
250 basis points increase (2019: 100 basis points)	**(65 611)**	**(17 713)**	**(60 494)**	**(15 509)**

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 STIA. 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 STIA;
- 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 STIA. The Company is required at all times to maintain a statutory surplus asset ratio as defined in the STIA. 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Loans and advances to clients	1 142 091	1 158 031	1 079 568	1 084 271
Less: Credit loss allowance	(708 193)	(768 590)	(651 975)	(710 203)
Loans and advances net of credit losses	**433 898**	**389 441**	**427 593**	**374 068**

Reconciliation of impairment of loans and advances

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Credit loss allowance for loans and advances - opening balance	768 590	681 867	710 203	625 170
Credit loss for the year	148 963	129 333	146 421	127 104
IFRS 9 adjustment - increase in impairments	-	92 814	-	92 814
Bad debts written off during the year	(209 360)	(135 424)	(204 649)	(134 885)
Credit loss allowance for loans and advances - closing balance	**708 193**	**768 590**	**651 975**	**710 203**

7. Financial Risk (continued)

7.10 Loans and advances (continued)

Maturity analysis of loans and advances

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Due within one year	842 389	801 489	781 212	737 385
Due after one year but within two years	179 803	157 490	178 950	152 813
Due within two to three years	56 287	88 312	55 795	85 660
Due within three to four years	39 250	101 598	39 250	99 270
Due within four to five years	24 362	9 142	24 361	9 143
Credit loss allowances on loans and advances	(708 193)	(768 590)	(651 975)	(710 203)
Loans and advances net of credit loss allowances	**433 898**	**389 441**	**427 593**	**374 068**

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. 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	
Investments	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening carrying value	53 894	66 722	50 931	59 019
Movement on fair value adjustments	(18 647)	(3 777)	(15 463)	1 045
(Disposal)/ Acquisition of investments	(6 037)	(9 051)	(7 415)	(9 133)
Closing carrying value	**29 210**	**53 894**	**28 053**	**50 931**

The fair value for investments with a cost value of R48.5 million (2019: R55.9 million) are carried at cost less impairment. These investments do not have a quoted market price in an active market and the fair value cannot be reliably estimated.

Impairment amount of R20.46 million (2019: R5 million) was recognised on these investments.

The fair value measurement for investments has been categorised as level 3 fair value based on **sefa**'s fair value hierarchy due to unobservable inputs.

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 equity is not re-measured.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

8. Equity Structure (continued)

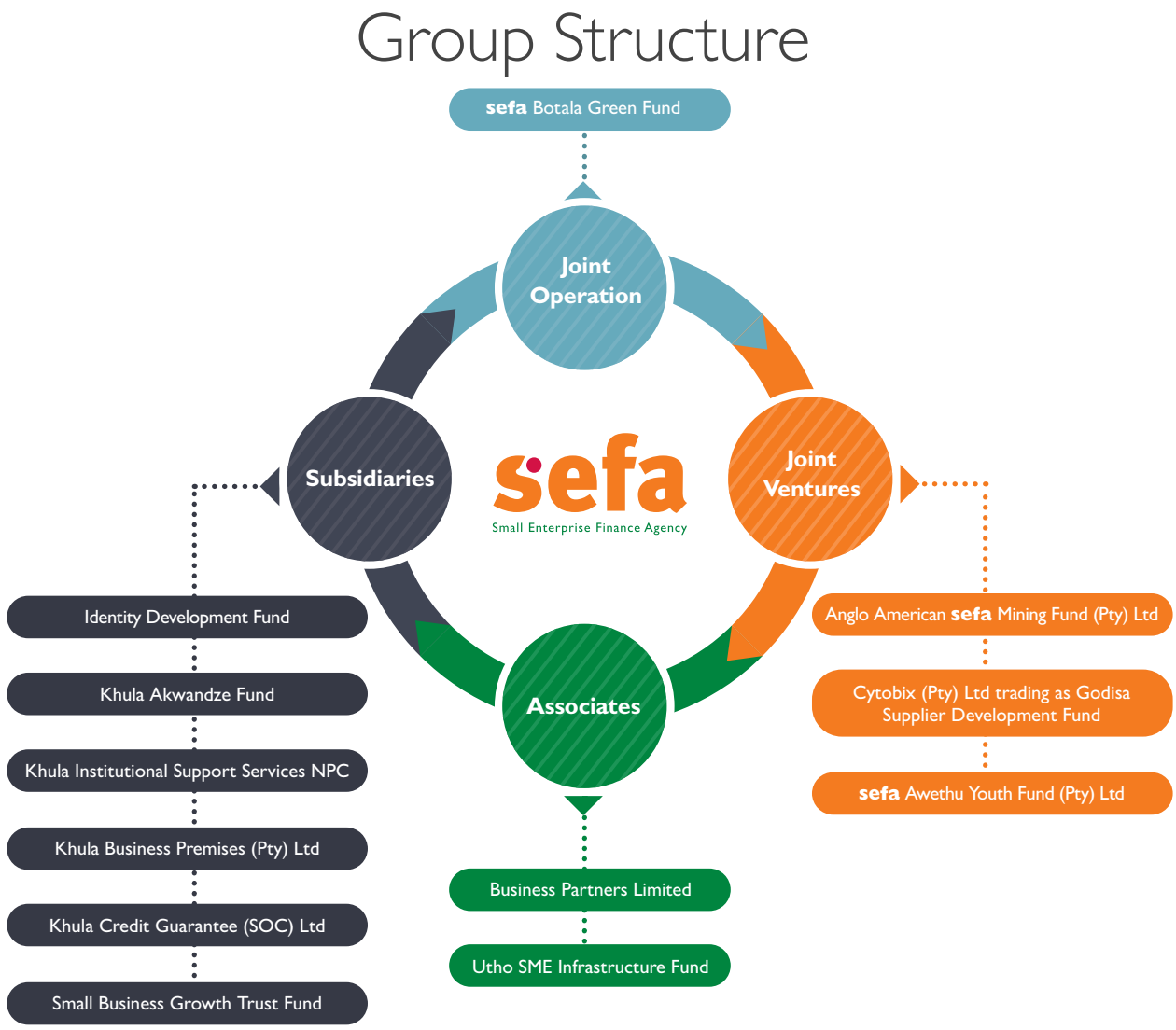
8.2 Shareholder reserves (continued)

Shareholder reserves consist of a subordinated loan to **sefa** from the IDC that is interest-free and not repayable.

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Opening shareholder reserves	1 862 543	1 529 455	1 862 543	1 529 455
Government allocations advanced by the shareholder	241 453	228 838	241 453	228 838
Deemed equity contribution on interest-free shareholder loan	-	104 250	-	104 250
Realisation of shareholder reserves to retained income	-	-	-	-
Closing shareholder reserves	**2 103 996**	**1 862 543**	**2 103 996**	**1 862 543**

9. Group Composition

9.1 Interest in Other Entities and Operations



9. Group Composition (continued)

9.1 Interest in Other Entities and Operations (continued)

Subsidiaries

Identity Development Fund Partnership	100%
Khula Akwandze Fund (Pty) Ltd	75%
Khula Business Premises (Pty) Ltd	100%
Khula Credit Guarantee (SOC) Ltd	100%
Khula Institutional Support Services NPC	100%
Small Business Growth Trust Fund	81%

Associates

Business Partners Limited	22%
The Utho SME Infrastructure Fund	49%

Joint Ventures

Anglo **sefa** Mining Fund (Pty) Ltd	50%
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	50%
sefa Awethu Youth Fund (Pty) Ltd	50%

Joint Operation

sefa Botala Green Fund	50%

9.2 Investments in Subsidiaries

Subsidiaries are entities that are controlled by **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	
	2020 R'000	2019 R'000
Investments in subsidiaries		
Unlisted shares in subsidiaries	55 000	55 000
Loans receivable	67 019	69 019
Total exposure to subsidiaries before impairments	122 019	124 019
Impairments on investments in subsidiaries	(70 076)	(46 068)
Total exposure to subsidiaries net of impairments	51 943	77 951

Companies	2020	2019		2020	2019
	% interest	% interest	Nature of activities	Exposure before impairments R'000	Exposure before impairments R000
Identity Development Fund Partnership	100%	100%	SME Financing	28 000	30 000
Khula Akwandze Fund (Pty) Ltd	75%	75%	SME Financing	11 057	11 057
Khula Business Premises (Pty) Ltd	100%	100%	Property rental	-	-
Khula Credit Guarantee (SOC) Ltd	100%	100%	Credit indemnities	55 000	55 000
Khula Institutional Support Services NPC	100%	100%	Capacity building	-	-
Small Business Growth Trust Fund	81%	81%	SME Financing	27 962	27 962
Exposure to subsidiaries before impairments				**122 019**	**124 019**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

9. Group Composition (continued)

9.2 Investments in Subsidiaries (continued)

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.

The aggregate net profits and losses after taxation of subsidiaries attributable to **sefa** were as follows:

	Group	
	2020 R'000	2019 R'000
Profits	-	986
Losses	(90 984)	(58 159)
Aggregate net loss from subsidiaries	(90 984)	(57 173)

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	
	2020 R'000	2019 R'000
Investments in joint operations		
Loans receivable	29 000	29 000
Impairments of investments in joint operations	(29 000)	(29 000)
Total exposure to joint operations net of impairments	-	-

Joint operations	2020	2019		2020	2019
	% interest	% interest	Nature of activities	Total company exposure before impairments R'000	Total company exposure before impairments R'000
sefa Botala Green Fund	50%	50%	SME Financing	29 000	29 000

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.

9. Group Composition (continued)

9.3 Investments In Joint Operations (continued)

The aggregate net profits and losses after taxation of joint operations attributable to **sefa** were as follows:

	Group	
	2020 R'000	2019 R'000
Loss from joint operations	-	-
Profits	-	-
Losses	-	-

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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Investments in associates				
Unlisted shares in associates	98 622	98 622	98 622	98 622
Accumulated equity-accounted income, losses and impairments	627 941	626 283	-	-
Loans receivable	29 368	29 757	29 367	29 757
Impairment of loans	-	-	(29 003)	(29 386)
Total exposure to associates	755 931	754 662	98 986	98 993

Associate	2020	2019		2020	2019
	% interest	% interest	Nature of activities	Total company exposure before impairments R'000	Total company exposure before impairments R'000
Business Partners Limited	22%	22%	SME Financing	98 622	98 622
The Utho SME Infrastructure Fund [1]	49%	49%	SME Financing	29 368	29 757
Total exposure to associates before impairments				**127 990**	**128 379**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

9. Group Composition (continued)

9.4 Investments in Associates (continued)

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	
	2020 R'000	2019 R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	4 575 791	4 657 664
Current assets	1 051 947	545 783
Non-current liabilities	(1 818 751)	(1 554 405)
Current liabilities	(362 275)	(210 292)
Net assets at 100%	**3 446 712**	**3 438 750**
Group's share of net assets	726 565	724 906
Loan to associate	29 366	29 756
Costs capitalised on shares acquired	-	-
Total exposure to associates	**755 931**	**754 662**
Statement of comprehensive income		
Revenue	495 833	729 858
Expenses	(439 607)	(532 691)
Other comprehensive income	(18 178)	(16 943)
Profit and total other comprehensive income at 100%	**38 048**	**180 224**
Group's share of loss and total comprehensive income	10 237	25 355

(1) Although the ownership interest in The Utho SME Infrastructure Fund is 49%, the voting interest is only 40%.

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	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Investments in joint ventures				
Loans receivable	184 628	181 109	184 628	181 109
Accumulated equity-accounted income, losses and impairments	(67 008)	(63 481)	-	-
Impairment of loans	-	-	(60 912)	(69 213)
Total exposure to joint ventures	**117 620**	**117 628**	**123 716**	**111 896**

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.

Joint ventures	2020	2019		2020	2019
	% interest	% interest	Nature of activities	Total exposure R'000	Total exposure 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	50%	50%	SME Financing	40 046	36 527
sefa Awethu Youth Fund (Pty) Ltd	50%	50%	SME Financing	60 000	60 000
Total exposure to joint ventures before impairments				**184 628**	**181 109**

	Group	
	2020 R'000	2019 R'000
The aggregate amounts attributable to sefa were as follows:		
Statement of financial position		
Non-current assets	62 386	124 135
Current assets	196 848	154 560
Non-current liabilities	-	(163 496)
Current liabilities	(357 128)	(193 116)
Net assets at 100%	(97 894)	(77 917)
Group's share of net assets	(67 008)	(63 481)
Loans to joint ventures	184 628	181 109
Total exposure to joint ventures	**117 620**	**117 628**
Statement of comprehensive income		
Revenue	27 429	26 436
Expenses	(41 407)	(48 338)
Total other comprehensive income / (Loss) at 100%	**(13 978)**	**(21 902)**
Group's share of total comprehensive income / (loss)	(527)	(7 964)

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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

9. Group Composition (continued)

9.6 Profit From Equity Accounted Investees

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Profit/ (loss) from joint ventures				
Anglo **sefa** Mining Fund (Pty) Ltd	(13 983)	(6 491)	-	-
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	532	(7 448)	-	-
sefa Awethu Youth Fund (Pty) Ltd	12 924	5 975	-	-
Income from joint ventures	(527)	(7 964)	-	-
Loss and other comprehensive income from associates				
Business Partners Limited [1]	9 854	49 544	-	-
The Utho SME Infrastructure Fund	383	(24 189)	-	-
Income from associates	**10 237**	**25 355**	**-**	**-**
Profit from equity accounted investees	13 629	13 738	-	-
Other comprehensive (loss)/income from equity accounted investees	(3 919)	3 653	-	-
Total profit and other comprehensive income from equity investees	9 710	17 391	-	-

[1] The income from Business Partners consists of R11.9m profit (2019: R49.5m) and R1.3m (2019: R3.7m) other comprehensive income.

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
Amava Chrome (Pty) Ltd	HN Lupuwana-Pemba, a non-executive Director of **sefa** is married to a shareholder of Amava Chrome (Pty) Ltd. A loan was extended from **sefa** to Amava Chrome (Pty) Ltd prior to the union taking place.
Economic Development Department (EDD)	Shareholder of the IDC
Godisa Supplier Development 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)
SA Business Resources Institute	C Groves is a non-executive director of **sefa** and Founder of the SA Business Resource Institute who rented office space from Khula Business Premises, a wholly-owned subsidiary of **sefa**.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

10. Related Parties and Directors Emoluments

10.1 Related party transactions (continued)

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.

The following transactions were entered into with related parties:

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Rental income received from related parties:				
EDD	7 448	6 554	7 448	6 554
SA Business Resources Institute [5]	84	111	-	-
Total rental income from related parties	**7 532**	**6 665**	**7 448**	**6 554**
Investment income received from related parties				
Interest on cash balances managed by IDC	32 765	31 933	29 410	29 410
Management fees paid to related parties for travel management				
IDC	731	263	731	263
Management fees charged to related parties				
Khula Land Reform Empowerment Facility [1]	8 804	8 396	8 804	8 396
Khula Credit Guarantee (SOC) Ltd	-	-	6 144	5 650
Khula Institutional Support Services NPC [6]	(467)	(374)	3 113	2 495
Khula Business Premises (Pty) Ltd	-	-	13 303	9 417
Godisa Supplier Development Fund (Pty) Ltd	-	-	3 000	3 667
Total management fees charged to related parties	**8 337**	**8 022**	**34 364**	**29 625**
Related party balances receivable/(payable)				
Amava Chrome (Pty) Ltd [2]	-	713	-	713
Khula Credit Guarantee (SOC) Ltd [3]	-	-	7 206	7 531
Khula Land Reform Empowerment Facility [1]	8 480	9 655	8 480	9 655
Khula Institutional Support Services NPC [3]	-	-	3 606	2 990
Khula Business Premises (Pty) Ltd [3]	-	-	354 027	306 312
Khula Business Premises (Pty) Ltd - impairment [3]	-	-	(173 943)	(111 036)
IDC - Cash managed	424 674	472 551	388 866	433 492
IDC - Shareholder's loan (liability) [4]	(629 064)	(582 580)	(629 064)	(582 580)
IDC - Shareholder's loan (equity) [4]	(2 103 996)	(1 862 543)	(2 103 996)	(1 862 543)
Aggregated related party balances payable	**(2 299 906)**	**(1 962 204)**	**(2 144 818)**	**(1 795 466)**

[1] Registered as a Non-profit Company. This company has been exempted from consolidation as **sefa** is acting as an agent.

[2] This loan was issued prior to the matrimonial union between the shareholder of the debtor and the Director. The loan bears interest at 13.5% and is repayable over 60 months ending August 2018 and is secured as follows:

- Cession of lease agreement
- Cession of director's loan account
- Personal suretyship
- Special notarial bond over moveable assets
- Cession of supplier agreement

[3] Any outstanding related party balances are unsecured and will be settled in cash. No guarantees have been given or received. The loan issued to Khula Business Premises (Pty) Ltd is subordinated and bears interest at 75% of the prime lending rate. An impairment of R121m has been raised on the loan in the **sefa** Company.

[4] Refer to note 6.1 for specific terms.

[5] There was no outstanding rental due as at the balance sheet date.

[6] 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.

10. Related Parties and Directors Emoluments (continued)

10.1 Related party transactions (continued)

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.

10.2 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	
Current Board members	Appointment date	Retirement date	2020 R'000	2019 R'000	2020 R'000	2019 R'000
AMR Mahosi	2019/08/01	-	340	-	340	-
DL Mabuza	2019/08/01	-	198	-	198	-
ME Makara	2019/08/01	-	259	-	259	-
MJ Kganyago	2019/08/01	-	300	-	300	-
M Radebe	2019/08/01	-	141	-	141	-
NR Mlonzi	2019/08/01	2020/07/31	149	-	149	-
HN Lupuwana-Pemba	2012/09/01	2019/06/30	117	594	117	594
NA Dlamini	2016/10/01	2019/07/31	174	366	174	366
NS Dlamini [1]	2016/10/01	2020/07/31	237	367	237	367
C Groves	2016/10/01	2019/07/31	177	448	177	448
PM Mainganya [1]	2016/10/01	2019/07/31	81	293	81	293
K Molewa	2016/10/01	2019/07/31	176	445	176	445
KK Moloto	2016/10/01	2019/07/31	198	518	198	518
LFV Mosupye [2]	2014/12/04	-	38	78	-	-
NA Osman	2016/10/01	2019/07/31	123	222	123	222
HR Ralinala	2016/10/01	2019/07/31	196	501	196	501
Total directors' fees paid			2 904	3 832	2 866	3 754

[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.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

10. Related Parties and Directors Emoluments (continued)

10.2 Directors' and Prescribed Officers' Remuneration (continued)

	Group		Company	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000
10.2.2 Executive management:				
Executive management remuneration				
Employment benefits	12 622	12 424	12 622	12 424
Post-employment benefits	-	1 208	-	1 208
Total executive management remuneration	**12 622**	**13 632**	**12 622**	**13 632**

	2020				
	Basic salary R'000	Incentive bonus (Short-term) R'000	Incentive bonus (Long-term) R'000	Retirement, medical and other benefits R'000	Total R'000
Executive					
SA Molepo [1]	2 698	-	-	444	3 142
VV Matsiliza [2]	150	-	-	1 079	1 229
GN Nadasan [3]	570	-	-	658	1 228
RV Ralebepa	1 740	-	-	371	2 111
B Sefolo	1 815	-	-	329	2 144
N Shwala	1 766	-	-	245	2 011
NS Mbatha [4]	635	-	-	122	757
Total executive management remuneration	**9 374**	**-**	**-**	**3 248**	**12 622**

	2019				
	Basic salary R'000	Incentive bonus (Short-term) R'000	Incentive bonus (Long-term) R'000	Retirement, medical and other benefits R'000	Total R'000
Executive					
SA Molepo [1]	716	-	-	371	1 087
TR Makhuvha [5]	722	-	-	144	866
VV Matsiliza	1 808	-	-	312	2 120
GN Nadasan	1 725	-	-	384	2 109
RV Ralebepa	1 763	449	-	423	2 635
B Sefolo	1 679	374	-	321	2 374
N Shwala	1 641	513	-	287	2 441
Total executive management remuneration	**10 054**	**1 336**	**-**	**2 242**	**13 632**

[1] Seconded to the company by the National Empowerment Fund from 1 December 2018
[2] Resigned 30 April 2019
[3] Resigned 31 July 2019
[4] Appointed 1 November 2019
[5] Seconded to the company by IDC. Secondment ended 31 July 2018.

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 (2019: 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.

	Group	
	2020 R'000	2019 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.

	Group	
	2020 R'000	2019 R'000
Irregular expenditure		
Opening balance	-	-
Relating to the prior year	-	-
Relating to the current year	7 529	12
Condoned by Accounting Authority	-	(12)
Closing balance	**7 529**	**-**

All items reported as irregular and wasteful were above the transactional significance level of R221 178.

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

12. Fair Value Measurement

12.1 Fair Value Measurement of Financial Instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position 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.

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group - 2020				
Assets measured at fair value	-	-	29 210	29 210
Investments	-	-	**29 210**	**29 210**
Assets not measured at fair value	-	433 898	-	433 898
Loans and advances	**-**	**433 898**	**-**	**433 898**
Liabilities not measured at fair value	-	-	629 064	629 064
Shareholder's loans	**-**	**-**	**629 064**	**629 064**

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group - 2019				
Assets measured at fair value	-	-	53 894	53 894
Investments	**-**	**-**	**53 894**	**53 894**
Assets not measured at fair value	-	389 441	-	389 441
Loans and advances	**-**	**389 441**	**-**	**389 441**
Liabilities not measured at fair value	-	-	582 580	582 580
Shareholder's loans	**-**	**-**	**582 580**	**582 580**

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Company - 2020				
Assets measured at fair value	-	-	28 053	28 053
Investments	-	-	**28 053**	**28 053**
Assets not measured at fair value	-	427 593	-	433 898
Loans and advances	**-**	**427 593**	**-**	**433 898**
Liabilities not measured at fair value	-	-	629 064	629 064
Shareholder's loans	**-**	**-**	**629 064**	**629 064**

12. Fair Value Measurement (continued)

12.1 Fair Value Measurement of Financial Instruments

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Company - 2019				
Assets measured at fair value	-	-	50 931	50 931
Investments	-	-	**50 931**	**50 931**
Assets not measured at fair value	-	374 068	-	374 068
Loans and advances	**-**	**374 068**	**-**	**374 068**
Liabilities not measured at fair value	-	-	582 580	582 580
Shareholder's loans	**-**	**-**	**582 580**	**582 580**

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 R18.65 million (2019: R3.78 million), and it was recognised in profit or loss. There was no realised gain or loss in the financial statements.

There were no transfers between Level 1 and Level 2 in 2020 or 2019.

Refer to note 7.11, 7.10 and 6.1 for the reconciliation of the carrying amounts of financial instruments.

Loans and advances are initially measured at fair value. The loans and advances are not traded in active markets. The loans and advances are initially fair valued using prinicipal amount advanced to clients, as per loan agreements, and interest rates per the loan agreements, using the discounted cash flow method. These loans and advances meet the requirements of the solely payment of principal and interest test and are therefore subsequently measured at amortised cost. Refer to note 7.1 for further detail.

The shareholder's loan values are based on the fair value of the advance received from the shareholder. Refer to note 6.1 for further detail.

12.2 Fair Value Measurement of Non-Financial Instruments

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group - 2020				
Assets	-	-	177 115	177 115
Investments	**-**	**-**	**177 115**	**177 115**

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group - 2019				
Assets	-	-	151 070	151 070
Investment properties	-	-	36 399	36 399
Investment properties held-for-sale	**-**	**-**	**187 469**	**187 469**

Notes to the Annual Financial Statements

for the Year Ended 31 March 2020 (continued)

12. Fair Value Measurement (continued)

12.2 Fair Value Measurement of Non-Financial Instruments

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Company - 2020				
Assets	-	-	-	-
Investments	-	-	-	-

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Company - 2019				
Assets	-	-	-	-
Investment properties	-	-	-	-
Investment properties held-for-sale	-	-	-	-

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 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% to 17% (2019:10.5% - 16%).

The investment properties were valued by independent valuators in 2019 using market related rentals and market related capitalisation rates. The significant inputs and assumptions are developed in close consultation with management.

A desktop valuation was performed in the 2020 financial year using the prior year market related rentals and expenses. To account for COVID-19 the market capitalisation rates of prior year were increased (1% increase for industrial properties and 0.5% increase for retail properties).

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 COVID-19 Impact

The impact of the COVID-19 pandemic has been considered to be an adjusting event and has therefore been specifically addressed in these financial statements.

Please refer to note 1.2 for going concern and the assessment of COVID-19 on going concern.

Please refer to note 1.6.3 and 7.5.3 for the measurement of the expected credit loss allowance and the impact of COVID-19.

Please refer to note 5.3 and 12.2 for the impact of COVID-19 on the investment property valuation.

13.2 Legal Claim

The only significant legal claim against the Group is in respect of a dispute that arose between **sefa** and the trustees of the Small Business Growth Fund in prior years. The matter was concluded through arbitration. The group's executive committee had approved a settlement offer to the trustees of the Small Business Growth Trust Fund however this was rejected by the claimants' attorneys. The arbitration was set down for hearing on 30 September 2020 to 2 October 2020.

The outcome of the arbitration is that it **sefa** will pay an amount of R6 million to the Trust to be paid in two equal instalments on the 30th October 2020 and 30th November 2020. Provision for this was not raised at year end as the amount is not considered to be material to the group, but the matter has been disclosed as an event after the reporting period.

sefa Offices

For more information regarding the **sefa** products or other non-financial assistance, call our Client Liaison Centre on 012 748 9600 or write to us at helpline@**sefa**.org.za. Alternatively, you can visit any of our Regional Offices near you, or log onto www.**sefa**.org.za

Head Office Address	Contact Information
Byls Bridge Office Park, Cnr Olievenhoutbosch Street & Jean Avenue, Building 14 , Block D, 11 Byls Bridge Boulevard, Highveld Extension 73, Centurion, 0157	012 748 9600 helpline@**sefa**.org.za

Regional Office	Office Type	Address	Contact Information
Free State	**sefa** Regional Office	**Bloemfontein** Office 4 and 5, Preller Square, Graaf Reinnet Street, Dan Pienaar, Bloemfontein	051 436 0150
	Co-locations	**Welkom** One Reinet Building, Reinet Street, Welkom	057 916 1960
		Trompsburg 53 Voortrekker Street, Khoisan Building, Trompsburg	051 713 9500
		Bethlehem Cnr Richer & Malan Street, Bethlehem	058 718 5900
		Sasolburg Eric Louw Street, Boiketlong, Zamdela Sasolburg	016 974 5500
KwaZulu-Natal	**sefa** Regional Office	**Durban** 21st Floor, Office 2102, Durban Embassy Building, Anton Lembede Street, Durban, 4001	031 368 3485 **sefa**kzn@**sefa**.org.za
	Co-locations	**Port Shepstone** 46 Bisset Street, Lot No 456, Port Shepstone,4240	039 688 1560
		Ladysmith 93/94 Murchison Street, Ladysmith, 3370	036 638 9780
		Richards Bay Lot 611237 via Verbana, Veldenvlei, Richards Bay, 3900	035 901 2660
		Newcastle 28 Scott Street, Newcastle, 2940	034 328 0620
		Ixopo 17 Margaret Street, Ixopo	039 834 7100 info@**sefa**.org.za
		Pietermaritzburg 2nd Floor, The Tourism Hub Building, 283 Langalibalele Street, PMB	033 264 310 info@**sefa**.org.za
	IDC	**Pietermaritzburg** 1st Floor ABSA Building, 15 Chatterton Rd, PMB, 3201	
Gauteng	**sefa** Regional Office	**Johannesburg** 17 Empire Road, Hillsidehouse, Parktown, Johannesburg, 2193	011 484 0889 **sefa**gpeast@**sefa**.org.za
		Riversands Incubation Hub Riversands Incubation Hub, 8 Incubation Drive, Riverside View Ext 5	087 288 6000 **sefa**gpnorth@**sefa**.org.za
Western Cape	**sefa** Regional Office	**Cape Town** 9th Floor, FNB Building, 2 Long Street, Cape Town, City of Cape Town, 8001	021 418 0126 **sefa**wc@**sefa**.org.za
	Co-locations	**Bellvile** 2nd floor, Louwville place, Vrede Street, Bellvile	021 949 2227
		Khayelitsha Khayelitsha Training Centre Cnr Lwandile & Spine Road, Khayelitsha, 7784	021 361 1360
		Mosselbay KKT Sentrum Nr. 7, Gericke Street, Voorbaai, Mossel Bay, 6506	044 695 2840
		Knysna Thesen House, 6 Long Street, Knysna, 6571	044 382 2861
		George Entrance A, 1st Floor Beacon Place, 124 Meade Street, George	044 874 4770
		Oudtshoorn 70 Voortrekker Street, Oudtshoorn, 6625	044 272 7783
		Beaufort West Thusong Service Centre, 3 De Vries Street, Beaufort West, 6970	023 414 3368
		Hermanus Shop No 44, Gateway Centre, Hermanus, 7200	028 312 2359
		Stellenbosch 1st floor, Eikestad Mall, Andriga Street, Stellenbosch	021 861 4800
		Worcester No 62, Cnr High & Stockenstroom Street, Worcester, 6850	023 342 2381

Regional Office	Office Type	Address	Telephone Number
Western Cape	Co-locations	**Vredenburg** 19 West Coast Centre, 11 Long Street, Vredenburg, 7380	022 342 2381
		Saldanha Tonyn Street, Saldanha, 7395	022 714 1731
Eastern Cape	**sefa** Regional Office	**East London** Chesswood Office Park, 2nd Floor, 8-10 Winkely Street, Berea	043 721 1510 **sefa**el@**sefa**.org.za
	Co-locations	**Port Elizabeth** No 329, Cape Road, Newton Park, Port Elizabeth	041 391 6200/6201
		Mount Alyff Disaster Management Centre, 188 Nolangeni Street, Mount Alyff, 473	043 721 1510
		Mthatha 7 Sissons Street, ECDC House, Fort Gale, Mthatha, 5100	047 504 2200
Northern Cape	**sefa** Regional Office	**Kimberley** 72 Long Street, Business Partners Building, Kimberley, 8301	053 832 2275 **sefa**nc@**sefa**.org.za
	Co-locations	**Kuruman** Cnr Roos & Church Street, Kuruman, John Taolo Gaetswe	053 714 3160
		Upington Cnr Scott & Upington 26 Street, Old Sanlam Building, 3rd Floor, Upington, 8800	054 337 8280
		De Aar Cnr Main & Station Street, De Aar, 7000	053 632 7560
		Springbok 3 Rivier Street, Springbok, Namakwa	027 712 8500
		IDC De Drift Plaza, Block 6, Olyvenhoutsdrift Settlement, Louisvale Avenue	054 337 8600
Mpumalanga	**sefa** Regional Office	**Nelspruit** Corner Ferreira and Streak Street, 3rd Floor, Suite 301, MAXSA Building, Nelspruit, 1200	013 755 3923 **sefa**mp@**sefa**.org.za
	Co-locations	**Secunda** South Wing, Govan Mbeki Building, Lurgi Square, Secunda, 2302	017 634 4339
		Malelane Lorenco Street, Rotunda Circle, Malelane, Nkomazi	013 790 1183
		Bushbuckridge Shop 31, Twin City Shopping Centre, Bushbuckridge, 1280	013 799 5340
Limpopo	**sefa** Regional Office	**Polokwane** Suite 4, Biccard Park, No. 43 Biccard Street, Polokwane, 0699	015 294 0900 **sefa**lp@**sefa**.org.za
	Co-locations	**Thohoyandou** Old Mutual Building, Old Group Scheme Offices, Mphephu Road, Thohoyandou, 7950	015 960 8700
		Mopani 27 Peace Street, 1st Floor Prosperitas Building, Tzaneen, 0850	015 492 9600
		Mokopane 40 Retief Street, Mokopane, 0600	015 492 9600
		Sekhukhune 189 Vergelegen Street, Tlatlolang Centre, Jane Furse, 1085	087 285 6215
North-West	**sefa** Regional Office	**Rustenburg** 32B Heystek Street, Sunetco Building, Rustenburg, 0299	014 592 6391 **sefa**nw@**sefa**.org.za
	Co-locations	**Klerksdorp** West End, 2nd Floor, 51 Leask Street, Klerksdorp, 2570	018 487 9120
		Vryburg 8 Moffat Street, Vryburg, 8600	053 928 8800
		Mahikeng 1B Mikro Plaza, Cnr First & Bessemmer Streets, Industrial Sites, Mahikeng, 2745	018 397 9942

Small Enterprise Finance Agency

Small Enterprise Finance Agency (SOC) Limited
Company Registration Number: 1995/011258/06
Licensed Credit Provider: NCRCP 160

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Bylsbridge Office Park,
Cnr Olievenhoutbosch Street & Jean Avenue,
Building 14 , Block D, 11 Byls Bridge Boulevard, Highveld Extension 73
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