sefa

Small Enterprise Finance Agency

Annual Report FY 2020/21

Building the SMME's & Cooperatives sector to sustain the South African economy in times of COVID-19 turbulence


sefa

CONTENTS

1. LIST OF ACRONYMS

Absa	Amalgamated Banks of South Africa
AC	Audit Committee
AMEF	Authentique Memorial Empowerment Foundation
AURR	Additional Unexpired Risk Reserve
BA	Bachelor of Arts
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BCom	Bachelor of Commerce
BProc	Baccalaureus Procurationis Degree
BSc	Bachelor of Science Degree
BRI	Barnes Reinforcing Industries
BWO	Black Woman-Owned
CA(SA)	Chartered Accountant South Africa
CEO	Chief Executive Officer
CBDA	Co-operative Banks Development Agency
CBSA	Co-operative Bank of South Africa
CCBSA	Coca-Cola Beverages South Africa
CIC	Credit and Investment Committee
CIDB	Construction Industry Development Board
CFIs	Co-operative Financial Institutions
CIPC	Companies and Intellectual Property Commission
CISA	Compliance Institute of South Africa
COVID-19	Coronavirus Disease 2019
CRMPs	Compliance Regulatory Management Plans
CTA	Cumulative Translation Adjustment
DFI	Development Finance Institution
DL	Direct Lending
DMA	Development Microfinance Association
DOA	Delegation of Authority
DSBD	Department of Small Business Development
the dtic	Department of Trade, Industry and Competition
EAD	Exposure at Default
ECL	Expected Credit Loss
ERM	Enterprise Risk Management
ERP	Economic Recovery Programme
ESD	Enterprise and Supplier Development
EWP	Employee Wellness Programme
EXCO	Executive Committee
FASA	Franchise Association of South Africa
Fintech	Financial Technology
FNB	First National Bank
FY	Financial Year
GACP	Generally Accepted Compliance Practice Framework
GDP	Gross Domestic Product
GIBS	Gordon Institute of Business Science
HCE	Household Consumption Expenditure
HCM	Human Capital Management
HPO	High-Performance Organisation
IA	Insurance Act, No. 18 of 2017
IDC	The Industrial Development Corporation of South Africa
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMC	Investment Monitoring Committee
IoDSA	The Institute of Directors in South Africa
IPAP	Industry Policy Action Plan
ISA	Instalment Sale Agreement
IT	Information Technology
JVs	Joint Ventures
KCG	Khula Credit Guarantee SOC Ltd
KLREF	Khula Land Reform Empowerment Facility
LDPs	Local Distribution Partners
LGD	Loss Given Default
LLB	Bachelor of Law Degree
LLC	Limited Liability Company
MANCOM	Management Credit Committe
MAP	Management Advanced Programme
MBA	Master of Business Administration
MFIs	Microfinance Institutions
MIS	Management Information System
ML	Micro Lending
MPC	Monetary Policy Committee
MRPG	Mr Price Group
NCA	National Credit Act, No. 34 of 2005
NCR	National Credit Regulator
NDP	National Development Plan
NGP	New Growth Plan
NPL	Non-Performing Loans
NPOs	Not-For-Profit Organisations
PA	Prudential Authority
PCG	Partial Credit Guarantee
PD	Probability of Default
PFIs	Partner Financial Institutions
PFMA	Public Finance Management Act, No 1 of 1999
PIM	Post Investment Monitoring
PIMC	Post Investment Monitoring Committee
RC	Risk Committee
RFIs	Retail Financial Intermediaries
SAB	South African Breweries
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBIF	Small Business and Innovation Fund
SBL	School of Business Leadership
Seda	Small Enterprise Development Agency
SEF	Small Enterprise Foundation
sefa	Small Enterprise Finance Agency SOC Ltd
SEMSP	Small Enterprise Manufacturing Support Programme
SFSs	Structured Finance Solutions
SICR	Significant Increase in Credit Risk
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises (Innovation Hub Start-up Support Programme)
SOC	State-Owned Company
SSP	Start-Up Support
TAP	Talent Acquisition Programme
TEF	Tourism Equity Fund
TCBS	Transaction Capital Business Solutions
TREP	Township and Rural Entrepreneurship Programme
UIF	Unemployment Insurance Fund
UKZN	University of KwaZulu-Natal
UNISA	University of South Africa
Wits	University of the Witwatersrand
WL	Wholesale Lending
YEP	Youth Empowerment Programme
ZAR	South African Rand

SECTION

01

STRATEGIC OVERVIEW

2. FOREWORD BY THE

HONOURABLE MINISTER OF SMALL BUSINESS DEVELOPMENT

The South African government has adopted the National Development Plan (NDP) as a policy measure to improve the South African economy and the business environment for Small Medium Micro Enterprises.

The NDP proposes that we must increase exports focusing on amongst others construction, mid-skill manufacturing, agriculture and agro-processing, tourism and business services; Reduce the cost of regulatory compliance; Create a larger, more effective innovation system closely aligned with firms that operate in sectors consistent with the growth strategy; Provide support for small businesses through better coordination of relevant agencies, development finance institutions, and public and private incubators; Strengthen financial services to bring down their cost and improve access for small-and-medium-sized businesses; Offer a commitment to public and private procurement approaches that stimulate domestic industry and job creation, and Create a labour market that is more responsive to economic opportunity that requires, amongst others, the review of regulations and standards for small and medium enterprises.

In South Africa, small enterprises employ between 50 and 60 percent of the country's workforce and contribute 34 percent of Gross Domestic Product (IFC. 2019 - The Unseen Sector: A Report on the MSME Opportunity in South Africa.). The COVID-19 pandemic continues to cause global economic disruption resulting in rapid economic downturns in many economies globally. The South African economy contracted by 7% in 2020 and negatively impacted our SMME sector's performance. The small business sector had a low level of economic and financial resilience before the outbreak of the COVID-19 pandemic, which made them more vulnerable to the measures introduced to mitigate the impact of the pandemic.

To support SMMEs impacted by the pandemic, due to the lockdown restrictions, the Department of Small Business Development (DSBD), through **sefa**, implemented the Small Business Debt Relief Programme. Through the Business Debt Relief Programme intervention, the Department through **sefa** supported 1 144 SMMEs and protected 16 544 jobs.

Through the Economic Reconstruction and Recovery Plan, the government has developed a framework for the turnaround of the economy post the COVID-19 pandemic to achieve inclusive economic growth.

Through the Economic Reconstruction and Recovery Programme, the government has developed a framework for the turnaround of the economy post the COVID-19 pandemic to achieve inclusive economic growth. The strategy is premised on a new social compact among all social partners to restructure the economy and achieve inclusive growth. Specific to the recovery strategy is the promotion of localisation and industrialisation, strengthening the informal sector to advance the economic inclusion of women, youth, and persons with disabilities, and promoting townships and rural areas as centres of economic activity.

Through the SMME-focused Localisation Framework, the Department of Small Business Development and its agencies coordinates and directs the buy local campaign together with large corporates and communities. The Department envisages using the localisation policy framework as a tool that transforms the face of manufacturing in the country to promote locally produced products, encourage local procurement and the upscaling of SMMEs. We have established working relationships with large retailers and wholesalers across the country to list and purchase the products of over 385 products manufactured by SMMEs and Co-operatives.

The government, through **sefa**, introduced the Township and Rural Entrepreneurship Programme (TREP) to affect the spatial redress. TREP is a dedicated programme to transform and integrate opportunities in townships and rural areas into productive business ventures. The focus is to create platforms that provide the business support infrastructure and regulatory environment to thrive. Eight dedicated sector-specific schemes have been introduced to support Township and Rural based entrepreneurs.

As the Department, we acknowledge **sefa**'s organisational performance despite the challenging COVID-19 operating environment. Year-on-year, **sefa** has increased its Total Loan Approvals and Disbursements to SMMEs and Co-operatives and pro-actively introduced post loan support measures and programmes to manage its loan impairments and build client sustainability.

We, however, want to encourage **sefa** to:

- implement dedicated outreach campaigns and programmes to reach entrepreneurs, particularly youth, women and people with disabilities to enhance financial inclusion and access to mainstream economic activity;
- invest in the building of long-term financial sustainability by focusing on increasing income, reducing costs, and improve the quality of its loan book by reducing loan impairments;
- improve its loan management processes to reduce loan turnaround time and increase its organisational footprint, especially in townships and rural communities; and
- diversify its intermediary institutional base by fostering the establishment of black-owned financial intermediaries.

The government's priority is to rebuild the economy with the meaningful participation of SMMEs. Recovery will take time, will require significant changes in business and operating models for all businesses for them to thrive in the new normal. Reducing the complexity of accessing finance for small business will accelerate the growth of small business and contribute to growing the South African economy.

During FY 2021/22, some of the critical focus in policy and practice will be to enhance the coordination of small business funding across the public and private sector and market access. The government needs to accelerate efforts of the 30 days payment aggressively, and 30% procurement spend set aside by the government towards achieving small business growth and job creation.

Over the MTEF period, **sefa** shall introduce new funding instruments to address the constraints that SMMEs and Co-operatives face in accessing funding, especially as the country rebuilds the economy post COVID-19. The small business sector needs investment and support to help them grow and scale up over the longer term. DSBD in conjunction with **sefa**, will have to design and implement innovative financial programmes that are tailored to the needs of small businesses, especially those in the start-up phase.

I wish to thank the Board of Directors, management, and employees of **sefa** for their dedication and continued commitment to building a sustainable organisation to the benefit of all South Africans.

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

Ms Stella Ndabeni-Abrahams, MP
Honourable Minister of Small Business Development

3. STRATEGIC OVERVIEW

BACKGROUND

__sefa__ was established on 01 April 2012 in terms of Section 3(d) of the Industrial Development Corporation Limited (IDC) Act, Act 22 of 1940 (amended in 2001)., 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. __sefa__ reports to the Minister of Small Business Development.

MANDATE

To address the market failure in the provision of finance to SMMEs and Co-operatives.

VISION

To be a leading catalyst for the development of sustainable Small, Medium, and Micro Enterprises and Co-operatives through the provision of finance.

MISSION

sefa's mission is to provide accessible financing efficiently and sustainably to SMMEs and Co-operatives throughout South Africa by:

a) Providing loan and credit facilities to SMMEs and Co- operative enterprises.

b) Providing credit guarantees.

c) Supporting the institutional strengthening of financial intermediaries so that they can effectively assist SMMEs and Co-operatives.

d) Creating strategic partnerships with a range of institutions for sustainable SMME and Co-operative enterprise development and support.

e) Developing, through partnerships, innovative finance products, tools, and channels to speed up increased market participation in the provision of finance;

f) 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:

a) Kuyasheshwa! We act with speed and urgency.

b) Passion for development: Solution-driven attitude, commitment to serve.

c) Integrity: Dealing with clients and stakeholders honestly and ethically.

d) Transparency: Ensuring compliance with best practices on the dissemination and sharing of information with all stakeholders.

e) Innovation: Continuously looking for new and better ways to serve our clients.

POLICIES AND LEGISLATION

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

POLICIES AND LEGISLATION THAT GUIDE SEFA'S OPERATIONS

FOUNDATIONAL POLICIES

- The National Strategy on the Development and Promotion of Small Business in South Africa (1995)
- Integrated Small Business Development Strategy (2004 – 2014)
- The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005)

SECTOR-BASED POLICIES

- Cooperatives Development Policy (2004)
- Integrated Strategy on the Development and Promotion of Cooperatives (2012)
- National Informal Business Upliftment Strategy (2013)
- Youth Enterprise Development Strategy 2013-2023 (2014)

LEGISLATION

- National Small Business Act, No. 102 of 1996 (as amended in 2004)
- National Credit Act, No. 24 of 2005
- Industrial Development Act, No. 22 of 1940
- Financial Intelligence Centre Act (FICA) No.38 of 2001
- Financial Intelligence Centre Amendment Act (FICA) No.1 of 2017
- Consumer Protection Act, No 68 of 2008
- Companies Act, No. 71 of 2008
- Cooperatives Act, No. 14 of 2005
- Insurance Act , No.18 of 2017
- Promotion of Access to Information Act, No. 2 of 2000
- Public Finance Management Act, No. 1 of 1999
- Protection of Personal Information Act, No. 4 of 2013

GROUP STRUCTURE

sefa
Small Enterprise Finance Agency

JOINT OPERATION

- **sefa** Botala Green Fund — 50%

JOINT VENTURES

- Anglo American **sefa** Mining Fund (Pty) Ltd — 50%
- Cytobix (Pty) Ltd trading as Godisa — 50%
- **sefa** Awethu Youth Fund (Pty) Ltd — 50%

ASSOCIATES

- Business Partners Limited — 22%
- Utho SME Infrastructure Fund — 49%

SUBSIDIARIES

- Khula Business Premises (Pty) Ltd — 100%
- Khula Credit Guarantee SOC Ltd — 100%
- Khula Institutional Support Services NPC — 100%
- Identity Development Fund (Pty) Ltd — 100%
- Khula Akwandze Fund (Pty) Ltd — 75%

4. OPERATING MODEL, DISTRIBUTION CHANNELS AND PRODUCTS

CLIENTS

SMMEs AND CO-OPERATIVES

DISTRIBUTION CHANNELS

- **sefa** Offices
- **sefa** Co-locations (IDC, Seda, Business Hubs)
- Commercial Banks
- Corporates
- 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
- Property Finance

R50 000 - R15 million

WHOLESALE LENDING

- Credit Guarantees
- Equity
- Revolving Loans
- Term Loans

R500 - R15 million

NB: End-user can apply up to R15 million, while wholesale intermediaries can apply for lending facilities up to R150 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

LOAN CRITERIA

a) Be a South African citizen or a permanent resident.

b) Be a registered entity, including sole traders with a fixed physical address.

c) Be within the required legal contractual capacity.

d) Be domiciled in South Africa.

e) Be compliant with generally accepted corporate governance practices appropriate to the client's legal status.

f) Have a written proposal or business plan that meets **sefa**'s loan application criteria.

g) Demonstrate the character and ability to repay the loan.

h) Provide consent for personal and/or credit checks.

i) Be the majority shareholder and the owner-manager of the business; and

j) Have a valid Tax Clearance Certificate.

TARGET MARKET

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

sefa funds qualifying business ventures primarily in the following sectors:

a) services (including retail, wholesale and tourism);

b) manufacturing (including agro-processing);

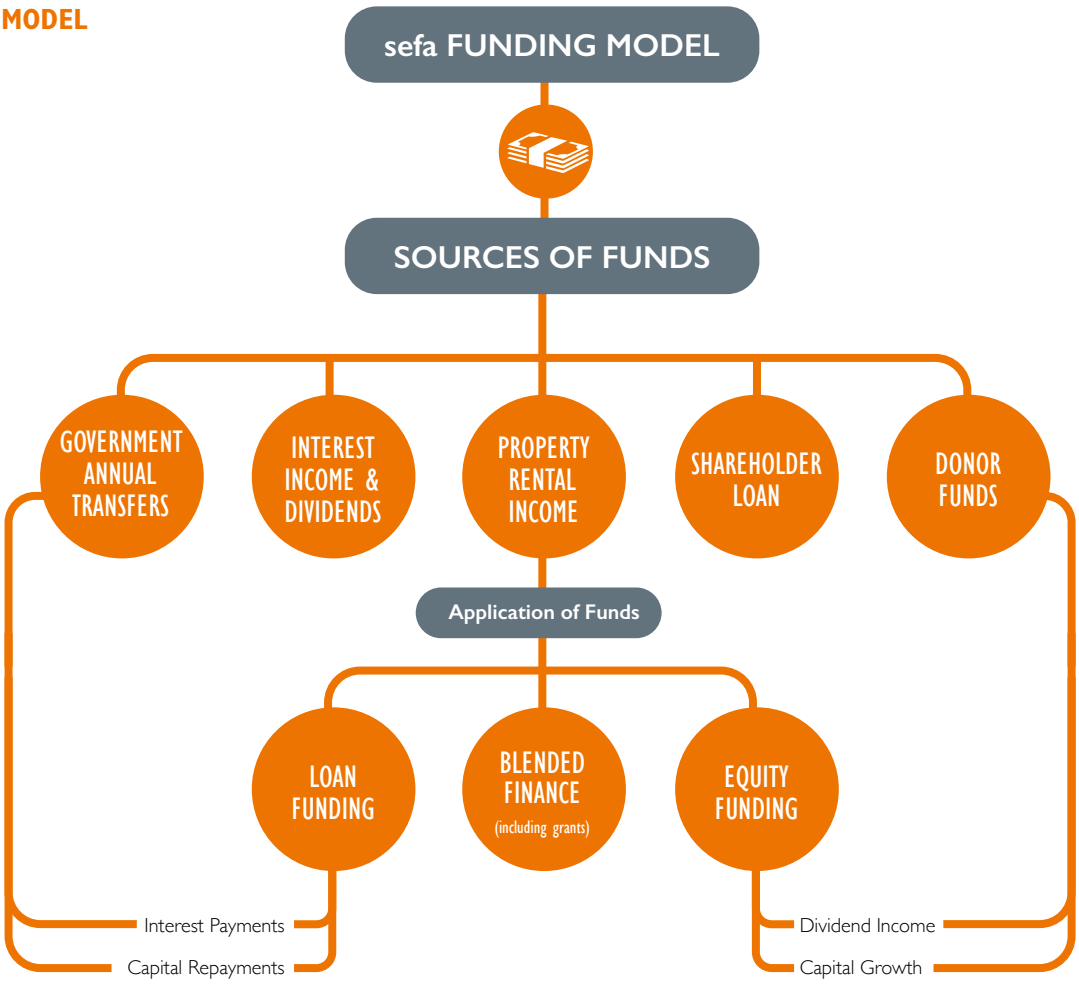
c) agriculture (specifically land reform beneficiaries and contract-farming activities);

d) construction;

e) mining services and processing; and

f) green industries (renewable energy, waste, and recycling management).

FUNDING MODEL



SECTION

02

CORPORATE PERFORMANCE OVERVIEW

5. CORPORATE PERFORMANCE OVERVIEW

It is recognised that the number of public and private sector organisations that operate in the SMME support field have a collective responsibility to address the many challenges facing SMMEs. However, while the sector's importance is acknowledged, SMMEs face many key challenges, including difficulties in accessing finance, lack of growth and employment creation, lack of entrepreneurship, high rates of business failure and burdensome regulations.

It is generally recognised that SMMEs have been facing difficulties in accessing credit from formal financial institutions due to unfavourable "credit histories", insufficient collateral and a high failure rate. The need for the existence of an institution that intervenes in the provision of access to finance for small businesses is consequently broadly acknowledged. **sefa** was established to address the challenges of market failure in the provision of finance to SMMEs through building partnerships with the private sector, government and other role players in the SMME eco-system.

MEDIUM-TERM EXPENDITURE FRAMEWORK (MTEF) STRATEGIC OBJECTIVES

Over the MTEF period, **sefa** set itself the following key organisational strategic objectives:

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

In pursuit of these objectives, **sefa** had to strike a strategic balance between the contradictory and sometimes competing priorities that come with meeting the unlimited demands of the organisation's mandate while deploying limited fiscal resources. **sefa** exercises critical care in taking key organisational and program decisions, in making the necessary trade-offs between improving its impact and financial sustainability over the MTEF period and beyond. This is because its long-term financial sustainability directly impacts the economy's performance and in turn, the small business sector's performance.

sefa's COVID-19 RESPONSE

The COVID-19 pandemic continues to wreak havoc in our lives and the economy at large. **sefa** intervened through a COVID-19 debt relief scheme to support SMMEs that were negatively impacted by the lockdown regulations. We further extended payment and rental holidays to funded clients, and those occupying our rental properties. to continue our business operations during COVID-19, we implemented enhanced technology to allow employees to work from home as well as health and safety measures at our offices to ensure that critical employees remain safe.

sefa's SUPPORT AND ALIGNMENT TO THE GOVERNMENT'S MEDIUM TERM STRATEGIC FRAMEWORK (MTSF) PRIORITIES

As an entity of state, **sefa** supports the government's MTSF framework, in particular, priority 2: economic transformation and job creation.

For FY 2020/21, **sefa** provided support via its loan programmes to stimulate competitive SMMEs and Co-operatives, youth owned enterprises, and targeted support to entrepreneurs located in townships and rural towns and villages.

SUPPORT TO COMPETITIVE ENTERPRISES

PROGRAMME	NUMBER OF SMMES & CO-OPS FINANCED	RAND AMOUNT
Direct Lending (DL)	484	R500 742 708
Wholesale Lending (WL)	409	R266 589 932
Khula Credit Guarantee (KCG)	22	R159 189 894
Total	**915**	**R926 522 534**

Competitive Enterprises are all enterprises that do not receive financial support via the Informal and Micro Finance Programme. The Informal and Micro support programme is mainly geared towards income generation and survival business activities.

TOWNSHIP AND RURAL ENTREPRENEURSHIP PROGRAMME

In the past financial year, **sefa** introduced a new programme initiative targeting and supporting entrepreneurs in the township and rural communities via the Township and Rural Entrepreneurship Programme (TREP). TREP is a multi-pronged intervention that is implemented in alliance with Seda and facilitates:

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

TREP comprises eight schemes that target township and rural entrepreneurs in various sub-sectors of the township and rural economy. The table below provides an analysis of the support provided to different segments of the township and rural entrepreneurs.

PROGRAMME	NUMBER OF SMMES & CO-OPS FINANCED - TREP	RAND AMOUNT
Spaza Shop Support Programme	5 276	R18 466 000
Small Scale Bakeries & Confectionaries Business Support Scheme	83	R7 618 899
Clothing & Textile Support Programme	108	R8 233 782
Tshisanyama & Cooked Food Support Programme	24	R619 987
Total	**5 491**	**R34 938 668**

CUSTOMER RELATIONS AND MANAGEMENT

sefa places great importance on customer feedback, and annually conducts customer surveys to improve customer service. Responses received from clients' centre on the slow loan turnaround times, inadequate and insufficient feedback and the need to develop products and services that respond to the needs of our client base (financial inclusivity).

GOVERNANCE

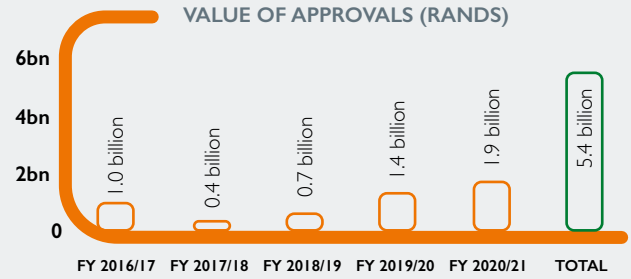
As an institution functioning under the PFMA, **sefa** endeavours to implement governance practices aligned to best practices standards and principles. This also applies to its funded clients. The Board and Executive Management exercise their fiduciary oversight and duties fairly and transparently.

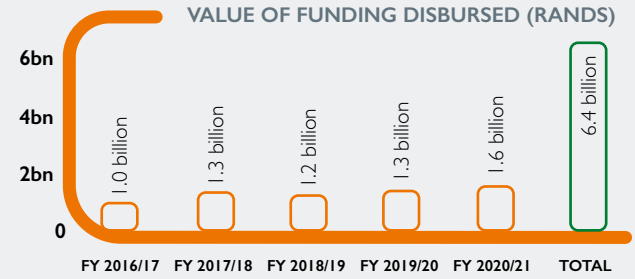
INSTITUTIONAL CHALLENGES

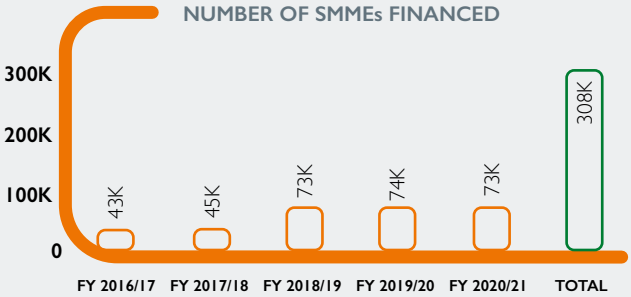
The core and central challenges in implementing our strategic mandate relate to:

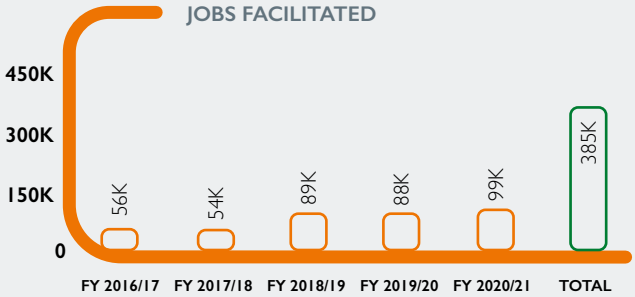
- Development impact effectiveness – deal origination, meeting of development impact targets and increasing financial services to underserved provinces such as Northern Cape, Northwest, Free State and Eastern Cape,
- Financial Sustainability – reduce operating cost, increase revenue and reduce impairments through better and improved risk-taking,
- Enhance Customer Satisfaction – improving customers across the customer value chain, and
- People Management – investing in leadership effectiveness, productivity, managing the new hybrid working environment and increasing the **sefa** employee value proposition.

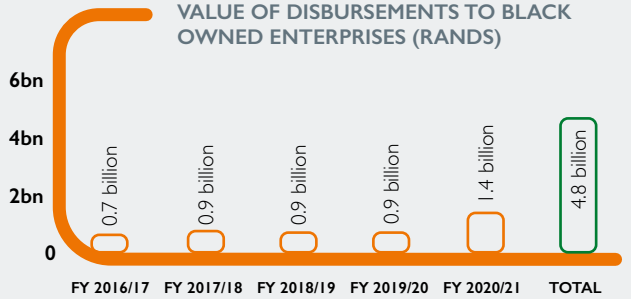
LOAN BOOK PERFORMANCE TRENDS

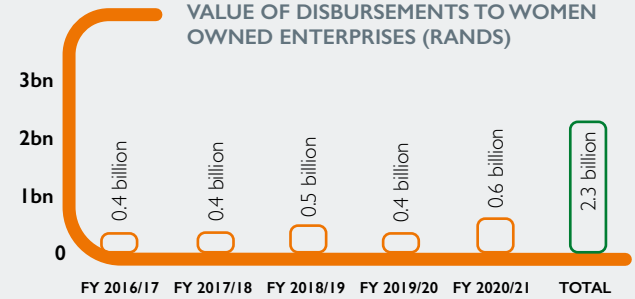


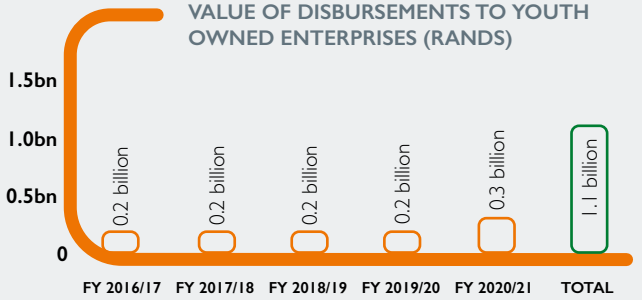


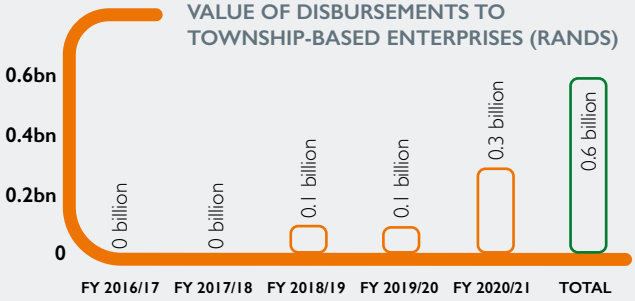


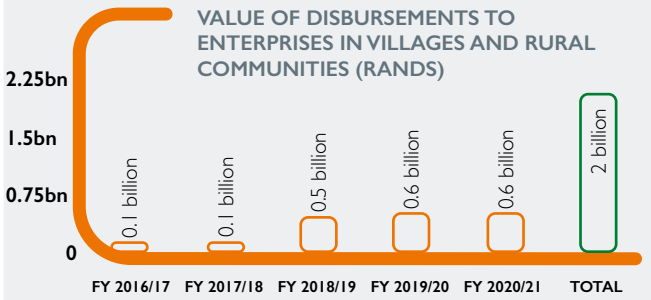


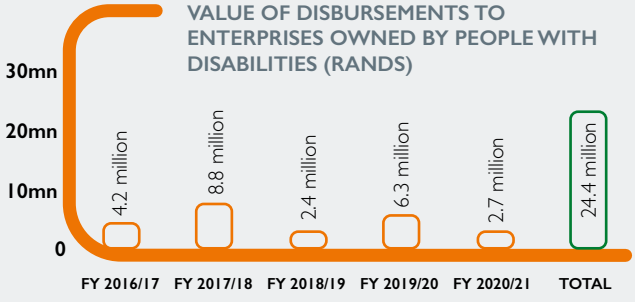












sefa's PROVINCIAL SPREAD

The diagram below depicts **sefa**'s provincial disbursements, number of SMMEs financed and jobs facilitated for FY 2020/21.

EASTERN CAPE
REGIONAL OFFICES
East London

CO-LOCATIONS
Port Elizabeth

14 218 SMMEs FINANCED
R146M DISBURSEMENTS
16 291 JOBS FACILITATED

NORTHERN CAPE
REGIONAL OFFICES
Kimberley

CO-LOCATIONS
John Taolo Gaetswe
Upington
De Aar
Springbok

158 SMMEs FINANCED
R24M DISBURSEMENTS
646 JOBS FACILITATED

FREE STATE
REGIONAL OFFICES
Bloemfontein

CO-LOCATIONS
Welkom
Trompsburg
Bethlehem
Sasolburg

540 SMMEs FINANCED
R30M DISBURSEMENTS
1 252 JOBS FACILITATED

GAUTENG
HEAD OFFICE
Centurion

REGIONAL OFFICES
Johannesburg
Riversands Incubation Hub
Parktown

1 402 SMMEs FINANCED
R560M DISBURSEMENTS
11 391 JOBS FACILITATED

NORTHWEST
REGIONAL OFFICES
Rustenburg

CO-LOCATIONS
Klerksdorp
Vryburg
Mahikeng

3 489 SMMEs FINANCED
R48M DISBURSEMENTS
4 363 JOBS FACILITATED

KWAZULU-NATAL
REGIONAL OFFICES
Durban

CO-LOCATIONS
Port Shepstone
Ladysmith
Richards Bay
Newcastle
Pietermaritzburg
Ixopo

17 952 SMMEs FINANCED
R214M DISBURSEMENTS
22 580 JOBS FACILITATED

LIMPOPO
REGIONAL OFFICES
Polokwane

CO-LOCATIONS
Thoyoyandou
Tzaneen
Mokopane
Jane Furse

23 085 SMMEs FINANCED
R168M DISBURSEMENTS
24 903 JOBS FACILITATED

MPUMALANGA
REGIONAL OFFICES
Nelspruit

CO-LOCATIONS
Secunda
Nkomazi
Bushbuckridge

11 172 SMMEs FINANCED
R162M DISBURSEMENTS
12 840 JOBS FACILITATED

WESTERN CAPE
REGIONAL OFFICES
Cape Town

CO-LOCATIONS
Belville
Khayelitsha
Mossel Bay
Knysna
George
Oudshoorn
Beaufort West
Hermanus
Stellenbosch
Worcester
Vredenburg
Saldanha

528 SMMEs FINANCED
R239M DISBURSEMENTS
4 475 JOBS FACILITATED

CORPORATE PERFORMANCE AGAINST PRE-DETERMINED TARGETS

Corporate Performance Targets are annually agreed with the Executive Authority (DSBD).

The FY2020/21 was challenging due to sluggish demand in the economy, as a result of COVID-19 pandemic and the overall low growth economic environment. The macroeconomic conditions not only impacted **sefa**, but all lenders experienced a decline in their performance. The first quarter of business activity of **sefa** was geared at the implementation of the SMME Debt Relief Programme and the restructuring of the funded clients. The organisational loan programmes could only resume in quarter 3. This had an adverse impact on the uptake of the loan programmes and the resultant performance indicators.

OBJECTIVE	MEASURE	FY 2019/20			FY 2020/21		
		ANNUAL TARGET	ANNUAL ACHIEVEMENT	% OF ANNUAL TARGET ACHIEVED	ANNUAL TARGET	ANNUAL ACHIEVEMENT	% OF ANNUAL TARGET ACHIEVED
CUSTOMER PERSPECTIVE							
Ensure **sefa** is a high impact, high-performance DFI that is responsive to the government's microeconomic policies and specifically the DSBD MTEF plan	Total Approvals (R'000)	929 784	1 411 431	152%	2 770 611	1 900 666	69%
	Total Disbursements to SMMEs and Co-operatives (R'000)	793 930	1 311 984	165%	1 986 559	1 590 616	80%
	Number of SMMEs and Co-operatives financed	90 178	74 472	83%	106 883	72 799	68%
	Number of jobs facilitated	91 997	87 828	95%	164 210	99 112	60%
	Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	239 229	211 932	89%	794 623	315 103	40%
	Facilities to people with disabilities (R'000)	15 949	6 340	40%	59 597	2 681	4%
	Facilities disbursed to women-owned businesses (R'000)	448 055	446 084	100%	993 279	604 177	61%
	Facilities disbursed to black-owned businesses (R'000)	665 255	921 243	138%	1 494 924	1 374 073	92%
	Facilities disbursed to enterprises in villages and rural communities (R'000)	448 055	371 151	83%	893 951	563 051	63%
	Disbursements to township-based enterprises (R'000)	324 254	124 627	38%	653 138	274 349	42%
FINANCIAL PERSPECTIVE							
Improve **sefa's** sustainability, operational effectiveness, efficiency and service delivery by streamlining organisational processes and deploying technology solutions	Cost-to-income ratio (FY 2016/17 = Measure excluded impairments, finance charges & grants)	83%	79%	105%	122%	84%	145%
	Accumulated Impairment provision as a percentage of total loans and advances	33%	41%	80%	40%	36%	111%
	Collection Rate (All in cash)	85%	87%	102%	85%	123%	145%
	Level of Organisational process automation	Not applicable			20%	20%	100%
ORGANISATIONAL BUSINESS PROCESSES							
Develop the **sefa** brand value-proposition for our target markets, improve distribution reach, and establish winning collaborative models	**sefa**/ Seda collaboration (National SMME database, Central database of business)	Not applicable			100%	100%	100%
PEOPLE, LEARNING AND GROWTH							
Align **sefa's** Organisational Structure, Culture and Innovative Delivery Model to be responsive to its mandate and strategy	Employee Satisfaction Index	Not applicable			70%	56%	80%
	Percentage of employees (P band and above) that scores 3.1 or more in the annual performance assessment	80%	84%	105%	80%	78%	98%

SECTION

03

GOVERNANCE

6. CHAIRPERSON'S STATEMENT

Small, Medium and Micro-enterprises (SMMEs) and Co-operatives remain the critical engine of the economy geared at addressing the triple challenge of job creation, poverty and inequality in South Africa. SMMEs remain a significant component of the business sector and employ between 50 and 60 percent of South Africa's workforce and contribute 39 percent to Gross Domestic Product (GDP). The global community has laid focus on revival, supporting and growing this critical sector of the economy in the quest for economic recovery.

OUR OPERATING CONTEXT

The year under review has in no doubt been exacting. Whereas the COVID-19 Pandemic disrupted trade in the tail end of the 2020 financial year, it was the past financial year that bore most of the brunt. Business activity was constrained, and that had a cumulative impact on **sefa**'s business.

The pandemic forced contraction in production due to the national lockdown and other restrictions on non-essential business operations, reduced demands for goods and services, disrupted global production and supply chains and created uncertainty in the broader business investment environment.

Research studies commissioned by the Department of Small Business Development (DSBD) indicated that 42.7 percent of SMMEs closed due to COVID-19. Furthermore, the resultant closure of SMMEs led to job losses of 60 percent of full-time jobs across all SMMEs.

sefa had to adapt its processes to ensure that it continued to serve its clients satisfactorily whilst keeping its valued employees safe. Although our delivery capacity was tested to the extreme, we are proud of the resilience, commitment, and passion that the **sefa** team exhibited in the execution and delivery towards access to both **sefa**'s products and the COVID-19 relief programmes.

To address the impact of COVID-19 on the small business sector, DSBD, in conjunction with its agencies (**sefa** and Seda), introduced a set of interventions to provide financial relief to SMMEs and Co-operatives that the COVID-19 pandemic has negatively impacted.

REFLECTING ON FY 2020/21

The DSBD, in conjunction with its agencies, **sefa**, and Seda, introduced a set of interventions to provide financial relief to SMMEs and co-operatives negatively affected by COVID-19. These interventions included an SMME Debt Relief Scheme, the extension of payment holidays to **sefa**'s funded clients and SMMEs and Co-operatives occupying **sefa**'s rental properties. The total value of these interventions amounted to R 446.5 million.

The **sefa** team continued to write **sefa**'s success story during these turbulent times. **sefa** had to transform its operations, mainly to ensure the protection of our valued employees from the pandemic whilst meeting the needs of our clients and service providers. Our people across **sefa** business demonstrated phenomenal resistance during the year as we navigated several challenges and transitioned toward the new normal, including:

i. Introducing agile delegations of authority and a revised approach to the approval of facilities, including system-generated loan agreements for ease of access by the business. This approach resulted in **sefa** approving an amount of R560 million in Quarter One. During the disbursement of the relief fund to the SMMEs, a new record for **sefa**, as it had never in its existence reached such a target. The lessons drawn from this period are being employed in the company for improved processes.

ii. **sefa**, with the support of the Department of Trade Industry and Competition, launched the Small Manufacturing Fund to the value of R320 million. We are delighted to report that we have since experienced high uptake of this crucial facility.

iii. Together with the Department of Tourism and private sector partners, we launched an R1,2 billion Tourism Equity Fund towards the end of the financial year. Unfortunately, legal challenges stalled the implementation of the fund. Once this is resolved, we look forward to rolling out this fund to this crucial sector of the economy.

iv. To cushion the impact of COVID-19 on tenants, we granted a six-month rental moratorium to the value of R23 million.

v. Despite the subdued economic climate, we achieved our set impairment target.

vi. COVID-19 restrictions limited the number of employees working in the same space, which required a hybrid working environment, namely physical and remote working.

vii. A hybrid process of submitting applications, namely drop-off and electronic submission, leaning more on electronic submissions.

During the year under review. **sefa** approved loans to the value of R1.9 billion and disbursed R1.6 billion into the South African economy, which fell short of the target. A significant amount of focus was directed towards disbursing the Relief programmes. As a result, we disbursed R1.37 billion to black-owned businesses, R604 million to women-owned enterprises, R315 million to youth-owned businesses and R274 million to businesses in rural towns and villages and R2.7 million to entrepreneurs with disabilities. This massive financial support benefitted 72 799 SMMEs and Co-operatives, who in turn helped create and sustain 99 112 jobs.

__sefa__'s developmental impact, particularly regarding youth-owned businesses, enterprises operating in townships, and businesses owned by entrepreneurs with disabilities, remained constrained during the year under review, with specific initiatives being developed for the coming FY 2021/22 to improve those targets.

We have witnessed continued improvements in our collections, this being the fruits of increasing capacity in our Post Investment Management Unit.

Although the reported performance did not meet the set targets, it is important to highlight that FY 2020/21 outperformed FY 2019/20 by an overall 35% on approvals and 21% disbursement from a year-on-year comparison. In addition, as part of our COVID-19 interventions, we granted a 6-month moratorium on repayments to our clients, to the value of R107 million.

The **sefa** property portfolio has not historically performed at an optimum level. These properties are a mixed bag of drags and opportunities. However, most of them are in areas that provide opportunities for vibrant spaces of economic activity and enterprise development. The property porfolio is managed under the subsidiary, Khula Business Premises (KBP). During the financial year, **sefa** revived the Board of KBP and formulated a turnaround strategy to ensure focused effort and revitalising the property portfolio. Core to the strategy's success will be recruiting a skilled and capable team to drive the management of KBP.

sefa's developmental impact, particularly regarding youth-owned businesses, enterprises operating in townships, and businesses owned by entrepreneurs with disabilities, remained constrained during the year under review. Initiatives will be developed for the coming FY 2021/22 to improve these targets.

During the year under review, **sefa** intensified its brand presence and increased awareness of its programmes through social, print, radio and TV media and conducted webinars in collaboration with different stakeholders to communicate to and educate the public about the **sefa** products related COVID-19 Relief programmes. The Board appreciates that COVID-19 will remain a part of our operating environment for the near future. As such, our operations will be geared towards dealing with the challenges that may arise. This includes adapting to the new normal, through innovative approaches in the distribution of funding.

Our goal remains to improve access to finance, enhance our marketing and brand visibility to ensure that **sefa** improves penetration, especially in lagging demographic targets. **sefa** will employ research to understand its operating markets better and inform product development and business processes. We have to be more responsive to SMMEs and attract quality deals. The ripple effect of this approach will be an improved level of the collection since we shall improve the chances of sustainability.

To build our agility, **sefa** is working on automating its systems This is crucial to improving our efficiency and improving our turnaround times in processing applications for funding.

Finally, **sefa** aims to fast track the building of a cohesive high-performance culture that is customer-centric to respond to its valued markets. Embedded in this will be the need to attract and retain talent.

CORPORATE GOVERNANCE

sefa continues to uphold good governance practices underpinned by Integrity, Competence, Responsibility, Accountability, Fairness and Trust. The Board has put in place structures to ensure that it complies with the relevant legislation and regulations when it delivers its mandate whilst providing flexibility in the company's management. There are appropriate measures to safeguard mitigation of risks through our risk management function, which continues to facilitate and monitor the organisation's implementation of risk management practices. COVID-19 proved the Board's agility as we migrated to virtual meetings.

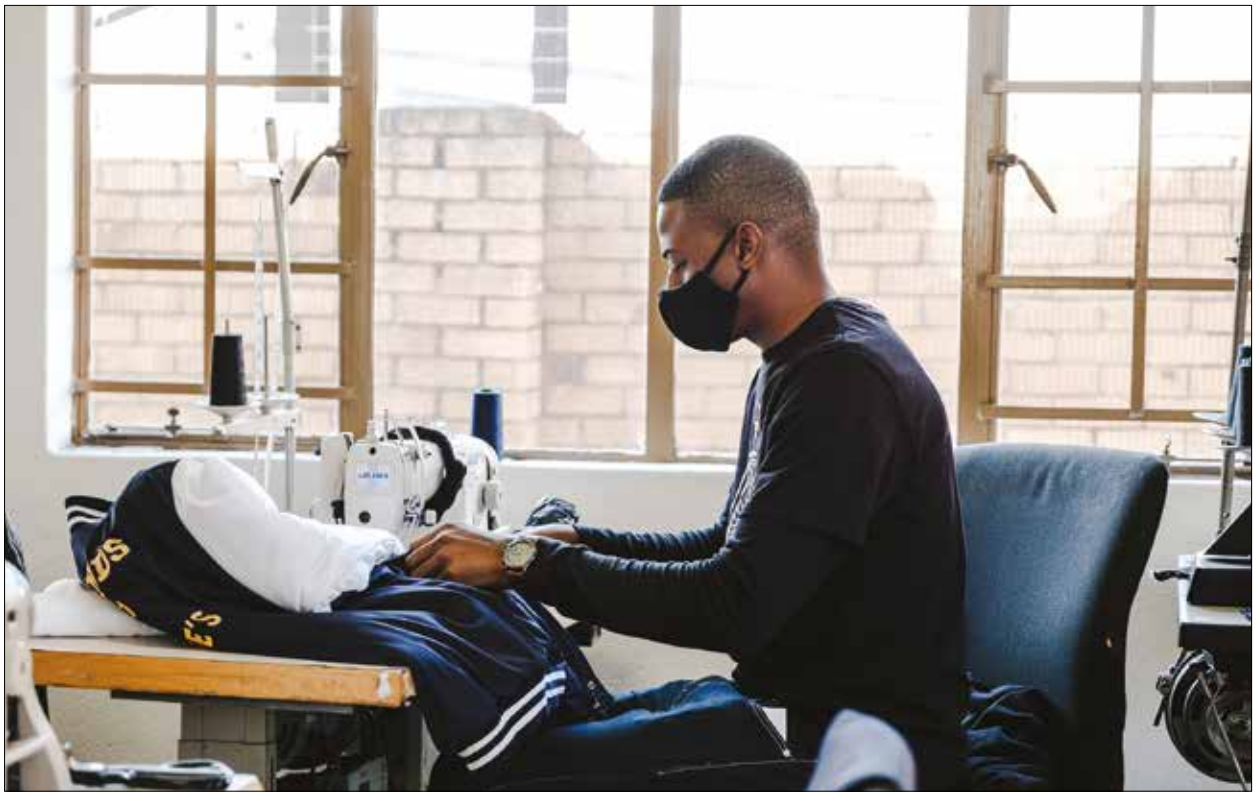
The Constitution of the Board Committees and related activities undertaken during the year under review are set out in the Corporate Governance Report on page 38.

LEADERSHIP CHANGES

Ms Nothemba Mlonzi and Ms Nonkululeko Dlamini resigned from the Board effective 31 July 2020 due to personal commitments. The Board and Management wish to thank both Directors for their dedicated contribution during the period of their respective tenures.

We bid farewell to Mr Setlakalane Molepo on 30 September 2020, after a twenty-two-month stint as Acting Chief Executive Officer of **sefa**. During his tenure, Mr Molepo displayed immaculate leadership, strong industry insight and stakeholder interaction. On behalf of the Board, I extend my gratitude to him for his invaluable contribution and unwavering support to the Board.

We welcomed Ms Sedzani Mudau, Ms Hilda-Marie Tsoadi and Ms Ziyanda Ngcobo, who were appointed on 01 October 2020. The three Directors bring diversified skills and knowledge to the Board.



Their respective profiles are set out in the governance section. The Board boasts of a gender-balanced board of Directors.

The Board appointed a permanent CEO of the Company, Mr Mxolisi Matshamba, on a three-year contract effective 01 November 2020. The Board is confident that Mr Matshamba and the Executive Management Team will contribute immensely to the success of **sefa** in delivering its mandate. His profile is set out in the governance section.

STRATEGIC PARTNERSHIPS AND STAKEHOLDER ENGAGEMENTS

The Board has recognised the need for strategic engagements and partnerships within the SMME ecosystem, between and across the public and private sectors. During the year under review, **sefa** sought greater integration of activities with Seda. We also initiated and strengthened partnerships with financial and non-financial institutions to enhance business support services and increase access to finance for SMMEs and Co-operatives.

OUTLOOK

Government through **sefa** is a key player in the SMME ecosystem, especially with regard to post- COVID-19 economic recovery. The South African economy is projected to grow 4 percent in 2021. However, this is not enough to make up for last year's huge coronavirus-related contraction of 7 percent. As a result, the outer years are projected to have a lower rate of economic growth.

High uncertainty surrounds this outlook, related to the path of the pandemic. To this end, expectations are that the SMME sector will continue to rely on state support as the country subdues the remnants of the impact of the pandemic and the global economy gradually re-opens.

In this era, leadership demands that we outpace the restrictive elements that contribute to the country's economic growth. **sefa** is a crucial component of the DFIs entrusted with the mandate to build the economy. We have historically carried high impairment levels and profitability has been elusive to us. We have to strike a healthy balance between delivering on our mandate and ensuring sustainability. To this end, we will robustly build an efficient organisation, persistently decrease our impairments and consolidate on improvements in collections.

To this extent, **sefa** will invest and position the institution to be more responsive to government microeconomic policies, streamline its organisational processes and implement an innovative delivery model to improve service delivery. Key to this goal shall be **sefa**'s relentless drive to help increase the contribution of the SMME sector to the GDP and employment creation. Equity should be the cornerstone of our interventions, hence the need for the impetus to increase key developmental indicators. The Board is eager to implement a comprehensive turnaround programme for the property business that will ultimately strengthen **sefa**'s balance sheet. As we consolidate on building the SMME sector, we should be alive to the opportunities that the Africa Free Trade Agreement presents to the sector and the role that **sefa** should play in providing support.

APPRECIATION

I remain humbled and honoured to be entrusted with the responsibility of leading the **sefa** Board to guide **sefa**'s management and oversee its operational performance. I lean on the collective wisdom and support of my fellow Board members as we navigate the complex and challenging terrain that we face. Thank you for yor continued support and commitment.

I am grateful to the CEO, the Executive Team, and the excellent employees at **sefa** for your commitment to serve this critical business community. Without your hard work, **sefa** would not be recognised for the significant financial injections it continued to make into the South African economy.

A deep sense of appreciation goes to our Shareholder, the Industrial Development Corporation (IDC), for their continuous support and commitment to ensure that **sefa** succeeds in its mission.

My heartfelt gratitude to the Honourable Minister Khumbudzo Ntshavheni for her support and guidance in navigating what has thus far been an acid test to the Ministry and government. Without your enormous energy and brilliance, we would not have reached these heights.

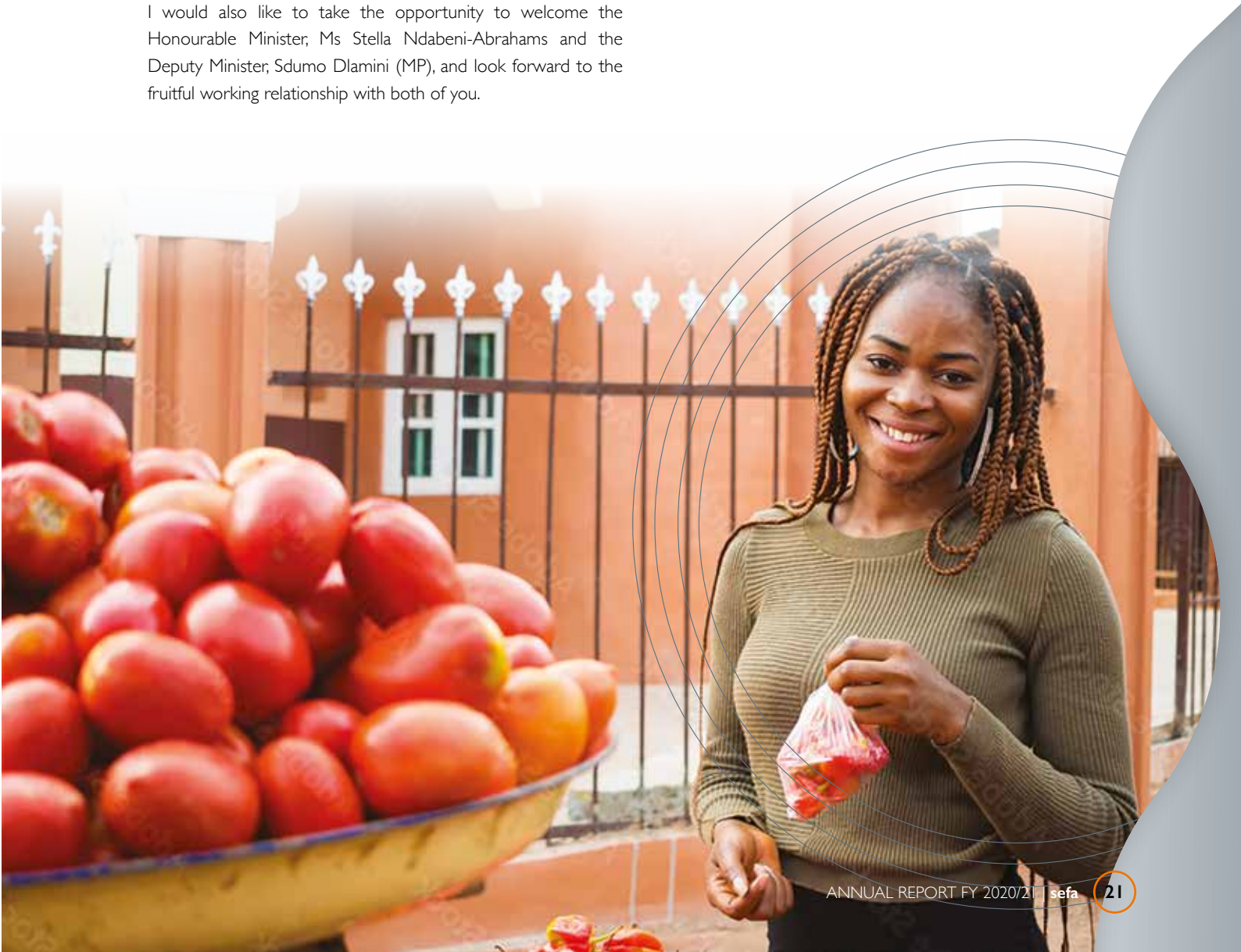
I would also like to take the opportunity to welcome the Honourable Minister, Ms Stella Ndabeni-Abrahams and the Deputy Minister, Sdumo Dlamini (MP), and look forward to the fruitful working relationship with both of you.

Finally, to our clients, we re-affirm that **sefa** remains steadfast in supporting you to build and grow your businesses to greater heights as we forge ahead during these challenging times.

We remain optimistic that the worst is behind us. We are resolute in harnessing our collective imaginations on what can and should become of our country. Ours is to ensure that we contribute to pushing back the frontiers of economic stagnation, inequality, unemployment and poverty. The mission is squarely on our shoulders, and we dare not fail.

Ndo livhuwa, ke a leboga, na khensa, ngiyabonga, ndiyabulela, dankie, thank you.

Mr Martin Mahosi
Chairperson of the Board



7. BOARD OF DIRECTORS

Mr Andrew Martin-Robert Mahosi (52)

(Chairperson)

APPOINTMENT DATE: 1 August 2019

ACADEMIC QUALIFICATIONS

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

AREA OF EXPERTISE/ SKILLS MATRIX

- Strategy development and implementation
- Entrepreneurship
- Marketing
- Risk Management
- Human resources Management
- Small Business Development
- Broad Public Policy direction
- Government/legislative process

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Khula Business Premises (Pty) Ltd Board Chairperson
- Human Capital and Remuneration Committee
- Business Partners Ltd

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

DIRECTORSHIP/TRUSTEESHIP/(SHAREHOLDING)

- Thamago Investments (50%)
- Zwanda Group (Pty) Ltd (100%)
- Mago Aviation (Pty) Ltd (100%)

Mr Mxolisi Dalukhanyo Matshamba (55)

APPOINTMENT DATE: 1 November 2020

ACADEMIC QUALIFICATIONS

- Master of Business Administration – Corporate Strategy and Corporate Finance (Milpark Business School)
- BCom in Finance and Economics (National University of Lesotho)
- Articles of Accountancy (PWC)
- Management of Petroleum Economics and Policy (WITS)
- Accelerated Directorship Programme (IODSA)

AREA OF EXPERTISE/ SKILLS MATRIX

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

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Khula Business Premises (Pty) Ltd
- Khula Credit Guarantee SOC Ltd
- Business Partners Ltd

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

Ms Mphokolo Elina Makara (39)

APPOINTMENT DATE: 1 August 2019

ACADEMIC QUALIFICATIONS

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

AREA OF EXPERTISE/ SKILLS MATRIX

- Finance
- Investment
- Accounting
- Development Funding
- Small Business Development
- Broad Public Policy direction

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Risk Committee (Chairperson)
- Audit Committee
- Credit and Investment Committee
- Khula Credit Guarantee SOC Ltd

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

Ms Delicate Lindi Mabuza (41)

APPOINTMENT DATE: 1 August 2019

ACADEMIC QUALIFICATIONS

- B Tech Marketing
- National Diploma in Marketing

AREA OF EXPERTISE/ SKILLS MATRIX

- Marketing
- Small Business Development

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Human Capital and Remuneration Committee
- Social and Ethics Committee
- Khula Business Premises (Pty) Ltd

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

Mr Mmatlou Justice Kganyago (40)

APPOINTMENT DATE: 1 August 2019

ACADEMIC QUALIFICATIONS

- B Com Hons – Economics (Wits)
- B Com Economics & Finance (Wits)

AREA OF EXPERTISE/ SKILLS MATRIX

- Investments (post investments workouts/restructures, return-optimisation, negotiations, due diligence, financial modelling and applied valuations.)
- Technical and Fundamental Analysis
- Fund and Portfolio Administration
- Entrepreneur Assessments
- Development Funding
- Small Business Development

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Credit and Investment Committee (Chairperson)
- Risk Committee
- Social and Ethics Committee
- Khula Institutional Support Services NPC
- Khula Business Premises (Pty) Ltd

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

DIRECTORSHIP/TRUSTEESHIP/(SHAREHOLDING)

- Pudullo Advisory (Pty) Ltd (100%)
- Pudullo Media (Pty) Ltd (100%)
- Pudullo Capital (Pty) Ltd (100%)
- Pudullo Investments (Pty) Ltd (100%)
- Pudullo Entrepreneurship Solutions (Pty) Ltd (100%)
- Investment Committee member for The Innovation Hub's Start-Up Support (SSP) Programme

INDIRECT DOI

- Hazy Delight trading Enterprise (Pty) Ltd
- Myshield Retail and Fuel Solution (Pty) Ltd

Ms Sedzani Faith Mudau (38)

APPOINTMENT DATE: 1 October 2020

ACADEMIC QUALIFICATIONS

- Master in Business Administration (University of Witwatersrand)
- CA(SA) SAICA
- BCom (Honours) (University of Natal)
- BCom Financial Accounting (University of Pretoria)
- Management Advanced Programme (University of Witwatersrand)
- Senior Executive Development Programme (University of Witwatersrand)
- Management Development Programme on B-BBEE (UNISA)

AREA OF EXPERTISE/ SKILLS MATRIX

- Accounting
- Business Management
- Industry experience (Development Funding)
- Knowledge of sector (Small Business Development)
- Knowledge of broad public policy direction
- Understanding of government / legislation/ legislative process
- Strategy Development and Implementation
- Risk Management (Incl. experience in developing and implementation risk management systems)

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Khula Credit Guarantee SOC Ltd
- Audit Committee
- Credit and Investment Committee

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)
- South African Institute of Chartered Accountants (SAICA)
- Independent Regulator Board of Auditors (IRBA)
- Institute of Risk Management South Africa (IRMSA)

DIRECTORSHIP/TRUSTEESHIP/(SHAREHOLDING)

- Favest Advisory (Pty) Ltd (100%)
- Ditsong Museums of South Africa SOC
- Estate Agency Affairs Board SOC
- Palabora Foundation Trust

Ms Ziyanda Futhi Ngcobo (34)

APPOINTMENT DATE: 1 October 2020

ACADEMIC QUALIFICATIONS

- LLB (University of KwaZulu-Natal)
- Competition Law and Policy-Certificate of competence (University of Witwatersrand)
- Advanced Company Law 1-Certificate of competence (University of Witwatersrand)
- Admitted Attorney

AREA OF EXPERTISE/ SKILLS MATRIX

- Commercial Law
- Risk Management (Incl. experience in developing and implementation risk management systems)

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Khula Business Premises (Pty) Ltd
- Human Capital and Remuneration Committee
- Social and Ethics Committee

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

DIRECTORSHIP/TRUSTEESHIP/(SHAREHOLDING)

- The Institute for Drug Free Sports
- Director Festo Pty Ltd
- Gauteng Cricket Board

Mr Maurice Radebe (60)

APPOINTMENT DATE: 1 August 2019

ACADEMIC QUALIFICATIONS

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

AREA OF EXPERTISE/ SKILLS MATRIX

- Strategy
- Business Management
- Health & Safety

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Human Capital and Remuneration Committee (Chairperson)
- Social and Ethics Committee (Chairperson)
- Risk Committee

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)

DIRECTORSHIP/TRUSTEESHIP/(SHAREHOLDING)

- African Minerals and Energy Forum
- Agape Family Church
- Agape Family Church (NPC)
- AMEF Foundation Trust (NPC)
- Bertha Gxowa Foundation Trust (NPC)
- Educated Risk Investments 24 (Pty) Ltd
- Egoli Empowerment Holdings (Pty) Ltd (100%)
- Market Place Ministry Institute (Pty) Ltd 2015/143912/07 08 May 2015 Director (50%)
- Maurice Radebe Family Trust TMP Trustee Founder
- Palesa Holdings (Pty) Ltd Director 80%
- Prima Landgoed (Pty) Ltd Director 20%
- ULP Financial Services Director (50%)
- ULP Training Director (50%)
- Unleashing Leadership Potential (80%)
- Jamela Security Services Director (100%)
- Mentorship Movement
- Legacy Investment Holdings (50%)
- National Mentorship Movement
- Business Unity South Africa

INDIRECT INTEREST

- Uni-Drive Electric Motor Company cc (Mokgadi Joyce Radebe (Wife) (28%)

Ms Hilda-Marie Tsoadi (36)

APPOINTMENT DATE: 1 October 2020

ACADEMIC QUALIFICATIONS

- CA (SA)(SAICA)
- Honours in Accountancy (CTA Equivalent): (University of Johannesburg)
- Bachelor in Accounting Degree (Rand Afrikaans University now University of Johannesburg)

AREA OF EXPERTISE/ SKILLS MATRIX

- Industry experience (Development Funding)
- Knowledge of sector (Small Business Development)
- Accounting
- Development/Corporate Finance/ Fund Management / Investment
- Operations

SEFA COMMITTEE MEMBERSHIP AND SUBSIDIARY/ INVESTEE COMPANIES DIRECTORSHIP

- Khula Credit Guarantee SOC Ltd
- Khula Business Premises (Pty) Ltd
- Risk Committee
- Credit and Investment Committee

OTHER DIRECTORSHIPS/TRUSTEESHIPS/MEMBERSHIPS

MEMBERSHIP

- Institute of Directors South Africa (IoDSA)
- South African Institute of Chartered Accountants (SAICA)

DIRECTORSHIP/TRUSTEESHIP/(SHAREHOLDING)

- Lesakeng Environmental Group (100%)

8. EXECUTIVE MANAGEMENT

Mr Mxolisi Matshamba (55)

Chief Executive Officer

APPOINTMENT DATE:: 1 November 2020

ACADEMIC QUALIFICATIONS

- Master of Business Administration – Corporate Strategy and Corporate Finance (Milpark Business School)
- BCom in Finance and Economics (National University of Lesotho)
- Articles of Accountancy (PWC)
- Management of Petroleum Economics and Policy (WITS)
- Accelerated Directorship Programme (IODSA)

Ms Reshoketswe Ralebepa (44)

Chief Financial Officer

APPOINTMENT DATE:: 1 January 2015

ACADEMIC QUALIFICATIONS

- Chartered Accountant (SA)
- Executive Development Programme in inclusive Finance (GIBS)
- BCompt (Hons) (UNISA)
- BCom (Tax and Business Administration (UKZN)
- Advanced Certificate in Accountancy (UKZN)

Mr Nkosikhona Mbatha (39)

Executive Manager: Post Investment Monitoring

APPOINTMENT DATE:: 1 November 2019

ACADEMIC QUALIFICATIONS

- Post Graduate Diploma in Finance, Banking, and Investment Management (UKZN)
- B Com Accounting (UKZN)

Ms Boitumelo Sefolo (45)

Executive Manager: Direct Lending (Acting EM: WL)

APPOINTMENT DATE:: 19 February 2018

ACADEMIC QUALIFICATIONS

- Master of Business Administration (GIBS)
- BCom in Management (UNISA)

Ms Nokonwaba Shwala (52)

Executive Manager: Human Capital Management

APPOINTMENT DATE:: 1 January 2015

ACADEMIC QUALIFICATIONS

- Management Advancement Programme (WITS)
- BA (Economics) (UKZN)
- Executive Leadership Programme (Thunderbird School of Global Management, Geneva Switzerland)

9. CHIEF EXECUTIVE OFFICER'S OVERVIEW

__sefa__, in conjunction with DSBD and Seda, embraced the District Development Model (DDM) during the period under review and embarked on stronger collaborations with entities at both Provincial and Municipal levels to ensure that most of our target market that have either been unserved or underserved in the past, are obtaining more information on our programmes and most importantly, greater access.

OPERATING ENVIRONMENT

The role played by the small businesses in the South African economy continues to gain momentum, particularly as the economy struggles to grow. This emanates from the potential that this sector has in growing the economy and supporting the livelihoods of the previously disadvantaged individuals. In 2020, the South African economy contracted by 7% as the effects of COVID-19 pandemic adversely impacted on the already weak economic activities. It is against this background that **sefa**'s mandate has become more critical given the significant funding gap that the small businesses including co-operatives face. The following paragraph provides **sefa**'s performance highlights during the year under review:

HIGHLIGHTS FOR 2021 FINANCIAL YEAR

- R1.900 billion was approved to qualifying SMMEs and Co-operatives.
- R1.591 billion was disbursed into the South African economy in support of SMMEs and Co-operatives.
- 72 799 small businesses financed.
- 99 112 jobs created and sustained.
- R1.37 billion was disbursed to enterprises owned by black entrepreneurs.
- R604 million was disbursed to women-owned enterprises.
- R315 million was disbursed to youth-owned businesses.
- R2.68 million was disbursed to entrepreneurs with disabilities.
- R563 million was disbursed to enterprises based in rural towns and villages.
- R274 million was disbursed to township-based enterprises.

Since 2020 was an exceptionally challenging year given the economic shocks that resulted from the onset of COVID-19 pandemic, business in general suffered significantly, with most of the businesses that are not in the 'essential services' sector either experiencing a significant drop in their revenues, or total business closure.

THE IMPACT OF COVID-19 ON sefa's ORGANISATIONAL STRATEGY

Since 2020 was an exceptionally challenging year given the economic shocks resulting from the onset of COVID-19 pandemic, business in general suffered significantly, with most of the businesses not in the 'essential services' sector either experiencing a significant drop in their revenues or total business closure. In response to this turn of events, and to minimise the adverse impact of COVID-19, DSBD, **sefa**, and Seda implemented the SMME Relief Fund programme, with over R400 million disbursed to 1 144 small businesses. This financial support was intended to pay for utilities, rentals, and salaries during the hard lockdown period when they could not trade.

SUPPORT TO TOWNSHIP AND RURAL ENTREPRENEURSHIP

During the year under review, DSBD further introduced the Economic Recovery programmes, specifically, Township and Rural Entrepreneurial Programme, which comprised support to Spaza Shops; Bakeries and Confectionaries; Textiles, Clothing and Footwear; Open Air Vendors or Tshisanyamas; Personal Care and Saloons; Fruit and Vegetable Vendors; Butcheries as well as Automotive Aftermarket practitioners. All these programmes are being implemented by **sefa** in collaboration with DSBD and Seda.

Furthermore, **sefa**, in conjunction with DSBD and Seda, embraced the District Development Model (DDM) during the period under review and embarked on stronger collaborations with entities at both Provincial and Municipal levels to ensure that most of our target market that has either been unserved or underserved in the past, are obtaining more information on our programmes and most importantly, greater access.

LOAN BOOK

As at 31 March 2021, **sefa**'s portfolio had a balance of R2.5 billion including funds, up 32% compared to R1.9 billion recorded at the end of 2020 financial year. The Wholesale Lending portfolio is currently at R1.2 billion, while Direct Lending portfolio constituted R1.3 billion or 53% of total portfolio. The significant increase in the portfolio balance was driven largely by the COVID-19 relief programme, with R513 million in SMME Debt Relief Fund approvals and the subsequent disbursements of R316.2 million during the period under review.

To enhance portfolio collections, the Post Investment Management and Workout and Restructuring team embarked on a pro-active portfolio management strategy. Although several accounts were given a payment holiday, when they were due, **sefa** team managed to collect, in total, R400 million against a target of R325 million, which was also higher than the previous year's collections of R355 million. The establishment of a separate collections function during the year under review has been a key driver behind this stellar achievement. Furthermore, the defaulting clients were pursued with breach letters and foreclosures.

RISKS AND COMPLIANCE

sefa plays a critical role of addressing the market failure in the finance of small businesses including co-operatives that would not ordinarily obtain funding from the conventional lenders due to their high perceived risk. To this end, most start-up businesses are given an opportunity to execute their business ideas provided all due diligence has been conducted to at least provide confidence that such a business venture is highly likely to succeed. These initiatives are done to ensure that **sefa** contributes to a greater degree in the development of the small business sector to allow these entrepreneurs to unleash their potential, and in turn, generate incomes and safeguard livelihoods of many South African households. As a result, **sefa**'s focus is not purely on the risks that the small business sector has, but rather mitigation of such risks to ensure that this sector grows from year to year.

During the year under review, the following risks were identified, and measures were put in place to mitigate the same, namely:

- Macroeconomic conditions of suppressed demand for credit brought by the COVID-19 pandemic, which in turn had an adverse impact on **sefa**'s loan book in respect of loan repayments.
- Higher credit default risk.
- Limited funds to sufficiently implement **sefa**'s mandate as the allocation from the fiscus had been declining on an annual basis.
- Skill gaps particularly at professional level and largely in the lending divisions.

To overcome the above-mentioned challenges, the loan book performance was closely monitored, and several employees were enrolled in the employee development interventions alluded to in the Human Capital section below. The Risk and Compliance divisions have developed divisional risk registers across the organisation to ensure that all identified risks are being addressed as per the action plans developed. Progress thereof, is being monitored on a quarterly basis through the risk monitoring reports.

HUMAN CAPITAL MANAGEMENT

sefa highly values the well-being of both its clients as well as its employees. This is evident in how management responded to the COVID-19 pandemic that disrupted the normal way of doing business. To this end, our HCM, Risk & Compliance and IT teams, among others, responded with speed and implemented appropriate interventions to safeguard business continuity by affording employees tools of trade to work remotely. To ensure that **sefa** stays in touch with both current and prospective clients during the lockdown period, services were available online, including the smmesa portal, over the phone as well as through emails to relevant employees. Face to face meetings were halted during the periods of hard lockdown in line with the COVID-19 pandemic guidelines. The Occupational Health and Safety projects were implemented to provide a safe, healthy, and secure work environment.

Another key focus on the Human Capital front for the year was to enhance the organisational performance through the Culture Transformation process, which was implemented in line with the Investors in People Standard. To this end, employee development interventions were done in partnership with sister organisations as well as higher learning and industry experts such as the IDC, Business Partners and **sefa** Management Development Programme with the University of Pretoria.

OUTLOOK

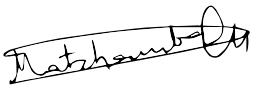
In recent years, the South African economy had been barely growing as measured by the real Gross Domestic Product (GDP) growth rate of 0.7% on average between 2016 and 2019, before plunging to minus 7% in 2020. Projections point to a positive rebound in the real GDP at 3.5% in 2021 for the South African economy (IDC projections) as more people become vaccinated and trade opens on the global scale. It is against this background that **sefa** also anticipates that its target market will also take advantage of the economic opportunities that will unfold and participate more in the economy despite the growing competition.

To this end, there is an increasing number of programmes that **sefa** plans to implement as outlined in its FY 2021/22 Corporate Plan. Furthermore, **sefa** plans to enhance process automation, contain operational costs, enhance partnerships with like-minded stakeholders in the small business ecosystem and improve the utilisation of its property portfolio to house an increasing number of tenants who are making a desired difference in the target market that we serve.

ACKNOWLEDGEMENTS

On behalf of **sefa** management, I would like to express my gratitude to the Honourable Minister Khumbudzo Ntshavheni, (MP) and the Department of Small Business Development broadly for the continuous support and guidance. My deepest appreciation also goes to the Board Chairperson, Mr Martin Mahosi and all the Directors for steering the **sefa** ship with us. The IDC has been providing not only financial support, but also technical support, for that we are indebted to you. To the former Acting CEO, Mr Setlakalane Molepo, a sincere word of gratitude goes to you for managing the organisation for the first half of the year. **sefa** management and broader employees, I wish to express my appreciation for your commitment in ensuring that we attain business continuity despite the ramifications of the COVID-19 pandemic. I know that together we shall overcome the challenges that our organisation is facing.

May I take this opportunity to welcome the new Minister of Small Business Development, Honourable Stella Ndabeni-Abrahams and the Deputy Minister, Mr Sdumo Dlamini. We are looking forward to your leadership and support as we execute our mandate.



Mr Mxolisi Matshamba
Chief Executive Officer

10. CHIEF FINANCIAL OFFICER'S STATEMENT

__sefa__ continues to have positive bank balances and maintains a liquid position, however in order to be financially stable __sefa__ needs to continue building a solid loan book and strengthening the balance sheet. Given the current state of the economic environment it is key that __sefa__ manages the financial sustainability of the business while balancing the developmental impact that is required of a development finance institution.

OVERVIEW

During FY2021/22, COVID-19 and the national lockdown in South Africa had a major impact on the economy and specifically to the financial performance of **sefa**. In particular, programmes and disbursements, operational costs and income were affected both unfavourably and favourably by the COVID-19 pandemic.

In response to the COVID-19 pandemic, the government, and the Department of Small Business Development (DSBD) introduced new programmes that would provide SMMEs relief and assist with economic recovery. As a result, **sefa**'s focus was directed to the implementation of the COVID-19 programmes and the disbursements of the SMME relief funding, mainly in Quarter 1 and Quarter 2. These programmes were designed to offer relief to small businesses such as concessionary interest rates, six-month payment moratoriums to loan clients (granted on capital and interest) and low/no initiation fees to assist small businesses through the lockdown.

Six-month rental holidays were also provided to tenants of Khula Business Premises, a subsidiary of **sefa**. The six-month rental holiday provided, had an impact of reducing rental income by R23.5 million, and the relief provided supported, 620 tenants.

Payment holidays provided to loan clients ranged from two months to six months on interest and capital moratoriums This impacted 226 clients (220 Direct Lending and 6 Wholesale Lending) to the value of R107 million.

The majority of the COVID-19 Economic Recovery Programmes were implemented in Quarter 1 of the financial year, resulting in a delay in the normal **sefa** loan and funding programmes. As a result, this necessitated that Quarter 3 and Quarter 4 be used to implement all the remaining Economic Recovery Programmes or TREP programmes while simultaneously using the same time to catch up on disbursements on the 'normal' loan programmes **sefa** usually undertakes.

In terms of Operational Costs, during the COVID-19 lockdown period **sefa** derived cost savings against budgets, such as, advertising (R4.1million) consulting fees (R10.5 million), depreciation (R2.4 million), travel expenses (R2.4 million), office relocations (R0.6 million), repairs and maintenance (R1.3 million) and employees training expense (R3.0 million). However, these costs savings were offset unfavourably by the interest and payment moratorium relief provided to lending clients and rental relief provided to tenants, which are explained further below. Some additional expenses were also incurred for occupational and health expenses, for deep cleaning and sterilisation, as well as some additional software, systems and computer expenses incurred relating to remote working.

sefa must balance financial sustainability, developmental impact, and overall operational efficiency in the current economic environment. Therefore, finding the balance between the delivery of **sefa**'s key objectives, financial sustainability, and the need to be responsive to the changes in the economic environment were and continue to be key focus areas.

Financial sustainability means that **sefa** can continue to fulfil its mandate to develop sustainable SMMEs and Co-operatives through the provision of various sources of funding. To achieve this, **sefa** has to have a solid loan book and a strong balance sheet. In addition, operational expenditure must continue to be monitored carefully while ensuring that operations run efficiently.

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

DISBURSEMENTS	31 MARCH 2021 R'000	31 MARCH 2020 R'000
Wholesale SME Lending	80 414	51 796
Wholesale Micro Lending	95 532	190 631
Direct Lending - Loans	363 918	237 359
SBIF	97 092	28 075
ERP/TEF/COVID-19	464 411	-
EU Fund	25 003	-
Disbursements from sefa's balance sheet	**1 126 369**	**507 861**
Additional disbursements by Micro intermediaries	154 092	445 946
Khula Credit Guarantee - Guarantees taken up	201 951	247 413
WL_SME-KLR	93 887	88 075
WL_SME-Godisa	13 204	22 688
Total disbursements recorded in corporate plan	**1 589 504**	**1 311 984**

FINANCIAL PERFORMANCE

The Group reported a loss before tax of R283 million (2020: R416 million). The budgeted loss before tax (after revising budgets for the impact of COVID-19) was projected to be R216 million. The factors contributing to the loss before tax are explained further in the following paragraphs.

REVENUE

Interest on loans and advances decreased from the prior year by R18 million due to the six months loan payment moratoriums and the charging of concessionary interest rates provided as part of the COVID-19 relief and economic recovery programmes. It is important to highlight that despite the significant growth in the loan book balances in the Statement of Financial Position, the six months payment holidays and concessionary rates provided had an unfavourable impact on the Revenue figures. Similarly rental income from the property portfolio was affected by the 6 months rental payments holidays expended as part of COVID-19 programmes with a resultant net decline from the previous year of R10.5 million.

EXTRACT FROM THE SEFA GROUP STATEMENT OF COMPREHENSIVE INCOME	2017 R'M	2018 R'M	2019 R'M	2020 R'M	2021 R'M	VARIANCE R'M
Income (excluding property income)	**186**	**183**	**152**	**178**	**323**	▲ **145**
Interest earned on loans and advances	101	95	67	68	50	▼ (18)
Interest earned on bank and cash	33	29	41	41	64	▲ 23
Fee income from loans and indemnities	6	6	8	11	14	▲ 3
Profit from equity accounted investments, including other comprehensive income	29	36	17	10	49	▲ 39
Grant income	-	-	-	29	122	▲ 93
Other income	17	17	19	19	24	▲ 5

OTHER REVENUE AND INTEREST

Interest on cash and cash equivalents has increased by R23 million from the prior year due to higher average cash balances held during the 2021 financial year, driven mainly by the receipt of the funding for the COVID-19 SMME Relief and economic recovery programmes from the Department of Small Business Development.

Our share of net profits and other comprehensive income from equity-accounted investments is higher than the prior-year, but lower than budgeted expectations, with the largest profit portions coming from the Anglo **sefa** Mining Fund (Pty) Ltd (R19.8 million) and Business Partners Limited (R30 million). The profit from the Anglo **sefa** Mining fund is attributable to a fair value increase in their listed investments. The Business Partners profit is attributable mainly to some operational costs savings and other comprehensive income related to the re-measurement of their defined benefit pension fund.

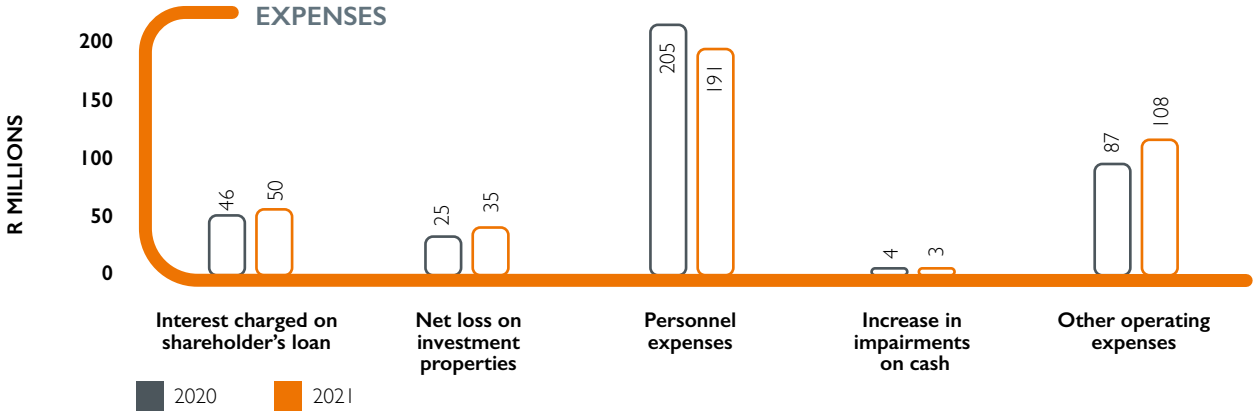
GRANT INCOME AND EXPENSE

During the current year, grant income and expense were recognised for certain programmes in the **sefa** group, in particular in relation to funding periods of longer than one year. In the prior year the programmes affected were the Blended Finance and Small Business Innovation Fund.

GRANT INCOME AND GRANT EXPENSE (R'000)	31 MARCH 2021	31 MARCH 2020
Grant received: Blended Finance	11 483	449
Grant received: Small Business and Innovation Fund	5 964	28 075
Grant received: COVID-19 relief and post-economic recovery programmes	104 295	-
Total Grant Income	**121 742**	**28 524**
Grant expense: Small Business and Innovation Fund	(34 180)	(28 524)
Total Grant Expense	**(34 180)**	**(28 524)**

EXPENSES

EXTRACT FROM THE SEFA GROUP STATEMENT OF COMPREHENSIVE INCOME	2017 R'M	2018 R'M	2019 R'M	2020 R'M	2021 R'M	VARIANCE R'M
Expenses	**(420)**	**(490)**	**(449)**	**(599)**	**(601)**	**(2)**
Interest charged on shareholder's loan	(32)	(34)	(41)	(46)	(50)	▼ (4)
Movement on impairments on investments	(1)	(6)	(4)	(41)	(3)	▲ 38
Movement on impairments and bad debt provisions on Loans and advances	(66)	(133)	(129)	(149)	(179)	▼ (30)
Net loss on investment property	(57)	(47)	(26)	(25)	(35)	▼ (10)
Investment property rental income	29	27	28	26	16	(10)
Investment property expenses	(86)	(74)	(54)	(51)	(51)	0
Net fair value (loss)/gain on investment properties	(17)	(7)	5	(10)	6	▲ 16
Personnel expenses	(168)	(179)	(177)	(205)	(191)	▲ 14
Increase on impairments on cash	-	-	-	(4)	(3)	▲ 1
Lease liability Finance Cost	-	-	-	(3)	(4)	▼ (1)
Grant expense	-	-	-	(29)	(34)	▼ (5)
Other operating expenses	(79)	(84)	(77)	(87)	(108)	▼ (21)

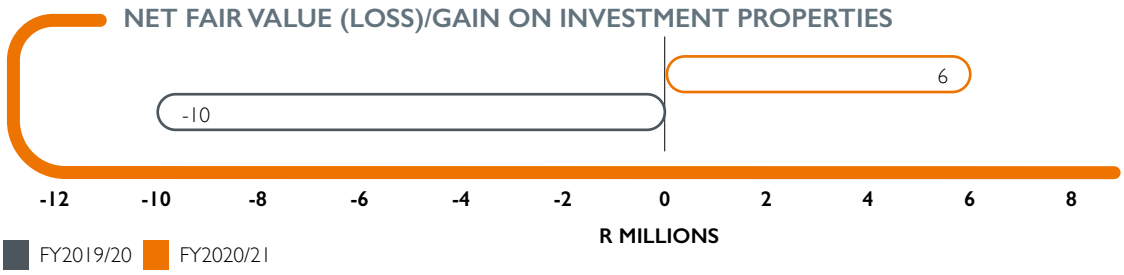


Cost containment efforts yielded positive results with a decrease in operating expenditure (excluding grant expenses, impairments and bad debts written off) of R22 million year on year. The COVID-19 pandemic yielded some specific cost savings, such as travel costs and personnel costs.

Other operating expenses include depreciation, MIS computer expenses, audit fees, director's fees and consulting fees, amongst others.

Investment property expenses were flat compared to the prior-year and this can be attributed to the subdued economic activity[1], the decision not to sell any properties (budgeted for a net loss on sale of certain properties) and cost containment measures. The net loss on investment property has however increased due to the lower rental income in FY 2020/21 resulting from the COVID-19 tenant relief.

The Investment Property portfolio was independently valued by external valuators this financial year, with the overall net increase amounting to R6.4 million.



1 *Subdued economic activity refers to the national lockdown where many businesses were forced to close for the lockdown period.*

Overall impairments and bad debt provisions on loans and advances has increased by a net amount of R149 million from the prior year.

RECONCILIATION CREDIT LOSS ALLOWANCES OF LOANS AND ADVANCES (R'000)	FY 2020/21	FY 2019/20
Opening balance - Credit loss allowance for loans and advances	708 193	768 950
Credit loss allowance for the year	148 950	148 963
Bad debt written off	(56 174)	(209 360)
Closing balance - Credit loss allowance for loans and advances	**800 969**	**708 193**

This increase in the overall provision value from R708 million to R800 million and decrease of the provision rate is attributable to the growth in the loan book (2020: R1.1 billion; 2021: R1.8 billion). The decrease in the provision rate was achieved through, among others, minimising of the portfolio roll forwards, the restructuring of loans, the six months payment holiday granted to clients affected by COVID-19, and portfolio growth through increased disbursements.

Impairments on cash increased from R4.3 million to R7.5 million, thus an increase of R3.2 million on the expected credit loss. Increased bank balances drove this.

LOANS AND IMPAIRMENTS

The net year-on-year increase in loans and advances amounts to R453 million or 104% increase. This is due to the addition of the new programmes as stated in the overview.

LOANS AND ADVANCES (R'000)	FY 2020/21	FY 2019/20
Loans and advances to clients	1 687 656	1 142 091
Less: Credit loss allowance	(800 969)	(708 193)
Total loans and advances net of credit losses	**886 687**	**433 898**
Impairment Ratio - Loans and advances (incl direct lending legacy book*)	47%	62%
Impairment Ratio - Loans and advances (excl direct lending legacy book*)	43%	56%

** legacy book refers to loans granted before 01/04/2016*

INVESTMENTS AND FUNDS (R'000)	FY 2020/21	FY 2019/20
Total Investments and Funds**	796 547	790 515
Less: Credit loss allowance	(176 962)	(189 996)
Total investments and funds net of credit losses	**619 585**	**600 519**
Impairment Ratio - Investments and Funds	22%	24%

*** In FY 2020/21, only for the purpose of calculating the overall impairment ratio, the investments in KCG (investments in subsidiaries) have been adjusted for the amounts transferred from* **sefa** *to KCG for capitalisation (R367 million). This capitalisation has been excluded for the purposes of measuring the overall impairment ratio as this capitalisation significantly lowers the overall impairment ratio and is not appropriate to include for the purpose of measuring the management of the overall impairment ratio. No adjustment was necessary to FY 2019/20 as there were no transfers to capitalise KCG in FY 2020/21.*

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

Overall Impairment Ratio **sefa** group	36%	41%

(excluding Direct Lending legacy book and the impact of capitalisation of KCG)

Overall impairment rate (loss rate on investments) has decreased from 41% (FY 2019/20) to 36% (FY 2020/21), this is largely due to the loan book growth and also due to the improvement in the effective management of the portfolio at risk.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased significantly from the previous financial year. **sefa** managed the following funds (after reprioritisations) for the year under review:

COVID-19 FUNDS AND ECONOMIC RECOVERY FUNDS	R'000
SMME Debt Relief Finance Facility	513 000
Business Growth and Resilience Facility	50 000
Spaza Shops Support Programmes	87 500
Informal Clothing and Textile.	52 500

ECONOMIC RECOVERY FUNDS/TREP PROGRAMMES	R'000
Township and Rural programmes designed to strengthen and develop the targeted sector-focused township economies	392 500
i. Bakeries and confectionaries	
ii. Informal clothing and textile	
iii. Autobody repairers and mechanics	
iv. Fruit and Vegetable Hawkers	
v. Hairdressers and Personal Care	
vi. Tshisanyama and cooked food	
Small Enterprise Manufacturing Programme	350 000
Business Viability Programme	347 500

In addition to the funds above, **sefa** also received R300 million at the end of the year for the EU programme through Khula Credit Guarantee. As of 31 March 2021, cash holdings increased when compared to the beginning of the financial year:

i. Receipt of economic recovery funds of R1.154 billion and R200 million in funds for the manufacturing enterprise programme received through the **dtic**.

ii. Receipt of R300 million for the EU programme.

iii. The original confirmed initial MTEF allocation of R246 million was revised downwards during the 2nd quarter by R50.1 million to an annual received total of R196.8 million.

iv. Lower than anticipated disbursements have also resulted in more cash in **sefa**'s group balance sheet.

All the above, resulted in movement of group cash and cash equivalents from R1.5 billion (FY 2019/20) to R2.5 billion as of 31 March 2021.

The outlook and budget for FY 2021/22 will remain focused on the road to sustainability and balancing developmental impact. Key items will include the following:

Strengthening of the **sefa** balance sheet by growing **sefa**'s loan portfolio. In particular the Township Rural and Entrepreneurial Programmes (R3.6 billion disbursements over five years), which will also be driven through the Khula Credit Guarantee scheme (R2.8 billion)

Aiming to improve the cost to income ratio from a budgeted 106% in FY 2021/22 to 79% in FY 2025/26.

Maintain positive cash balances that are sufficient to meet all **sefa**'s obligations over the budget period. In addition, over a period of 5 years, **sefa** has budgeted to transfer an amount of R313 million to Khula Business Premises, which will be funded through the MTEF allocation and also through **sefa**. R2 billion transfers are also budgeted for KCG to fund the Autobody, repairers and mechanics and the Spaza Shop Support Programme, and funding for this will be provided by the Department of Small Business Development's TREP funds.

Continuing to review staffing and work-force planning, hiring of only critical positions and possible headcount rationalisation in FY 2021/22 and FY 2022/23.

Resources will be redirected to **sefa**'s strategic objectives and key projects such as the IT front-end automation, consultation costs for the merger process, special internal audit forensic projects, marketing, re-branding, advertising, finance automation and IFRS 17 implementation in the year FY 2021/22.

Prioritisation of the implementation of the 4-pronged properties strategy for the property portfolio (properties housed in Khula Business Premises) which will require an initial investment of approximately R84 million for the performance of conditional assessments, critical repairs, minor refurbishments and remedial work for the first phase part of the project. A staggered approach will be followed with the first part of the project relating to the completion of conditional assessments and feasibility studies regarding each property. The outcomes of these feasibility studies and conditional assessments will direct decisions on how best to use the property portfolio to benefit SMMEs by providing affordable and conducive accommodation while meeting the internal need to ensure property capital value preservation and overall financial sustainability of the **sefa** group of companies.

Ms Reshoketswe Ralebepa
Chief Financial Officer

11. CORPORATE GOVERNANCE REPORT

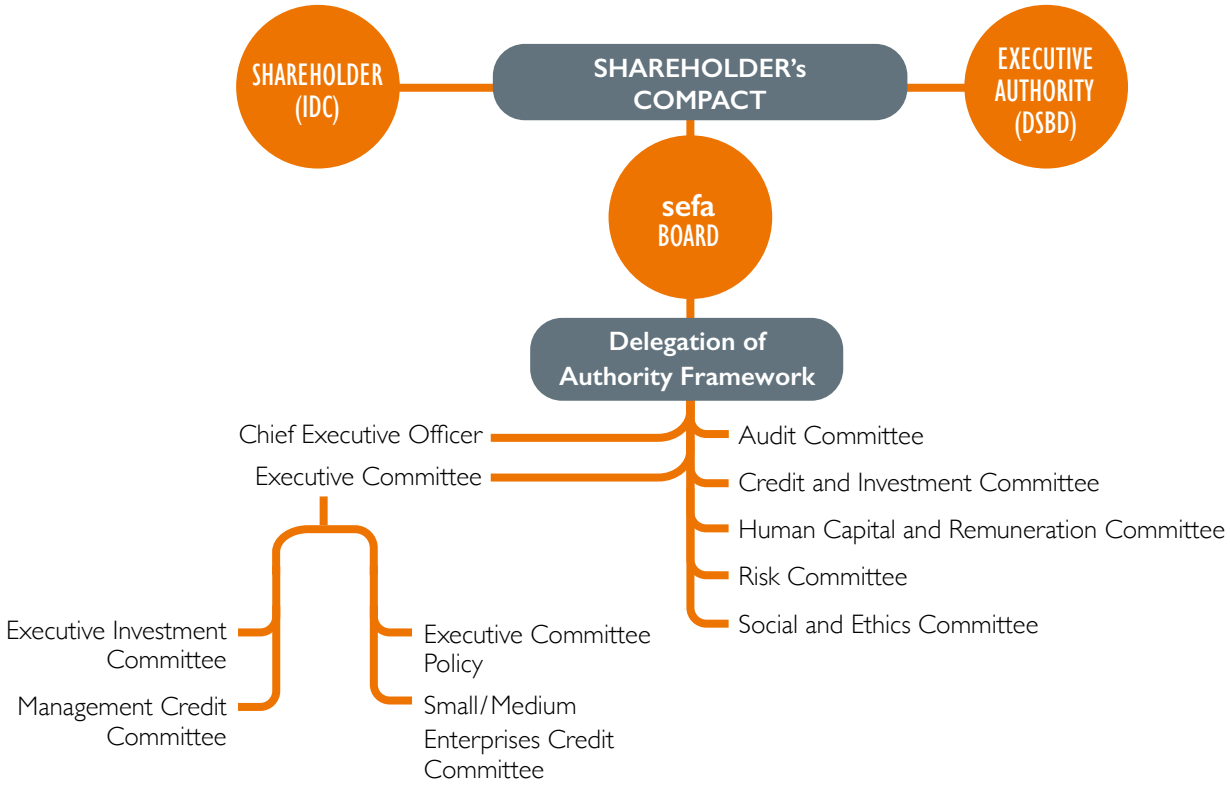
The first quarter of the period under review was adversely affected by the COVID-19 pandemic and the related protocols which directly affected the SMMEs sector.

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

sefa continues to improve and strengthen the application of the recommended best governance practices, and is committed to principles of Integrity, Competency, Responsibility, Accountability, Fairness, and Transparency. The Board ensures accountability for **sefa** performance and oversees implementation of the approved strategy by management, thus ensuring that the company delivers on its mandate.

The first quarter of the period under review was adversely affected by the COVID-19 pandemic and the related protocols which directly affected the SMMEs sector. The Board, whilst keeping an ethical culture and high standard of governance, responded by implementing a more flexible and agile approach to ensure that the SMMEs were assisted timeously through **sefa** normal business and the varied SMME Relief Programmes that **sefa** was entrusted with.

sefa GOVERNANCE STRUCTURE



COMPOSITION OF THE BOARD

The Board has a unitary structure comprising the Board Chairperson, Chief Executive Officer and an adequate number of Directors, a majority of whom are Non-Executive Directors. The Board comprises nine (9) directors, seven (7) of whom are independent non-executive directors. A majority (7) of the directors are appointed by the Executive Authority, the Minister of Small Business Development. The current Board's term was extended from 31 July 2020 to 30 September 2021.

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

The non-executive Directors are principally free from any business relationship that could hinder 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 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 and avoid potential political connections or exposures using a range of governance instruments in the execution of their fiduciary duties.

BOARD SKILLS MATRIX

The Non-Executive Directors contribute a variety of skills, business acumen, 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 Human Resources and Information Technology skills. Additional Members will also assist with the adequate composition of the Board Committees.

THE ROLE OF THE BOARD

The Board provides strategic leadership and guidance to the Company and is ultimately responsible for governance and effective control of **sefa**. The Board provides 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 and provides leadership to the Board to ensure effective discharge of its responsibilities. No individual director has unfettered powers in relation to decision making.The Chairperson presides over the Board meetings and facilitates sound decision making. The Chairperson ensures that discussions are focused

and encourages members to air their views on matters brought before the Board. The Board fulfils inter alia, the following roles and functions:

- Reports to the Executive Authority and the Shareholder on the direction, governance, and performance of the company, including any matter that needs reporting or disclosure in terms of legal requirements.
- Represented by the Chairperson of the Board or his delegate, reports to the Parliamentary Portfolio Committee on Small Business Development.
- Reviews and approves strategic plans, budgets, quarterly and annual performance plans as proposed by management.
- Reviews and approves policies.
- Reviews processes for the identification and management of business risk and processes for compliance with key regulatory and legal requirements.
- Provides oversight on organisational performance against targets and objectives.

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

- COVID-19 Relief Programmes and related Emergency Funds
- **sefa**'s responsiveness and related measures to the COVID-19 Pandemic
- Chief Executive Officer's Balanced Scorecard FY 2020/21
- Quarterly Performance Reports
- Annual Financial Statements FY 2019/20
- Approved the Annual Report FY 2019/20
- **sefa** Corporate Scorecard
- Corporate Plan and Annual Performance Plan FY 2020/21 – 2024/25
- Shareholder's Compact FY 2021/22
- SMME Support Programmes and Schemes
- Appointed the CEO on a three-year contract.
- Concluded the CEO Performance Contract.
- Approved a **sefa** Investment Properties Strategy
- Approved Committee Charters and Annual Work Plans
- Reviewed its Committees and Subsidiary Composition
- Reviewed the **sefa** Company Structure.
- Approved Company-wide Policies.
- Considered credit facilities within its mandate and recommended counter party limit exceedance in line with the applicable governance process.

BOARD COMMITTEES

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

Committee members were nominated by the Board from amongst directors based on experience and expertise.

COMMITTEE	MEMBERS	ROLE OF THE COMMITTEE	THE COMMITTEES CONSIDERED AND REVIEWED THE FOLLOWING:
Audit Committee	Ms SF Mudau (Chairperson) Ms ME Makara Ms ZF Ngcobo	Constituted in accordance with Section 94 of the Companies Act No 71 of 2008, the primary role of the Audit Committee is to assist the Board of directors in fulfilling its oversight responsibilities for the financial reporting process, system of internal control, audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee provides independent advice and guidance to the Board regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.	• Approval of External Audit Planning Memorandum and Audit Fees for FY 2019/20 • **sefa** Properties' Tenants Rental Relief Proposal • Annual Budget • Approval of Internal Audit Three Year Risk-Based Rolling Plan FY 2021 to FY 2023 and Annual Audit Plan for FY 2020/21 • Application for the Condonation of Irregular Expenditure FY 2019/20 • Revised Budget due to COVID-19 • **sefa** Draft Group Annual Financial Statements FY 2019/20 • Held separate in-Committee meetings with Management, Internal Audit and External Audit • Quarterly Management Accounts • Quarterly Internal Audit Progress Report • Committee Annual Work Plan • Committee Charter • External Auditor appointment, audit plan and reports • Impact of COVID-19 on Impairments on **sefa** loan Book • COVID-19 Audit: Addendum to the Audit Planning Memorandum and related Audit Fees • **sefa** Budget FY 2021/22 to FY 2025/26 • **sefa** Corporate Plan FY 2021/22 to FY 2025/26 • Recommendation of the **sefa** Shareholder's Compact FY 2021/22

COMMITTEE	MEMBERS	ROLE OF THE COMMITTEE	THE COMMITTEES CONSIDERED AND REVIEWED THE FOLLOWING:
Credit and Investment Committee	Mr MJ Kganyago (Chairperson) Ms M Makara Ms SF Mudau Ms H Tsoadi	The primary role of the Committee is to provide oversight and monitoring of all **sefa** investment portfolios and ensuring that **sefa** effectively provides finance, and where appropriate institutional strengthening and business support. Together with consideration and approval of transactions within its delegated authority and recommending those above its limit to the Board for approval. It further ensures that all funding is provided in line with credit and other relevant policies, and statutory requirements.	• Considered Wholesale Lending and Credit guarantee transactions within its mandate and recommended those above its approval limit to **sefa** and/or Khula Credit Guarantee Board • Quarterly Lending Portfolio reports • Quarterly post investment monitoring and workouts reports • Quarterly Credit Risk reports • Committee Charter • Committee Annual Work Plan • SMME Relief Programmes (COVID-19)
Human Capital and Remuneration Committee	Mr M Radebe (Chairperson) Ms DL Mabuza Mr AMR Mahosi Ms ZF Ngcobo	The primary role of the HCRC is to assist the Board in discharging its responsibilities for setting and administering remuneration and human capital policies and practices, considering all relevant legislation, regulatory requirements, and codes of best practice, in the interest of **sefa**. The Committee does not assume the functions of management, which remains the responsibility of the executive directors, officers, and other members of senior management.	• **sefa** Responsiveness to COVID-19 • Acting Chief Executive Officer Balanced Scorecard (FY 2019/20) • Proposed Board Fees Review FY 2020/21 • Annual salary adjustments • CEO's performance agreement • CEO Balanced Scorecard • Quarterly Human Capital Reports • **sefa** FY 2019/20 Performance • Noted the Executive Committee Members Performance Contracts FY 2020/21 • Human Capital Policies • Committee Charter • Committee Annual Work Plan • Considered the **sefa** critical vacancies • **sefa** Employee Value Proposition ("EVP") Framework • **sefa** Workplace Skills Plan ("WSP") • **sefa** Employment Equity Report
Risk Committee	Ms ME Makara (Chairperson) Mr MJ Kganyago Ms H Tsoadi	The primary role of the Risk Committee is to assist the board in identifying, assessing, prioritising and management of key risks inherent in all **sefa** Group business activities.	• KCG Own Risk and Solvency Assessment (ORSA) Report • KCG Policies • KCG Enterprise Risk Report • KCG Annual Risk Plan 2020/2021 • KCG Risk and Compliance Assessment Report • KCG Annual Risk Plan 2020/2021 • KCG Business Continuity Policy Framework • KCG Fit and Proper Policy • KCG Outsourcing Policy • KCG - Risk Appetite Statement • KCG Risk Management Policy • Risk and Compliance Management Plan FY 2020/21 • Enterprise Risk Management Framework • Compliance Management Policy and Framework • Committee Charter • Committee Annual Work Plan • Strategic Risk reports and Registers • Risk Policies • Compliance Universe and Monitoring Reports • Risk & Compliance Management Report • Quarterly Post Investment Monitoring & Workouts Report • Quarterly ICT Governance and Related Risks Report • Risk and Compliance Management Programme • Information Security Policy • ICT: Change Management Policy • Protection of Personal Information Act (POPIA) Gap Analysis Report • Credit Risk Report

COMMITTEE	MEMBERS	ROLE OF THE COMMITTEE	THE COMMITTEES CONSIDERED AND REVIEWED THE FOLLOWING:
Social and Ethics Committee	Ms ZF Ngcobo (Chairperson) Mr MJ Kganyago Ms DL Mabuza	The Social and Ethics Committee ("the Committee") is constituted as a statutory Committee of the Board of the **sefa** ("the Company") in terms of section 72(4) of the Companies Act no. 71 of 2008, read with Regulation 43 of the Companies Regulations, 2011. The role of the Committee is to assist the Board with the oversight of social and ethical matters relating to the Company.	• **sefa** Customer Satisfaction Survey Report • COVID-19 Steering Committee Report • Occupational Health & Safety Policy Review • **sefa** Procurement B-BBEE Strategic Plan for FY 2020/21 • Quarterly Supply Chain Management (B-BBEE) status reports • Quarterly Marketing and Communications Report • Quarterly Fraud and Corruption Report • Committee Charter • Committee Annual Work Plan • Domestic Prominent Influential Persons 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, Deep Dive Sessions, 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 understanding of the Company, as and when required.

BOARD ATTENDANCE FOR THE YEAR UNDER REVIEW

Board and Committee meetings are held on a quarterly basis, with additional meetings scheduled for out of cycle reporting and other related activities. COVID-19 saw the Board successfully move towards electronic meetings, through Microsoft Teams rather than in-person meetings. The number of meetings increased due to several engagements to be apprised on COVID-19 and its impact to the operations, status on the relief funds and programmes managed by the Company, amongst other matters of urgency.

In October 2020, the Board recomposed its governance structures to address skills gaps post the resignation of 2 Directors (July 2020) and appointment of three Directors (October 2020).

	DATE APPOINTED	BOARD	AUDIT COMMITTEE	RISK COMMITTEE	HUMAN CAPITAL & REMUNERATION COMMITTEE	CREDIT & INVESTMENT COMMITTEE	SOCIAL & ETHICS COMMITTEE
Number of meetings held:		12 (6 SM)	9 (5 SM)	5* (1 SM)	6 (2 SM)	4	3
AMR Mahosi (Chairperson)[1]	01/08/2019	12			3**	1**	
MJ Kganyago	01/08/2019	12		5		4	3
DL Mabuza	01/08/2019	12			5		3
ME Makara	01/08/2019	11	9	5		4	
MD Matshamba[2]	01/11/2020	5					
NR Mlonzi[3]	01/08/2019	2	2		2	1	0
NS Dlamini[3]	01/ 10/2016	1	3		1	0	
SF Mudau[4]	01/10/2020	6	6			2	
ZF Ngcobo[4]	01/10/2020	5	5		3		2
H Tsoadi[4]	01/10/2020	5		1		2	
M Radebe[5]	01/08/2019	5		0	5		0

NOTES:

SM denotes Special Meeting.

[1] Appointed as a member of the HCRC with effect from 29 October 2020.

[2] Appointed as CEO with effect from 1 Nov 2020.

[3] Retired with effect from 31 July 2020.

[4] Appointed with effect from 01 October 2020.

[5] Member of Risk Committee up to 29 October 2020.

* In September 2020, the Board approved that the Risk Committee be responsible for the Audit Committee matters due to the retirement of 2 Audit Committee Members, thereby establishing an Interim Audit & Risk Committee. That Committee held one meeting, on 13 October 2020.

** Mr Mahosi was appointed as an interim Member of the HCRC and CIC on 14 September 2020. He was later confirmed as a Member of the HCRC with effect from 29 October 2020.

PERFORMANCE APPRAISAL

The Board views assessments of its performance as a vital tool to enhance its effectiveness. Generally, an independent service provider is procured to conduct the annual Board performance appraisal. The outcome of that appraisal process would be considered by the Board, and remedial action implemented. The Board did not conduct an independent assessment during the year under review due to the significant changes in the Board composition undertaken during July and October 2020. A self-assessment process was, however, undertaken and corrective actions identified and implemented.

DIRECTORS INDUCTION AND CONTINUOUS DEVELOPMENT

As part of enhancing the Directors' skills, the Company Secretary arranged Membership for all the Directors with the Institute of Directors Southern Africa ("IoDSA"). Individual Directors are encouraged to identify any training events they may wish to attend, through recognised training institutes, especially the IoDSA.

In the year under review, the following training engagements were held:

TRAINING COURSE	DIRECTOR	SERVICE PROVIDER
In-house training on ORSA to the Risk Committee	ME Makara MJ Kganyago	In-house (Matlotlo Actuaries)
Being a Director Par 1 – 5 Director Certification Programme	MJ Kganyago	IoDSA
Governance of Ethics	MJ Kganyago	IoDSA
Delinquency versus Diligence	Ms Mabuza	IoDSA
Role of the Ethics Committee to the SEC	ZF Ngcobo MJ Kganyago DM Mabuza	The Ethics Institute

STAKEHOLDER ENGAGEMENTS

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 as and when necessary, often on a quarterly basis. The Minister held three (3) engagements with the Board of Directors during the year under review.

sefa has concluded a shareholder's compact with the Executive Authority and the Shareholder, as well as a formal Governance Framework with its Shareholder. The Governance Framework governs the relationship between **sefa** and the Shareholder.

The Minister and Shareholder representative attended the **sefa** Board Strategy session held in November 2020.

SITE VISITS

sefa PROPERTY PORTFOLIO

During the year under review, the Board Members held successful visits to the **sefa** investment properties across the country to obtain more information on the challenges that **sefa** faces with its property portfolio and to also provide more insight and guidance on the portfolio's outlook.

sefa REGIONAL OFFICE

The Board visited **sefa**'s Regional Office, in Rustenburg, Northwest on 11 November 2020 and engaged the employees of the regional offices and some of the clients. As part of the visit, the Directors and Management visited one of the clients, Ditsogo Projects (Pty) Ltd in Mogwase.

SMALL ENTERPRISE DEVELOPMENT AGENCY ("SEDA")

In line with the vision of the Executive Authority for the two agencies to collaborate to streamline the SMME support ecosystem, the **sefa** and Seda Board Chairpersons, assisted by the respective Company Secretaries, held several bilateral meetings for alignment purposes. The sessions culminated in a joint sitting of the Boards on 8 March 2021 that identified a strategic programme for collaboration and co-operation in the FY 2021/22. These engagements are ongoing.

CONFLICTS OF INTEREST

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

annually and at each meeting in accordance with the Companies Act. The Board Members duly submitted their declarations of interests during the year under review.

BOARD REMUNERATION

sefa non-executive directors are remunerated for the meetings attended, and other ad hoc non-meeting duties performed on behalf of the Company and approved by the Chairperson, at the rate which has been approved by the shareholder. No performance-based remuneration or retainer fees are paid to directors.

Directors' remuneration is reported under note 10.2 of the Annual Financial Statements.

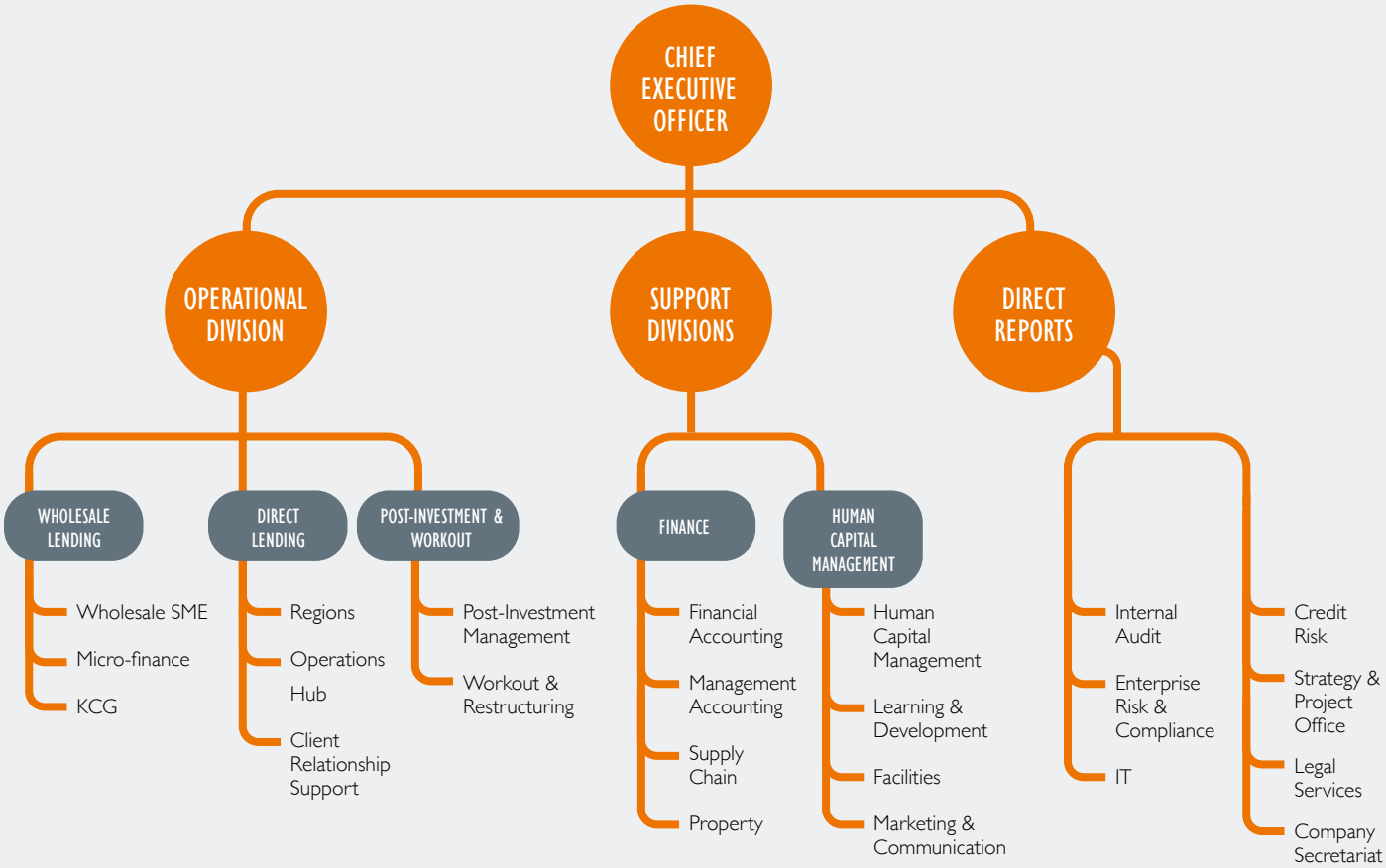
DELEGATION OF AUTHORITY

The Board has delegated certain of its functions to management while remaining responsible for the execution of the delegated authority. In line with section 56 of the PFMA, the Board has reduced to writing all powers that have been delegated to management.

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 to 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, as and when such matters arise.

OPERATIONAL STRUCTURE



12. AUDIT COMMITTEE REPORT

The Audit Committee ("the Committee") has pleasure in submitting this report to the Shareholder in accordance with the Companies Act, 71 of 2008 ("the Companies Act").

COMPOSITION

The Audit Committee comprised the following members: Ms SF Mudau (Chairperson), Ms ZF Ngcobo and Ms ME Makara.

The profiles of the Committee Members, attendance of meetings and related significant activities are set out on the governance section on page 38.

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 and recommended improvements thereof. The Committee continues to closely monitor the implementation of corrective action by management to address those weaknesses. 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, staffiing 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 fee 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 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

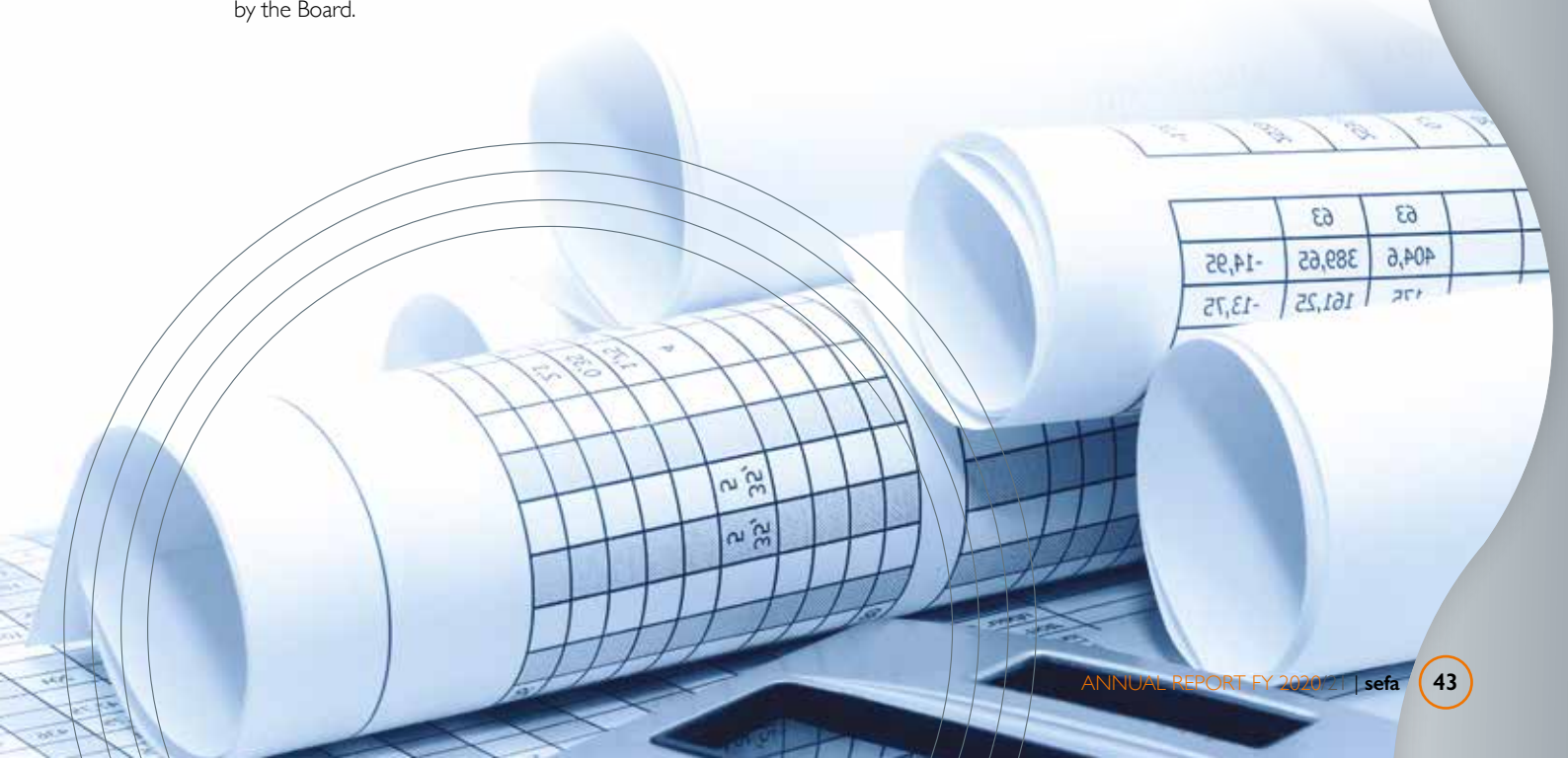
The Committee reviewed the Group Annual Financial Statements and related information and is satisfied that they comply with International Financial Reporting Standards. In addition, the Committee has reviewed management's assessment of going concern and recommended to the Board that the going concern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

APPROVAL

The Committee recommended the approval of the Annual Financial Statements for the year ended 31 March 2021 to the Board of Directors on 25 June 2021.

Signed on behalf of the Audit Committee:

Ms SF Mudau
Chairperson of the Audit Committee
August 2021



13. RISK AND COMPLIANCE

RISK MANAGEMENT

sefa has maintained its active approach towards managing both current and emerging risks through the continued operating effectiveness of its enterprise Risk Management Framework. This approach is supported by keeping risk management at the centre of management's agenda, by embedding Risk management in the everyday management of the business. The responsibility for risk management resides at all levels within **sefa** from the Board and the Executive Committee through to each business manager.

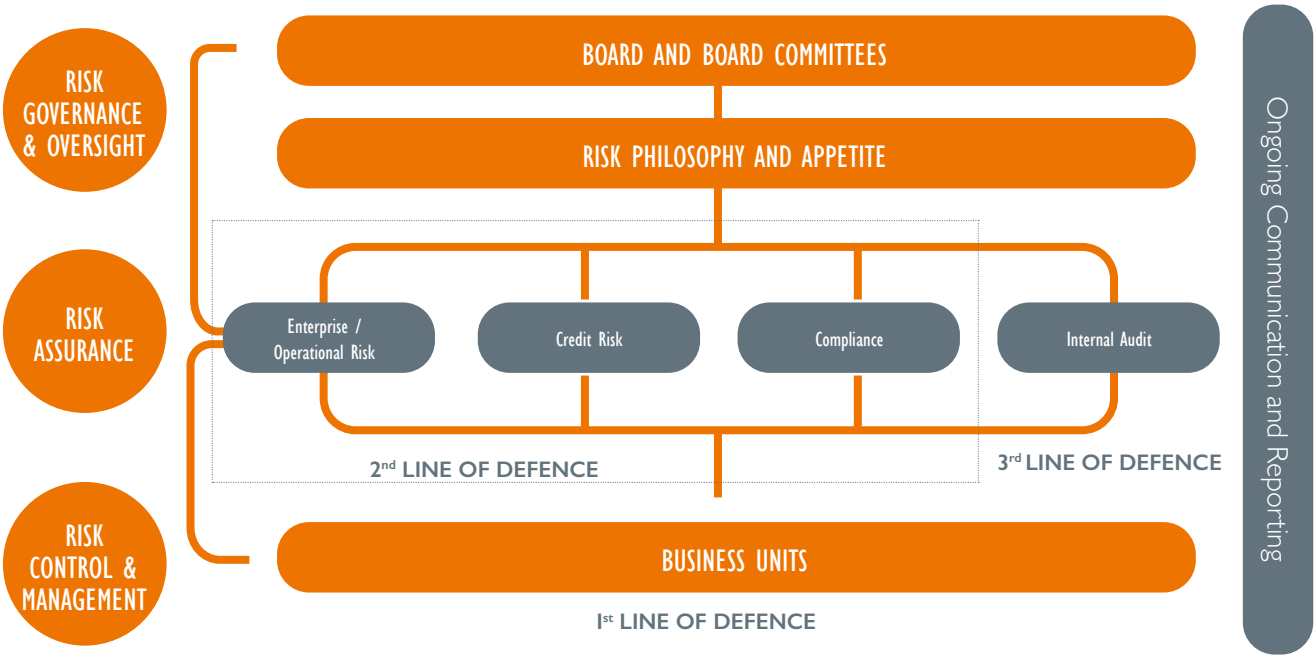
*Business Continuity is overseen by the Risk Management unit and involves adverse events that can impact **sefa**'s ability to operate or resume operations following a major business disruption. Due to the unprecedented business interruptions caused by COVID-19, Business Continuity Management (BCM) measures have been put in place to ensure continuity of services for both **sefa** and the regional offices.*

sefa's Risk Management Framework was reviewed in line with the Committee of Sponsoring Organisation's (COSO) Framework on Enterprise Risk Management. Risk assessments were conducted across the entire **sefa** business to continuously help the organisation to become aware of its risks and opportunities and to manage them accordingly, ensuring the achievement of its objectives. This culminated in risk registers for the different business units and regions. It should be noted that the report considered risks that were articulated in **sefa**'s risk universe as well as risks that were contained in the operational risk registers. Quarterly risk monitoring on operational risk registers took place in relation to action plans for identified risks. A risk maturity assessment was undertaken during FY 2020/21 and the results will be incorporated into FY 2021/22 implementation plan with the view to improve **sefa**'s risk maturity and to inculcate a risk intelligent culture.

sefa's risk management also comprised the following inter-related functions,

- A three line of defence model, with clear accountability for managing, overseeing, and independently assuring risks.
- A robust and aligned governance structure which detailed the creation of an enabling environment for the structured management, oversight, and reporting of risk.
- A comprehensive risk process which is a structured, practical set of three steps, Evaluate, Respond and Monitor risks inherent in **sefa**'s strategy, operations, and business activities.

sefa ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK



sefa's STRATEGIC RISK PROFILE

sefa operates in a high-risk environment, and this affects its risk profile significantly. Ongoing monitoring of this risk profile is undertaken. Various mitigation strategies are implemented to reduce the risk levels associated with **sefa**'s operations. The following key strategic risks were identified and assessed as potentially having a strategic impact on the overall achievement of the **sefa** objectives:

	STRATEGIC RISK	RESIDUAL RISK RATING	RISK MITIGATION	MITIGATION STATUS	RISIDUAL RISK RATING AS AT 31 MARCH 2021
1.	Credit default risk originating from the quality of loan book.		• Develop a business model that is focused on the market segment for funding. • Incorporating internal and external data sources by leveraging on technology to optimise the pre-decision stage to the loan application process. • Product and channel innovation workstreams established to look at how **sefa** can find new ways of serving its market efficiently.	• An action on the revision of a model focusing on market segment was not actioned. Focus during FY2020/21 was on Covid-19 relief programmes. • Procurement of loan origination system is currently at the supply chain management evaluation stage. The credit scoring model is in use for smaller loans. • Business processes have been revised - The PIM Department implemented a focussed approach on collections (issuing breach letters and foreclosure) under wholesale collection.	
2.	Shift in **sefa**'s financial position which could potentially lead to financial unsustainability.		• Strong focus on developing alternative sources of income i.e., donor funds, implementation of Corporate ESD programmes. • Building a robust post-loan support programme to enhance client sustainability.	• Successfully concluded a donor agreement with the European Union and positioning **sefa** as an implementor for other government departments' small business programmes. In this regard **sefa** concluded an agreement with the Department of Tourism to administer the Tourism Equity Fund (TEF). • The provision of mentorship and business support continued. Capital and interest moratoriums were implemented and rescheduling of payments to provide cashflow relief were granted to financially distressed SMMEs.	

	STRATEGIC RISK	RESIDUAL RISK RATING	RISK MITIGATION	MITIGATION STATUS	RISIDUAL RISK RATING AS AT 31 MARCH 2021
3.	A risk arising from challenging macroeconomic conditions impacting on **sefa**'s ability to achieve its mandate and strategic objectives.		• Dedicated market analysis, continuous assessments of alternative sources of financing. • Proactive monitoring of the credit portfolio.	• To support investment officers and dealmaking in **sefa**, ongoing capacity building initiatives have been implemented for frontline employees through external fraternal institutions such as Business Partners and IDC. In addition, through the Research Department, information on sectorial and market analysis is provided for loan due diligence and assessment. • Implemented IFRS 9 loan book standard and quarterly analysis and reporting of the loan book to the Board of Directors. Proactive engagement with clients in distress in respect of loan restructuring and other post loan support services. The Portfolio at Risk year-on-year has declined which has resulted in a lower impairment rate of 36% (FY 2019/20 41%).	
4	Credit risk management • Lack of documented risk acceptance triggers by product and segment. • Lack of sector and industry-based benchmarking systems leading to inadequate risk assessments.		• Continuous benchmarking with relevant industry to ensure alignment with leading institutions and gain competitive advantage. • Develop and implement a Risk appetite framework • Continuous application of the **sefa** pricing model and adherence to the Due Diligence process.	• Benchmarking activities were conducted prior to the review of the credit and investment policy. • The risk appetite and tolerance framework is still under review and projected to be completed by end of quarter two FY 2021/22. • Application of the pricing model is carried out on an ongoing basis.	
5	Recovery of invested funds – low collections and high impairments particularly on old debt book.		• Reviewed the current client on-boarding process and introduction of enhanced system. • Continuous engagements with direct lending and Wholesale lending teams to improve portfolio performance and top 20 client reporting and interventions.	• The design and implementation of automated workflow and integration to the back-end systems is not yet completed. • The portfolio has been analysed into different sectors for monitoring purpose. The top 20 exposures are now reported quarterly to oversight committees.	
6.	Risk of lower-than-expected developmental impact on projects financed and implemented.		• Portfolio diversification incorporating longer-term investments with more significant impact and more sustainable jobs.	• **sefa** has developed an in-house fund management capacity to deliver third-party funds to improve access to funding for SMMEs. • Diversification of portfolio - new funding partnerships were established in the agricultural and technology sector. • **sefa** supported informal and microenterprises in seven of the nine Provinces through a continued network of three existing MFIs.	
7.	Lack of standardised business processes limits the value add **sefa** can derive from **sefa**Las.		• Develop models for the analysis of portfolios of intermediaries.	• As-is and To-be conceptual business process models and business specification for loan automation were developed. Currently in the process of procuring a loan origination system.	
8.	Non-Compliance to laws and regulations		• Compliance monitoring and reporting to regulatory bodies regularly. • Governance risks and Compliance monitoring regularly. • Internal controls reviewed regularly.	• Updated Regulatory Universe and developed three Compliance Risk Management Plans and Protection of Personal Information Act gap analysis. • Developed Risk Rating Methodology in line with recommendations from Regulatory Body. • Ongoing - Cash Threshold Reviews conducted and reported on a quarterly basis.	

	STRATEGIC RISK	RESIDUAL RISK RATING	RISK MITIGATION	MITIGATION STATUS	RISIDUAL RISK RATING AS AT 31 MARCH 2021
9	Lack of customer centricity, stakeholder focus and brand visibility.		• Leadership development – introduction of a management development programme. • Implementation of Investors in People Culture transformation standard. • Revive the **sefa** values programme. • Develop and implement change management framework	• Establishment of targeted people development interventions through partnerships with institutions of higher learning. • The Culture Definition Workshop was undertaken with management as part of the rollout of the Culture Change Project. • Values assessments were concluded and integrated internal **sefa** brand strategy focusing on values and culture. • Change Management framework was developed and approved for implementation.	
10.	Inability to attract, retain and develop a skilled workforce.		• **Sefa** corporate brand program activated as part of the marketing strategy. • Local brand-building campaigns were activated quarterly. • Conduct Client education on **sefa**'s products and an update on websites and outreach on products offered by **sefa**.	• A Brand and Communications agency was appointed to rollout the marketing strategy. This assisted **sefa** to present a coherent and seamless brand message on all platforms and that the brand is more visible in the media, be it social media or traditional media. • Ongoing - the department has been running a number of campaigns on various platforms, including TV, Radio, Newspaper and online on social media. • Webinars were hosted to assist with client education.	

Critical risk *High risk* *Medium risk* *Low risk*

In light of the identified risks, **sefa** implemented certain actions and mechanisms to mitigate these risks in an effort to bring them to acceptable levels. Divisional risk registers were developed across the organisation to ensure that all identified risks are being addressed as per the action plans developed. Progress thereof, is being monitored on a quarterly basis through the risk monitoring reports. There is, however, a need for risk transformation throughout **sefa** to better manage expectations and deliver on its mandate and embed risk management in the daily activities for enhanced reporting to the Board.

BUSINESS CONTINUITY MANAGEMENT

Business Continuity is overseen by the Risk Management unit and involves adverse events that can impact **sefa**'s ability to operate or resume operations following a major business disruption. Due to the unprecedented business interruptions caused by COVID-19, Business Continuity Management (BCM) measures have been put in place to ensure continuity of services for both **sefa** and the regional offices. In response to the pandemic, the COVID-19 steering committee has been put in place to oversee COVID-19 related issues and all communication regarding continuity of services was made to all employees and their families through **sefa** talk.

A consolidated Business Impact Analysis report for Head Office was compiled to determine the recovery time objective required to continue services at an acceptable level. Although the testing of the BCP did not take place, working remotely because of the COVID-19 pandemic has proved that, as an organisation, we were able to adapt accordingly and still deliver on our mandate.

COMPLIANCE MANAGEMENT

Compliance risk refers to the processes, procedures and associated controls **sefa** implemented to comply with applicable laws and regulations that are not followed and/or are inadequate and ineffective. As a result of such non-compliance, it can result in penalties that are financial in nature and in some instances even imprisonment. The Compliance unit adopted a risk-based approach to compliance management activities, recognising the need to prioritise regulatory requirements that are primarily based on its relative risks and consequences.

sefa complies with several pieces of legislation and requirements, including but not limited to the following Acts, which are highly relevant to its operations:

1. Financial Intelligence Centre Amendment Act, 2017 (Act No. 1 of 2017)
2. National Credit Act, 2005 (Act No. 34 of 2005)
3. Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)
4. Public Finance Management Act, 1999 (Act No. 1 of 1999)
5. Insurance Act, 2017 (Act No. 18 of 2017)
6. Protection of Personal Information Act, 2013 (Act No. 4 of 2013)

7. Occupational Health and Safety Act, 1993 (Act No. 85 of 1993)
8. Companies Act, 2008 (Act No. 71 of 2008)
9. Compensation for Occupational Injuries and Diseases Act, 1993 (Act No.130 of 1993)
10. Consumer Protection Act, 2008 (Act No. 68 of 2008)

The Compliance Policy and Framework was reviewed and approved for implementation. The request to verify potential clients before **sefa** conducts business with them, a key requirement of the Financial Intelligence Centre Act (FICA), increased significantly during the COVID-19 Relief Fund because of the high number of applications **sefa** received during this time. A risk rating methodology was developed and approved for implementation which aims to risk rate clients on a predetermined risk criterion. Risk rating of clients will assist with the type of due diligence that needs to be performed on each client, depending on their risk rating. High risk clients will be more continuously assessed as opposed to low-risk clients.

PROMINENT INFLUENTIAL PERSONS (PIPS)

The definition of Prominent Influential Persons (PIPs) is wide ranging. The Financial Intelligence Centre (FIC) uses the term for an individual who is or has in the past been entrusted with a prominent public or private sector position. PIPs are deemed to be high risk as they occupy positions of influence and power that could be abused for private or to benefit family members and or close associates. As a result of the risks associated in dealing with PIPs, **sefa** is taking steps to identity the status of each prospective client in respect of PIPs and ensures that the necessary enhanced due diligence and monitoring is performed, as well as approval gained from the relevant governance structures. **sefa** is not precluded from doing business with a PIP and the identification of a PIP does not by default decline such an application for funding.

Various policies in line with Prudential Authority (PA) standards, giving effect to KCG's strategy had been approved for implementation. KCG's Own Risk and Solvency Assessment and its Qualitative Regulatory Return (QRR), Quarterly and Annual Quantitative Reporting Template (QRT) were timeously submitted to the PA. KCG's registration was successfully converted by the PA to that of a licenced non-life insurer in terms of item 6(2) of Schedule 3 of the Insurance Act 18 of 2017.

During the financial year under review, the Black Economic Empowerment (BEE) verification was moved from Strategy Office to Compliance and the verification was successfully completed. **sefa** achieved a level 8 rating compared to the previous year's (FY 2018/19) level 5 rating. This is an area where the organisation will explore measures to achieve an improved rating through contributing to the overall BEE strategy of the country.

SECTION

04

PERFORMANCE

MS NOKONWABA SHWALA
Executive Manager: Human Capital Management

14. HUMAN CAPITAL MANAGEMENT (HCM)

The Human Capital and Facilities Management (HCM) Division is the key custodian of all matters relating to the people's agenda within the organisation. The role of the HCM Division is to attract, develop, and retain the best human resource capacity for **sefa**. The HCM's long term action plan enables the organisation to execute its strategy and mandate whilst aiming to achieve a High-Performance Organisation (HPO) index.

The Human Capital strategic work plan execution for FY 2020/21 was centred on interventions geared towards transitioning **sefa** through the growth phase of the HPO status through a focus on Leadership Development and Culture Transformation. Whilst the HCM strategic plan was centred around culture transformation, the execution of the plan had to be revised to focus on the realignment of interventions in response to the COVID-19 pandemic. The evolving COVID-19 pandemic resulted in economic and business disruptions. Therefore, the HCM strategic work plan was revised to focus on the implementation of interventions to mitigate business disruptions whilst ensuring employee well-being.

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:

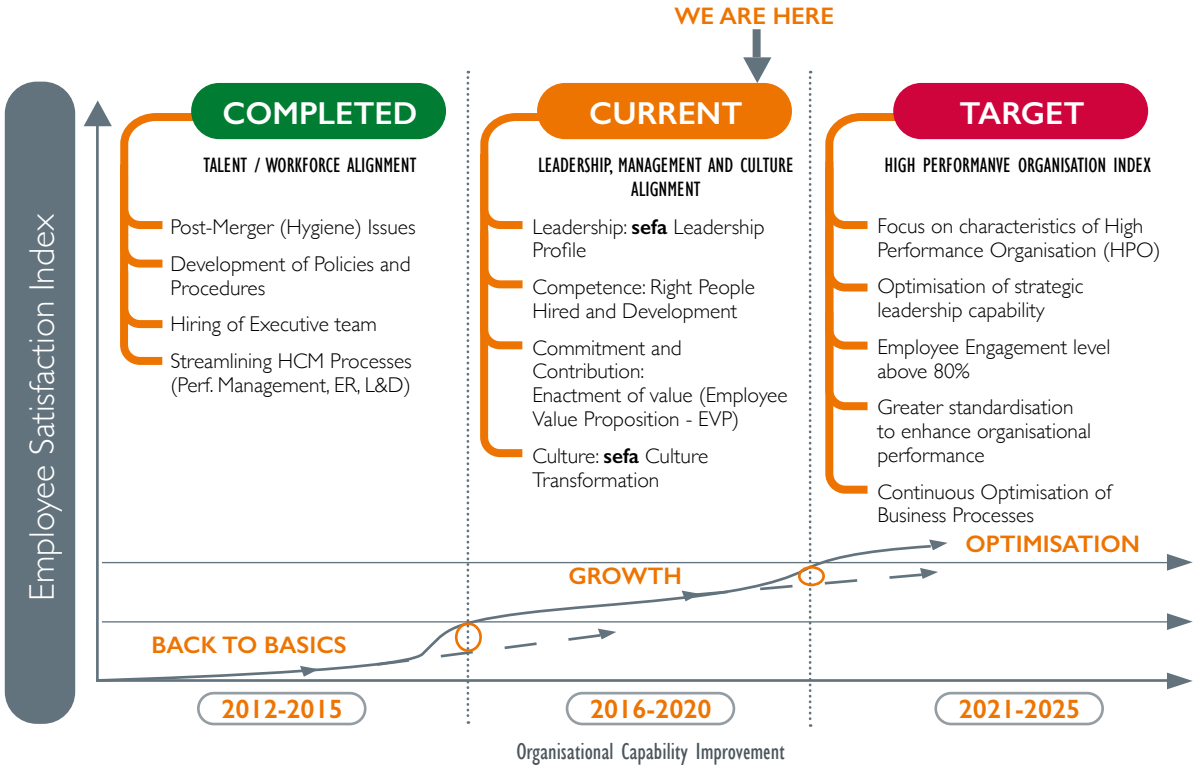
- Implementation of the **sefa** Culture Transformation process aligned to the Investors in People Standard.
- Establishment of targeted people development interventions through partnerships with institutions of higher learning and industry experts; the formulation of the **sefa** Management Development Programme, Business Partners, and IDC.
- Implementation of the **sefa** Employee Engagement Survey FY 2019/20.
- Implementation of the **sefa**'s Organisational Design Review Project with focus on assessment and optimisation of the operating model and top-level structure for front-end functions.
- Establishment of the **sefa** Employee Value Proposition.
- 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.
- 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 Human Capital strategic work plan execution for FY 2020/21 was centred on interventions geared towards transitioning **sefa** through the growth phase of the HPO status through focus on Leadership Development and Culture Transformation. The following were the key strategic objectives for FY 2020/21.

sefa's HPO JOURNEY

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 and the organisation is currently in the Growth phase of the HPO journey. The HCM FY 2020/21 strategic work plan execution was centred on improving impact, performance, productivity, and efficiency within **sefa**. Whilst the strategic initiatives are aimed at channelling the organisation through the growth phase of the HPO journey. Progress on the HPO journey was negatively impacted by COVID-19 as focus had to be more on ensuring the safety of employees, implementation of new work arrangements and ultimately the reprioritisation of initiatives to limit the disruption of services and ensure business continuity.



OUR PEOPLE

The **sefa** employee profile consists of a diverse workforce, and the role of HCM is to harness the organisation's talent through the acquisition, development, and retention of top-performing employees. Our talent acquisition processes aim to ensure that the organisation is equipped with a talented employee profile that is fit for purpose. In addition, the HCM Division continued to ensure that the required critical and front-end skills are set to enable the organisation to make correct investment decisions when it executes its mandate.

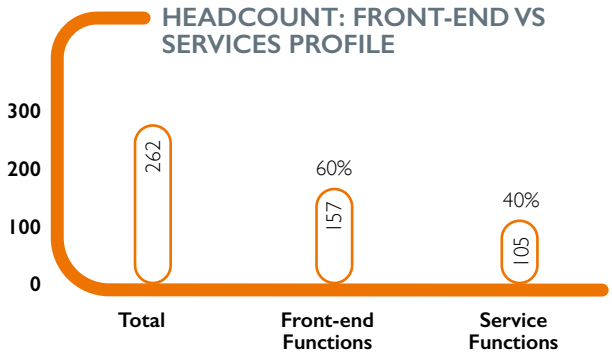
TALENT ACQUISITION AND RETENTION

HCM continues to ensure that its talent acquisition and retention processes are geared at attracting, recruiting and retaining fit for purpose talent to ensure that the organisation is adequately resourced.

HEADCOUNT

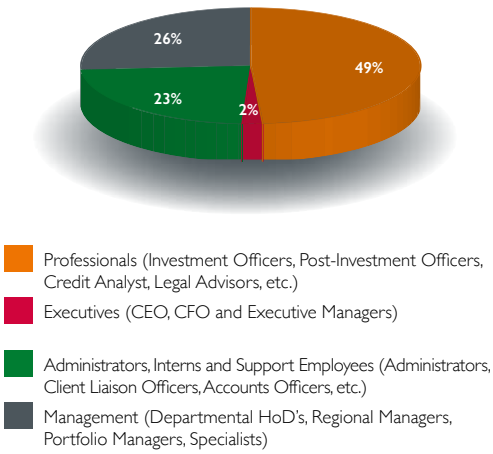
During the period under review, **sefa**'s headcount was 262 employees, this included Fixed Term Contractors and Interns. The organisation continues to keep a flexible component of its workforce at a minimum in alignment with the cost containment measures in support of the organisation's long-term financial sustainability.

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



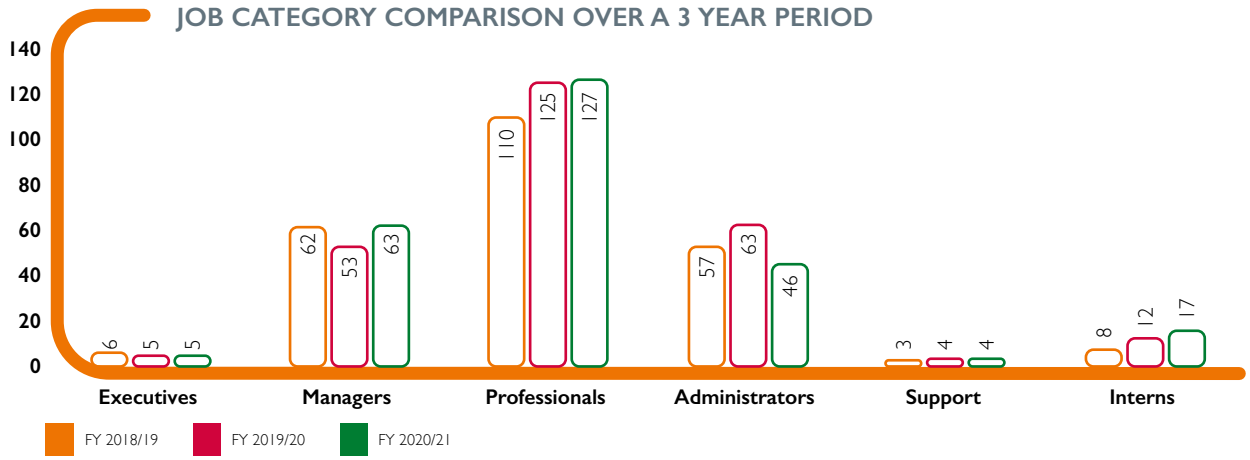
The **sefa** workforce profie as at March 2021, reflects that the organisation has two percent (2%) Executives, twenty three percent (23%) Administrators, twenty six percent (26%) Managers and forty nine percent (49%) of its employee complement in the Professionals category. The Professional job caterogory has the highest representation, consisting of key roles that are critical to the execution of the **sefa** front-end business. The description of the typical roles in the above mentioned job categories are listed on the Job Categories Profile below.

JOB CATEGORIES PROFILE



An analysis of the employees profile reflects that sixty percent (60%) of the employees complement is in Front-end business functions whilst forty percent (40%) is in support services. Front end business functions include Direct Lending, Wholesale Lending, Credit Risk Management, Properties, Post Investment Monitoring and Workout. Services business functions include Human Capital Management & Facilities, Finance and Procurement, Strategy, Legal Services, Enterprise Risk, Compliance, IT, Company Secretary, Marketing & Communications, and Internal Audit.

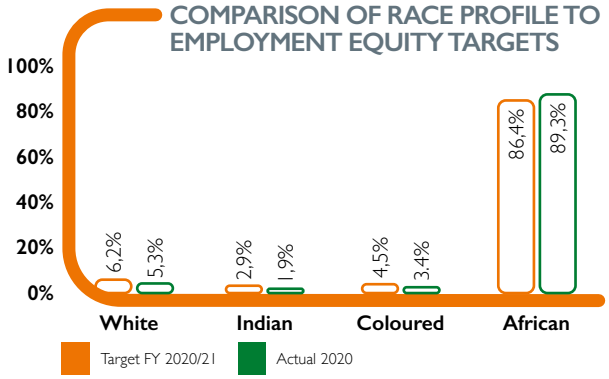
During the reporting period, the HCM division contributed to the sustainability of the organisation through the effective management of employee related costs. In response to cost containment requirements, **sefa** implemented a freeze on some non-critical vacancies and consolidation of resources. The year under review included the implementation of various COVID-19 Relief Funds, resulting in the recruitment of additional resources in the form of interns and fixed term contractors to provide capacity especially in the front-end business functions.



EMPLOYMENT EQUITY PROFILE

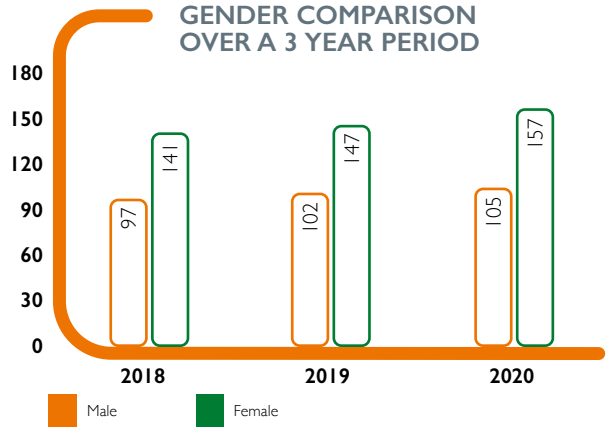
The **sefa** employee profile for the reporting period reflected a 95% black representation: African, Coloured, and Indian. A comparison of the actual employee profile for FY 2020/21 against the numerical goals as per the employment equity plan reflects a slight over-representation of African employees and future efforts are to drive the increase of coloured and Indian representation where opportunities arise.

sefa RACE PROFILE



The gender profile shows an increase in the overall female representation over a three-year period and during the reporting period.

sefa GENDER PROFILE

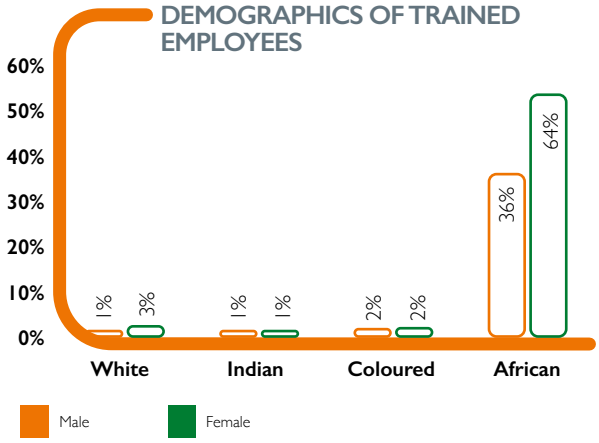


DEVELOPING FIT FOR PURPOSE EMPLOYEES

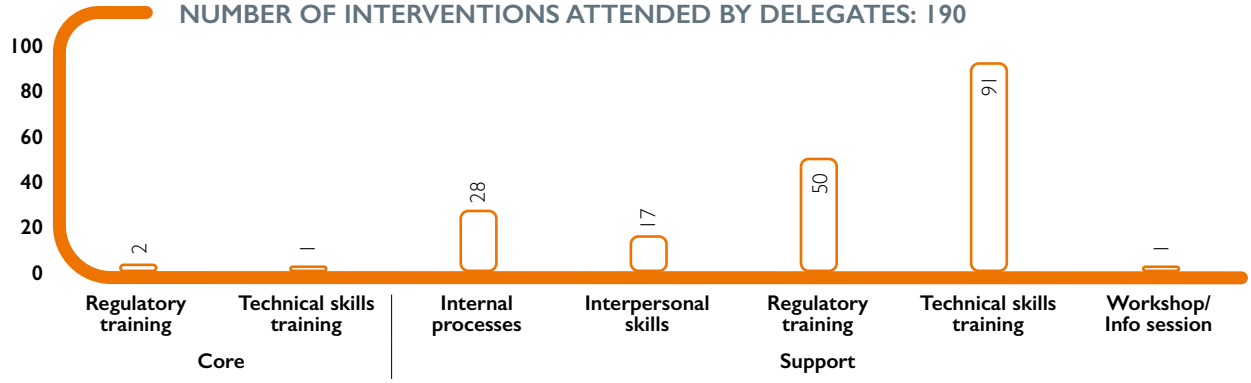
The primary focus of HCM's learning and development efforts during the reporting period was to implement solutions to strengthen the capacity of employees into high performing teams The continued implementation of learning solutions was driven by a need to strengthen critical capabilities of surviving the emerging business complexities by strengthening workforce skills through resilient leadership, foresight, agility, digital savvy, and innovation for the future. The strategic capacity building interventions were geared towards rendering "fit for purpose teams", to enable **sefa**'s growth journey towards an HPO. The year under review presented various challenges because of the pandemic. Employees had to migrate to the use of digital learning platforms and the transition presented some challenges as employees also battled with adapting to new working arrangements.

In the previous financial year (1%) of the employee costs budget was allocated for learning interventions. The graphs below are an illustration of the demographics of the employees trained and the number of interventions delivered during the year under review.

DEMOGRAPHICS OF TRAINED EMPLOYEES



NUMBER OF INTERVENTIONS ATTENDED BY DELEGATES



MANAGEMENT DEVELOPMENT PROGRAMME (MDP)

To empower managers to drive organisational performance, the HCM Division commenced its journey towards the development of a **sefa** Management Development Programme. The project is aimed at driving the organisation towards the achievement of a HPO status based on the nine indicators of the IiP standards split into 3 categories: namely Leading, Supporting and Improving. A partnership has been established with the University of Pretoria to facilitate the Management Development Programme (MDP) targeting HOD's and Senior Managers. The programme is aligned to the Leadership IiP standards identified and learning sessions will be spread over 6 months.

TARGETED DEVELOPMENT INTERVENTIONS

To build capacity and drive performance particularly for the front-end business functions, the HCM Division revisited collaborations with Business Partners and IDC to implement the learning solutions to strengthen the technical skills for **sefa**'s Investment Officers, Investment Analysts, and Post Investment Officers. The implementation of the outlined programmes (MDP, Business Partner Training and the IDC Training Solution will commence in April 2021

To further strengthen employee skills and capabilities the **sefa** Study Assistance Programme (SAP), which funded employee studies aligned to prerequisite skills at various tertiary institutions were implemented. A total of eleven (11) employees were beneficiaries of the SAP.

The Talent Acquisition Programme (TAP) for unemployed graduates has also been implemented during the period under review with an intake of 17 interns. This programme provides youth with the opportunity to obtain work experience and learn new skills.

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:

a. **sefa** continued with the implementation of the Culture Change Project aligned to the Investors in People standard. The following milestones were achieved during the period under review:
   - Assessment of existing **sefa** culture and review of people practices and policies.
   - Implementation of Desk Review Action Plans including review of Human Capital policies and design of new people management frameworks such as the Employee Value Proposition.
   - **sefa** Values Assessment Survey completed in Q2.
   - **sefa** Employee Engagement Survey FY 2020/21 completed in Q4.

   Action plans to reshape a new **sefa** culture have been developed and will be implemented in the new financial year.

b. The **sefa** Organisational Design Review project was implemented during this reporting period. The project sought to assess the existing business operating model, key processes, structure, and establishing realignment of such against the approved **sefa** strategy. The key milestone achievements during the reporting period included the review and restructuring of the front-end business operations. The workforce migration process is earmarked to be implemented in FY 2021/22

c. To curb work disruptions resulting from the COVID-19 pandemic, change management interventions such as the rigorous communication campaign, line manager engagement sessions and remote working surveys were implemented.

d. The Employee Engagement Survey for FY 2020/21 was implemented during the reporting period.The survey results reflected highlights and key challenges that employees experience in the organisation and some of the action plans recommended, such as the culture transformation, improvement on learning and development interventions and customer orientation improvement, will be prioritised within the FY 2021/22 period.

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:

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

PROVISION OF AN ADEQUATE, SAFE, AND SECURE EMPLOYEE WORKING ENVIRONMENT.

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

a. Establishment of a COVID-19 Steering Committee to oversee the development, implementation, and management of **sefa**'s COVID-19 Response Workplace Plan.

b. Implementation of new working arrangements such as remote working, to support business continuity.

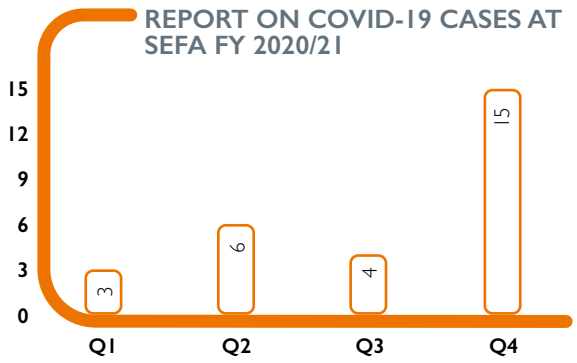
c. Implementation and adjustment of onsite workspaces to adhere to all COVID-19 workplace protocols.

d. Provision of Personal Protective Equipment (PPEs) to all employees.

e. Training of employees and responsible committees on COVID-19.

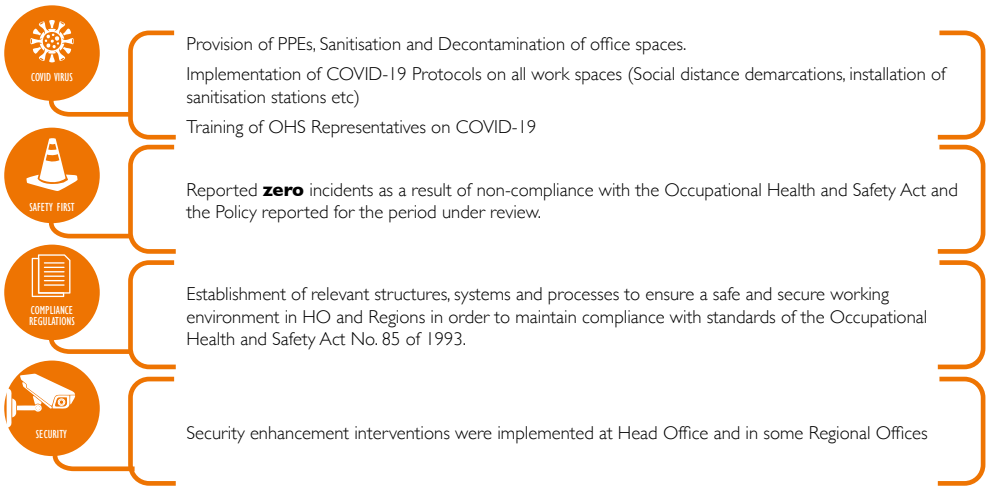
f. Management and reporting of COVID-19 Cases during the reporting period.

sefa reported a total of twenty-eight (28) COVID-19 positive cases during the year under review. The graph below is an illustration of the distribution of the cases per quarter.



g. The trends of positive cases mirrored the national trends. The spike in cases during Q2 and Q4 reflected patterns of the first and second wave that was experienced nationwide. All safety precautions such as employee screening at all offices, provision of PPEs and decontamination of office spaces were implemented throughout the reporting period. All COVID-19 positive employees reported, recovered successfully during the reporting period.

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



EMPLOYEE WELLNESS

The COVID-19 pandemic necessitated an improvement in **sefa**'s Employee Wellness Programme (EWP). There was an increased demand for the EWP services, communication, health awareness campaigns, and the delivery of virtual wellness training to support employees' mental health were implemented. Other wellness interventions implemented during the reporting period included Psychological Safety training to enable organisational effectiveness.

The provision of screening services at **sefa** premises by registered health practitioners provided a strong first line of defence in preventing the spread of the COVID-19 pandemic within **sefa** office spaces. The screening services were aimed at identifying employees who may be at risk of having COVID-19 and those exhibiting symptoms were not allowed to enter **sefa** office premises. The health practitioners would instead encourage symptomatic employees to immediately seek medical assistance and self-isolate until they were back in good health.

Employees who were affected and/or infected by COVID-19 including their immediate families were supported through the provision of psychosocial assistance implemented using the EWP.

STRATEGIC OUTLOOK IN THE YEAR AHEAD

The Human Capital strategic work plan for the year ahead will be centred on the execution of a high-performance culture. **sefa** has already invested in the Investors in People (IiP) Culture Change Project that will cultivate a culture of high performance and increase productivity levels. The strategic focus in the new year will support the drive to empower team members to take the initiative, serve the collective interest and enable employees to participate in decision making and take responsibility for the organisational success. Whilst the HCM strategic plan is still centred around culture transformation, the execution of this plan will be focused on the integration and establishment of new working arrangements to support the organisation to achieve its objectives during the COVID-19 pandemic.

15. STAKEHOLDER MARKETING AND COMMUNICATIONS

The Stakeholder Marketing and Communications focus for the year was three-fold:

i. customer-centricity,
ii. emphasising awareness and
iii. high brand visibility.

This was achieved through consistent messaging on all channels and target markets.

An Integrated Marketing and Communications Strategy was developed with key messages about **sefa**'s product offering in various communication platforms

This meant that the department committed to prioritising the needs of **sefa**'s customers. The approach was multifaceted with **sefa** employees being the drivers and the custodians of a Customer-Centric culture.

Internal brand campaigns were undertaken to create brand visibility and Internal Brand surveys conducted to ascertain brand sentiments internally.

An internal awareness campaign was initiated around Fraud Prevention and COVID-19 updates in collaboration with Human Capital Management and the Risk Department.

Due to COVID-19 regulations, the department had to change the way it engaged with its stakeholders. This led to the introduction of webinars as a two-way tool to communicate with potential and existing stakeholders.

The highlight for the year was the introduction of **sefa**'s social media platforms, which resulted in **sefa** being more accessible to a wider audience. This assisted **sefa** to present a coherent and seamless brand message on all platforms.

The digital campaigns were rolled out to create brand visibility. To ensure that stakeholders had access to information, the presence on social media platforms (Twitter, Facebook, and LinkedIn) was intensified.

There was further dissemination of product information through integrated marketing interventions including above-the-line, below-the-line and through-the-line marketing which assisted in giving clarity on new products that were launched.

Channels used included hosting webinars with and for stakeholders, engaging with media and producing the first quarterly external publication, an e-Newsletter "Asibonisane: An inside look into **sefa**'s operations".

These efforts kept stakeholders informed; built confidence and ensured stakeholder buy-in on the work carried out by **sefa**.

MEDIA AND PUBLIC RELATIONS

During the FY 2020/21, media became particularly important to ensure that awareness was created about the Covid Relief and Economic Recovery Programs The media strategic focus was largely on disseminating information to township and rural based entrepreneurs to ensure uptake of the Township and Rural Programmes in addition to normal **sefa** programs.

Influential media in the form of mainstream newspapers, broadcast and community media were utilised as a vehicle for information dissemination to stakeholders across the country. The marketing department ran several awareness raising campaigns, including the placement of adverts, editorials and interviews targeting SMMEs and the public as a way of ramping up equitable access to finance so as to assist SMMEs to recover from the debilitating impacts of COVID-19 and hard lockdown.

During the year under review, **sefa** launched an informative TV, print and radio campaign to position **sefa** and the organisational products and services to its target market and broader stakeholder community.

To reach under-served communities such as townships and rural villages, community radio stations were deployed to convey **sefa**'s marketing message in languages predominantly spoken in those communities.

To extend **sefa**'s Marketing and Communication message, **sefa** built strategic partnerships with the Government Communication and Information Service (GCIS) and Seda. This communications tactic was effectively deployed during the COVID-19 SMME Debt Relief programme.

As a result of this strategic focus, **sefa** was able to reach out to many SMMEs in the township and rural areas despite COVID-19 restrictions. This is supported by increasing **sefa** traffic in social media, the call centre and the rising media interest in the agency's businesses.

DIGITAL MEDIA

Social media integration into the **sefa** communications mix assisted with brand visibility and with creating brand awareness and its offering. In addition, there were new products launched. These products were aimed at providing relief to businesses that had to close in response to lockdown.

The lockdown made it critical for **sefa** to enhance and rapidly grow its digital presence. This is also in line with building the **sefa** brand presence in an environment that is borderless and could reach all targeted segments of the market. This allowed **sefa** product information and brands to reach the rural, peri-urban, and urban target market.

sefa established an active social media presence on different social media platforms as an alternative channel to engage with the target market. **sefa** introduced LinkedIn as an additional social

*Webinars became very important as they allowed for the sharing of ideas on a much greater scale. It also allowed **sefa** to understand the target audience needs better and assisted in reaching potential and new audiences with ease.*

media platform in this financial year targeted at SMME's and Cooperatives. Social media was utilised as a tool for customer liaison to respond to queries, alerts, public notices and product information sharing.

Product-specific campaigns such as the Township and Rural Entrepreneurship Programme (TREP), focussed on young entrepreneurs in South Africa and how to get in touch with **sefa** for assistance with funding applications.

INTERNAL COMMUNICATIONS

To support **sefa**'s hybrid environment (employees working from home), **sefa** implemented an innovative internal communication strategy aimed at boosting employee morale, communicating key messaging around employee health as well as creating a collective platform for employee engagement.

Through this approach, **sefa** was able to celebrate important national events, communicate organisational performance and COVID-19 health related alerts. In the last quarter of the year, **sefa** launched an internal digital magazine "The **sefa**Zen" which also helped in bridging the gap and creating connectivity amongst all **sefa** employees.

CLIENT LIAISON CENTRE (CLC)

ITEM	FY 2019/20	FY 2020/21
Calls	21 499	41 060

The CLC is dedicated to the provision of customer service and information through the call centre, a reception desk, direct consultation services to walk-in enquiries and written support via e-mail.

In this period, CLC's operations continued to focus on customer-centricity, emphasising the availability of information in a period when South Africa was under lockdown.

The demands of lockdown regulations prompted remote working conditions, which departed from the very elements of direct services.

This pressure was approached with pro-active thinking and the utilisation of alternative technological instruments, media and innovation.

Where consultations were dependent on one-on-one services within the physical environment, the environment adapted to providing the same service utilising video conferencing technology or direct call-backs to enquirers.

In line with its standard services, the CLC provided additional support for regional office enquiries since **sefa**'s offices could no longer accept walk-in enquirers.

The CLC conducted three quarterly surveys to measure client satisfaction. The result was a 78% satisfaction index on organisation-wide service delivery.

STAKEHOLDER ENGAGEMENT

Webinars became very important as they allowed for the sharing of ideas on a much greater scale. It also allowed **sefa** to understand the target audience needs better and assisted in reaching potential and new audiences with ease.

sefa conducted various stakeholder webinars that focused on product launches, training and capacity building of SMMEs and Co-operatives and platforms for the leadership of the organisation to engage with the audience.

The Presidency, the Department of Small Business Development and the Department of Tourism collaborated with **sefa** in launching the Tourism Equity Fund (TEF).

As part of the District Development Model, the DSBD, Seda and **sefa** joined forces to synchronise efforts towards improving service delivery.

The DSBD combined the skills of Seda and **sefa** to assist SMMEs on matters related to planning and finances when running enterprises.

Among the projects, the following webinars took place:

TOPIC	DESCRIPTION
FINANCIAL LITERACY WEBINAR	**sefa** hosted a financial literacy webinar to assist businesses to plan better.
GENERAL – INTRODUCTION OF sefa PRODUCTS	This webinar was targeted at a wider audience and adressed all **sefa** products, highlighting the organisational profile as well as the various funding channels. The target market was: • Youth • Entrepreneurs with disabilities • entrepreneurs • Women • Enterprises in rural communities and townships • Black entrepreneurs.
CONTRACT FINANCING	This session was targeted at businesses who have secured firm contracts or purchase orders with government or other businesses.
SMALL SCALE MANUFACTURING	The webinar targeted township and rural area-based entrepreneurs with a consideration for small-scale manufacturers located in cities.
FRANCHISING	This undertaking was aimed at prospective franchisees who sought finance information within their sector.

sefa STAKEHOLDER ENGAGEMENT MATRIX

OUR STAKEHOLDER	HOW WE ENGAGE	THEIR NEEDS AND EXPECTATIONS	OUR EXPECTATIONS	HOW WE CREATE VALUE
Clients	• Dedicated customer outreach programmes • Radio and print media campaigns • **sefa** social media • **sefa** website • **sefa** external newsletter "Asibonisane" • **sefa** CLC • **sefa** offices • Annual report	• Funding • Mentorship • Growth and sustainability • Training and information	• Build sustainable businesses • Honour their loan obligations • Create long-term, sustainable jobs	• Through our financing products we support our clients with either starting-up or expanding their businesses.
Executive Authority Legislature Regulators Shareholder	• Quarterly and Annual Business Performance Reporting • Quarterly consultations • Statutory Compliance Reports • Annual Report • AGM	• Efficient and effective implementation of our mandate • Sustainable and well-governed institution • Responsiveness and alignment to Government's policies	• Continued guidance in strategy implementation and alignment • Ongoing resourcing • Relationship building	• Financing entrepreneurs that create jobs and promote financial inclusion
Board of Directors	• Board Strategy Sessions • Regular meetings • Quarterly and Annual Performance Reporting • Oversight visits • Continuous engagement	• Well-governed and sustainable institution • Delivery on the **sefa** predetermined objectives • Proactive responsiveness to the **sefa** mandate • Proactive engagement with **sefa** stakeholders	• Focusing on investment in priority sectors • Increase developmental impact to enhance financial inclusion	• Efficient implementation of **sefa**'s mandate
Intermediary Funding Partners (Retail Financial Intermediaries, Microfinance Institutions, Joint Venture Funds)	• Contractual agreements • Post Investment site visits • Quarterly performance reporting • Road shows and stakeholder engagements	• Favourable funding terms • Institutional and capacity building support • Long term partnership • Responsiveness to the needs of our target market	• Compliance with loan obligations and agreements, • Increased developmental impact • Funding of sustainable businesses	• Favourable loan facilities and capacity building, • Marketing exposure to reach their target market

OUR STAKEHOLDER	HOW WE ENGAGE	THEIR NEEDS AND EXPECTATIONS	OUR EXPECTATIONS	HOW WE CREATE VALUE
Employees	• Intranet • Website • Newsletter • Emails • Social medial • Internal comms and campaigns • One-on-one engagements with employees • CEO's quarterly feedback sessions with employees • Employee Engagement surveys	• Job security, **sefa** sustainability • On-going internal communication • Personal Development • Rewards and recognition • Good working environment • Health and wellness programmes	• Motivated employees • **sefa** brand ambassadors • Knowledgeable about **sefa** products & services • Outcomes and solutions orientated	• Competitive remuneration • Performance-linked incentives • Personal development and transformation • Conducive working environment
Media	• Press releases • Media round tables • **sefa** website • One on one Interviews	• Information on developments within **sefa**, • Timeous responses to media queries,	• Accurate reporting on developments within **sefa** • The enhancement of **sefa** brand within the small business ecosystem • Information on new product launches and performance thereof	• Provision of timeous information for reporting, • Income from advertorial and advertising • Partnerships

CHALLENGES

sefa ordinarily engaged stakeholders through different platforms such as exhibitions and workshops where SMMEs participate directly. However, COVID-19 meant that **sefa** had to migrate its stakeholder engagements to the webinars, which presented challenges because of the cost of data in particular to the Township and Rural Based businesses.

STRATEGIC OUTLOOK IN THE YEAR AHEAD

Going forward **sefa** will improve and enhance CLC operations in order to deliver more efficient service in the "new normal".

To better service our stakeholder the department will intensify the stakeholder engagement for better collaboration and information dissemination.

The department will further heighten improvements through the ongoing co-operation between **sefa** and Seda, under the auspices of the DSBD which will be driven across all the marketing platforms.

MS BOITUMELO SEFOLO
Executive Manager: Direct Lending (Acting EM: WL)

16. LENDING OVERVIEW

sefa managed to grow its loan book to R2.5 billion (FY 2020/21) from R1.9 billion (FY 2019/20) despite the impact of the COVID-19 pandemic on the economy and the **sefa** target market SMMEs. This 32% growth is mainly driven by Direct Lending at R1.3 billion (R645 million: FY 2019/20) whilst the Wholesale Lending book remained stagnant at R1.2 billion (R1.2 billion: FY 2019/20). Total Approvals grew 36% year on year from R1.4 billion to R1.9 billion whilst Total Disbursements grew 23% year on year from R1.3 billion to R1.6 billion. The growth of the loan book can be attributed the following new programmes that were introduced during the financial year across the various channels:

The SMME Relief Scheme programme was introduced to support SMMEs during the hard lockdown period where the closure of businesses had an adverse impact on their cashflow. The R316 million disbursed to 1 144 SMMEs was aimed at supporting these enterprises with payroll, and various expenses such as utilities and rentals. The Small Enterprise Manufacturing Support Programme is a partnership initiative between the Department of Trade, Industry and Competition (the **dtic**) and DSBD to stimulate and support small scale manufacturing businesses as part of the overall industrial policy initiative, and enhance localisation.

PROGRAMME	CHANNEL
SMME Relief Scheme (COVID-19)	• Direct Lending
Business Growth Facility (COVID-19)	• Direct Lending
Small Enterprise Manufacturing Support Programme	• Direct Lending
Small Scale Bakeries and Confectionaries Business Support Scheme (TREP)	• Direct Lending
Clothing and Textile Support Programme (TREP)	• Direct Lending
Tshisanyama and Cooked Food Support Programme (TREP)	• Direct Lending
Automotive Aftermarket Support Programme (TREP)	• Wholesale Lending: Khula Credit Guarantee
Autobody repairers and mechanics (TREP)	• Wholesale Lending: Khula Credit Guarantee
Fruit and Vegetable Hawkers (TREP)	• Wholesale Lending: Microfinance
Hairdressers and Personal Care (TREP)	• Wholesale Lending: Microfinance
Butcheries Support Programme (TREP)	• Wholesale Lending: Microfinance

The Township and Rural Entrepreneurship Programme (TREP) initiative is aligned to government's overall approach to stimulate township economic activity and entrepreneurship. The programme comprises nine schemes aimed at different segments (sectors) of the township economy. These schemes comprise a combination of grants and loans at a preferential interest rate. The COVID-19 pandemic had a negative impact on the performance of this initiative due to limited outreach as well as programme implementation challenges (systems, marketing and outreach campaigns, township footprint).

The Lending Divisions drove various collaborative efforts with the Seda, particularly in leveraging the pre-investment support that Seda provides as well as the business development services. On the SMME Relief Scheme, Seda played an integral role in assisting applicants in packaging their applications and assisting with ensuring that the various compliance requirements are met by applicants. This led to the formalisation of the value chain for the TREP programmes, where Seda is the point of entry on all the TREP programmes by conducting the screening of all applications and ensuring compliance with the criteria of the schemes. In addition, Seda provides all the post investment monitoring and business development services on the TREP programmes.

DSBD ensured that the portfolio intensified its collaboration by co-ordinating efforts between **sefa**, Seda and DSBD. This included the critical role of a market access programme linked to the Small Enterprise Manufacturing Support Programme. DSBD initiated engagements with retailers and wholesalers to enlist the product of South African manufactured goods which resulted in various products being enlisted. **sefa** supported the market access programme through providing funding for the enterprises whose products were enlisted.

sefa was appointed by the Department of Tourism to implement the Tourism Equity Fund which was launched in January 2021 by the President of South Africa, His Excellency President Matamela Cyril Ramaphosa, Minister of Tourism and Minister of Small Business Development. The Tourism Equity Fund is an equity acquisition fund that seeks to drive transformation in the tourism sector through providing blended finance to qualifying enterprises. The implementation of the fund has been suspended by the High Court and **sefa** and the Department of Tourism are in discussions to resolve the legal issues on which the fund was interdicted .

The **sefa** loan programme performance was negatively impacted by the low growth economic environment, sovereign debt downgrades and the COVID-19 pandemic. These operating environment factors influenced investment decisions as well as the overall confidence that the entrepreneurs have in the economy.

The restrictions imposed to combat the impact of COVID-19 pandemic led to certain sectors of the economy grinding to an absolute halt during the first quarter of the financial year. When the gradual opening up of the economy came in the second quarter, SMMEs struggled to regain momentum as they tried to adjust to new operating models and reduced demand in the economy. In addition, the intermediaries that **sefa** partners with in Wholesale Lending were uncertain of the economic outlook, and were therefore reluctant to draw down on approved facilities or consider new funding facilities. The balance of the financial year remained challenging as the second COVID-19 wave affected economic activity in the country.

sefa had to adjust its delivery model with the hybrid of remote working and virtual engagements with clients. This led to various business interruptions as certain members of the **sefa** workforce became infected with COVID-19 at various stages. Regional offices would have to be closed for decontamination whilst **sefa** employees members were in isolation. It is important to note that **sefa** ensured that its workforce is empowered with the necessary business tools to enable efficient remote working.

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

In order to ensure an enhanced client experience, **sefa** is embarking on an automation initiative to improve customer relationship management. This will include a loan origination system, enhanced post investment implementation support and overall, back-office automation. This will ensure that **sefa** clients are able to track their applications and interact with **sefa** digitally, and thus realise quicker turnaround times.

The economic recovery programmes that **sefa** is implementing in collaboration with DSBD and Seda will yield results as the country's vaccination programme gains traction and the economy starts stabilising. The experience gained while operating in the year under review under challenging and uncharted circumstances has assisted **sefa** to adapt its processes, systems and delivery model. It is therefore anticipated that the loan book growth experienced in FY 2020/21 will continue in the future as **sefa** strives to increase financial inclusivity and deliver financial support to underserved SMMEs.

17. INFORMAL SECTOR AND MICROFINANCE

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

This is achieved through:

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

sefa mainly supports informal and microenterprise financing through specialised Microfinance Intermediaries (MFIs). The majority of these are registered as Not-For Profit Organizations (NPOs). In the last financial, **sefa** has predominantly been utilised as a sustainable distribution channel by two large MFIs and one small one. In the past decade, while the two larger MFIs have continued to survive whilst maintaining some level of resilience in growth, the smaller MFI's have all ceased to operate; with the exception of only one. **sefa** is faced with two major challenges, (1) too few institutions, with limited geographic reach that on-lend funds to micro entrepreneurs and (2) the cost of supporting micro enterprises is very high and it very difficult for the MFIs to reach financial sustainability.

From numerous case studies, financing informal and microenterprises has proved a mammoth challenge especially if the intermediaries at hand have constrained financial resources. The high-risk nature of informal and microenterprises in terms of credit extension, expose in particular the small intermediaries to undue risk which, from a financial resource base, cannot be absorbed.

As per expectations stemming from its operational mandate; **sefa**'s reach in terms of deploying funding in the economy (in particular the rural and peri-urban areas), occurred using the larger MFI partners, namely the Small Enterprise Foundation ("SEF") and Phakamani Foundation("Phakamani") – who continued be a key distribution channel of deploying money to informal and microenterprise at the same level as FY 2019/20 (noting that from FY 2018/19 there was a reduction in the deployment of money from these distribution channels in correlation to the prevalent economic conditions and the high risk nature of informal and microenterprises).

SERVICE DELIVERY METHODOLOGY

sefa's microfinance distribution channel is made up of MFIs accessing wholesale facilities and then on lending to informal and microenterprises in accordance with the National Credit Act ("NCA").

To give context to the challenge of lending to an inherently high risk informal and microenterprise environment, due to the relatively small size of the loans provided (ranging between R500 and R50 000), the transactional costs per loan far exceeds the returns where cost recovery is greatly compromised. Hence group lending methodology becomes a commercial sustainability consideration where the much-required transactional volumes enable a workable cost recovery model for an MFI noting the risky nature of informal and microenterprises and its associated transactional costs.

In FY 2020/21, **sefa** supported informal and microenterprises in seven of the nine Provinces through a continued network of three MFIs namely SEF, Phakamani and Cede Capital.

PERFORMANCE

The following Table shows the movement in the key indicators from FY 2018/19 to FY 2020/21:

INDICATOR	FY 2018/19	FY 2019/20	FY 2020/21	YEAR ON YEAR VARIANCE
Number of SMMEs supported	68 162	71 520	57 875	-19%
Amount Disbursed to end users	R310 200 000	R232 623 860	R239 307 600	3%
Amount Disbursed to Women	R240 300 000	R230 213 931	R233 568 313	1%
Jobs Created and sustained	76 573	71 512	57 959	-19%

A high level overview of the FY 2020/21 performance shows that there was a decline in key indicators as compared to the previous financial year:

- Number of SMMEs supported reduced by 19%
- Amount disbursed to end users increased by 3%
- Amount disbursed to Women increased by 1%
- Jobs created and sustained reduced by 19%

In light of a minimal increase in the amount of money deployed into the economy represented by amount disbursed to end users, there was a significant reduction in the number of SMMEs supported and simultaneously in the number of Jobs Created and sustained. This is indicative of the effect of the COVID-19 pandemic; and the subsequent lockdown regulations which impacted the operations of the MFIs in the first quarter of the financial year.

In a similar correlation, SEF continues to underutilise the existing **sefa** funds whilst Phakamani has taken up all possible funding that they qualify for from **sefa**. There are current discussions in this regard, to align and ensure **sefa** provides a solid value proposition to both SEF and Phakamani in terms of the five-year growth plan. This should enable **sefa** to maximise on an aligned strategy with these 2 key MFIs to ensure optimal usage of **sefa** funding and to ultimately increase the deployment of money to the informal and microenterprises.

Also, as an expansion strategy; **sefa** is in the process of diversifying the MFI's it is bringing on board in order to reduce the reliance on SEF and Phakamani and increase the distribution channels in terms of deploying money into the economy to informal and microenterprises.

Two new MFIs have already been through the approval processes for the FY 2020/21. The new MFIs are now at contracting stage in order to achieve commercial alignment with **sefa**, and implementation of **sefa** funding is anticipated within FY 2021/22. It is highlighted that one of the new MFI's is a 100% South African owned Fin-tech.

Both action plans of having **sefa** provide a good value proposition to SEF and Phakamani; and the expansion strategy in progress; there would be an improvement in the key indicators in the short term as compared to the current financial year of FY 2020/21.

OUTLOOK

The informal sector was adversely impacted by the lockdown during the year under review, with the impact on the micro department's performance of the loan book this in the context of an already weakened microfinance sector.

Overcoming these challenges **sefa** needs to:

a. increase the institutional capacity of existing MFI's,

b. find a way to assist build the capacity of the sector to reduce cost, and achieve greater cost efficiencies and scale, and

c. achieve greater cohesion and grow the number of clients and geographic spread,

d. find new partnerships and ways of working to deliver finance to township and rural entrepreneurs.

In the case of microfinance **sefa** needs to find a way to define its role as an enabling force to build a viable microfinance industry.

CASE STUDY

V AND BONO

KEY INFORMATION

Location:	Roodepoort Johannesburg, Gauteng
Job's creation:	40 employees both full time and part time.
Funding amount:	R250 000
Sector:	Furniture manufacturing

V AND Bono is a furniture manufacturing company based in Roodepoort Johannesburg. The Company was founded in 2013 by Mr M H Rankhododo. Throughout the years, V and H Bono has been manufacturing Furniture (home, office and industrial furniture) for well-established furniture shops all over South Africa.

In 2019, Mr Rankhododo (the director and founder of V and H bono) visited Cede Capital offices in Pretoria (referred by a Cede Capital old client). Mr Rankhododo had his very last project/order with him when he visited Cede Capital, the order was with Geen and Richards (furniture shop).

Cede Capital did all the due diligence to verify the validity of the order and to request for Cession agreement from Geen and Richards Management. As soon as that was done, their Funding Application was done, all their suppliers were paid. In a few weeks they were able to deliver the furniture to their client. Because of the guarantee they received from Cede Capital, V and Bono was able to secure more orders, not only from one client, but they were also able to restore relationships with their old clients.

To date, V and H Bono is in full operation and has employed more employees which helps on the manufacturing process and fast delivery.

The company was affected by the COVID-19 pandemic just like most small companies did, but slowly they are recovering.

18. SME WHOLESALE LENDING

The SME Wholesale Lending provides funding to intermediaries and specialised funds that share **sefa**'s objective of increasing access to finance to SMEs. **sefa** also enters joint ventures and other strategic partnerships in order to crowd-in financial and business support as well as technical resources of the public and private sector. The SME Wholesale programme is a significant contributor to **sefa**'s loan book performance, with R455 million approved in FY 2020/21 and R306.6 million disbursed to SMEs between April 2020 and March 2021.

Below is a list of new intermediaries approved in FY 2020/21:

558 SMEs have been financed, facilitating 7 033 jobs from April 2020 to March 2021 as a direct result of the R306.6 million disbursed to SMEs as a deployment into the economy. The disbursement also emanates from approvals done in the previous financial year FY 2019/20.

In a continuous quest to stretch the available resources, Fund Management Services are continually being pursued with various institutions participating in key strategic economic sectors. This is an effort to deepen **sefa**'s development impact by leveraging third-party funds to extend reach to underserved SMEs.

INTERMEDIARY	AMOUNT	FUND
Regoapele Capital (Pt) Ltd	R30 000 000	EU ESD
ABSA Ltd	R100 000 000	EU ESD
Flex Capital (Pty) Ltd	R30 000 000	**sefa**/ SME Wholesale
IKG Evolve Health Investment (Pty) Ltd	R15 000 000	EU ESD
IFS Multiply (Pty) Ltd	R30 000 000	**sefa**/ SME Wholesale
The Profit Hub (Pty) Ltd	R30 000 000	**sefa**/ SME Wholesale
Intellimatch Financial Services (Pty) Ltd	R30 000 000	**sefa**/ SME Wholesale
VMS Capital (Pty) Ltd	R30 000 000	**sefa**/ SME Wholesale
Fourth Industrial Revolution Incubator NPC	R20 000 000	SBIF
The Peoples Fund (Pty) Ltd	R30 000 000	**sefa**/ SME Wholesale
Forward Finance Accelerate (Pty) Ltd	R50 000 000	EU ESD

The SME Wholesale Lending programme has achieved the following as testament of its continuous efforts.

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 to improve access to funding for SMEs.

i **sefa** took over, and is still responsible for, the Fund Management Services of the Godisa Supplier Development Fund aimed at Transnet SOC Ltd (Transnet) suppliers. It has achieved significant progress in this portfolio and, in the year under review, more than R42m was approved. **sefa**, together with Transnet, plans to extend the scope of this fund to allow other State-Owned Entities (SOE's) to duplicate the initiatives through their respective Enterprise Supplier Development (ESD).

ii. The European Union Commission has allocated budget support of €30 million of the "Employment Promotion through SMME support Programme" (EPSSP), to **sefa**. €10 million has been made available to **sefa** for on-lending as the ESD window in the year under review. The remaining €20 million is still earmarked for an Innovation window which will be allocated in the later years. This funding provides an opportunity for **sefa** to increase access to finance, crowd-in private sector investment and scale up support to SMMEs.

iii. Small Business and Innovation Fund:

sefa is the appointed implementing agency for a R2.1 billion Small Business and Innovation Fund which commenced in FY 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:

FORWARD FINANCE ACCELERATE

sefa approved a R50 million facility to Forward Finance Accelerate (Pty) Ltd (FFA) to provide financial support for Farmers and Agri Contractors participating in the Agricultural value chain. FFA deploys data-informed cash flow acceleration products which enable the SME to utilise their crop or contracting services, together with their performance track record, as collateral to access cash in a form of a hybrid invoice discounting.

This is done through a motivated and skilled team of industry, data scientists, credit and Agri specialists to seek ways to provide ground-breaking funding solutions which your traditional lending institutions do not offer.

UNIVERSITY TECHNOLOGY FUND

sefa approved a R30 million business loan to participate in the University Technology Fund (UTF). UTF is a venture fund specifically focussed on commercialising technology, intellectual property, and research originating from South African Universities. The UTF fundamentally bridges the gap between technology idea creation, research and intellectual property development and the commercialisation thereof. The UTF represents a unique opportunity to catalyse and commercialise the technology transfer industry in South Africa for the benefit of all South Africans. Other partners to the fund are TIA, The SA SME Fund, Stocks and Strauss, Stellenbosch University and University of Cape Town.

USPLUS

UsPlus is a developmental finance organisation and a fintech business, which is enabled by cloud-based technology to provide flexible working capital solutions for SME partners involved in over 40 industries throughout South Africa. The niche of UsPlus is bespoke working capital finance solutions by providing tailor made invoice discounting/ factoring solutions to the SME sector in South Africa.

sefa has funded UsPlus with a 5-year facility amounting to R30 million, to on-lend to the SME sector.

DEVELOPMENTAL IMPACT

A total sum of funding to the value of R306.60 million was disbursed to 558 SMEs through intermediaries and strategic partners. This was made possible by the revolving nature of the instruments used by the intermediaries to provide ongoing financial support to SMEs.

HIGHLIGHTS OF THE YEAR INCLUDE:

- R306.60 million disbursed to SMEs
- 558 SMEs received funding and 7 033 Jobs were facilitated:

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

	NO. OF SMEs	AMOUNT DISBURSED IN FY 2020/21
Total	558	R306.60 million
Black	465	R186.86 million
Female	185	R53.78 million
Youth	125	R44.61 million
Priority provinces	292	R89.35 million
Productive sectors	306	R99.15 million

The locality of intermediaries (being mainly in Gauteng), combined with limited interventions on specific developmental impact targets, has influenced the underachievement of support to SMEs in townships and priority provinces. There has been an improvement in this regard as compared to the previous years and this trend should continue to improve. To this end, **sefa** will seek strategic interventions in partnership with provincial DFI's and other strategic partners, to encourage support to SMEs in priority provinces. In addition, **sefa** will consider concessionary lending products to encourage participation by township-based SMEs and those owned by people with disabilities.

A) KHULA LAND REFORM EMPOWERMENT FACILITY

In the year 2000, the Department of Rural Development and Land Reform (DRDLR) appointed **sefa** (then Khula) to manage a R63 million Khula Land Reform Empowerment Facility (KLREF). The KLREF was established as an intervention aimed at facilitating finance for farm worker communities, as well as emerging black farmers to enable them to acquire farmland, agricultural machinery, equipment and seasonal production inputs. The original modus operandi of the LREF was to advance wholesale loans to reputable agricultural lenders for on-lending to BEE commercial farming ventures on a project-by-project basis.

Since inception to FY 2020/21, **sefa** (through KLREF) has approved facilities to the value of R572.27 million to financial intermediaries and disbursed R534.19 million to 1 372 previously disadvantaged farming enterprises. The intermediaries participating in the KLREF 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 KLREF'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 KLREF has made noticeable progress over the years through its achievement of a portfolio growth from R63 million to R320.56 million; financed 1 372 Agriculture and Land Reform projects which altogether created at least 6 115 jobs, of which at least 40% thereof, were women-owned businesses.

Regarding FY 2020/21 developmental impact indicators, the Fund facilitated the following:

- R93.88 million was disbursed to 248 emerging farmer projects.
- R42.94 million was disbursed to majority Black-owned businesses.
- R11.19 million was disbursed to a majority of women-owned businesses.
- 419 jobs were facilitated (created and sustained); and
- R31.92 million was disbursed to businesses in priority provinces.

FINANCIAL PERFORMANCE

PROFITABILITY RATIOS	FY 2020/21 R'000	FY 2019/20 R'000	FY 2018/19 R'000	FY 2017/18 R'000
Interest income – loans	8 120	16 166	15 867	15 933
Interest income – cash	7 533	12 524	12 269	12 007
Operating expenses	10 567	10 193	9 665	9 154
Return on assets	3.8%	3.8%	2.4%	4.2%
Return on equity	3.8%	3.8%	2.4%	4.3%

PROFITABILITY ANALYSIS

The KLREF interest Income on loans decreased by 49.77% to R8.12 million from R16.16 million (FY 2019/20). This was largely due to 8.3% growth in loans and advances to customers to a value R314.86 million from R290.5 million (FY 2019/20), noting the reduced interest rate environment which by and large had a negative effect on interest generated. The operating expenses had a marginal increase of 3.66% in FY 2020/21 to R10.56 million from R10.19 million (FY 2019/20). This was largely **sefa**'s management fee which was charged to KLREF.

Due to a reduction in revenue in FY 2020/21 which has also been largely offset by an increase in operating expenditure, the return on assets remained at 3.8% (3.8% in FY 2019/20). The overall drop in operating profit to R5.08 million from R17.9 million (FY 2019/20) is mainly due to the reduction in overall Income, increase in operational expenses and to a minimum extent bad debts provision on loans that also resulted in return of owners' equity also remaining the same at 3.8% (FY 2018/19).

LIQUIDITY AND GEARING	FY 2020/21 R'000	FY 2019/20 R'000	FY 2018/19 R'000
Loans and Advances	314 861	290 574	281 320
NPLs (% of advances)	2%	Nil	Nil
Cash and cash equivalents	164 017	186 750	178 639
Debt equity ratio	1.7%	1.8%	2.1%

LIQUIDITY ANALYSIS

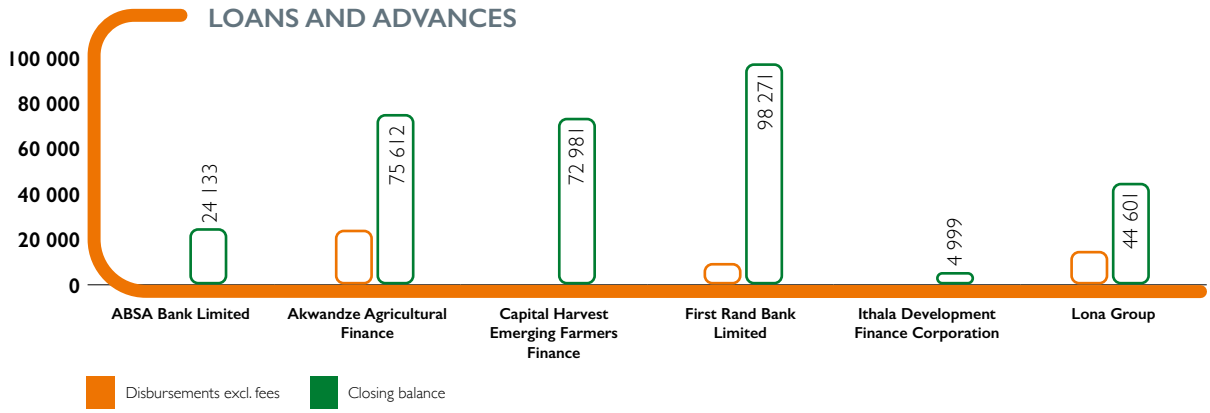
The loans and advances grew by 8.31% to R314.86 million from R290.5 million (FY 2019/20), mostly due to LREF funded loans. There are no non-performing loans since LREF lending is done via intermediaries, mostly commercial banks with strict lending criteria. Cash and cash equivalents were reduced by 12.1% to R164.02 million from R186.7 million (FY 2019/20), largely due to R48.5 million of disbursements which countered the 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 KLREF.

LREF FINANCIAL POSITION

The KLREF financial position as of 31 March 2021 is shown below. The current portfolio consists of 344 projects collectively adding up to a value of R320.59 million. Funds available for new investments equal R150.25 million, after considering undrawn commitments.

LREF FINANCIAL POSITION	R'000
Outstanding Balance from Projects	R320 597
KLREF money market balance	R160 752
Undrawn Commitments	R 10 500
Available for new investments	R150 252



LREF PORTFOLIO ANALYSIS BY LOANS AND ADVANCES

The outstanding balances on the equity and mortgage projects constitute approximately 23,5% of total balance outstanding. The portfolio also shows that a greater share (78%) of the wholesale facilities is held by non-bank financial intermediaries such as Akwandze, CHEFF, Ithala and Lona.

PORTFOLIO – DISTRIBUTION BY FINANCIAL INTERMEDIARY

FINANCIAL INTERMEDIARY	SMEs: 31 MAR 2021	OUTSTANDING LOAN BALANCE R	% DISTRIBUTION BY RFI
Akwandze Agric Finance	318	R75 611 502	24
Ithala Finance Corporation	4	R4 999 064	2
FNB Agribusiness	7	R98 270 559	31
Lona Citrus	7	R44 601 276	13
Absa Agribusiness	4	R24 133 309	7
Capital Harvest	4	R72 980 909	23
Total	**344**	**R320 596 619**	**100%**

LREF FORWARD PLANNING IN FY 2021/22

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

ORGANISATION	GEOGRAPHICAL AREA OF OPERATION
Senwes	NW; FS; GP; MP; KZN; EC; NC; WC.
OVK	Free State, Eastern Cape, and Northern Cape.
SSK	Southern Cape.
NTK	Limpopo Province.
NWK	Northwest Province.
GWK	Northern Cape Province

19. DIRECT LENDING

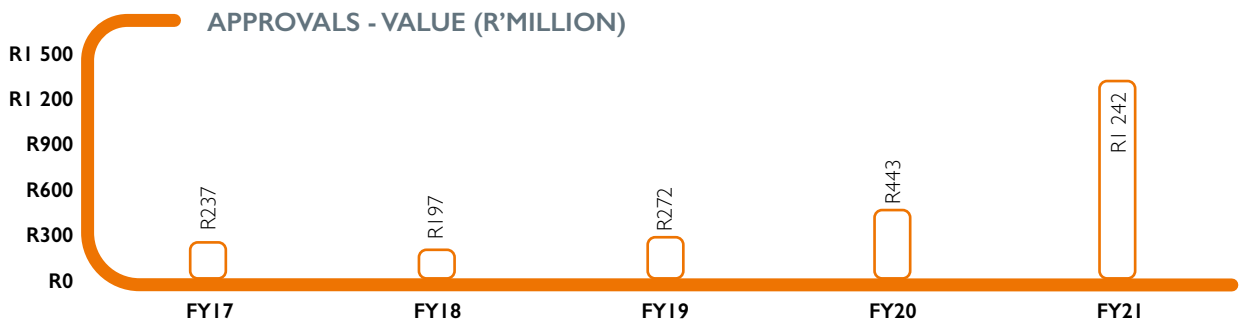
The value of approvals increased by 180% year on year from FY 2019/20. This performance is largely attributable to the SMME Relief Scheme (R465 million) and the Small Enterprise Manufacturing Support Programme (R320 million) which were new schemes introduced during the financial year.

BACKGROUND

Direct Lending provides financial assistance to SMMEs and Cooperatives as a cash-flow based lender, focusing on the enterprise's ability to repay its obligations. The support is targeted at start-ups, expansions and/or acquisitions through the following debt instruments:

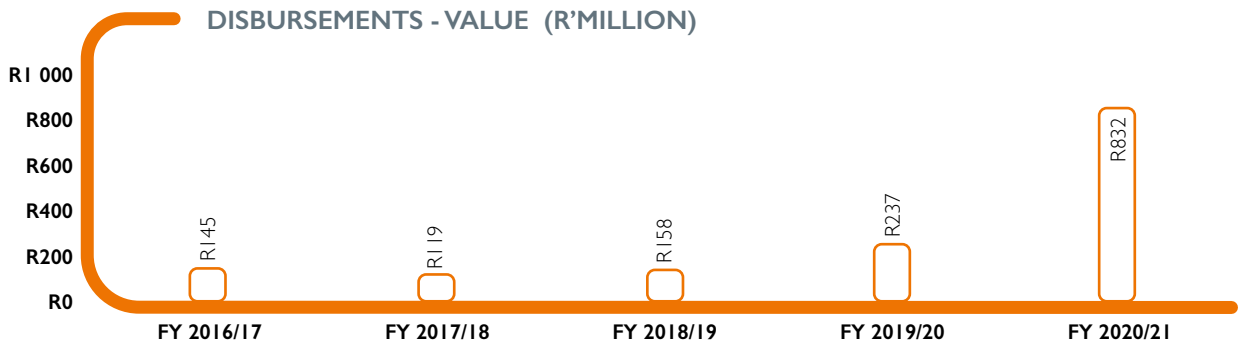
- Asset finance
- Term loans
- Bridging finance
- Revolving credit facilities

HISTORIC PERFORMANCE



SEFA'S LOAN BOOK YEAR-ON-YEAR HAS BEEN INCREASING

The value of approvals increased by 180% year on year from FY 2019/20. This performance is attributable mainly to the SMME Relief Scheme (R465 million), and the Small Enterprise Manufacturing Support Programme (R320 million) introduced during the financial year.



Disbursements increased by 251% year on year from FY 2019/20. As a result, as at the end of FY 2020/21, approximately 67% of approved facilities were disbursed to the economy. The difference (undisbursed facilities) can be attributed to the following factors:

- Lifting of lockdown restrictions – where some enterprises started trading and did not need assistance through the SMME Relief Scheme.
- Transactions approved in the fourth quarter normally get disbursed in the first quarter of the new financial year.

ECONOMIC RECOVERY PROGRAMMES

During the COVID-19 Pandemic that led to economic downturn, Direct Lending introduced the SMME Relief Scheme and Business Growth facility to the SMME sector. The SMME Relief Scheme was geared towards assisting businesses that could not meet their operating overheads due to the hard lockdown and resultant restrictions in that period. The Business Growth Facility supported businesses that provided essential products and services to combat the negative impact of the pandemic.

When the lockdown restrictions were lifted, and the economy gradually opened, the Department of Small Business Development (DSBD), in collaboration with its implementing agencies (**sefa** and Seda), developed interventions tailored around supporting businesses operating in the township and rural economies, known as the Township and Rural Entrepreneurship Programmes (TREP).

TREP provides blended financial packages and business development support to qualifying SMMEs and Cooperatives that can grow into the mainstream.

The following (TREP) Programmes are provided through Direct Lending:

- Small Scale Bakeries and Confectionaries Business Support Scheme
- Clothing and Textile Support Programme
- Tshisanyama and Cooked Food Support Programme
- Small Enterprise Manufacturing Support Programme

STRATEGIC PARTNERSHIPS

sefa/OBC - In order to advance the participation of black entrepreneurs in the retail sector (supermarkets), **sefa** and OBC entered into a partnership to rollout OBC Supermarkets and butcheries focusing on rural towns and townships. The rollout of this programme continued during the current financial year although its implementation was slowed down by the downturn in the economy and focus on COVID-19 relief and response efforts.

sefa/Sasol - In order to advance the participation of black entrepreneurs in the retail sector (filling stations), **sefa** and Sasol entered into a partnership to rollout Sasol filling stations. The rollout of this programme continued during the current financial year although its implementation was slowed down by the downturn in the economy and focus on COVID-19 relief and response efforts.

sefa/Seda - Common application template: A generic funding template was developed in consultation with the Industrial Development Corporation as well as the National Empowerment Fund. The purpose of the template is to assist entrepreneurs when packaging funding applications for submission to the various funders – especially Development Finance Institutions.

Central database of service providers: Seda and **sefa** will be building a common database of service providers. This will assist to create a uniform standard and quality of providers that assist SMMEs with pre- and post-loan support.

sefa/DSBD/Seda - COVID-19 Relief Schemes and TREP Programmes were very effective, particularly that there was a double challenge of slowdown in the economy and the COVID-19 Pandemic related lockdowns. Despite the contraction in the economy, **sefa**'s countercyclical lending provided much required support for SMMEs that were under distress.

Information asymmetry challenges – **sefa**, as one of the nationally operating DFIs receives tens of thousands of applications from SMMEs, the challenge though is that the majority of these SMMEs are often not funding ready. This adversely affects overall **sefa** turnaround times as these applications must still be processed or attended to and referred to relevant service providers such as Seda. Alternatively they result in a lot of time spent in the to-and-fro with the applicant SMMEs.

Outlook – **sefa** is on a drive to develop customer intelligence for existing and target clients incorporating internal and external data sources, leverage technology to optimise particularly the pre-decision stage of the application process – 'decision in principle'.

DIRECT LENDING OPERATIONAL PERFORMANCE

The following table illustrates Direct Lending performance for the reporting period as well as FY 2019/20:

PERFORMANCE INDICATOR	BASE YEAR ACHIEVED AUDITED FY 2019/20	TARGET FY 2020/21	PERFORMANCE ACHIEVED FY 2020/21
Approvals	R444 million	R1.175 billion	R1.242 billion
Disbursements	R237million	R786 million	R832 million
Number of SMMEs supported	141	4472	1443
Jobs created and/or maintained	3064	24778	19700
Disbursements to black-owned SMMEs	R207 million	R550 million	R753 million
Disbursements to women-owned SMMEs	R78 million	R393 million	R257 million
Disbursements to youth-owned SMMEs	R63 million	R314 million	R166 million
Disbursements to SMMEs operating in townships	R52 million	R196 million	R150 million
Disbursements to entrepreneurs with disabilities	R6.3 million	R23 million	R2.2 million
Disbursements to SMMEs operating in rural towns and villages	R91 million	R354 million	R151 million

The direct lending year-on-year value of approvals and disbursements increased by 106%. This significant improvement in the loan book performance is the result of the implementation of COVID-19 Relief Programmes. The loan programme underperformed in terms of development impact indicators (financial inclusion), partly due to the quality of the applications received and the lack of a target business development strategy to improve the deal pipeline from these targeted groups.

INDUSTRY ANALYSIS

Disbursements were spread across the following sectors of the economy:

INDUSTRY	DISBURSED AMOUNTS	%
Agriculture, hunting, forestry and fishing	R11 496 474.79	2%
Electricity, gas and water supply	R17 608 064.22	2%
Financial and business services	R27 280 184.75	3%
Mining and quarrying	R41 219 861.47	5%
Transport, storage and communication	R63 287 717.79	8%
Construction	R68 419 348.87	8%
Community, social and personal services	R177 383 537.07	21%
Wholesale and retail trade	R199 267 137.48	24%
Manufacturing	R226 477 035.80	27%
Total	**R832 439 362.24**	**100%**

The above disbursements were driven in the main by the sectors of the economy that had the least disruption in operations during the financial year from the restrictions that were in place for the COVID-19 pandemic. In addition, the introduction of the Small Enterprise Manufacturing Support Programme ensured dedicated support to the manufacturing sector as a drive to economic recovery.

5. CASE STUDIES OF FUNDED CLIENTS DURING FY 2020/21

AUTO PRECISION ENGINEERING (PTY) LTD

KEY INFORMATION

Location:	Gugulethu, Western Cape
Job's creation:	11 jobs created
Funding amount:	R 2 379 185
Use of funds:	Engineering equipment and working capital
Sector:	Mechanical engineering - engine overhauls

This 100% black youth-owned business is equally owned by Mr Siphelo Sikolisi, Mr Thembile Ndlondlo, Mr Khululwe Tintelo and Mr Mphindeleli Qalazive. The business operations consist of mechanical engineering services focusing on overhauling, scheming and re-boring of engines for the taxi industry and small-scale mechanics based in Gugulethu township, Western Cape. All 4 shareholders are actively involved in the operations, and each holds a National Diploma in Mechanical Engineering from the Cape Peninsula University of Technology (CPUT).

The entrepreneurs have good industry experience having obtained training at various companies and institutions. Their collective passion, work ethic and good networks bode well for further success of this venture. **sefa** approved a funding facility of R 2 379 185 for the acquisition of heavy-duty engineering equipment, infra-structure set-up and working capital.

SAKHE ENGINEERING AND MANUFACTURING (PTY) LTD

KEY INFORMATION

Location:	East London, Eastern Cape
Job's creation:	27 jobs maintained, 3 jobs created
Funding amount:	R 12 380 600
Use of funds:	Business Acquisition
Sector:	Manufacturing – Steel fabrication

Sakhe Engineering and Manufacturing (Pty) Ltd, is a 100% black-youth owned business based in East London. The business is owned by Mr Khaya Madiba, a qualified Structural Engineer with a Masters in Engineering Management. Mr Madiba approached **sefa** for funding to acquire a multifaceted engineering business. The business is involved in the designing, manufacturing and automation of engineering machines and steel fabrication. It offered such services as CNC cutting of steel, brass, aluminium and other special metals. **sefa** provided a finance facility of R 12 380 600 to Sakhe Engineering and Manufacturing Pty Ltd for the acquisition of the business, stock and working capital.

DUISE DESIGNS (PTY) LTD

KEY INFORMATION

Location:	Mbombela
Job's maintained:	12
Funding amount:	R189 980
Use of funds:	Working Capital
Sector:	Textile

Duise Designs (Pty) Ltd is a 100% black owned branding company that offers branding techniques from embroidery, screen printing, signage and vehicle branding. The company is jointly owned by Mr Pranesh V Hargoven and Mr Mishal V Hargoven. The company is using a variety of branding methods and styles which gives their clients the opportunity to choose the best option for their branding needs. The business has been operating for more than 5 years, grown from a R20 000.00 monthly turnover to R200 000.00 monthly within a period of five years.

Funding approved by **sefa** to the amount of R189 980 to assist the business with operational expenses such as salaries, rent and electricity bills during COVID-19. The business is 100% youth owned.

CHRISTO & NANI TRADING (PTY) LTD

KEY INFORMATION

Location:	Bloemfontein, Free State
Job's creation:	15 jobs maintained, 5 jobs created
Funding amount:	R3 573 925
Sector:	Manufacturing

Christo & Nani Trading (Pty) Ltd is a 100% black South African owned manufacturer of bricks and supplier of building materials and energy products. The business is located in Bloemfontein in Mangaung, Free State Province. The business is 100% owned by Mr Michael Mabusela and employs 15 employees on a permanent basis. They sell huge quantities of bricks to both building contractors and households.

- Manufacturer of bricks and retailer of building materials, paraffin and diesel.
- The client was referred by other public SME agencies.
- An approved SEMPS loan and grant, the combination totalling R 3.5m was utilised to purchase vehicles and machinery.
- The business will create 5 new permanent jobs and maintain 15 current jobs.
- Selling a combination of building materials and alternative energy products to a wide variety of customers.

20 ON BLUEGUM (PTY) LTD TRADING AS
PALM LODGE MTHATHA

KEY INFORMATION

Location:	Mthatha, Eastern Cape
Job's creation:	Direct 13
Funding amount:	R 5 076 916
Sector:	Hospitality, B&B

20 on Bluegum is a black female owned bed and and breakfast business based in Mthatha in the Eastern Cape. The entrepreneur, Ms Onke Mankahla is the 100% shareholder. The 9-bed establishment has been operating since 2009. Ms Mankahla approached **sefa** in April 2020 for financial assistance to acquire the business. The business services both the leisure and corporate markets. The entrepreneur is the ideal entrepreneur with experience in the hospitality sector having previously managed Steers and Debonairs. The loan was approved and successfully implemented.

VISION POWER HOLDINGS (PTY) LTD

KEY INFORMATION

Location:	Westmead, Pinetown
Job's creation:	17 jobs maintained & 1 new job created
Funding amount:	R2 903 000
Sector:	Manufacturing

Vision Power Holdings (Pty) Ltd was established in 2020 to purchase Work Rite Doors CC. Work Rite Doors CC is an existing business that is in the manufacturing and fabrication industry and is involved in access control, intercoms and industrial doors, industrial gates, boom-operators and burglar bars. Vision Power Holdings (Pty) Ltd is a 100% black owned and operated Private Company. It is owned by 2 shareholders, Mr Linda Mokoena (49%), and his spouse Mrs Samukelisiwe Patricia Mokoena (51%). **sefa** has funded R2 903 000 which went toward the purchase of Work Rite Doors CC as well as working capital. An additional R577 207 was provided as own contribution to settle the balance of the purchase price of the business.

DVINE ACCOUNTANTS & CONSULTANTS (PTY) LTD

KEY INFORMATION

Location:	Thohoyandou
Job's creation:	3 jobs created
Funding amount:	R309 113.35
Sector:	Accounting Firm

Dvine Accountants and Consultants (Pty) Ltd is a company formed and registered with CIPC by Ms Mutondi Dorothy Mashamba and Mr Lufuno Ronald Mbedzi in 2017, registration number (2017/022907/07) with a shareholding of 70% and 30% respectively and the business has been in operation for the past three years. The core business of the company is to offer accounting services, tax services, internal and external audit, bookkeeping and advisory. A loan amounting to R309 113.35 was approved for the purchase of three Laptops, Audit Software, two Printers, Office Furniture and a 2020 Ford Figo 1.5Ti VCT Ambiente. Dvine Accountants and Consultants (Pty) Ltd participated in the pitch for funding event held at Thulamela municipality on 22 January 2020.

20. KHULA CREDIT GUARANTEE (KCG)

CHAIRPERSON'S STATEMENT

FY 2020/21 was the most challenging year for most businesses in South Africa including KCG. As the whole world acclimatised to the new norm of working, KCG had an exceptional task of developing and implementing new products to alleviate the impact of COVID-19 to township businesses. We can certainly be proud of how KCG with the support of **sefa** and the DSBD rose to the challenge and demonstrated dedication, resilience and agility as we tried to serve our customers in the midst of a global pandemic.

OPERATING ENVIRONMENT

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

In response to COVID-19, KCG in partnership with the DSBD approved a funding package of R87,5 million to support SMMEs under the Spaza Shops Support Programme. The Spaza Shops Support Programme is a cashflow facility in the form of credit guarantee administered via commercial banks that enables South Africa's spaza shop owners with a valid operating permit to buy the stock at accredited wholesalers. Whilst the uptake of this programme was lower than anticipated, 5 276 Spaza shops were approved out of a total of 9 317 applications. We acknowledge that this is far too little to address the high unemployment rate, however the innovative funding package is the first of its kind providing targeted support to what is considered to be the second economy which is a critical imperative in addressing the pervasive high levels of inequality in South Africa.

ORGANISATIONAL PERFORMANCE

KCG's business model is to crowd-in funding in support of SMMEs who lack the necessary collateral to access loan funding. We do this by offering a credit insurance guarantee product to commercial bank institutions, non-commercial bank financial institutions and any other corporate entity that seeks funding for participants in its value chain.

For the year under review, KCG had grown credit insurance guarantees by R130 million to R870 million (FY 2019/20: R740 million) of which R201 million (FY 2019/20: R244 million) was drawn down. The significant difference in amount provided versus what was drawdown is due to the delay in finalising roughly R560 million of approved guarantees, largely due to disruptions in working environment and low commercial banking activity due to COVID-19 pandemic.

KCG's insurance capacity received a significant boost during the year when the European Union approved and advanced R300 million under the EU Innovation Fund to KCG. This capital injection will enable KCG to continue to provide support to the following key sectors:

- Agriculture (Cotton & Essential oils)
- Green economy
- ICT
- Medical
- Microfinance (Spaza and Automotive)

This capital injection will enable KCG to crowd-in at least R2 billion of funding for SMMEs using its various credit insurance products.

The overall objective of the EU Financing Agreement is to contribute towards inclusive and sustainable economic growth and employment creation through supporting SMMEs. The funding has been broken down into two separate funds:

- The **sefa** Enterprise Supplier Development Fund – This is an EUR 10 million (R150 million) fund that provides affordable funding to enterprise development lending focused to financial intermediaries, with the objective of keeping the interest rate costs to SMMEs as reasonable as possible, and to leverage private sector funds to increase the overall pool of funding that is made available to SMMEs. The fund is implemented by **sefa** Wholesale Lending.
- The Innovation Fund – This is a EUR 20 million fund (R300 million) that is intended to allow for other wholesale lending initiatives between KCG and different financial intermediaries that are innovative in leveraging private funding and sharing risk whilst ensuring improved access to funding for SMMEs that have difficulties in accessing funding through traditional mechanisms.

KCG was identified as the anchor entity for the implementation of the Access to Finance component of The Employment Promotion through SMME Support Programme in South Africa (EPSSP) of the European Commission Budget Support, and it is expected to work with private sector actors such as banks, Non-Banking Financial Institutions (NBFIs) and possibly with other Development Financial Institutions (DFIs). This component as per the Programme Financing Agreement (FA) aims to improve access to funding to the underserved high-risk Small and Medium Enterprises (SMMEs) with limited or no access to finance which are ordinarily unable to secure funding from banks.

EU INNOVATION FUND PROGRAMME OBJECTIVES

- Improve the competitiveness of SMMEs and their ability to meet procurement requirements of large multinational/local corporations and state-owned enterprises
- Improve access to finance for SMMEs with limited access to finance

- Support relevant government institutions in their efforts to improve the regulatory and administrative environment for SMMEs

ROLLOUT PLAN

- Wholesale lending channel, through the Khula Credit Guarantee Scheme (KCG)
- Priority sectors and market segments: job creating and growth sector and micro enterprise finance

CORPORATE GOVERNANCE

KCG remains committed to good governance practices and has put in place structures and policies to ensure that the organisation upholds its fiduciary responsibilities and delivers on its mandate. Appropriate measures have been put in place to mitigate non-compliance. Our risk management function continues to facilitate and monitor implementation of risk management measures across the organisation. Our latest Own Risk and Solvency Assessment (ORSA) report reflects that KCG is well capitalised to sustain and grow the business over the next 3 years.

During the year under review, Ms NR Mlonzi and Mr MJ Kganyago retired from the Board on 30 September 2020 and 29 October 2020, respectively. Ms SF Mudau, Ms H Tsoadi and Mr MD Matshamba, the Chief Executive Officer of **sefa**, were appointed as non-executive Directors on 26 October and 1 November 2020, respectively. Ms ME Makara resigned as a Director effective from 31 May 2021.

On behalf of the current board, I extend our heartfelt thanks and sincere appreciation to the previous Board members for the high level of dedication and support to KCG in refining and improving its business model and strategy.

STRATEGIC PARTNERSHIPS

In pursuit of the KCG vision of expanding access to funding for SMMEs, we recognise the need to improve our strategic partnerships and further increase stakeholder satisfaction. In the year under review, the remarkable partnership that was achieved amongst the commercial banks, wholesale retailers, the department of small business development (our Executive Authority) and **sefa** (our Shareholder) to provide a unique product offering to Spaza shops, is what we aim to continue achieving into the future.

OUTLOOK

South Africa's economy has started to recover after the COVID-19 pandemic with the latest GPD figures indicating a growth of 1.1% in the first quarter of 2021 (Stats SA – 8 June 2021). The most significant challenge to growth is an environment that creates more jobs for the growing working-age population. KCG now has the balance to do more in crowding in funding to SMMEs and the challenge is to expand our product offering to non-commercial financial institutions and corporates.

It has now become imperative that KCG, with the support of **sefa** comes out of obscurity and create a high awareness of its product offering so that more SMMEs are supported and jobs created.

APPRECIATION

I would like to give special thanks to our employees who stepped up to the plate in the midst of a COVID-19 pandemic. Your commitment and tenacity ensured that we could continue to deliver innovative products to support SMMEs.

I thank the Board of **sefa**, our shareholder for the continued support given to KCG to ensure that notwithstanding our limited operational capacity, KCG continues to maintain good corporate governance and adhere to the principles and requirements of the Prudential Authority Standards in terms of the Insurance Act.

I extend my heartfelt gratitude to the Honourable Minister Khumbudzo Ntshavheni, for her leadership and guidance during the difficult economic climate. With her support, KCG was elevated out of obscurity to participate in an innovative solution for the challenges that township businesses face.

Finally to our clients and stakeholders we appreciate and thank you for your continued support.

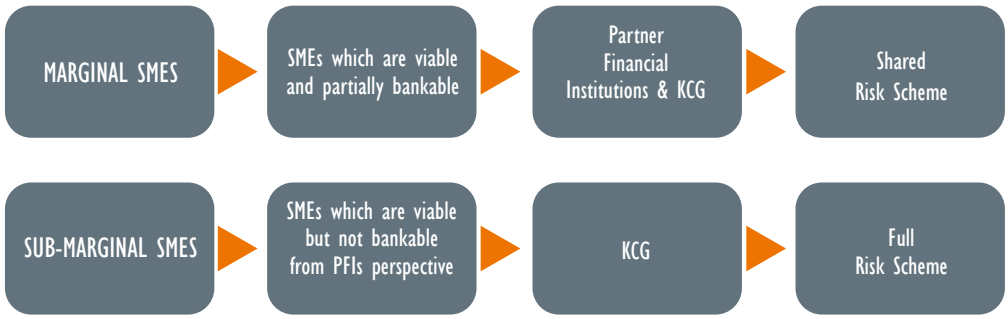
Lesego Mosupye
Chairperson Khula Credit Guarantee SOC Ltd

KCG PERFORMANCE FOR FY 2020/21

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

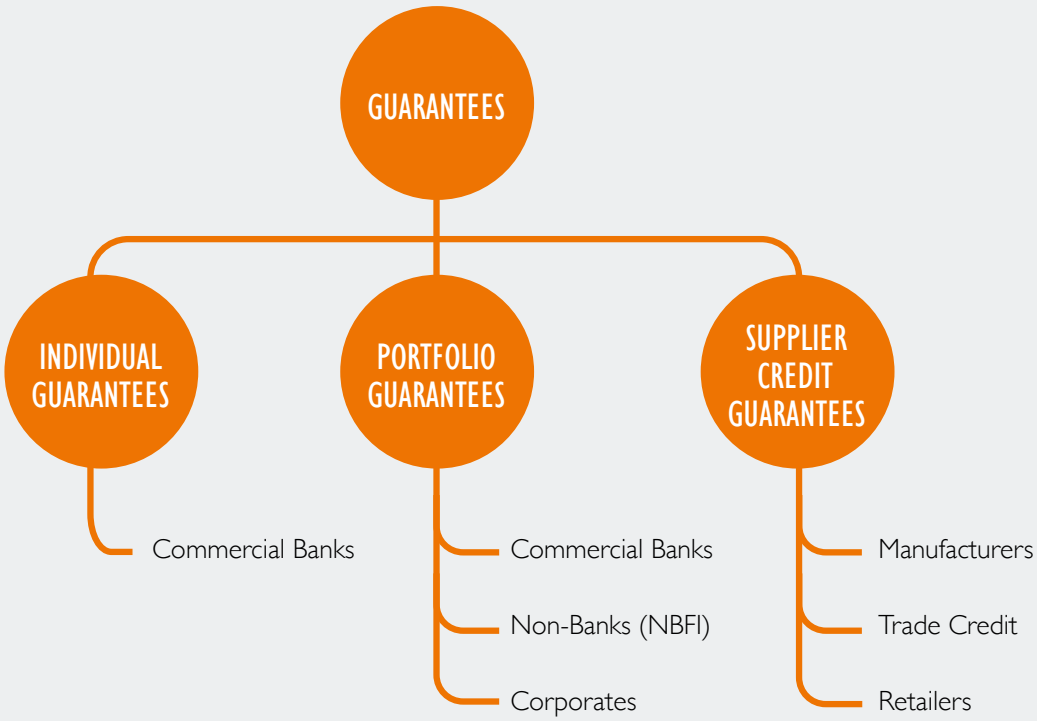
The objective of the Khula Credit Guarantee scheme is to issue partial credit guarantees to lenders for SMME borrowers, whose access to finance is impeded by the lack of collateral required by lenders. The scheme was set up as a Risk Sharing Facility with Partner Financial Institutions (PFIs) for the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

KCG funded SMMEs are typically classified as per the diagram below.



KCG PRODUCT OFFERING

KCG offers the following products to Partner Financial Institutions (PFIs):



FY 2020/21 PERFORMANCE

KCG Strategic Indicators performance for the FY 2020/21 relative to the previous financial year are shown below:

KEY PERFORMANCE AREA	FY 2019/20	FY 2020/21	
	ACTUAL	TARGET	ACTUAL
Value of approvals (R'000)	310 000	549 991	130 000
Value of guarantees taken up (R'000)	243 531	290 037	201 951
Value of Approvals for TREP – Spaza Shop Support Programme (R'000)	n/a	87 500	18 225
Value of disbursement for TREP – Spaza Shop Support Programme (R'000)	n/a	25 000	18 225
No. of new Partner Financial Institutions	3	3	2
No. of SMMEs and Co-operatives financed through KCG	101	7 994	5 224
No. of jobs facilitated (created and sustained)	4 114	51 522	6 596

STRATEGIC INITIATIVE	ACHIEVEMENTS
Expand the Credit Indemnity Scheme's utilisation by increasing the number of participating institutions, new products, and streamlining business processes and systems.	The R300 million EU Innovation Fund under the EDSE has been approved by the EU Budget Support. The programme will have focus on the following sectors in the FY 2021/22: • Agriculture (Cotton & Essential oils) • Green economy • ICT • Medical • Microfinance (Spaza and Automotive) A business process AS-IS analysis on the KCG guarantee programme was completed.
Develop strategic partnerships to enhance an integrated ecosystem.	• R100 million ABSA Agriculture Portfolio Guarantee has been approved, thus bringing the total Absa Agri portfolio guarantee to R160 million. • A new R30 million Portfolio Guarantee for UBank was approved. This facility will support members of the Johannesburg Chamber of Commerce and Industry (JCCI), Black Business Council (BBC) and general SMMEs.

ACTUAL PERFORMANCE ACHIEVED OF THE KCG PORTFOLIO BOOK IN RELATION TO TARGET

As of 31 March 2021, the value of the active indemnities which have been indemnified to date is the total indemnity potential liability. KCG's total indemnity potential liability is R870 million. The performance for the year is R104.8 million for the taken-up against a year-to-date target of R200 million for the Portfolio Credit Guarantee, and a take-up of R79.0 million against a target of R90.2 million for the Supplier Credit Guarantee. The negative variance is largely due to hesitation from lenders in extending loans to SMMEs especially without the certainty of repayment ability. There has been a decline in most business operations across the country, and KCG funded SMMEs have also been affected, particularly those in the retail and service industries.

PORTFOLIO PERFORMANCE FOR THE PERIOD ENDED 31 MARCH 2021.

INSTITUTION	GUARANTEE TYPE	LOCATION	NO. SMMES	JOBS	TAKEN – UP	INDEMNITY VALUE (R)
Sasol Siyakha	Portfolio	National	6	207	Active	20 402 250
TCBS	Portfolio	National	7	190	Active	5 484 082
Mr Price Group	Portfolio	Limpopo/ Mpumalanga	2	0	Active	231 956
ABSA Agriculture	Portfolio	National	10	148	Active	45 206 448
FNB Agriculture	Portfolio	National	3	135	Active	33 434 000
Portfolio Guarantees						**104 758 736**
BRI	Supplier Credit	Gauteng	7	120	Active	78 967 767
						183 726 503
SSSP	TREP	National	5189	5796	Active	18 224 500
Total			**5224**	**6596**		**201 951 003**

The prior year's approvals which have not yet been drawn are shown in the table below:

INDEMNITIES AUTHORISED BUT NOT TAKEN-UP AS AT 31 MARCH 2021.

RFI	STATUS	APPROVAL DATE	ACTIVE	FACILITY NOT-TAKEN-UP R	FACILITY LIMIT APPROVED R
Sasol Siyakha BEE Trust	Authorised	23-May-16	Active	0	20 000 000
Sasol Siyakha ESD	Authorised	26-Mar-18	Active	25 000 000	30 000 000
TCBS	Authorised	15-Aug-16	Active	22 365 000	50 000 000
FNB Agriculture	Authorised	27-Feb-17	Active	26 566 000	60 000 000
Mr Price Group	Authorised	27-Mar-19	Active	29 463 032	30 000 000
Absa Agriculture	Authorised	05-Jun-18	Active	14 793 552	60 000 000
Mercantile Bank	Authorised	27-Mar-19	Not active	150 000 000	150 000 000
Absa Alternative Lending	Authorised	27-Mar-20	Active	150 000 000	150 000 000
FNB Agriculture	Authorised	27-Mar-20	Active	100 000 000	100 000 000
Praxis Financial Services	Authorised	03-Jun-19	Not active	60 000 000	60 000 000
BRI	Authorised	03-Jun-19	Active	0	30 000 000
Absa Agriculture	Authorised	29-Mar-21	Active	100 000 000	100 000 000
UBank	Authorised	19-Mar-21	Not active	30 000 000	30 000 000
				708 18 584	**870 000 000**

The COVID-19 pandemic has resulted in a global economic meltdown which has produced historic declines in economic activity, perhaps far worse than the 2008 siege. This has resulted in economic uncertainty and volatility for the foreseeable future or at least until the vaccines are approved, produced, and distributed worldwide. The South African government had a mandatory lockdown from March 2020 which was gradually lifted towards the end of 2020. The lockdown had a negative impact on KCG operating and financial performance and that is evident in the low take up of new indemnities, low approvals across the portfolio and high number of defaults in previously performing loan books such as Mr Price Group and Transaction Capital Business Solutions. Most of the revenue generating transactions on KCG were mostly on renewals of already approved deals rather than new indemnities.

The performance of the existing facilities for the year under review is summarised below:

UBANK

The R30 million newly approved facility will enable Ubank to provide funding solutions to JCCI members (SMMEs) – Johannesburg Chamber of Commerce and Industry; Black Business Council (BBC) members and general SMMEs who seek funding from UBank. With the availability of credit guarantee, UBank's core objective will be to expand JCCI and BBC SMMEs access to funding; deepen the pools of capital available to the general SMMEs; simplify access to funding and improve affordability of the funding.

Ubank has set aside a budget of R150m for the FY 2021/22 to fund entrepreneurs linked to value chains of the mining industry tapping into its rich history in this sector. In addition to this, the bank has identified the Black Business Council (BBC) and Johannesburg Chamber of Commerce and Industry (JCCI) as some of the members of its lead generation pool, which will enable it to fulfil its SMME mandate.

UBank intends to provide funding solutions to JCCI Incubatees which are funding ready; to extend funding to the chamber's ordinary members; and to offer banking and financial solutions to all SMMEs.

LENDING PRODUCTS WHICH WILL BE OFFERED BY UBANK:

PRODUCT TYPE	MINIMUM FUNDING	AVERAGE FUNDING	MAXIMUM FUNDING
Purchase order	R 250 000	R 1 500 000	R2 500 000
Term Loan	R 250 000	R 1 500 000	R5 000 000

TRANSACTION CAPITAL BUSINESS SOLUTIONS (TCBS)

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 5.23% of the guarantees taken up at R5.5 million which is a reduction from prior year performance of R41.7 million. For the year under review the facility has assisted 27 SMMEs and created and maintained 1356 jobs on the portfolio (Active liability).

ABSA AGRICULTURE

ABSA Agriculture was approved in May 2018 to assist black small-holder farmers to enable equity acquisitions by Workers 'Trusts fund or B-BBEE investors in the farming enterprises of ABSA's top 20% agriculture clients. The purpose of the facility is also to enhance delivery of agriculturally based financial solutions towards acquisition, expansion, and joint ventures initiatives where there is a strong business case but there is a lack of sufficient collateral. The facility has been increased by R100 million during the period under review to bring the total portfolio to R160 million.

ABSA Agriculture has contributed to 43.15% of the take ups at R45.2 million and it is 100% utilised at (R60 million before increase). The facility has assisted 12 farmers with average transaction size of R15 million, and it has created 1154 jobs up to the period under review.

ABSA Agribusiness indemnity facility of R160 million will provide cover to clients predominantly in the following four categories, small-holder farmers, standalone black commercial farmers, B-BBEE joint ventures (with established white commercial farmers) and B-BBEE in secondary agriculture.

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

SASOL SIYAKHA

Sasol Siyakha BEE Trust (R20m all taken up) facility was approved in 2016 to provide guarantees to SMMEs who apply for financial assistance from Sasol Siyakha through the Enterprise and Supplier Development programme.

The facility was increased by R30m (of which R10m is already taken up), and was funded under a SASOL BEE Trust. It was created to serve as a vehicle to assist black suppliers, contractors and entrepreneurs with the creation, development, funding and accelerated growth of their enterprises, and thereby deliver successful Broad Based Black Economic Empowerment Enterprises (B-BBEE) to the local economies in the areas in which Sasol Group has presence and for the benefit of Sasol Group.

The facility has contributed to 19.48% of the portfolio guarantee taken up at R20.4 million, and it has assisted 9 SMMEs who have created and maintained 635 jobs.

FNB BUSINESS AGRICULTURE

FNB Business Agriculture facility exists to proactively promote black economic empowerment in the agriculture sector. The facility focuses on the emerging black farmers in the entire agricultural value chain, who are producers of inputs, primary and secondary production, as well as agri-businesses. FNB, due to its national footprint, leverages its existing network and customer base to identify possible transactions. The facility was approved at R60 million in February 2017, and it was further increased by R100 million in March 2020.

The FNB agriculture contribution to portfolio guarantees taken up is 31.92%, and it has assisted 3 major projects at a fund of R33.4 million and has created 25 jobs in the period under review. There are new deals lined up for conversion in FY 2021/22.

MR PRICE (MRPG)

This facility was approved in November 2017 for R30 million to assist the group of co-operatives in the Nkomazi Cotton Project. MRPG availed funds to small scale farmers participating in the Nkomazi Cotton project. The funds were offered to the farmers to buy inputs for the cotton planting season, of which produce would be bought for value chain conversion into garments and home textiles for MRPG.

The facility assisted 31 co-operatives in cotton farming and maintained 748 jobs during FY 2020/21 due to the cyclical nature of the facility.

PERFORMANCE HIGHLIGHTS ON MRPG

Funding from MRPG for Supplier Development for their cotton localisation programme has increased to R10m in 3 years. Uptake of MRPG's funding increased from R2m in FY 2017/18 to almost R10m in FY 2020/21. KCG has provided an 80% guarantee of the facility. KCG had adopted a developmental approach to the co-ops, allowing them scope to still receive funding and carry forward their loans.

Some of the notable achievements of the cotton project are stated below:

1. Increase in the footprint to 5 provinces (Mpumalanga, Limpopo, KZN, Northwest and Northern Cape), and increased hectares for cotton.
2. Support to a growing number of farmers, with backing from extension officers from the Afrifert ginnery in Loskop and from the black owned category manager-Aggrefund.
3. Improved compliance at the level of the primary co-operative.
4. Fixing membership schedules on CIPC and SARS documents.
5. Updating bank account signatories.
6. Each farmer's plot is mapped on the Geographic Information System (GIS) and monitored.
7. Aggrefund (category manager) increased the use of Black-owned companies as service providers at the local level. They accounted for 38% of all the spend, from zero participation when the programme was first piloted.

MRPG PERFORMANCE OVERVIEW

	FY 2017/18 (PILOT)	FY 2018/19	FY 2019/20	FY 2020/21
Provincial footprint	MP	MP, LP, NW	MP, LP, NW, FS	MP, LP, NW, FS, NC
Number of Co-ops	13	21	29	31
Hectares supported	900 Ha	1375 Ha	1634 Ha	1660 Ha
Members supported	190	263	447	748
% Women participation	60%	63%	56%	60%
Loans total	R2 502 590	R3 896 577	R7 872 925	R10 058 000
Loan balances	R235 532	R89 771	R4 232 701	R3 520 300
% Recovery	90,6%	97,7%	46,2%	30,2%
Disbursement to black suppliers	0	R1 159 959	R3 019 736	R1 171 082
% Disbursement to black suppliers	0%	30%	38%	35%

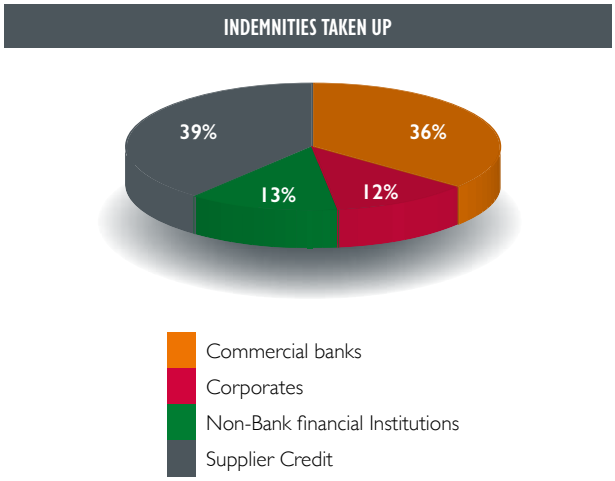
BARNES REINFORCING INDUSTRIES (BRI)

The facility was approved in July 2016 for R30 million with the purpose of providing guarantees to encourage and facilitate the provision of credit by the supplier to SMMEs who intend purchasing goods and materials from BRI by offering to insure 85% (eighty five percent) of BRI's Irrecoverable Loss in the event of Default.

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

This supplier credit guarantee facility assisted 7 SMMEs in the steel supply business to maintain 120 jobs with a revolving taken facility of R78 million utilised during the year under review.

PORTFOLIO SPLIT FOR THE PERIOD 31 MARCH 2021



REGULATORY MATTERS

The Conversion of the registration of Khula Credit Guarantee SOC Limited, in terms of item 6(2) of Schedule 3 to the Insurance Act, 2017 (Act No. 18 of 2017).

Following the submission to the Prudential Authority (PA) for consideration of the conversion of the registration of KCG from a registered short-term insurer under the Short-term Insurance Act No. 53 of 1998 (STIA) to a license to conduct insurance business under the Act, the PA was satisfied with the documents which were submitted, and it approved the conversion of KCG's registration to that of a licenced non-life insurer in terms of item 6(2) of Schedule 3 to the Act.

KCG was allowed to conduct insurance business in the following classes: Guarantee and Trade Credit.

The conversion of its registration was subject to, and in accordance with the governance, financial soundness, security, reporting and public disclosure obligations imposed under the Act and subject to the following conditions:

1. The policies may only be entered with regulated financial institutions to cover the risks associated with the granting of loans for the establishment and development of new enterprises.
2. The classes and sub-classes specified (Guarantee and Trade Credit) may only be written for business in South Africa.
3. No business may be written through a cell structure.

COVID-19 IMPACT

The National Lockdown restricted the movement of people in order to contain the spread of the COVID-19 virus. The consequences thereof had an economic impact on the survival of enterprises and economic movement of persons. Most importantly, the lockdown affected the distribution and availability of food in spaza shops managed and owned by South African citizens particularly in the townships and rural areas.

Whilst businesses operated under these stringent conditions, there was a need to ensure continued access to households' necessities as contained in the pre-approved basket of goods. The initial injection of support to spaza shops through bulk buying would positively benefit the local economies. It would stimulate their income and lead upward generation of revenue and intentionally reduce dependency on government support through grants.

The Department of Small Business Development (DSBD) with its agencies, Seda and **sefa** facilitated and supported bulk buying opportunities for spaza shops in order to strengthen and position spaza shops as local convenient access to basic goods. KCG was tasked with the responsibility of managing the Working Capital Investment allocation and Credit Facility for the Spaza Shop Support Programme.

The Spaza Shop Support Programme had the following objectives:

I. Support possible and available opportunities for self-employment and job-creation at entry economic level. In order to maximise economies of scale there would be a need to improve the circulation of money within townships and rural areas.
II. Facilitate and support bulk buying opportunities for spaza shops and further strengthen such spaza shops as local convenient access to basic goods.
III. Facilitate support programmes to make spaza shops profitable and successful. The non-financial support would be offered by Seda.

TYPES OF SUPPORT

DSBD proposed the below mentioned support interventions to the SMMEs (Spaza Shops in particular) affected, and this support would not be limited to the National Disaster response.

The support would be provided as follows:

1. Networking or purchasing power (bulk buying)
2. This was coordinated and supported by bulk buying on a pre-approved basket of goods with participating wholesalers during the Q1 and Q2 hard lock down period
3. Access to non-repayable working capital and credit facility offered in any of the following options:
    I. Maximum R3 500 Working Capital Investment would be invested through a bulk buying facility with selected wholesalers on the pre-selected basket of goods
    II. Additional R3 500 credit facility backed by the credit guarantee from KCG.

For the year under review the Spaza Shop Support Programme received the following applications

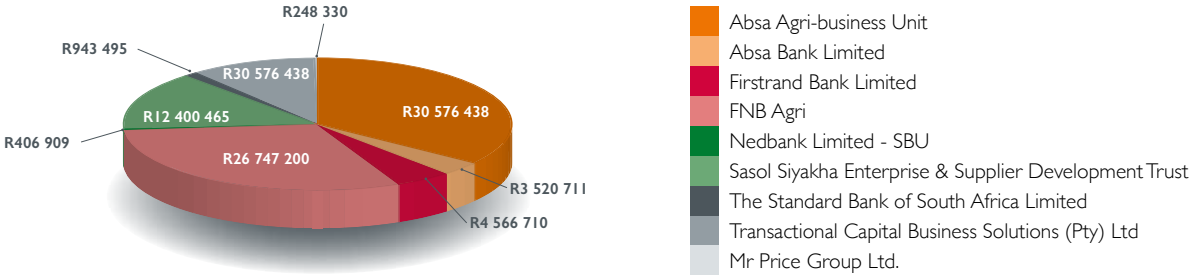
- 9 317 applications
- 5 276 approvals
- 5 181 cards had been collected by applicants
- R18 466 000 had been disbursed to spaza owners
- R17 280 562 had been spent on approved wholesalers

CONCENTRATION OF INSURANCE RISK

RISK ACROSS FUNDERS

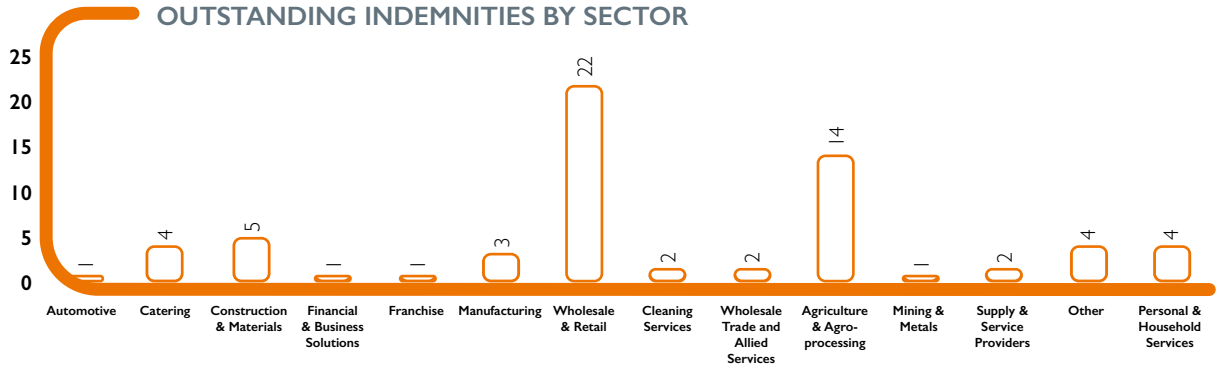
Portfolio Guarantee split is as shown below: Absa Agri has 34% of risk, followed by FNB Agriculture at 30% and Sasol Siyakha at 14% for the period ended 31 March 2021.

VALUE OF OUTSTANDING INDEMNITIES PER LOAN ISSUER



BUSINESS SECTOR SPREAD

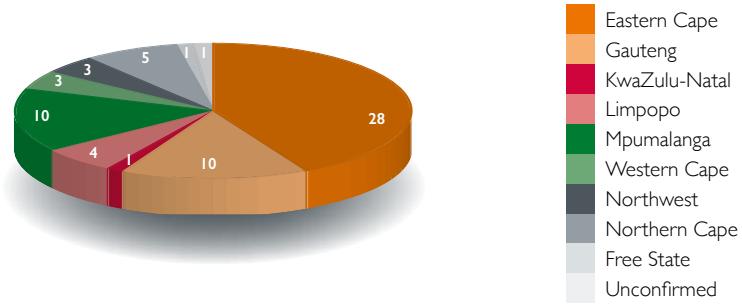
33% risk is in wholesale and retail businesses, 21% of risk is in agriculture and agro-processing units as well as personal and household sectors. The remaining sectors all have a share of 8% or less.



PROVINCE

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

OUTSTANDING INDEMNITIES PER PROVINCE



KCG PARTNER FINANCIAL INSTITUTIONS

MERCANTILE BANK

Approved facility R150 m

SASOL SIYAKHA

Approved facility R50 m

TRANSACTION CAPITAL

Approved facility R50 m

MR PRICE GROUP

Approved facility R30 m

ABSA AGRIBUSINESS & ALS

Approved facility R310 m

BARNES REINFORCING INDUSTRIES

Approved facility R30 m

FNB BUSINESS AGRICULTURE

Approved facility R160 m

PRAXIS FINANCIAL SERVICES

Approved facility R60 m

UBANK

Approved Facility R30 m

KEY CHALLENGES

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

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

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

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

COVID-19 RELATED DEFAULTS

The COVID-19 pandemic has resulted in the country being under National Disaster Lockdown. The consequences thereof have had an economic impact on the survival of enterprises and economic movement of persons. Most importantly, the lockdown has affected the distribution and availability of goods and services offered by the borrowers of KCG guaranteed loans. As at year end 31 March 2020 it was still too early to identify the real effect of a high number of defaults; KCG has however been notified by some of the PFIs of the impending defaults.

ANZU FARMING

KEY INFORMATION

Location:	Estcourt, KZN
Job's creation:	4
Jobs sustained:	10
Funding amount:	R 14 000 000
Sector:	Mixed stock, beef master, Nguni & Brangus

Mr Bethwell Mazibuko entered into a BEE venture with Mr Arde, a commercial farmer, in 2018 on a shareholding of 50% each. Mr Arde and Mr Mazibuko are young, up and coming farmers. Anzu Farming (Pty) Ltd was formed to adhere to the BEE process and to provide an opportunity for long time employee and friend Zama Mazibuko. Mr Mazibuko has a Diploma in Agriculture which he obtained from Cedara Agricultural College. He has work experience on farms in the Eastern Cape where he managed a chicken broiler farm. Mr Arde is well versed in the beef and cropping side of the business whilst Mr Mazibuko brings in the chicken broiler farm experience. They have planted 150 ha of yellow maize on dry land, and have 400 weaners. They also operate two broiler houses and are buying +- 3 000 day old chicks per cycle. Abzu Farming was funded by FNB Agriculture with the guaranteed cover offered by KCG.

THASASA (PTY) LTD

KEY INFORMATION

Location:	Kinross, Mpumalanga
Job's creation:	370
Funding amount:	R 6 250 000
Sector:	Mining services (underground ventilation)

Thasasa (Pty) Ltd was established by Mr Masasa Makhetha as a labour broking business which gradually moved to the mining services sector with its first project of constructing ventilation structures for Exxaro Coal Matla Mine in 2013. Thasasa is a 100% black-owned company with a 40% black woman shareholding (BWO). In 2016, the business was offered an opportunity by Sasol Mining to demonstrate its capability in a fiercely competitive environment to install and maintain stone dust barriers at Sigma Mooikraal mine. Sasol Siyakha funded the business to acquire a business property in Kinross, flame-proof vehicles, and underground equipment to the amount of R4.8 million. The business managed to secure additional work from Sasol Mines, namely: Thubelisha, Twistdraai Colliery and Bosjesspruit and generated healthy margins. The business further expanded its working capacity and requested Sasol Siyakha funding of R6.8 million to acquire trucks; Flame-proof vehicles; & a Roof bolter. Thasasa was funded by Sasol Siyakha with the guarantee cover from KCG.

LIST CLEANING SERVICES

KEY INFORMATION

Location:	Mpumalanga
Job's creation:	104
Funding amount:	R 2 000 000
Sector:	Services: Sanitation Management

List Cleaning Chemicals (Pty) Ltd was established in 1997 by Mr Samuel Sibeko with the objective of supplying household, industrial and cleaning chemicals to the market. In May 2012, Mr Samuel Sibeko introduced his daughter as a shareholder in the business. As part of its growth strategy, the business grew into sanitation management. In addition to sanitation management solutions, the business provides cleaning services such as Gas liquor contamination removal and contracted general cleaning. List Cleaning is one of the two major players in the provisioning of portable sanitation solutions at mines across South Africa. Sasol Siyakha approved a loan of R 4.7 million to List Cleaning to purchase 160 Mobile Ablution Units, and 2 Flame-proof vehicles. The business was awarded a new three-year Sasol Mining contract to install 160 "women friendly" mobile ablution units at 4 different Sasol mines. It then received a second three-year Eskom contract for its Camden Power Station. List Cleaning was funded by Sasol Siyakha with a guarantee cover from KCG.

21. CREDIT RISK MANAGEMENT

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

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. It also dictates that such risk should also be commensurate with its capital structure, management expertise and risk appetite, as outlined in **sefa**'s Annual Corporate Plan.

*The performance of **sefa** is to a large extent dependent on its ability to take credit risk in a responsible manner and to manage the resultant exposure to credit risk effectively*

OVERVIEW

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

Credit risk management objectives are to:

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

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

During the year under review, various loan schemes like the Debt Relief Fund were initiated by the National Government, to provide financial support to parts of the economy impacted by the COVID-19 pandemic. These schemes were designed and implemented at pace, meaning the Credit Risk Management Unit had to address operational issues and develop decision making tools for the respective schemes.

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

The impact of the COVID-19 pandemic has increased the level of judgement that management have been required to exercise over the course of FY 2020/21. Client default rates have, however, remained stable despite the global impact of the pandemic and volatile macroeconomic environment. It remains unclear how the COVID-19 pandemic will evolve through FY 2021/22 and beyond, from a commercial and risk perspective. It could be significantly different from past crises and persist for a prolonged period. Its impact on **sefa** could result in high-risk investments, which would consequently lead to higher Expected Loss charges and in turn capital position.

The Unit also completed the identification, verification, and valuation of all **sefa**'s Direct Lending financed assets. This project was undertaken by Spectrum Valuation and Assets Solutions (Spectrum). Spectrum identified, verified, and valued all assets that **sefa**'s Direct lending had either purchased or bonded to its clients. **sefa**'s financed assets register consists of Installment Sales Agreement (ISA) Equipment, Installment Sale Agreement Vehicles, Notarial Bonds, and 1st Covering Bonds (Land and Buildings).

APPROACH TO CREDIT RISK MANAGEMENT

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

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

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

The Board holds the ultimate approval and oversight responsibility for ensuring that strategies are set in which the underlying risk is identified, understood, and responded to in a proactive and coherent manner. The Board as part of their oversight duties, sets the tone for the management of risk and defines the level of risk that **sefa** is willing to assume. Furthermore, the Board requires that risk assumed is assessed, measured, mitigated, managed, and reported on an on-going basis and with due regard to the monitoring overlapping nature of risks. Also, 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 to its Credit and Investment Committee (CIC), Executive Committee – Investment (Exco), Management Committee (Mancom) and The Small Micro Medium Enterprise Credit Committee (SMME). The primary objective of **sefa**'s credit risk management and these credit committees is to ensure that **sefa**'s risk is in line with the institution's risk appetite and threshold, and that all risk issues inherent in **sefa**'s lending decisions are mitigated and managed. All lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD).

The ongoing governance of **sefa**'s risk taking activities is devolved to management. For credit risk management, **sefa** has board and corporate level Risk committees that are mandated to maintain credit policies. The Chief Executive Officer (CEO) therefore has functional responsibility for managing credit risk across the institution, through structures such as the Management Credit Committee (MANCOM), the Small Micro Medium Enterprise Credit Committee (SMME) and the Post Investment Monitoring Committee (PIMC). The CEO chairs the Executive Committee - Investment (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.

ORGANISATION, ROLES AND RESPONSIBILITIES

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

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

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

CREDIT RISK CONTROL AND GOVERNANCE: COMMITTEE STRUCTURE

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

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

These Credit Committees have clearly defined mandates and members. Additionally, they are 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 Credit and Investment Committee and respecitve Board.

CREDIT RISK MANAGEMENT ENHANCEMENTS DURING THE FINANCIAL YEAR UNDER REVIEW

IMPAIRMENTS

sefa embarked on the mandatory implementation and migration to IFRS 9 during the financial year ending 31 March 2019. The standard is intended to replace the superseded accounting standard for financial instruments (IAS 39). The standard contains requirements for a new impairment model which is aimed at the early recognition of losses on a more forward-looking basis and on a broader scope of financial instruments. **sefa**, during the financial year under review, recalibrated and validated its internally developed Credit Risk rating models to increase their

respective predictive powers and robustness. The institution also recalibrated the Expected Credit Loss (ECL) model using internal resources. The ECL model has been in existence for the past two financial years and during the financial year under review. The assumptions incorporated in the model needed to be recalibrated and validated to ensure ECL estimates are still reliable and accurate.

On the part of the Credit Risk Rating Models, the main objectives of the rule sets are to rank **sefa**'s client base according to risk and to estimate the probability of default (PD) for each client and to price transactions in line with the pricing methodology approved by the **sefa** Board. The institution will ensure that it continues to comply with Basel standards in the development of credit risk models. It is also the aim of the Credit Risk Management Unit to continue refining these models in the coming financial year. The risk classification process within **sefa** ensures that there is a shared understanding across the institution of the credit risk that clients pose.

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

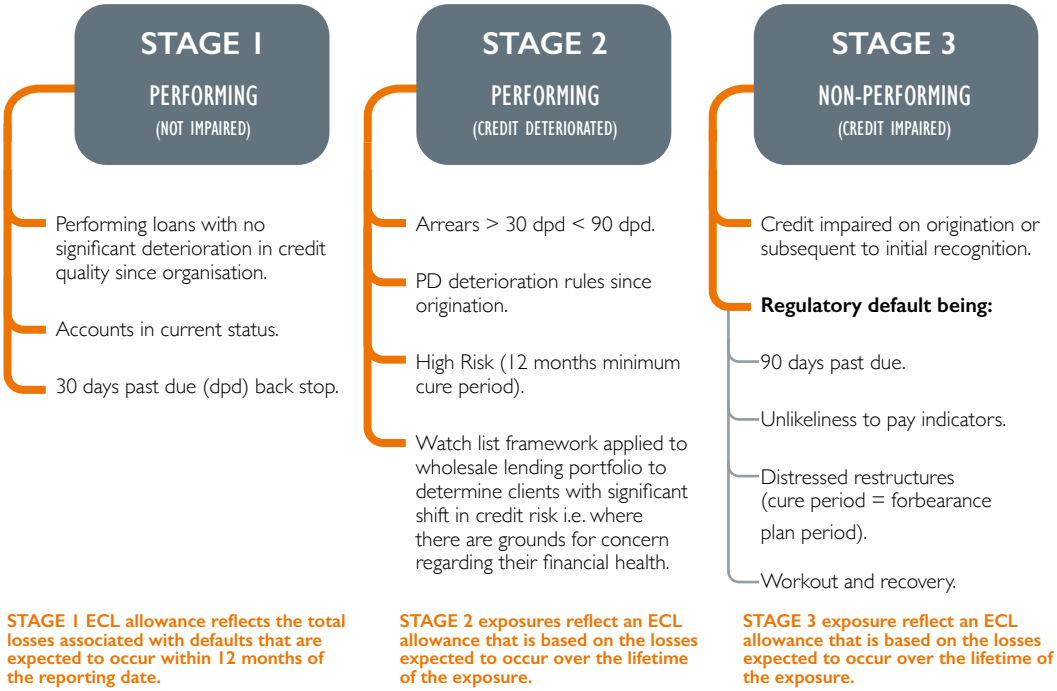
Having adopted IFRS 9 which came into effect for the financial year commencing on or after 1 January 2018, **sefa** applies a three - stage approach to the measuring of Expected Credit losses (ECL) on debt instruments accounted for at amortised cost.

The diagram below depicts **sefa**'s stage approach with regards to IFRS9:

sefa applies a three - stage approach to the measuring of Expected Credit Losses (ECL) on debt instruments accounted for at amortised cost. The measurement of Expected Credit Loss (ECL) involves increased complexity and judgement, including estimation of Probabilities of Default (PD), Loss Given Default (LGD) a range of unbiased future economic scenarios, estimation of expected lives, estimation of Exposure at Default (EAD) and assessing significant increases in credit risk. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

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

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



STAGE 1 ECL allowance reflects the total losses associated with defaults that are expected to occur within 12 months of the reporting date.

STAGE 2 exposures reflect an ECL allowance that is based on the losses expected to occur over the lifetime of the exposure.

STAGE 3 exposure reflect an ECL allowance that is based on the losses expected to occur over the lifetime of the exposure.

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

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

During the financial year under review, **sefa** continued with the process of reviewing and updating its Credit and Investment Risk policy. The updated policy is expected to be completed by the end of the second quarter of FY 2021/22. **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. The policy was last reviewed in FY 2017/18. In view of the consistent changes to the environment in which **sefa** operates, it is critical that the Credit and Investment Risk policy is updated regularly to reflect the realities within **sefa**'s operating environment, as well as strengthen the governance of **sefa**'s credit granting and investment operations within Direct (Retail) and Wholesale Lending divisions.

ASSESSMENT OF THE IMPACT OF THE NOVEL CORONAVIRUS (COVID-19) ON sefa's LOAN BOOK

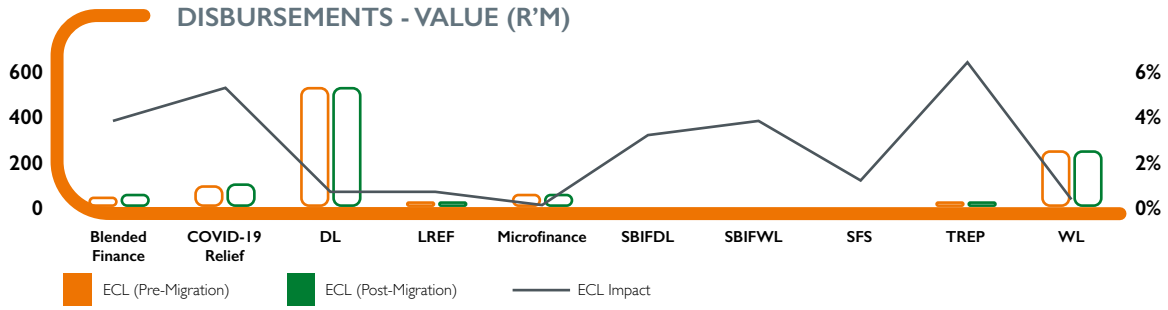
The COVID-19 pandemic outbreak is one of the largest human tragedies to take place in recent years and has affected millions of people around the world. The virus has also had a growing impact on the global economy including South Africa. It has had a significantly negative effect on economies and has resulted in a rather subdued macroeconomic outlook for many countries. In the previous financial year, the President of South Africa declared a National State of Disaster and instructed that a National Lockdown would commence from the 27th of March 2020. The lockdown and the consequent restriction on movement of people resulted in a significant decrease in activities for all industries which are deemed non-essential. 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 **sefa** and South Africa in general.

The impact of the COVID-19 pandemic is still evolving, while collectively, better understanding of COVID-19 has been gained over the period, it is not yet certain how long it will take to contain the pandemic, and how long the South African economy and small Businesses will be negatively affected.

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). **sefa** also incorporates the impact of this forward-looking economic information. The main components of the calculation are the PD, LGD, EAD and Staging (SICR). In the calculation, macroeconomic information forms a subcategory of the PD calculation which also includes information from **sefa**'s historical account information to form the base data. The COVID-19 pandemic and its impact would then only adversely affect forward-looking macroeconomic information and in turn PDs. COVID-19 therefore has no impact on **sefa**'s LGDs, EAD and SICR when calculating the Expected Credit Loss (ECL).

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 adjustments address the uncertainty in relations to the timing of stress and the degree to which economic consensus has yet captured the range of economic uncertainties.

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.



NB: IFRS 9.5.5.12 requires an assessment of whether a significant increase in credit risk has occurred for financial assets that have been renegotiated or modified but not derecognised. **sefa** performed a stress test (stage migration) on restructured accounts. The **sefa** active loan book impairment increased by 50.4 bps (R11.1 million) due to the stage migration. This is due to deterioration in economic outlook driven by COVID-19 global pandemic. Portfolios which have a significant contributor to the increase are COVID-19 Relief (R5 million), Direct Lending (DL) (R2.2 million) and Blended Finance (R2.4 million).

APPROACH TO CREDIT MODELLING

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

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

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

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

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

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

THE APPROACH TO MANAGEMENT AND REPRESENTATION OF CREDIT QUALITY

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

sefa's Internal risk grading and PD mapping scale:

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

The 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 and, as such, clients within this range require 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 AS AT 31 MARCH 2021

ASSET CLASS	TOTAL OUTSTANDING BALANCE R'000	ECL R'000	NET CARRYING AMOUNT R'000	% BALANCE OUTSTANDING %	COVERAGE RATIO %
Low	582 194	29 935	552 259	26.5%	5.1%
Medium	512 197	101 872	410 325	23.3%	19.9%
High	315 808	126 608	189 200	14.4%	40.1%
Default	786 525	739 387	47 138	35.8%	94.0%
Total	**2 196 724**	**997 802**	**1 198 922**	**100.0%**	**45.42%**

Note: Loan Balance excludes equity investment in Financial Intermediaries.

12 MONTH PDS BY PRODUCT DESCRIPTION

ASSET CLASS	12M PD			
	0 DAYS %	0 - 30 DAYS %	31 - 60 DAYS %	61 - 90 DAYS %
Co-Operative loans	49.4%	68.4%	78.7%	98.8%
Direct lending loans	46.8%	73.6%	90.2%	97.9%
Land Reform	11.5%	13.8%	40.1%	100.0%
Micro loans	9.4%	34.7%	73.5%	92.9%
Wholesale	15.0%	18.9%	35.8%	82.4%

CREDIT RISK MITIGATION

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

Where collateral is offered or deemed to be prudent, consideration is given to the eligibility of collateral in terms of the economic value of the underlying assets and the enforceability of **sefa**'s legal rights or entitlement to the asset. Where we have an unassailable legal title, our policy requires collateral to meet certain criteria for recognition in LGD modelling, including:

- being readily marketable and liquid
- being legally perfected and enforceable
- having a low valuation volatility
- being readily realisable at minimum expense
- having no material correlation to the obligor credit quality
- having an active secondary market for resale.

The main types of collateral taken comprise notarial bonds over existing plant and equipment (business assets), instalment sale agreements on the underlying moveable assets financed, cession of debtors' book and collateral mortgage bonds over secondary and investment properties if available. In addition, **sefa** takes personal suretyships to demonstrate clients' commitment.

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

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. Improvements were made at both divisional (Wholesale and Direct Lending) reporting levels, on the reporting of the credit portfolio, and 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 more consistent and insightful portfolio analysis, evaluation, and reporting through the use of improved metrics.

In the coming financial years, it is envisaged that portfolio reporting will be enhanced further as more granular data becomes available. It is imperative that the asset portfolio be comprehensively reviewed and significant risk indicators impacting the valuation and impairment of the portfolio, be reflected timeously and adequately in the financial results. The table below indicates the asset classifications of the Direct (Retail) Lending total loan book.

ASSET CLASSIFICATION OF DIRECT LENDING LOAN BOOK AS AT 31 MARCH 2021

LOAN TYPE	TOTAL OUTSTANDING BALANCE R'000	ARREARS R'000	NO. OF ACCOUNTS
Standard	**930 515**	**92 523**	**1 826**
Bridging Loan	19 521	18 451	27
Grant	103	-	1
Instalment Sale	184 755	17 452	194
Revolving Credit	54	56	2
Term Loan	726 082	56 564	1 602
Special Mention	**35 840**	**13 258**	**52**
Instalment Sale	12 828	3 235	31
Term Loan	23 012	10 024	21
Substandard	**9 299**	**2 871**	**6**
Term Loan	9 299	2 871	6
Default	**348 451**	**325 734**	**240**
Bridging Loan	51 808	51 808	54
Instalment Sale	82 793	71 908	64
Revolving Credit	31 050	31 050	12
Term Loan	182 800	170 967	110
Total	**1 324 105**	**434 385**	**2 124**

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

DIRECT LENDING LOAN BOOK EXPECTED CREDIT LOSSES AND COVERAGE RATIO AS AT 31 MARCH 2021

ASSET CLASS	TOTAL OUTSTANDING BALANCE R'000	ECL R'000	NET CARRYING AMOUNT R'000	% BALANCE OUTSTANDING %	COVERAGE RATIO %
Bridging Loan	59 739	55 038	4 701	4.5%	92.1%
Instalment Sale	280 399	140 173	140 227	21.2%	50.0%
Revolving Credit	31 105	30 833	272	2.3%	99.1%
Term Loan	952 965	453 891	499 073	72.0%	47.6%
Total	**1 324 208**	**679 935**	**644 273**	**100.0%**	**51.35%**

DIRECT LENDING LOAN BOOK EXPECTED CREDIT LOSSES AND COVERAGE RATIO AS AT 31 MARCH 2020

ASSET CLASS	TOTAL OUTSTANDING BALANCE R'000	ECL R'000	NET CARRYING AMOUNT R'000	% BALANCE OUTSTANDING %	COVERAGE RATIO %
Bridging Loan	63 149	46 988	16 162	9.8%	74.4%
Instalment Sale	182 561	114 020	68 541	28.3%	62.5%
Revolving Credit	30 073	29 086	986	4.7%	96.7%
Term Loan	370 138	254 387	115 751	57.3%	68.7%
Total	**645 921**	**444 481**	**201 440**	**100.0%**	**68.81%**

EXPECTED CREDIT LOSSES AND COVERAGE RATIO AS AT 31 MARCH 2021

ASSET CLASS	TOTAL OUTSTANDING BALANCE R'000	ECL R'000	NET CARRYING AMOUNT R'000	% BALANCE OUTSTANDING %	COVERAGE RATIO %
Co-Operative Loans	11 448	11 364	84	0.5%	99.3%
Direct Lending Loans	1 324 208	679 935	644 273	60.3%	51.3%
Micro Loans	64 656	51 282	13 374	2.9%	79.3%
Wholesale Loans	475 815	249 463	226 352	21.7%	52.4%
Sub Total	**1 876 127**	**992 044**	**884 083**	**85.4%**	**52.9%**
Land Reform Loans	320 597	5 758	314 839	14.6%	1.8%
Total	**2 196 724**	**997 802**	**1 198 922**	**100.0%**	**45.42%**

EXPECTED CREDIT LOSSES AND COVERAGE RATIO AS AT 31 MARCH 2020

ASSET CLASS	TOTAL OUTSTANDING BALANCE R'000	ECL R'000	NET CARRYING AMOUNT R'000	% BALANCE OUTSTANDING %	COVERAGE RATIO %
Co-Operative Loans	42 376	41 777	599	2.8%	98.6%
Direct Lending Loans	645 921	444 481	201 440	42.0%	68.8%
Micro Loans	147 888	57 674	90 214	9.6%	39.0%
Wholesale Loans	407 439	271 629	135 810	26.5%	66.7%
Sub Total	**1 243 624**	**815 561**	**428 063**	**80.9%**	**65.6%**
Land Reform Loans	294 590	4 016	290 574	19.1%	1.4%
Total	**1 538 214**	**819 577**	**718 637**	**100.0%**	**53.28%**

The above tables demonstrate **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 52.4% (FY 2019/20: 66.7%). The Direct (Retail) Lending loan book has a coverage ratio of 51.3% (FY 2019/20: 68.8%). The decrease in the coverage ratio was largely assisted by bad debt write offs of R284 million which occurred during the financial year under review.

STAGE APPROACH OF THE TOTAL LOAN OUTSTANDING BALANCES ON DEBT INSTRUMENTS AS AT 31 MARCH 2021

ASSET CLASS	TOTAL OUTSTANDING BALANCE R'000	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000
Co-Operative Loans	11 448	-	-	11 448
Direct Lending Loans	1 324 208	503 198	259 933	561 077
Micro Loans	64 656	11 199	-	53 457
Wholesale Loans	475 815	200 179	49 481	226 155
Sub Total	**1 876 127**	**714 576**	**309 414**	**852 137**
Land Reform Loans	320 597	186 125	43 079	91 392
Total	**2 196 724**	**900 701**	**352 493**	**943 529**

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 2021

ASSET CLASS	EXPECTED CREDIT LOSSES (ECL) R'000	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000
Co-Operative Loans	11 364	-	-	11 364
Direct Lending Loans	679 935	80 179	110 434	489 321
Micro Loans	51 282	131	-	51 151
Wholesale Loans	249 463	11 648	11 748	226 066
Sub Total	**992 044**	**91 958**	**122 182**	**777 902**
Land Reform Loans	5 758	426	762	4 570
Total	**997 802**	**92 384**	**122 944**	**782 472**

The table above demonstrates the Expected Credit Loss according to the 3 stages of IFRS 9. Funds are not included in the table above.

STAGE APPROACH ACCORDING TO NET CARRYING AMOUNT AS AT 31 MARCH 2021

ASSET CLASS	NET CARRY AMOUNT R'000	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000
Co-Operative Loans	84	-	-	84
Direct Lending Loans	644 273	423 019	149 498	71 755
Micro Loans	13 374	11 069	-	2 305
Wholesale Loans	226 352	188 531	37 732	89
Sub Total	**884 083**	**622 619**	**187 230**	**74 233**
Land Reform Loans	314 839	185 699	42 317	86 823
Total	**1 198 922**	**808 318**	**229 547**	**161 056**

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 2021

ASSET CLASS	COVERAGE RATIO %	STAGE 1 %	STAGE 2 %	STAGE 3 %
Co-Operative Loans	99.3%	0.0%	0.0%	99.3%
Direct Lending Loans	51.3%	15.9%	42.5%	87.2%
Micro Loans	79.3%	1.2%	0.0%	95.7%
Wholesale Loans	52.4%	5.8%	23.7%	100.0%
Sub Total	**52.9%**	**12.9%**	**39.5%**	**91.3%**
Land Reform Loans	1.8%	0.2%	1.8%	5.0%
Total	45.42%	10.3%	34.9%	82.9%

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 of 31 March 2021.

INDUSTRY EXPOSURES OF THE DIRECT (RETAIL) LENDING LOAN BOOK AS AT 31 MARCH 2021

INDUSTRY	TOTAL OUTSTANDING BALANCE R'000	EXPECTED CREDIT LOSSES R'000	NET CARRYING AMOUNT R'000	% BALANCE OUTSTANDING %	COVERAGE RATIO %
Agriculture, hunting, forestry, and fishing	52 853	33 507	19 346	4.0%	63.4%
Community, social and personal services	231 522	103 898	127 624	17.5%	44.9%
Construction	178 798	129 679	49 120	13.5%	72.5%
Electricity, gas, and water supply	19 302	7 034	12 268	1.5%	36.4%
Financial intermediation, insurance, real estate, and business services	60 862	40 844	20 018	4.6%	67.1%
Manufacturing	284 436	135 071	149 365	21.5%	47.5%
Mining and quarrying	35 930	5 663	30 267	2.7%	15.8%
Transport, storage, and communication	150 041	84 925	65 116	11.3%	56.6%
Wholesale and retail trade	310 463	139 315	171 148	23.4%	44.9%
Total	**1 324 207**	**679 936**	**644 272**	**100%**	**51.3%**

The book is mainly concentrated in 4 industries: Wholesale & Retail trade at 23% (FY 2019/20: 26%); Construction at 13.5% (FY 2019/20: 17%); Transport, storage, and communication at 11% (FY 2019/20: 15%), as well as Manufacturing at 21.5% (FY 2019/20: 15%). Wholesale & Retail trade encompasses a wide variety of sub sectors which explains the large distribution of the book in the sector. The economic outlook prior to COVID-19 was already dire for the Construction and Manufacturing industry. COVID-19 has had a negative impact in most industries and these 4 industries are expected to contribute the most to the impairments of **sefa**'s Direct (Retail) Lending loan portfolio.

SECTORIAL WEIGHTED AND ZAR WEIGHTED PDs AS AT 31 MARCH 2021

INDUSTRY	WEIGHTED PD %	ZAR WEIGHTED PD %
Agriculture, hunting, forestry, and fishing	92%	56%
Community, social and personal services	92%	91%
Construction	95%	96%
Electricity, gas, and water supply	90%	91%
Financial intermediation, insurance, real estate, and business services	90%	58%
Manufacturing	80%	76%
Mining and quarrying	88%	81%
Transport, storage, and communication	91%	86%
Wholesale and retail trade	92%	88%
Total	**89%**	**79%**

MR NKOSIKHONA MBATHA
Executive Manager: Post Investment Monitoring

22. POST INVESTMENT MONITORING & WORKOUT

The key role of PIM and Workout Division is to proactively monitor **sefa**'s investments including loans and advances. This includes the management of collections, workout & restructuring mentorship & business support. The division is split between Direct and Wholesale Lending.

OVERVIEW

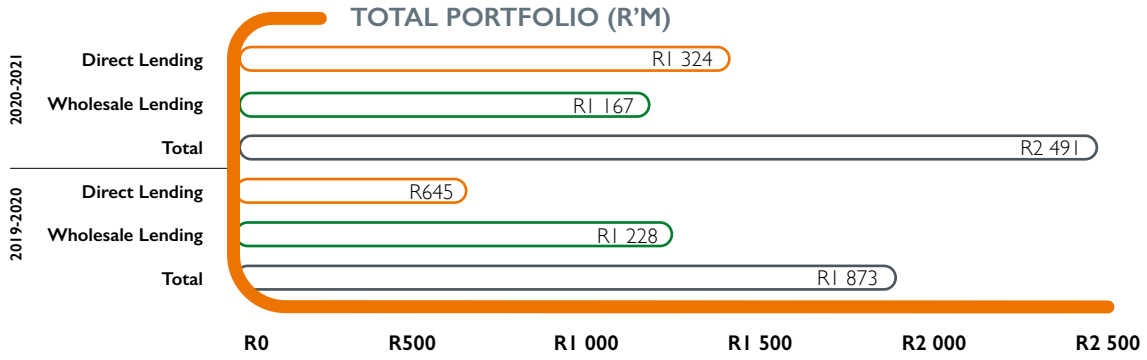
FY 2020/21 was probably one of the most difficult trading periods for SMMEs since the FY 2007/08 global financial crisis due to the emergence of COVID-19, the downgrade of South Africa's credit rating and the subsequent national lockdown threatened the survival of SMMEs.

Most SMMEs cited cash flow as the key challenge in the quest to remain sustainable. Availability of funding for SMMEs including **sefa** funded businesses remain key. **sefa** assisted clients with much-needed cash flow relief by restructuring loan facilities. However, the number of distressed businesses continues to increase due to the difficult economic trading conditions hence the continued support of these entities to improve sustainability and saving jobs remains a priority.

The division collected R400 million against a target of R325 million. This is 123% against a target of 85%. This overachievement was largely due to the advance payments and the collection of arrears amounting to R81 million.

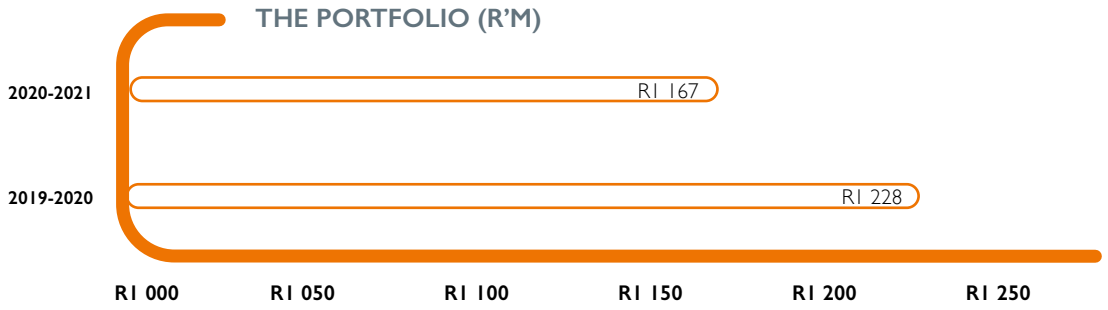
1. TOTAL PORTFOLIO UNDER MANAGEMENT

sefa had a total loan book of R2.5 billion as of 31 March 2021. This comprise R1.2 billion in Wholesale Lending (WL) and R1.3 billion in Direct Lending (DL).



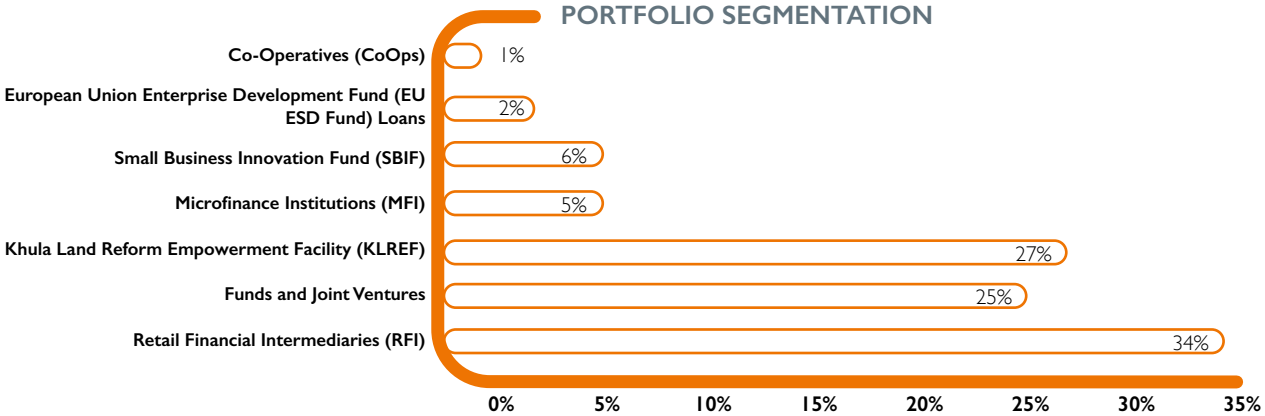
A) WHOLESALE LENDING PORTFOLIO

The WL portfolio was R1.167 billion at the end of FY 2020/21. This is a slight decrease of 5.3% from R1.228 billion year on year because of the net effect of new disbursements, portfolio collections and write-offs.



The portfolio consists of Term Loans (R642.7 million), Revolving Credit Facilities (R225.4 million), Instalments Sale Agreements (ISA) (R3.9 million) and the Funds/JV (R294.5 million). The term loans increased by 18.7%, the ISA decreased by 55%, the revolving facilities decreased by 32% and Funds/JV decreased by 12.3%.

The portfolio is segmented into Co-operatives (Co-ops), Structured Finance Solutions (SFS), Microfinance Institutions (MFIs), the Khula Land Reform Empowerment Facility (KLREF), Specialised Funds and Joint Ventures, Small Business Innovation Fund (SBIFF) , European Union Enterprise Development Fund (EU ESD Fund), and Retail Financial Intermediaries (RFIs).



RETAIL FINANCIAL INTERMEDIARIES (RFIs)

The RFIs exposure is diversified into different sectors such as transport (taxis), property management, supplier development, agriculture, invoice discounting and general services.

Year on year the portfolio exposure decreased by 2%, from R400.5 million reported in March 2020 to R392.6 million at the end of FY 2020/21. The decrease was mainly as a result of collections from raised instalments.

SPECIALISED FUNDS AND JOINT VENTURES INVESTMENTS (FUNDS) WITH SHAREHOLDER INTEREST FREE LOANS

The portfolio exposure is diversified to different sectors such as mining, agriculture (sugar cane), construction and manufacturing related services, supply chain and general services.

Year on year the portfolio decreased by 12%, from R335.8 million reported in March 2020 to R294.5 million at the end of FY 2020/21. The decrease was mainly as a result of distributions received from the Funding Partner plus a write off of R27.9 million of capital outstanding balance owed by the Small Business Growth Fund.

KHULA LAND REFORM EMPOWERMENT FACILITY (KLREF)

The KLREF utilises ABSA Bank Ltd, First Rand Bank Ltd, Ithala Development Finance Corporation, Akwandze Agricultural Finance, Capital Harvest Emerging Farmers and Lona Group (Pty) Ltd to on-lend to SMMEs in the agricultural sector.

Year on year the portfolio exposure increased by 9%, from R294.5 million reported in March 2020 to R320.5 million at the end of FY 2020/21. The increase was mainly the result of R48.5 million that was disbursed to 3 Funding Partners, namely, Lona, Akwandze and First Rand Bank.

MICROFINANCE INSTITUTIONS (MFIs)

The MFI portfolio is funding micro enterprises across all sectors and mainly in the rural villages and townships.

Year on year the portfolio declined by 57%, from R147.8 million reported in March 2020 to R64 million as of March 2021. The decline was a result of receipts of payments from Small Enterprise Foundation (SEF) and Phakamani towards their revolving credit facilities coupled with a R8.5 million write-off on Coca Cola Beverages South Africa (CCBSA) and Y2k10 loan balance.

STRUCTURED FINANCE SOLUTIONS

The Structured Finance Solutions comprise the Local Distribution Partners (LDPs), a facility that was established by **sefa** in collaboration with Coca Cola Beverage South Africa (Pty) Ltd (CCBSA).

Year on year the exposure declined by 44%, from R6.8 million reported in March 2020 to R3.8 million at the end of FY 2020/21. The huge decline was a result of collections on instalments raised during the year coupled with the 50% payment received from CCBSA.

The decline was due to repayments received from the existing LDPs and lack of take up on the facility to grow the book.

SMALL BUSINESS INNOVATION FUND (SBIF)

The SBIF product only started drawing down the approved funds in FY 2020/21. The SBIF exposure is diversified into different types of sectors such as Enterprise Supplier Development, construction material, chemistry incubation and telecommunication.

At the end of FY 2020/21, the portfolio exposure was R54.2 million. This amount was disbursed among four Funding Partners: Chemistry Incubator, Bright on Capital (Pty)Ltd, TAPS Online (Pty) Ltd and Enable Capital (Pty) Ltd.

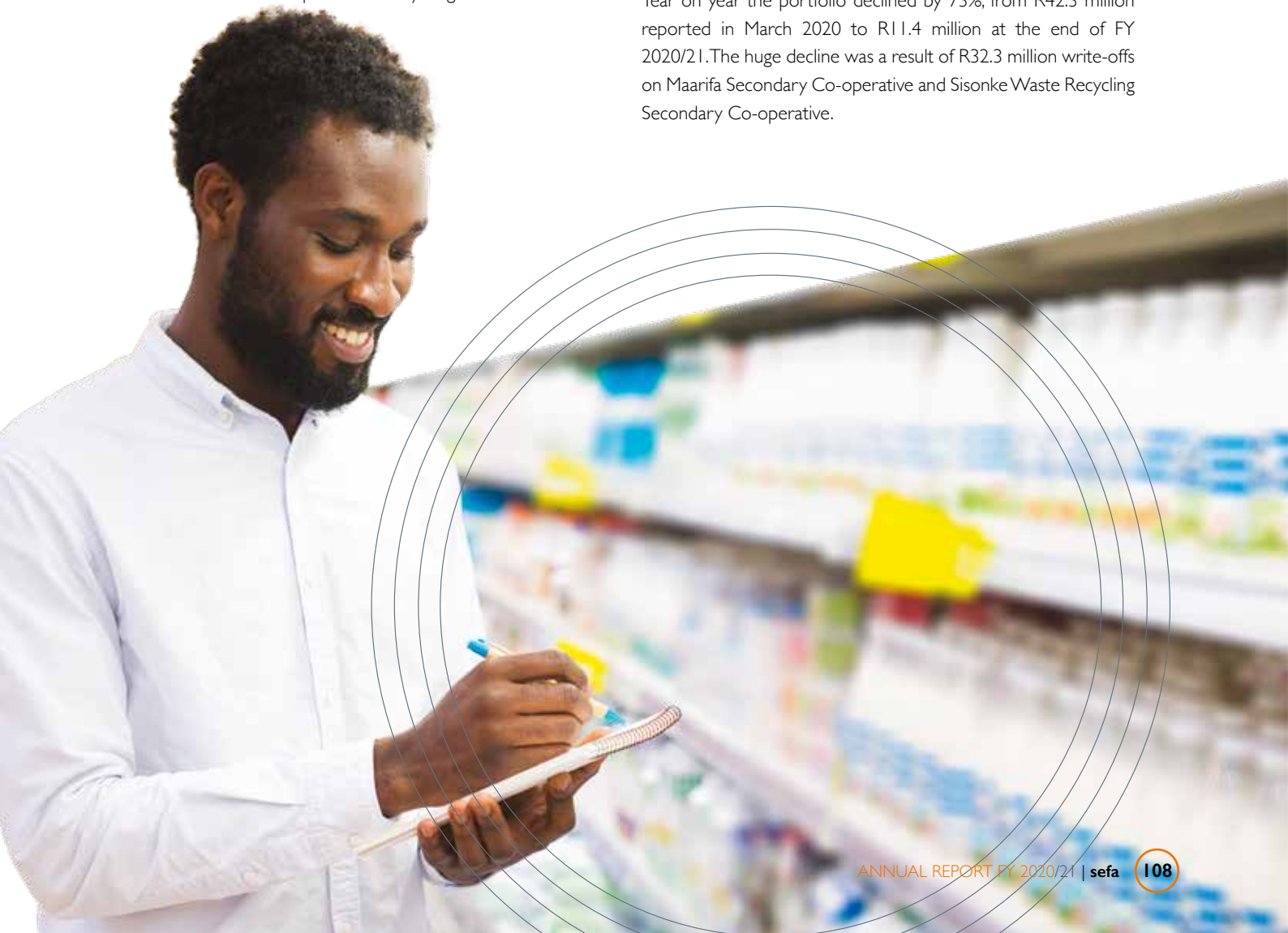
EUROPEAN UNION ENTERPRISE DEVELOPMENT FUND (EUESD FUND)

The EUESD Fund only started drawing down the approved funds in FY 2020/21 with R25 million disbursed towards Forward Finance Accelerate (Pty) Ltd. Forward Finance is in the Agriculture Sector, dealing in macadamia nuts, blueberries, sugarcane, and timber.

CO-OPERATIVES (CO-OPS)

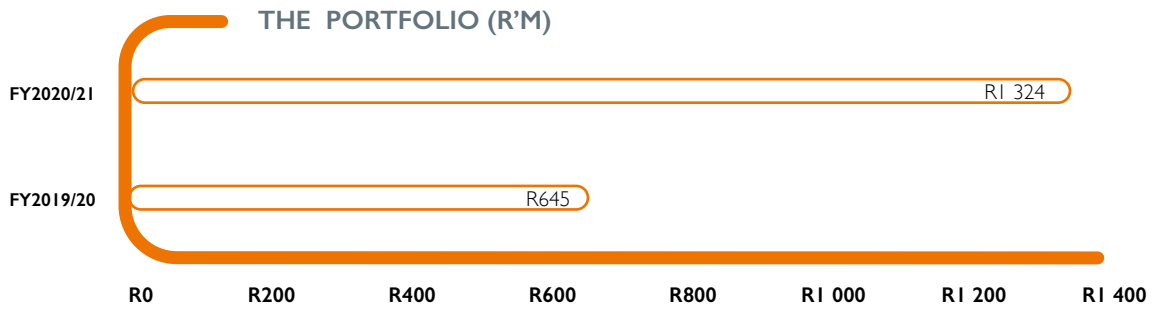
The Co-ops exposure has two types of investment, the feeding scheme and hydroponic vegetable farming.

Year on year the portfolio declined by 73%, from R42.3 million reported in March 2020 to R11.4 million at the end of FY 2020/21. The huge decline was a result of R32.3 million write-offs on Maarifa Secondary Co-operative and Sisonke Waste Recycling Secondary Co-operative.

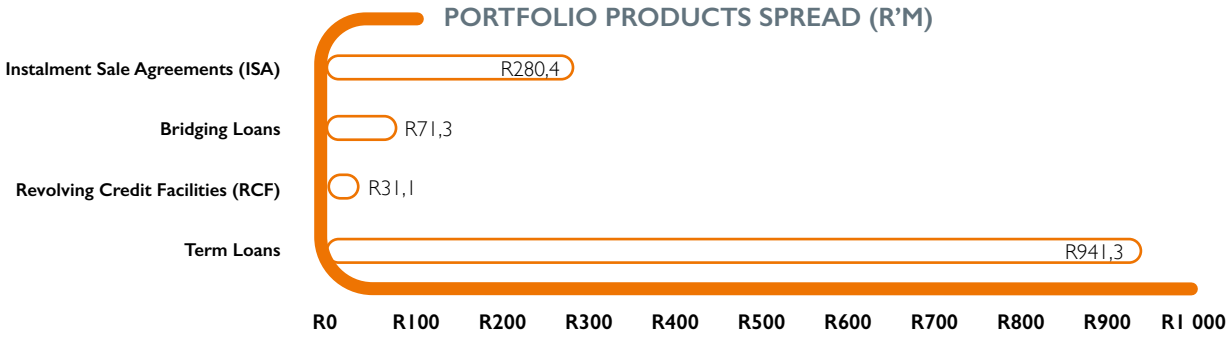


B) DIRECT LENDING PORTFOLIO

The DL loan book had a balance of R1.3 billion at the end of FY 2020/21. This is a 105% increase which was largely due to higher lending activities related to the SMME COVID-19 relief loans.

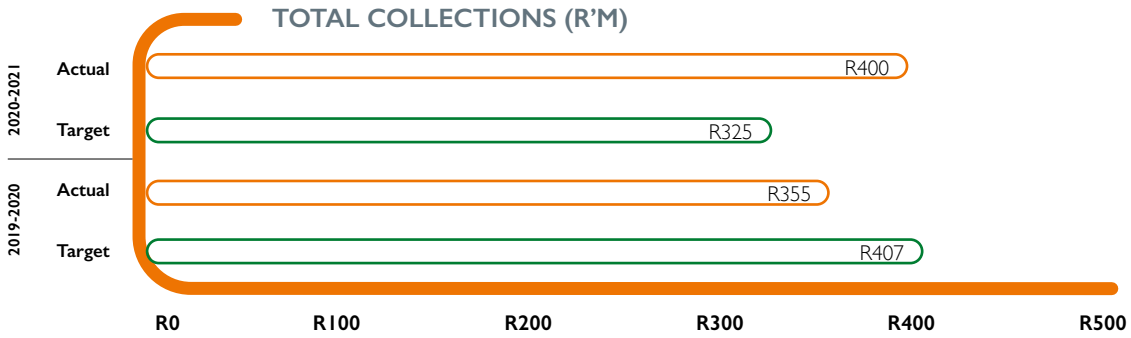


The loan portfolio consists of Term Loans (R941.3 million), Revolving Credit Facilities (R31.1 million), Instalments Sale Agreements (ISA) (R280.4 million) and Bridging Loans (R71.3 million). It must be noted that R292 million of the Term Loans are COVID-19 relief funds. The Term Loans, the Instalment Sales Agreement and the Revolving Facilities increased by 158%, 312% and 3.7% respectively. The Bridging Loans registered a decrease of 61%.



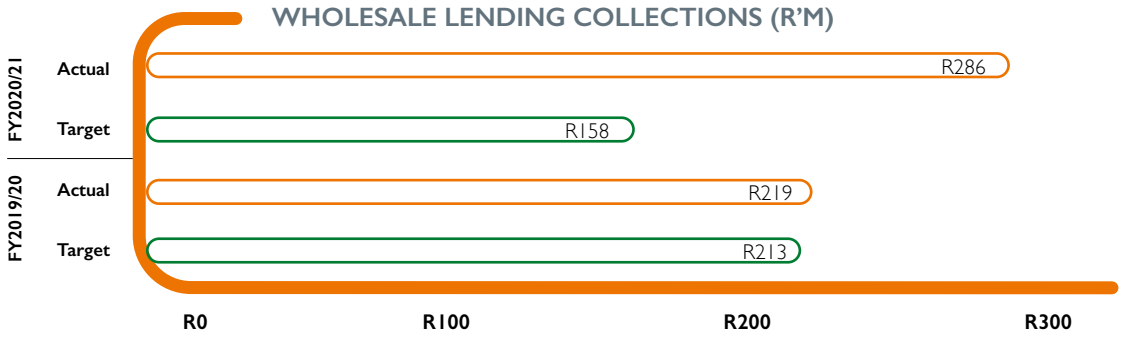
2. TOTAL COLLECTIONS

The total collections from loans and advances amounted to R400m against a target of R325m. This represents 23% above target. The actual collections were 13% above the previous year's collections of R355m. The contributing factors towards this achievement were the focussed approach on collections by the establishment of separate collections function during the year under review and the concentrated efforts on pursuing defaulting clients by sending breach letters and foreclosing on **sefa**'s security.



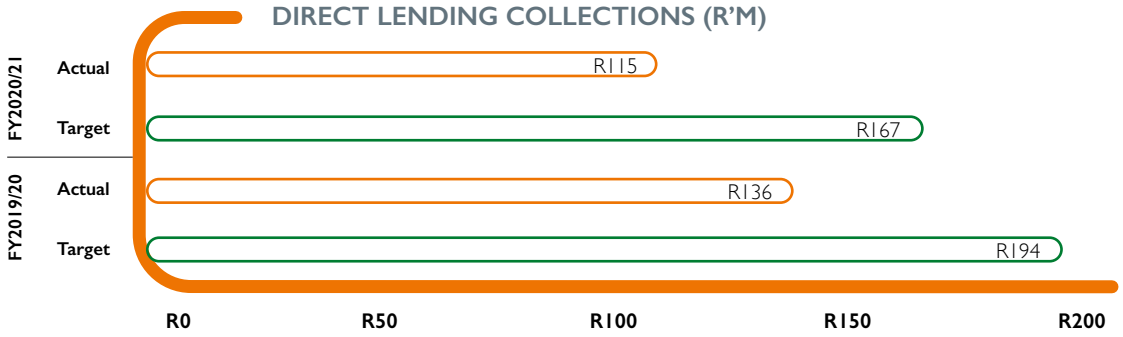
A) WL COLLECTIONS

Wholesale Lending collections amounted to R286 million, which represented 181% of the R158 million annual target. The actual collections were 31% higher than the previous year. This is largely due to advance payments received from SEF on its revolving facilities with **sefa** which are drawn when they are required.



B) DL COLLECTIONS

Direct Lending collections amounted to R115 million, which represents 69% of the R167.5 million annual target. The actual collections were 15% lower than the previous year. SMMEs in general were impacted by the unfavourable economic conditions and COVID-19 resulting in missed instalments. There were also cases where loan repayments that were due, were not received due to prolonged delays in the completion of certain projects under management. The drive to collect on the arrears book was intensified through improved litigation strategies against delinquent clients.



3. COVID-19 SMME RELIEF FUND

sefa disbursed R316.2 million to 1 144 clients that were impacted by the COVID-19 pandemic and the associated national lockdown since April 2020. The purpose of the loans was to assist clients to pay operational expenses such as rent, utilities and salaries during lockdown.

The loans were offered at a concessionary rate of 5% below the prime lending rate and are repayable over 36 months. Each loan had a six months capital and interest moratorium from the date of disbursement. Ten clients have since settled the accounts. It has to be noted that at the end of FY 2020/21, there were 1 134 clients with a total outstanding balance of R292 million.

4. WORKOUT AND RESTRUCTURING

334 accounts were restructured during the year under review. This involved the following:

i. The provision and extension of Capital and interest moratorium

ii. The extension of Loan terms

This resulted in the rescheduling of repayments to provide cash flow relief to the distressed SMMEs. The restructuring and turnaround efforts resulted in jobs being saved. The number and value of the restructured accounts were heightened due to the prevailing economic climate and the impact of COVID-19.

This unit remains very strategic given that more businesses are negatively impacted by the weak GDP growth and the adverse impact of COVID-19 on the small business sector. Plans to capacitate the unit with qualified employees began during the year under review and additional employees will be appointed in the new financial year to ensure that the unit is effective in assisting SMMEs to remain viable entities.

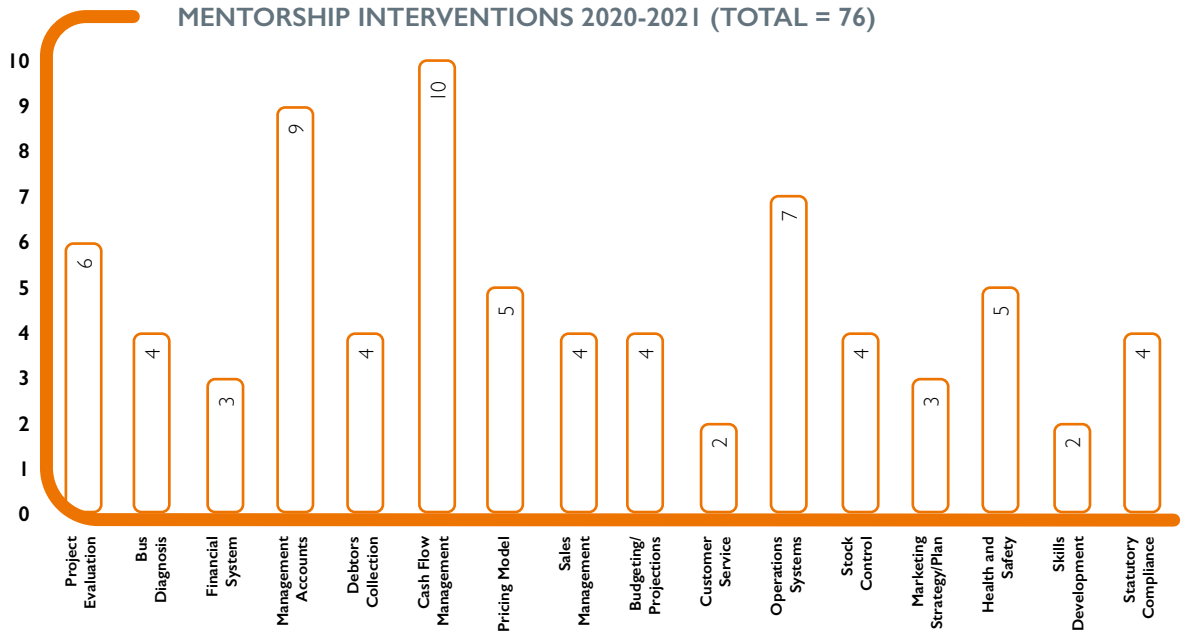
5. PORTFOLIO MENTORSHIP AND BUSINESS SUPPORT PANEL

The provision of mentorship and business support continues. During the year under review the implementation of the mentorship was impacted negatively by COVID-19 as mentors could not effectively implement the work assigned to them since they could not physically visit the clients. **sefa** spent R1.6 million on business support outlined as follows:

EXPENDITURE BY REGION	
Eastern Cape	R 171 048.18
Free State	R 364 172.30
Gauteng	R 582 810.82
Kwazulu-Natal	R 28 750.00
Limpopo	R 196 381.70
Mpumalanga	R 168 289.16
Western Cape	R 47 793.54

There were 76 interventions that were initiated and completed. The interventions ranged from Diagnostic analysis to Business Planning, cash flow management, and setting up of financial systems, amongst others. The interventions completed during the year under review are outlined in the chart below.

It can be noted from the graph below that the greatest needs from the clients have been in the areas of Cash-flow management and Management accounts. In one typical example, Beyond Risk Project Managers Pty Ltd lacked proper financial systems and the entrepreneur lacked pricing skills resulting in shortfalls, which affected profitability of the products. A mentor was appointed to assist. The entrepreneur was trained on pricing, financial management, and cash-flow management systems were developed. Within three months after the training, the client had 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.



SECTION

05

GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

SMALL ENTERPRISE FINANCE AGENCY SOC LIMITED GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

REGISTRATION NUMBER: 1995/011258/06

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

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 MARCH 2021

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 116-119.

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 2021.

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 2 July 2021 and are signed on its behalf by:

Mr Martin Mahosi
Chairperson of the Board

DIRECTORS' REPORT

INTRODUCTION

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

NATURE OF BUSINESS

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

FUNDING

sefa's capital funding requirements are sourced mainly from allocations received from the Department of Trade, Industry and Competition (previously **sefa** received allocations from the Department of Economic Development, 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 R196.8 million (FY 2019/20: R241 million) was received from government to support **sefa**'s activities. The allocation was paid to the IDC, and was made available to **sefa** through a shareholder's loan which is recognised directly in the statement of changes in equity.

The IDC committed to funding in the amount of R921m (FY 2019/20: R921m).

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.

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

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 and on **sefa**'s performance. The impact of this has been incorporated into these financial statements.

During the year ended 31 March 2021 **sefa** received a number of grants from the Department of Small Business Development. A majority of these grants were to fund programmes aimed at SMME Relief for the impact of COVID-19 and post economic recovery programmes in response to the COVID-19 pandemic. The Eleventh Schedule of the Income Tax Act does not currently provide an exemption for grants received from the Department of Small Business Development and therefore in these financial statements **sefa** is required to present the tax impacts as per current tax legislation that is in place. The Department of Small Business Development has requested that Finance Minister gazette these specific grants in the Eleventh Schedule of the Income Tax Act. The draft tax amendment bill is expected to be published mid-July 2021. **sefa** has shown a tax liability at year end for the amount of R 270 million in terms of the current tax legislation where these grants are not exempt for Income Tax purposes.

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 (FY 2019/20: Rnil).

SHARE CAPITAL

The authorised and issued share capital remained unchanged during the year (FY 2019/20: unchanged).

DIRECTORS

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

NON-EXECUTIVE DIRECTORS		
DIRECTOR	**APPOINTMENT DATE**	**RETIREMENT DATE**
Mr M Mahosi	2019/08/01	-
Ms D Mabuza	2019/08/01	-
Ms M Makara	2019/08/01	2021/05/31
Mr J Kganyago	2019/08/01	-
Mr M Radebe	2019/08/01	-
LFV Mosupye	2014/12/04	-
Ms S Mudau	2020/10/01	-
Ms Z Ngcobo	2020/10/01	-
Ms H Tsoadi	2020/10/01	-
Ms N Mlonzi	2019/08/01	2020/07/31
HN Lupuwana-Pemba	2012/09/01	2019/06/30
NA Dlamini	2016/10/01	2019/07/31
NS Dlamini	2016/10/01	2020/07/31
C Groves	2016/10/01	2019/07/31
PM Mainganya	2016/10/01	2019/07/31
K Molewa	2016/10/01	2019/07/31
KK Moloto	2016/10/01	2019/07/31
NA Osman	2016/10/01	2019/07/31
HR Ralinala	2016/10/01	2019/07/31
EXECUTIVE DIRECTOR		
M Matshamba (Chief Executive Officer)	Appointed 1 November 2020	

** S Molepo secondment agreement as Acting CEO expired on 30 Sept 2020.*

MATERIALITY AND SIGNIFICANCE

MATERIALITY LEVELS FOR REPORTING IN TERMS OF SECTION 55(2)(b)(i) OF THE PFMA

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

SIGNIFICANCE LEVELS RELATED TO SECTIONS 51(1)(g) AND 54(2) OF THE PFMA

Sections 51(1)(g) and 54(2) of the PFMA read in conjunction with the related practice note requires the use of a significance framework.

Based on the guidelines in the practice note and after evaluating total assets, total revenue and loss after tax for the Group, a significance level of R47 million has been adopted. Materiality has been set at R234,987 on a transactional level.

UNAUTHORISED, FRUITLESS AND WASTEFUL AND IRREGULAR EXPENDITURE

UNAUTHORISED EXPENDITURE

No expenditure was classified as unauthorised during the financial year (2020: 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 2 July 2021, not otherwise dealt with in the report that would affect the operations of the Group or Company significantly.

DECLARATION BY THE **GROUP COMPANY SECRETARY**

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
2 July 2021

INDEPENDENT **AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT AND THE SHAREHOLDER OF SMALL ENTERPRISE FINANCE AGENCY SOC LIMITED

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 SOC Limited and its subsidiaries (the Group) set out on pages 122 to 194, which comprise the consolidated and separate statement of financial position as at 31 March 2021, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and 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 financial position of the Group as at 31 March 2021, 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 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 Independent Regulatory Board for Auditors' Code of Professional Conduct for Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (Including International Independence Standards).

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

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

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

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

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the Group's annual performance report for the year ended 31 March 2021:

OBJECTIVES	PAGES IN THE INTEGRATED REPORT
Objective 1 - Ensure **sefa** is a high impact, high performance DFI that is responsive to government's microeconomic policies and specifically the DSBD MTEF plan	15

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

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

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

OTHER MATTERS

We would like to draw attention to the matters below:

ACHIEVEMENT OF PLANNED TARGETS

Refer to the annual performance report on pages 15 for information on the achievement of planned targets for the year.

ADJUSTMENT OF MATERIAL MISSTATEMENTS

We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Objective 1 - Ensure SEFA is a high impact, high performance DFI that is responsive to government's microeconomic policies and specifically the DSBD MTEF plan. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

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 the 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.

Our opinion on the financial statements and our 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 on it.

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. This report 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 and its subsidiaries for 4 years.

Kelello Hlajoane

SizweNtsalubaGobodo Grant Thornton Inc
Director
Registered Auditor

21 July 2021

20 Morris Street East
Woodmead
2191

APPENDIX **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 this auditor's report, we also:

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

STATEMENT OF **FINANCIAL POSITION**

for the year ended 31 March 2021

	NOTE	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
ASSETS					
Cash and cash equivalents	4.1	2 539 835	1 531 064	2 065 037	1 407 122
Trade and other receivables	4.2	26 862	28 503	226 195	207 265
Current tax asset	3.1	61	61	-	-
Deferred grants receivable	4.4	116 338	10 322	116 338	10 322
Loans and advances	7.10	886 686	433 898	883 135	427 593
Investment properties held-for-sale	5.4	-	-	-	-
Equipment, furniture and other tangible assets	5.1	5 787	7 772	5 787	7 772
Intangible assets	5.2	1 243	2 507	1 243	2 507
Right-of-use asset	5.6	28 208	39 104	28 208	39 104
Investment properties	5.3	183 480	177 115	-	-
Investments	7.11	29 790	29 210	29 790	28 053
Deferred tax asset	3.3	282	49	-	-
Investments in subsidiaries	9.2	-	-	409 731	51 943
Investments in joint operations	9.3	-	-	-	-
Investments in associates	9.4	781 364	755 931	98 994	98 986
Investments in joint ventures	9.5	140 910	117 620	134 330	123 716
TOTAL ASSETS		**4 740 846**	**3 133 156**	**3 998 788**	**2 404 383**
EQUITY AND LIABILITIES					
Share capital	8.1	308 300	308 300	308 300	308 300
Shareholder reserves	8.2	2 300 782	2 103 996	2 300 782	2 103 996
Other reserves		18 727	14 052	-	-
Retained earnings		(1 700 713)	(1 148 119)	(2 376 679)	(1 803 014)
Equity attributable to owners of the parent		**927 096**	**1 278 229**	**232 403**	**609 282**
Non-controlling interest		8	(184)	-	-
Total equity		**927 104**	**1 278 045**	**232 403**	**609 282**
LIABILITIES					
Trade and other payables	4.3	132 050	147 420	116 139	121 187
Lease liability	5.6	34 025	43 427	34 025	43 427
Tax payable	3.1	297 012	-	297 012	-
Deferred grants payable	4.4	2 639 237	1 000 980	2 639 237	1 000 980
Outstanding claims reserve	6.2	9 899	5 557	-	-
Unearned risk reserve	6.2	21 547	28 220	-	-
Post-retirement medical liability	6.3	536	443	536	443
Shareholder loans	6.1	679 436	629 064	679 436	629 064
Total liabilities		**3 813 742**	**1 855 111**	**3 766 385**	**1 795 101**
TOTAL EQUITY AND LIABILITIES		**4 740 846**	**3 133 156**	**3 998 788**	**2 404 383**

STATEMENT OF **COMPREHENSIVE INCOME**

for the year ended 31 March 2021

	NOTE	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
Interest income on loans and advances	2.2	50 427	68 060	49 935	66 842
Decrease in credit losses on loans	2.4.3	(122 485)	60 397	(124 721)	58 228
Bad debts written off [1]	2.4.3	(56 174)	(209 360)	(53 067)	(204 649)
Loss from lending activities		**(128 232)**	**(80 903)**	**(127 853)**	**(79 579)**
Other interest earned and other revenue	2.3	118 941	99 016	122 138	110 879
Grant income	2.6	121 742	28 524	121 742	28 524
Lease liability finance cost	5.6	(3 720)	(3 270)	(3 720)	(3 270)
Finance costs	6.1	(50 372)	(46 484)	(50 372)	(46 484)
Gross (loss)/ profit after finance costs		**58 359**	**(3 117)**	**61 935**	**10 070**
Net fair value gain/ (loss) on investment properties	5.5	6 365	(10 354)	-	-
Increase in impairments on related party loans	10.1	-	-	(52 115)	(62 907)
Increase in impairments on cash	4.1	(3 224)	(4 310)	(2 139)	(3 993)
Increase in impairments on investments	2.4.2	(3 495)	(40 820)	10 519	(52 960)
Investment property expenses		(51 143)	(50 996)	-	(29)
Personnel expenses		(191 454)	(204 618)	(191 454)	(204 618)
Grant expense	2.6	(34 180)	(28 524)	(34 180)	(28 524)
Other operating expenses		(107 792)	(86 878)	(96 220)	(67 055)
Operating loss	2.4	**(326 564)**	**(429 617)**	**(303 654)**	**(410 016)**
Profit from equity accounted investments, net of tax	9.6	43 941	13 629	-	-
Loss before tax		**(282 623)**	**(415 988)**	**(303 654)**	**(410 016)**
Income tax credit/ (charge)	3.2	(269 779)	(4 924)	(270 011)	-
Net loss for the year		**(552 402)**	**(420 912)**	**(573 665)**	**(410 016)**

OTHER COMPREHENSIVE INCOME AFTER TAX

Other comprehensive income from equity accounted investments		4 675	(3 919)	-	-
Other comprehensive (loss)/income for the year	9.6	**4 675**	**(3 919)**	**-**	**-**
Total comprehensive loss for the year		**(547 727)**	**(424 831)**	**(573 665)**	**(410 016)**

LOSS AND TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:

Owners of the parent - loss for the year	(552 594)	(420 717)
Owners of the parent - other comprehensive income	4 675	(3 919)
Non-controlling interest - for the year	192	(195)
Total comprehensive loss and loss for the year	**(547 727)**	**(424 831)**

STATEMENT OF **CHANGES IN EQUITY**

for the year ended 31 March 2021

GROUP	NOTE	SHARE CAPITAL R'000	RETAINED EARNINGS R'000	SHAREHOLDER RESERVES R'000	OTHER RESERVES* R'000	NON-CONTROLLING INTEREST R'000	TOTAL R'000
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 income from equity accounted investments		-	-	-	(3 919)	-	(3 919)
Total comprehensive loss for the year		-	(420 717)	-	-	(195)	(420 912)
Restated balance at 31 March 2020		**308 300**	**(1 148 119)**	**2 103 996**	**14 052**	**(184)**	**1 278 045**
Balance at 1 April 2020		**308 300**	**(1 148 119)**	**2 103 996**	**14 052**	**(184)**	**1 278 045**
Advances received on shareholder reserves	8.2	-	-	196 786	-	-	196 786
Other comprehensive loss from equity accounted investments		-	-	-	4 675	-	4 675
Total comprehensive loss for the year		-	(552 594)	-	-	192	(552 402)
Balance at 31 March 2021		**308 300**	**(1 700 713)**	**2 300 782**	**18 727**	**8**	**927 104**

*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 R'000	NON-CONTROLLING INTEREST R'000	TOTAL R'000
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		-	(571)	-	-	-	(571)
Balance at 1 April 2019 adjusted		**308 300**	**(1 392 998)**	**1 862 543**	**-**	**-**	**777 845**
Advances received on shareholder reserves	8.2	-	-	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**
Advances received on shareholder reserves	8.2	-	-	196 786	-	-	196 786
Total comprehensive loss for the year		-	(573 665)	-	-	-	(573 665)
Balance at 31 March 2021		**308 300**	**(2 376 679)**	**2 300 782**	**-**	**-**	**232 403**

STATEMENT OF **CASH FLOWS**

for the year ended 31 March 2021

	NOTE	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash utilised by operations	2.5	(363 241)	(226 975)	(347 712)	(208 913)
Loans and advances to customers or investees		(631 448)	(193 420)	(633 331)	(199 947)
Grant income received		1 760 000	1 029 000	1 760 000	1 029 000
Tax received/(paid)	3.1	-	518	-	-
Net cash generated from/(utilised by) operating activities		**765 311**	**609 123**	**778 957**	**620 140**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of equipment, furniture and other tangible assets	5.1	(1 703)	(5 534)	(1 703)	(5 534)
Purchase of intangible assets	5.2	(241)	(3 099)	(241)	(3 099)
(Acquisition) / disinvestment of investments		(4 075)	(16 135)	(5 597)	(14 758)
Interest and dividends received		65 173	51 060	55 037	41 973
Acquisition of equity accounted investments		(106)	(324)	(354 035)	(1 129)
Net cash inflow on disposal of subsidiary		-	-	-	-
Proceeds from sale of equipment, furniture and other tangible assets		13	-	13	-
Proceeds from sale of investment properties		-	-	-	-
Net cash generated by investing activities		**59 061**	**25 968**	**(306 526)**	**17 453**
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital funding received from the shareholder	8.2	196 786	241 453	196 786	241 453
Lease payment		(9 163)	(6 132)	(9 163)	(6 132)
Net cash from financing activities		**187 623**	**235 321**	**187 623**	**235 321**
Net increase in cash and cash equivalents		1 011 995	870 412	660 054	872 914
Cash and cash equivalents at beginning of year		1 535 374	664 962	1 411 115	538 201
Cash and cash equivalents at end of year	4.1	**2 547 369**	**1 535 374**	**2 071 169**	**1 411 115**

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NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS

NOTES TO THE
ANNUAL FINANCIAL STATEMENTS

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 the National lockdown and declaration of a National State of Disaster due to the COVID-19 pandemic 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

No significant changes in accounting policies applicable for the year ending 31 March 2021.

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.

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.

After application of the equity method, including recognising the associate's or joint venture's losses, **sefa** determines whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

Unrealised gains and losses arising from transactions with equity-accounted investments are eliminated against the investment to the extent of the Group's interest in the investment. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

1.4.2 PROVISIONS

A provision is a liability of uncertain timing or amount.

Provisions are recognised when the Group or Company has a present obligation as a result of a past event and the amount can be reliably measured. The Group or Company will also determine whether outflow of economic resources, embodying economic benefits that will be required to settle the obligation is probable or not. A provision will therefore be raised if the condition that it should be probable is met.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

1.4.3 CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised in the statement of financial position but disclosed in the notes when significant.

1.4.4 EMPLOYEE BENEFITS

SHORT TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short- term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

DEFINED CONTRIBUTION PLAN

The Group has a provident fund scheme which is a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. Contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the year to which they relate.

1.4.5 MEASUREMENT PRINCIPLES

Key assets and liabilities shown in the statement of financial position are subsequently measured as follows:

ASSETS	MEASUREMENT PRINCIPLE
Cash and cash equivalents	Amortised cost
Trade and other receivables	Amortised cost
Loans and advances	Amortised cost
Investment properties held-for-sale	Fair value at the date of being classified as held-for- sale less subsequent impairments
Equipment, furniture and other tangible assets	Historical cost, less accumulated depreciation and impairment losses
Intangible assets	Historical cost, less accumulated amortisation and impairment losses
Deferred tax assets	Undiscounted amount measured at the tax rate at the reporting date

ASSETS	MEASUREMENT PRINCIPLE
Investment properties	Fair value through profit or loss
Investments	Fair value through profit or loss
Investments in associates and joint ventures	Cost adjusted for share of movements in net assets, less impairment losses
Right-of-use Asset	Historical cost, less any accumulated depreciation and impairment losses
Deferred grants receivable	Conditional grants (grant provided to customers that may become repayable if the customer defaults on their loan) disbursed to customers is presented as deferred expenses and recognised on a systematic basis over the related loan term.

LIABILITIES	MEASUREMENT PRINCIPLE
Trade and other payables	Amortised cost
Tax payable	Amount expected to be paid to the tax authorities, using the tax rate at the reporting date
Outstanding claims reserve	Present value of the best estimate of settlement amount
Unearned risk reserve	Present value of the best estimate of settlement amount
Deferred tax liabilities	Undiscounted amount measured at the tax rate at the reporting date
Post-retirement medical liability	Present value of the best estimate of settlement amount
Shareholder's loans	Amortised cost
Lease Liability	Present value of lease payments to be made over the lease term
Deferred grant payable	Grant income received is deferred on the statement of financial position as deferred grant payable and recognised as revenue on a systematic basis over the term of the related loan.

1.4.6 DETERMINATION OF FAIR VALUES

DETERMINATION OF FAIR VALUES

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as follows.

LEVEL 1	LEVEL 2	LEVEL 3
Quoted prices (unadjusted) in active markets for identical assets or liabilities	Inputs other than quoted prices (as per Level 1) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)	Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Refer to note 5.5 for additional information on determining the fair value of investment properties and note 7.11 for investments carried at fair value.

1.5 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

1.5.1 No new standards required to be implemented for the year ending 31 March 2021.

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 3 Business Combinations	*Reference to the Conceptual Framework:* The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.	1 January 2022
IFRS 9 Financial Instruments	*Annual Improvements to IFRS Standards 2018 – 2020:* The amendment clarifies which fees an entity includes when it applies the "10 per cent" test in assessing whether to derecognise a financial liability.	1 January 2022
IFRS 17 Insurance Contracts	IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The new standard brings greater comparability and transparency about the profitability of new and in-force business and gives financial statements users more insight into an insurer's financial health. IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty related to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims Insurance contracts are required to be measured based only on the obligations created by the contracts. An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums Separate presentation of underwriting and financial results is required and will therefore give added transparency about the sources of profits and quality of earnings of insurers. This standard replaces IFRS 4 – Insurance Contracts.	IFRS 17 will be effective for annual periods beginning on or after 1 January 2023.
IAS 1 Presentation of Financial Statements	*Classification of liabilities as Current or Non-Current:* Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non—current. Disclosure of Accounting Policies: The amendments require companies to disclose their material accounting policy information rather than their significant accounting policy information, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.	1 January 2023

TOPIC	KEY REQUIREMENTS	EFFECTIVE DATE
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Definition of Accounting Estimates: The amendments clarify how companies should distinguish changes in accounting estimates, by replacing the definition of a change in accounting estimate with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in the financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged.	1 January 2023

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.

1.6.4 THE ULTIMATE LIABILITY ARISING FROM CLAIMS MADE UNDER INDEMNITY CONTRACTS

The estimation of the ultimate liability arising from claims made under indemnity contracts is a critical accounting estimate. Several sources of uncertainty have to be considered in estimating the liability that the Group will ultimately be exposed to for such claims The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining the tools with which it monitors and manages risk to place the Group in a position to assess risk situations appropriately,

despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which it operates means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

1.6.5 EFFECTIVE RATE USED IN DETERMINING THE FAIR VALUE OF THE SHAREHOLDER'S LOAN

The effective interest rate used to discount the interest-free shareholder's loans from the IDC is based on the average rate at which the IDC borrows external funds. **sefa** has never applied for external finance and, therefore, the average borrowing rate of the IDC is considered a market related rate.

1.6.6 FAIR VALUE ASSUMPTIONS FOR INVESTMENT PROPERTY

Property valuations take place annually, based on the aggregate of the net annual rental receivable from the properties, considering and analysing rentals received on similar properties in a close vicinity, less associated costs (insurance, maintenance, repairs, and management fees).

A capitalisation rate which reflects the specific risks inherent in the net cash flows is applied to the net annual rentals to arrive at the property valuations.

The fair value of undeveloped land held as investment property is based on comparative market prices after market surveys.

External, independent valuators having appropriate, recognised professional qualifications and recent experience in the location and category of the property being valued, perform valuations on the portfolio every three years.

Refer to note 5.5 for the fair value assumptions used.

1.6.7 FAIR VALUE ASSUMPTIONS FOR INVESTMENTS, ASSOCIATES AND JOINT VENTURES

The fair value of the investment in equity instruments is determined by reference to the net asset value of the underlying entity.

1.6.8 ASSUMPTIONS APPLIED TO THE IMPAIRMENT OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

These assets are not carried at fair value but at cost adjusted for share of movements in net assets, less impairment losses.

The impairments of investments in associates and joint ventures is determined by reference to the net asset value of the underlying entity.

2. RESULTS OF OPERATIONS

2.1 INTEREST INCOME, DIVIDEND INCOME, FEE INCOME, RENTAL INCOME AND INDEMNITY PREMIUMS EARNED

INTEREST INCOME

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

DIVIDEND INCOME

Dividend income is recognised in profit or loss on the date the Group's right to receive payment is determined.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes.

FEE INCOME

Income earned on the execution of a significant act is recognised when the significant act has been performed. Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service.

Fee income is comprised of commitment fees and administration fees charged on some loans. These fees, where applicable to the loan, are due from customers on disbursement of the loan.

RENTAL INCOME

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

GRANT INCOME

The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Grant income received is deferred on the statement of financial position and recognised as revenue on a systematic basis over the term of the related loan.

Other revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes. Other revenue comprises of bad debts recovered, management fee income on related parties and other sundry income.

MANAGEMENT FEE INCOME CHARGED TO RELATED PARTIES

Management fees are charged by **sefa** to subsidiaries in the group for the shared service costs that are incurred. The management fees are charged in terms of the service level agreements in place with each subsidiary. At a Group level these will eliminate, except for Khula Land Reform which is not consolidated in terms of IFRS requirements. Khula Land Reform is registered as a Non-profit Company. This company has been exempted from consolidation as **sefa** is acting as an agent.

	GROUP		COMPANY	
2.2 INTEREST INCOME ON LOANS AND ADVANCES	**2021 R'000**	**2020 R'000**	**2021 R'000**	**2020 R'000**
Interest received on loans and advances to clients	50 427	68 060	49 935	66 842

2.3 OTHER INTEREST EARNED AND OTHER REVENUE

Fee income	12 263	8 339	12 175	8 124
Indemnity premiums earned	1 981	2 823	-	-
Interest on overdue rental debtors	1 257	1 321	-	-
Investment property rental income	10 267	18 713	-	-
Investment property rental recoveries	5 487	7 625	-	-
Interest received on cash and cash equivalents	63 919	41 160	55 037	33 397
Interest received on related party loan	-	-	12 227	16 023
Dividends received on equity investments	-	-	-	8 578
Bad debts recovered	1 715	2 911	1 653	2 607
Management fee - related parties	8 151	8 337	35 111	34 363
Other sundry income [1]	5 934	7 787	5 935	7 787
Accounting gain on disposal of subsidiary [2]	7 967	-	-	-
Total other interest and other revenue	**118 941**	**99 016**	**122 138**	**110 879**
Total other interest earned	65 176	42 481	67 264	49 420
Total other revenue	53 765	56 535	54 874	61 459

[1] Rental income earned on a building that is sub-leased to a third party to the value of R5.2m (2020: R7.5m) is included in other sundry income.
[2] Refer to note 9.2.1 for details of carrying values disposed of.

2.4 OPERATING LOSS

Is arrived at after taking into account the following:

2.4.1 SPECIFIC ITEMS:

Contributions to defined contribution plans	15 644	14 925	15 644	14 925
Depreciation	3 640	3 226	3 640	3 225
Amortisation	1 094	1 180	1 094	1 180
	20 378	**19 331**	**20 378**	**19 330**

2.4.2 INCREASE/(DECREASE) IN IMPAIRMENTS ON INVESTMENTS:

Impairment of Investments in Associates	-	-	(8)	(383)
Impairment of Joint Ventures	-	-	(7 057)	(8 301)
Impairment of Other Investments	3 495	18 647	3 860	15 463
Impairment of Joint Operation	-	-	(9 916)	-
Impairment of Subsidiaries	-	-	(25 360)	24 008
Investment written off	-	22 173	27 962	22 173
Total increase in impairments on investments	**3 495**	**40 820**	**(10 519)**	**52 960**

2.4 OPERATING LOSS (CONTINUED)	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
2.4.3 INCREASE/(DECREASE) IN BAD DEBT PROVISIONS ON LOANS AND ADVANCES:				
(Decrease)/ increase in bad debt provision - loans and advances	122 485	(60 397)	124 721	(58 228)
Bad debt written off - loans and advances [1]	56 174	209 360	53 067	204 649
Total increase in bad debt provisions on loans and advances	**178 659**	**148 963**	**177 788**	**146 421**
[1] On a portfolio basis the split of bad debt written off is as follows:				
Microfinance portfolio	11 061	4 189	11 061	4 189
Co-operatives portfolio	28 693	31 388	28 693	31 388
Direct Lending Portfolio (Legacy Book)	199	143 815	199	143 815
Direct Lending Portfolio (New Book)	13 114	20 219	13 114	20 219
New Business Finance portfolio (Legacy book)	-	5 038	-	5 038
Identity Development Fund	3 107	4 711	-	-
	56 174	**209 360**	**53 067**	**204 649**
2.4.4 INCREASES/(DECREASES) IN BAD DEBT PROVISIONS ON RENTAL DEBTORS:				
Increase/ (decrease) in bad debt provision - rental debtors	1 608	(1 084)	-	-
Loss on disposal of rental debtors	-	-	-	-
Total increase in bad debt provisions on rental debtors	**1 608**	**(1 084)**	**-**	**-**
2.4.5 INCREASES/(DECREASES) IN BAD DEBT PROVISIONS ON RELATED PARTY LOANS				
Increase in bad debt provision on Khula Business Premises (Pty) Ltd	-	-	52 115	62 907
2.4.6 INCREASE/(DECREASE) IN PROVISIONS AND RESERVES RELATING TO THE CREDIT INDEMNITY PRODUCT:				
Indemnity claims incurred	4 530	(15)	-	-
Claims provision	4 342	(2 566)	-	-
Indemnity reserves	(6 672)	15 258	-	-
Total increase in indemnity provisions and reserves	**2 200**	**12 677**		**-**

2.4 OPERATING LOSS (CONTINUED)	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
2.4.7 LOANS AND ADVANCES: IMPAIRMENT MOVEMENT PER SECTOR				
NET INCREASE / (DECREASE) IN IMPAIRMENTS - LOANS AND ADVANCES				
Agriculture, forestry and fishing	4 308	(15 038)	4 861	(14 786)
Basic iron and steel	1 752	-	1 752	-
Beverages	1 928	1 687	1 928	1 687
Building construction	17 151	(48 638)	17 151	(48 638)
Business services	(3 896)	(12 182)	(3 896)	(12 182)
Catering and accommodation services	1 450	(941)	1 450	(941)
Electricity, gas and steam	12 036	-	12 036	-
Finance and insurance	(27 094)	10 692	(27 094)	10 692
Food	(2 210)	193	(2 210)	193
Footwear	1 277	-	1 277	-
Furniture	888	(1 037)	888	(1 037)
Government	(551)	(2 400)	(551)	(2 400)
Medical, dental and other health and veterinary services	(34)	(983)	(34)	(983)
Metal products excluding machinery	1 535	1 920	1 535	1 920
Motor vehicles, parts and accessories	(2 470)	14 278	(2 470)	14 278
Non-metallic minerals	8 881	859	8 881	859
Other community, social and personal services	45 236	(3 660)	45 236	(3 660)
Other chemicals and man-made fibres	626	(22)	626	(22)
Other industries	(12 367)	(737)	(12 367)	(737)
Other mining	3 427	(8 543)	3 427	(8 543)
Other services	(1 212)	176	471	2 093
Plastic products	2 616	84	2 616	84
Printing, publishing and recorded media	83	496	83	496
Television, radio and communication equipment	59	(76)	59	(76)
Textiles	1 148	91	1 148	91
Transport and storage	15 458	4 825	15 458	4 825
Wearing apparel	1 886	-	1 886	-
Wholesale and retail trade	34 575	1 654	34 575	1 654
Wood and wooden products	15 097	(3 095)	15 097	(3 095)
Total movement on credit loss allowances	**122 485**	**(60 397)**	**124 721**	**(58 228)**

2.4 OPERATING LOSS (CONTINUED)	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
2.4.8 BAD DEBTS WRITTEN OFF/ (RECOVERED) PER SECTOR:				
BAD DEBTS WRITTEN OFF/(RECOVERED) - LOANS AND ADVANCES				
Bad debts written off	56 174	209 360	53 067	204 649
Bad debts recovered	(1 715)	(2 911)	(1 653)	(2 607)
Total bad debts written off/ (recovered)	**54 459**	**206 449**	**51 414**	**202 042**
BAD DEBTS WRITTEN OFF/(RECOVERED) - PER SECTOR:				
Agriculture, forestry and fishing	97	6 284	-	6 284
Beverages	-	1 097	-	1 097
Building construction	2 040	39 714	2 040	39 714
Business services	1 822	21 812	1 822	21 812
Catering and accommodation services	-	(275)	-	(275)
Electrical machinery	-	(288)	-	(288)
Finance and insurance	11 264	30 300	11 264	30 300
Food	9 102	10 289	9 102	10 289
Furniture	-	1 681	-	1 681
Government	72	4 228	72	4 228
Medical, dental and other health and veterinary services	-	3 748	-	3 748
Motor vehicles, parts and accessories	163	-	163	-
Other community, social and personal services	82	3 721	82	3 721
Other industries	19 820	27 759	19 820	23 352
Other mining	-	15 036	-	15 036
Other services	3 151	-	203	-
Textiles	(49)	-	(49)	-
Transport and storage	-	17 208	-	17 208
Wholesale and retail trade	6 895	15 889	6 895	15 889
Wood and wooden products	-	8 246	-	8 246
Total bad debts written off/ (recovered)	**54 459**	**206 449**	**51 414**	**202 042**

2.5 CASH UTILISED BY OPERATIONS	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
Loss before tax	(282 623)	(415 988)	(303 654)	(410 016)
Adjustments for:				
Depreciation	14 297	12 298	14 297	12 298
Amortisation	1 094	1 180	1 094	1 180
Fair value adjustment	(6 365)	10 354	-	-
Impairments - Investments	3 495	18 649	3 862	15 465
Impairments - Subsidiaries and equity accounted investees	-	-	(42 340)	15 324
Income from associates and joint ventures	(43 941)	(13 629)	-	-
Dividends received from associates	-	-	-	(8 578)
Increase in indemnity reserves	(6 672)	15 258	-	-
Interest charged on shareholder's loan	50 372	46 484	50 372	46 484
Interest on related party loans	-	-	(12 227)	(16 023)
Investment income and interest on overdue rental debtors	(65 175)	(42 481)	(55 037)	(33 397)
Grant income	(121 742)	(28 524)	(121 742)	(28 524)
(Profit)/loss on sale of equipment	35	69	35	69
Provision for bad debts	124 093	(61 480)	124 721	(58 228)
Investment written off	27 962	22 173	27 962	22 173
Bad debts written off	28 212	209 360	53 067	204 649
Increase in impairments on cash	3 224	4 310	2 139	3 993
Increase in impairments on related party loans	-	-	52 115	62 907
Post-retirement liability	93	(111)	93	(111)
Increase in provision for indemnity claims	4 342	(2 566)	-	-
Operating loss before changes in working capital	**(277 294)**	**(224 644)**	**(205 243)**	**(170 335)**
Changes in working capital	(85 947)	(2 331)	(142 469)	(38 578)
(Increase)/ decrease in trade and other receivables	(105 939)	(6 865)	(102 072)	(11 842)
Loans issued to related parties	576	1 364	(62 223)	(30 808)
(Decrease)/ increase in trade and other payables	19 416	3 170	21 826	4 072
Cash utilised by operations	**(363 241)**	**(226 975)**	**(347 712)**	**(208 913)**

2.6 GRANT INCOME AND GRANT EXPENSE				
Grant received: Blended Finance	11 483	449	11 483	449
Grant received: Small Business and Innovation Fund	5 964	28 075	5 964	28 075
Grant received: COVID-19 relief and post economic recovery programmes	104 295	-	104 295	-
	121 742	**28 524**	**121 742**	**28 524**
Grant expense: Blended Finance	(11 483)	(449)	(11 483)	(449)
Grant expense: Small Business and Innovation Fund	(20 786)	(28 075)	(20 786)	(28 075)
Grant expense: COVID-19 relief and post economic recovery programme	(1 911)	-	(1 911)	-
	(34 180)	**(28 524)**	**(34 180)**	**(28 524)**

3. TAXATION

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

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.

Tax receivable/(payable) at the beginning of the year	61	579	-	-
Tax as per statement of comprehensive income (net of deferred tax)	(270 011)	-	(270 011)	-
Tax penalty	(27 001)	-	(27 001)	-
Tax (refund received)/paid	-	(518)	-	-
Tax (payable)/receivable at the end of the year	**(296 951)**	**61**	**(297 012)**	**-**

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.

Current tax expense - current year	**270 011**	**-**	**270 011**	**-**
- Current year	270 011	-	270 011	-
- Prior year under/(over) provision	-	-	-	-
Deferred taxation - current year	**(232)**	**4 924**	**-**	**-**
- Current year	(232)	144	-	-
- Prior year under/(over) provision	-	4 780	-	-
Income tax expense	**269 779**	**4 924**	**270 011**	**-**

3. TAXATION

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
RECONCILIATION OF TAXATION AMOUNT:				
Loss before taxation	(282 623)	(415 988)	(303 654)	(410 016)
Taxation at standard rate of 28% (2020:28%)	(79 134)	(116 477)	(85 023)	(114 804)
Tax effect of permanent differences[1]	(2 061)	15 998	22 329	12 877
Tax effect of deferred tax asset not recognised	350 974	100 623	332 705	101 927
Taxation - Relating to prior year under provision	-	4 780	-	-
Taxation (credit)/ charge to the statement of comprehensive income	**269 779**	**4 924**	**270 011**	**-**
Taxation expense relating to current year	269 779	144	270 011	-
Effective tax rate	-95.46%	-0.03%	-88.92%	0.00%

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

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.

3.3.1 NET DEFERRED TAX

Deferred taxation assets	12.2	121 771	96 899	107 876	89 720
Deferred taxation liabilities	12.3	(121 489)	(96 850)	(107 876)	(89 720)
Net deferred taxation asset		**282**	**49**	**-**	**-**

3. TAXATION (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
3.3.2 DEFERRED TAXATION ASSETS				
MOVEMENT ON THE DEFERRED TAXATION ASSET IS AS FOLLOWS:				
At beginning of the year	96 899	72 829	89 720	63 431
Temporary differences recognised in profit or loss				
- Current year	24 872	27 580	18 156	26 289
- Previous year	-	(3 510)	-	-
At end of the year	**121 771**	**96 899**	**107 876**	**89 720**
DEFERRED TAXATION ASSETS RECOGNISED:				
Income received in advance	2	2	-	-
Tax loss	107 973	96 834	107 876	89 720
Other provisions	13 796	63	-	-
Total deferred tax assets recognised	**121 771**	**96 899**	**107 876**	**89 720**
UNUSED DEFERRED TAX ASSETS:				
Fair value adjustments	-	-	-	-
Other provisions	256 593	171 762	286 096	235 058
Fixed assets (owned)	126	-	17	-
Revenue received in advance	738 846	280 133	738 846	280 133
IFRS 16	1 558	824	1 558	824
Prepayments	1 173	-	(118)	-
Doubtful debt allowance	(107 757)	-	(107 757)	-
Impairment of investments	69 879	66 241	110 941	107 303
Tax losses (Revenue in nature)	39 414	85 251	-	73 443
Total	**999 832**	**604 211**	**1 029 583**	**696 761**
3.3.3 DEFERRED TAXATION LIABILITY				
MOVEMENT ON THE DEFERRED TAXATION LIABILITY IS AS FOLLOWS:				
At beginning of the year	(96 850)	(68 375)	(89 720)	(63 431)
Temporary differences recognised in profit or loss				
- Current year	(24 639)	(28 475)	(18 156)	(26 289)
At end of the year	**(121 489)**	**(96 850)**	**(107 876)**	**(89 720)**
DEFERRED TAXATION LIABILITIES:				
Equipment, furniture and other tangible assets	-	21	-	21
Prepaid expenses	-	21	-	21
Debtor allowances	121 371	96 808	107 758	89 678
Fair value adjustments on investment property	-	-	-	-
Other provisions	118	-	118	-
Total deferred tax liabilities recognised	**121 489**	**96 850**	**107 876**	**89 720**

4. WORKING CAPITAL

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

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 from the date of acquisition (or from initial recognition).

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

Cash in bank and on hand	2 399 016	1 043 782	1 950 287	955 331
Cash managed by shareholder	78 649	424 674	51 178	388 866
Cash managed on behalf of 3rd parties (note 4.3.3)	69 704	66 918	69 704	66 918
Gross carrying amount	**2 547 369**	**1 535 374**	**2 071 169**	**1 411 115**
Expected credit loss on cash	(7 534)	(4 310)	(6 132)	(3 993)
Total cash and cash equivalents	**2 539 835**	**1 531 064**	**2 065 037**	**1 407 122**

Funds held on behalf of Managed Funds are included in cash and cash equivalents. Refer to note 4.3 for additional information. Cash and cash equivalents are all current assets. Cash balances managed by IDC are immediately available as and when requested.

4.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost less impairment losses. Carrying amount approximates fair value.

Trade receivables	29 248	26 820	4 260	3 823
Prepayments	521	3 726	521	3 655
Rental debtors	20 187	18 158	-	-
Related party loans (refer to note 10.1)	7 904	8 480	447 770	373 319
Study loans	441	411	441	411
Trade and other receivables before credit allowances	**58 301**	**57 595**	**452 992**	**381 208**
Credit allowances on rental debtors	(19 715)	(18 107)	-	-
Credit allowances on trade and other receivables	(11 724)	(10 985)	(739)	-
Credit allowance on related party loan (refer to note 10.1)[1]	-	-	(226 058)	(173 943)
Closing carrying value	**26 862**	**28 503**	**226 195**	**207 265**

Trade and other receivables are current assets and not pledged as security.

[1] All related parties, including Khula Land Reform (not required to be consolidated) were assessed for impairment and no impairment was required, other than for Khula Business Premises (a subsidiary) where a credit loss allowance was raised in the **sefa** company financial statements which is then eliminated in the consolidated group financial statements.

4.3 TRADE AND OTHER PAYABLES

Trade payables	40 024	56 959	24 113	30 726
Provision for bonus (Refer to 4.3.1)	18 474	18 375	18 474	18 375
Provision for leave pay (Refer to 4.3.2)	3 848	5 168	3 848	5 168
Managed funds (Refer to 4.3.3)	69 704	66 918	69 704	66 918
Total trade and other payables	**132 050**	**147 420**	**116 139**	**121 187**

4. WORKING CAPITAL (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
4.3.1 PROVISION FOR BONUSES				
Opening balance	18 375	14 827	18 375	14 827
Utilised during the year	-	(14 827)	-	(14 827)
Unutilised portion released during the year	(18 375)	-	(18 375)	-
Accruals raised during the year	18 474	18 375	18 474	18 375
Closing balance	**18 474**	**18 375**	**18 474**	**18 375**
4.3.2 PROVISION FOR LEAVE PAY				
Opening balance	5 168	4 429	5 168	4 429
Utilised during the year	(5 467)	(3 612)	(5 467)	(3 612)
Prior year (under provision) / over provision	-	(817)	-	(817)
Accruals raised during the year	4 147	5 168	4 147	5 168
Closing balance	**3 848**	**5 168**	**3 848**	**5 168**

4.3.3 MANAGED FUNDS

The group is managing funds and holding cash balances on behalf of the following parties:

Unops	55 290	52 840	55 290	52 840
Norad	-	-	-	-
European Union	14 414	14 078	14 414	14 078
Dr Kenneth Kaunda Municipality	-	-	-	-
Total managed funds	**69 704**	**66 918**	**69 704**	**66 918**

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

4.4 DEFERRED GRANTS RECEIVABLE AND PAYABLE

Deferred grant receivable	116 338	10 322	116 338	10 322
Total deferred grant receivable	**116 338**	**10 322**	**116 338**	**10 322**
Deferred grant payable	2 639 237	1 000 980	2 639 237	1 000 980
Total deferred grant payable	**2 639 237**	**1 000 980**	**2 639 237**	**1 000 980**

Grant income is deferred and recognised in profit or loss over the period necessary to match them with the costs for which they are intended to compensate.

5. FIXED ASSETS

5.1 EQUIPMENT, FURNITURE AND OTHER TANGIBLE ASSETS

MEASUREMENT

All items of equipment, furniture and other tangible assets recognised as assets, are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. All items of equipment, furniture and other tangible assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Where parts of an item of equipment, furniture and other tangible assets have significantly different useful lives, they are accounted for as separate items of equipment, furniture and other tangible assets. Although individual components are accounted for separately, the financial statements continue to disclose a single asset.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised in profit or loss.

SUBSEQUENT COSTS

The Group recognises the cost of replacing part of such an item of equipment, furniture and other tangible assets in the carrying amount of the item when that cost is incurred and if it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised. All other costs are recognised in profit or loss as an expense as they are incurred.

IMPAIRMENT

The carrying amount of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. The recoverable amount of non-financial assets is the greater of fair value less cost of disposal and its value in use. Fair value less cost of disposal is the amount obtainable from the sale of an asset or cash-generating unit in an orderly transaction between market participants at the measurement date, less the costs of disposal. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

5. FIXED ASSETS (CONTINUED)

2021	GROUP COST R'000	GROUP ACCUMULATED DEPRECIATION AND IMPAIRMENT R'000	GROUP CARRYING VALUE R'000	COMPANY COST R'000	COMPANY ACCUMULATED DEPRECIATION AND IMPAIRMENT R'000	COMPANY CARRYING VALUE R'000
Motor vehicles	1 210	(732)	478	1 210	(732)	478
Computer equipment	16 688	(14 575)	2 113	16 293	(14 180)	2 113
Office equipment	5 052	(4 741)	311	4 786	(4 475)	311
Furniture and fittings	10 429	(9 331)	1 098	7 404	(6 306)	1 098
Lease improvements	12 407	(10 620)	1 787	12 407	(10 620)	1 787
	45 786	**(39 999)**	**5 787**	**42 100**	**(36 313)**	**5 787**
2022						
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**

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

	GROUP					
2021	MOTOR VEHICLES R'000	COMPUTER EQUIPMENT R'000	OFFICE EQUIPMENT R'000	FURNITURE AND FITTINGS R'000	LEASE IMPROVEMENTS R'000	TOTAL R'000
Opening carrying value	8	3 246	448	1 452	2 618	7 772
Additions	531	1 155	17	-	-	1 703
Disposals	-	(48)	-	-	-	(48)
Depreciation charges	(61)	(2 240)	(154)	(354)	(831)	(3 640)
Closing carrying value	**478**	**2 113**	**311**	**1 098**	**1 787**	**5 787**
2020						
Opening carrying value	38	2 956	317	471	1 751	5 533
Additions	-	2 313	327	1 165	1 729	5 534
Disposals	-	(69)	-	-	-	(69)
Depreciation charges	(30)	(1 954)	(196)	(184)	(862)	(3 226)
Closing carrying value	**8**	**3 246**	**448**	**1 452**	**2 618**	**7 772**

5. FIXED ASSETS (CONTINUED)

	GROUP					
2021	MOTOR VEHICLES R'000	COMPUTER EQUIPMENT R'000	OFFICE EQUIPMENT R'000	FURNITURE AND FITTINGS R'000	LEASE IMPROVEMENTS R'000	TOTAL R'000
Opening carrying value	8	3 246	448	1 452	2 618	7 772
Additions	531	1 155	17	-	-	1 703
Disposals	-	(48)	-	-	-	(48)
Depreciation charges	(61)	(2 240)	(154)	(354)	(831)	(3 640)
Closing carrying value	**478**	**2 113**	**311**	**1 098**	**1 787**	**5 787**
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**

No equipment, furniture or other tangible assets are pledged as security for liabilities (2020: 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.

5. FIXED 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.

2021	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
Software	9 066	(7 823)	1 243	9 041	(7 798)	1 243
2020						
Software	9 236	(6 729)	2 507	9 211	(6 704)	2 507

	GROUP		COMPANY	
The movement in the carrying value of computer software is as follows:	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Opening carrying value	2 507	588	2 507	588
Additions	241	3 099	241	3 099
Amortisation	(1 094)	(1 180)	(1 094)	(1 180)
Reclassification	(411)	-	(411)	-
Closing carrying value	**1 243**	**2 507**	**1 243**	**2 507**

No intangible assets are pledged as security for liabilities (2020: Rnil). All intangible assets are non-current assets.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

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 three 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 2021. A desktop valuation was performed in 2020. Inputs included market related rental income and market capitalisation rates.

Opening carrying amount	177 115	151 070	-	-
Reclassification from Investment Properties held-for-sale	-	36 399	-	-
Fair value adjustments	6 365	(10 354)	-	-
Total investment properties	**183 480**	**177 115**	**-**	**-**

AMOUNTS RECOGNISED IN PROFIT AND LOSS FROM INVESMENT PROPERTIES

Interest on overdue rental debtors [1]	1 257	1 321	-	-
Investment property rental income[1]	10 267	18 713	-	-
Investment property rental recoveries [1]	5 487	7 625	-	-
Investment property expenses [2]	(51 143)	(50 996)	-	-
Total Amounts recognised in profit and loss	**(34 132)**	**(23 337)**	**-**	**-**

[1] As presented in note 2.3 - Other interest and revenue earned.

[2] As presented in the statement of comprehensive income.

5.4 INVESTMENT PROPERTIES HELD-FOR-SALE

Investment properties are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

MEASUREMENT

Investment properties held-for-sale are measured on the same basis as investment properties.

5. FIXED ASSETS (CONTINUED)	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000

RECLASSIFICATION

The investment property will be reclassified immediately when there is a change in intention to sell.

Opening carrying amount	-	36 399	-	-
Reclassification to Investment Properties	-	(36 399)	-	-
Closing carrying value	**-**	**-**	**-**	**-**

Investment properties held-for-sale are valued on the same basis as the investment properties.

There is an intention to sell properties that are not financially viable, however these sales take a considerable amount of time to conclude, and therefore due to the fact that management cannot reliably conclude that sale of these properties will be finalised within 12 months, they have been recalssififed in the current year back to investment property.

5.5 NET FAIR VALUE GAIN OR LOSS ON INVESTMENT PROPERTIES

Refer to 1.3.6 for the fair value hierarchy and accounting policy on determination of fair values.

Valuation methods and assumptions used in determining the fair value of investment property and investment property held-for-sale:

CAPITALISATION METHOD

The property portfolio is mostly made up of income producing properties, with the result that the income capitalisation method has been adopted for the determination of value. The value of the property reflects the present value of the sum of the future benefits which an owner may expect to derive from the property. These benefits are expressed in monetary terms and are based upon the estimated rentals such a property would fetch, i.e. the market-related rental between a willing landlord and tenant. The usual property outgoings are deducted to achieve a net rental, which is then capitalised at a rate an investor would require.

COMPARATIVE METHOD

Of the entire portfolio, two properties are sectional title in nature and one comprises of vacant land. These properties have been valued on the direct comparison basis, as this is how they trade in the open market. The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject property.

Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

Fair value gain/(loss) on investment properties	6 365	(10 354)	-	-
Impairments on investment properties held-for-sale	-	-	-	-
Net fair value gain and impairments	**6 365**	**(10 354)**	**-**	**-**

Investment properties are valued externally by independent valuators every three years, however this was brought forward one year to confirm whether the impact of COVID-19 on the value of the properties was completely addressed at year end. All investment properties were valued on 31 March 2021, by Spectrum. Investment properties are non-current assets.

The fair value measurement for investment property has been categorised as level 3 fair value based on **sefa**'s fair value hierarchy due to unobservable inputs used. The assumptions used in the valuations conducted were assessed to be appropriate for the current financial year.

5. FIXED ASSETS (CONTINUED)

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 9% to 15.5% (2020: 11% - 17%).

	HIGHEST	LOWEST	AVERAGE
Capitalisation percentage	15.5%	9%	12.8%

SENSITIVITY ANALYSIS FOR INPUTS TO DETERMINE FAIR VALUE

A change in 1% (2020: 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	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Market related annual income 1% increase	615	3 593	-	-
Market related annual income 1% decrease	(615)	(3 593)	-	-
Capitalisation rate 1% increase	(42)	(1 793)	-	-
Capitalisation rate 1% decrease	42	1 793	-	-
Market related expenses 1% increase	336	(1 818)	-	-
Market related expenses 1% decrease	(336)	1 818	-	-

5.6 LEASES (RIGHT-OF-USE ASSET AND LEASE LIABILITY)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee:

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

RIGHT-OF-USE ASSETS

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 5.6 and are subject to impairment in line with the Group's policy.

5. FIXED ASSETS (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

LEASE LIABILITIES

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease liability is discounted using the incremental borrowing rate. The Group's leases comprise of fixed lease payments.

As a lessor:

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Opening carrying amount	39 104	-	39 104	-
Effect of adoption of IFRS 16 as at 1 April 2019	-	48 177	-	48 177
Depreciation charge for the year	(10 657)	(9 073)	(10 657)	(9 073)
Additions	3 989	-	3 989	-
Disposals	(4 228)	-	(4 228)	-
Modifications to lease terms	-	-	-	-
Closing carrying value	**28 208**	**39 104**	**28 208**	**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:

Opening carrying amount	43 427	-	43 427	-
Effect of adoption of IFRS 16 as at 1 April 2019	-	49 559	-	49 559
Additions	3 989	-	3 989	-
Disposals	(4 228)	-	(4 228)	-
Accretion of interest	3 720	3 270	3 720	3 270
Payments	(12 883)	(9 402)	(12 883)	(9 402)
Closing carrying value	**34 025**	**43 427**	**34 025**	**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 earnings.

The lease liability is discounted using the incremental borrowing rate.

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.

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	162	176
	162	**176**

Low value assets consists of 10 printers that are leased. Remaining term on the lease at year end was 0 (2020: 11) months. The Group applies the election by class of underlying asset to which the right of use relates.

Rental income earned on a building (right-of-use asset), that is sub-leased to a third party, to the value of R5.2m (2020: R7.5m) is included in other sundry income. (Refer to note 2.3)

5. FIXED ASSETS (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
MATURITY ANALYSIS FOR LEASE LIABILITY				
Due within one year	11 001	9 266	11 001	9 266
Due after one year but within two years	9 130	10 827	9 130	10 827
Due within two to three years	10 184	9 441	10 184	9 441
Due within three to four years	3 710	10 183	3 710	10 183
Due within four to five years	-	3 710	-	3 710
Due after five years	-	-	-	-
Carrying value of lease liability	**34 025**	**43 427**	**34 025**	**43 427**
CONTRACTUAL LEASE PAYMENTS MATURITY ANALYSIS				
Due within one year	13 777	8 842	13 777	8 842
Due after one year but within two years	10 919	9 531	10 919	9 531
Due within two to three years	11 076	10 275	11 076	10 275
Due within three to four years	3 783	11 076	3 783	11 076
Due within four to five years	-	3 783	-	3 783
Due after five years	-	-	-	-
Total contractual lease payments in the next 5 years	**39 555**	**43 507**	**39 555**	**43 507**

6. FINANCE STRUCTURE AND COMMITMENTS

6.1 SHAREHOLDER'S LOAN

Opening balance	629 064	582 580	629 064	582 580
Advances	-	-	-	-
Deemed equity contribution on interest-free shareholder loan	-	-	-	-
Finance charges [1]	50 372	46 484	50 372	46 484
Total shareholder's loans	**679 436**	**629 064**	**679 436**	**629 064**

[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:

LOAN TERMS				
Subordinated and non-interest bearing. Repayable after 10 years, commencing 11 June 2024	614 768	572 183	614 768	572 183
Subordinated and non-interest bearing. Repayable biannually in equal instalments over 10 years, commencing 20 June 2023	64 668	56 881	64 668	56 881
Total shareholder's loans	**679 436**	**629 064**	**679 436**	**629 064**

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.

6. FINANCE STRUCTURE AND COMMITMENTS (CONTINUED)

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.

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 effort to recover as much of the loss as possible and to refund the Group its proportionate share of the claim recovered. Estimates of these salvage recoveries are included as an allowance in the measurement of the indemnity liability for claims The allowance is the assessment of the Group's share of the amount that can be recovered from the action against the liable third party.

LIABILITY ADEQUACY TEST

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests (the unexpired risk reserve).

THE ULTIMATE LIABILITY ARISING FROM CLAIMS MADE UNDER INDEMNITY CONTRACTS

The estimation of the ultimate liability arising from claims made under indemnity contracts is one of the Group's most critical accounting estimates. Several sources of uncertainty have to be considered in estimating the liability that the Group will ultimately be exposed to for such claims The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The Group is constantly refining the tools with which it monitors and manages risk to place the Group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which it operates means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

6. FINANCE STRUCTURE AND COMMITMENTS (CONTINUED)

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 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**
Movement recorded in profit or loss	(726)	(5 947)	(6 673)
As at 31 March 2021	**778**	**20 769**	**21 547**

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 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**
Movement recorded in profit or loss	1 469	2 873	4 342
As at 31 March 2021	**4 657**	**5 242**	**9 899**

6.2.3 TOTAL EXPOSURE	GROUP	
	2021 R'000	2020 R'000
Credit indemnities issued to financial institutions	129 000	129 403
Less technical reserves already provided	(31 446)	(33 777)
Exposure after technical reserves	**97 554**	**95 626**

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

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. 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.

6. FINANCE STRUCTURE AND COMMITMENTS (CONTINUED)

The principal valuation assumptions are as follows:	GROUP 2021 %	GROUP 2020 %
Average ultimate probability of claim	15%	13%
Claim severity	81%	81%
Claim expense rate	4%	4%
Recovery rate	10%	10%
Discount rates (per government bond yield curve)	4.65%-12.55%	5.05% - 12.99%

The sensitivity of the total provisions to the key assumptions is as follows:	2021 R'000	2020 R'000	2021 %	2020 %
Probability of claim (+10%)	1 578	394	5.4%	1.2%
Claim severity (+10%)	2 793	3 437	9.6%	10.2%
Claim expense rate (+1%)	225	251	0.8%	0.7%
Discount rates (-1%)	279	389	0.4%	0.0%

6.3 POST-RETIREMENT MEDICAL LIABILITY	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
Post-retirement medical liability	536	443	536	443

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.

ANALYSIS OF THE DEFINED POST RETIREMENT MEDICAL LIABILITY:

Present value of unfunded obligations	536	443	536	443
	536	**443**	**536**	**443**

ANALYSIS OF THE DEFINED POST RETIREMENT MEDICAL LIABILITY:

Changes in the present value of the defined benefit obligation are as follows:				
Opening post-retirement medical aid obligation	443	554	443	554
Current service cost	8	24	8	24
Interest cost	28	50	28	50
Actuarial gain	57	(185)	57	(185)
Employer benefit payments	-	-	-	-
Closing defined benefit obligation	**536**	**443**	**536**	**443**

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

Discount rate at 31 March	3.4% - 14.4% naca	5.2% - 13.6% naca
Medical inflation rate per annum	3.8% - 11.5% naca	6.2% - 10.5% naca
Take-up rate by retired employees	100%	100%
Retirement age	60 years	60 years
Pre-retirement mortality	SA85-90 Light PA (90)	SA85-90 Light PA (90)
Post retirement mortality	2 year reduction	2 year reduction

6. FINANCE STRUCTURE AND COMMITMENTS (CONTINUED)

The table below shows the sensitivity of **sefa**'s obligations, as at 31 March 2021, with respect to post-retirement medical aid benefits to key assumptions:

ASSUMPTION	VARIATION	% CHANGE IN PROVISION	CHANGE IN VALUE OF PROVISION
Long-term interest rates	1%	-9%	(48)
	-1%	10%	56
Retirement Age	+1 year	-15%	(79)
	-1 year	18%	94
Medical inflation rate [1]	1%	0%	-
	-1%	0%	-
Post-Retirement mortality [1]	+1 year	0%	-
	-1 year	0%	-

[1] The provision is not sensitive to Medical inflation/Contribution Inflation as this amount is capped. Sensitivity to post retirement mortality is not material and the amount is less than R1000.

6.4 COMMITMENTS

Items are classified as commitments where the Group has committed itself to future transactions.

6.4.1 LEASE COMMITMENTS

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

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Equipment	-	170	-	170
Within 1 year	-	170	-	170
From 2 to 5 years	-	-	-	-
More than 5 years	-	-	-	-
Total lease commitments	**-**	**170**	**-**	**170**

6.4.2 LOAN AND INDEMNITY COMMITMENTS

OFF-BALANCE SHEET ITEMS

Undrawn financing facilities approved	284 071	90 299	284 071	90 299
Undrawn credit guarantee facilities approved	148 199	567 769	-	-
Total off-balance sheet commitments	**432 270**	**658 068**	**284 071**	**90 299**

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.

Financial assets measured at amortised cost are initially recognised at the fair value received or receivable.

7. FINANCIAL RISK (CONTINUED)

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, financial instruments are measured as described below:

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss are subsequently measured at fair value and changes therein are recognised in profit or loss.

FINANCIAL INSTRUMENTS AT AMORTISED COST

Financial assets at amortised cost: Loans and advances, trade and other receivables, cash and cash equivalents are measured at amortised cost.

Financial liabilities at amortised cost: Trade and other payables and borrowings are measured at amortised cost.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire.

CREDIT ALLOWANCES ON FINANCIAL ASSETS CARRIED AT AMORTISED COST

LOANS AND ADVANCES

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.

7. FINANCIAL RISK (CONTINUED)

TRADE RECEIVABLES

Credit losses for rental debtors are based on the portfolio's collection rates and the number of outstanding payments from a debtor, as this is the best indicator for the future collectability of rental income. Credit losses on related party loans were based on historical payment trends to predict the ability of the related party to settle the loan in the future.

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

CASH AND CASH EQUIVALENTS

The expected credit loss is calculated by referencing each banks published credit rating to the probability of default based on the mapping tables published by the three major international credit rating agencies. The loss given default used is in line with guidance provided by the Basel foundation approach on banks.

7.2 FINANCIAL RISK MANAGEMENT

The Group and Company have exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk (interest rate risk). This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group and Company's risk management framework. The Board has established the Audit and Risk Committees, which are responsible for developing and monitoring the Group and Company's risk management policies. The committees report regularly to the Board of Directors on their activities.

The Group and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group and Company's activities. The Group and Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committees oversee how management monitors compliance with the Group and Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit and Risk Committees are assisted by the Internal Audit function which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committees.

7. FINANCIAL RISK (CONTINUED)

7.3 CATEGORIES OF FINANCIAL INSTRUMENTS

The table below sets out the Group and Company's classification of each class of financial assets and liabilities.

GROUP - 2021	AMORTISED COST R'000	FVTPL R'000	DESIGNATED AS AT FVTPL R'000	TOTAL R'000
ASSETS				
Loans and advances	886 686	-	-	886 686
Investments	-	29 790	-	29 790
Trade receivables	26 341	-	-	26 341
Cash and cash equivalents	2 539 835	-	-	2 539 835
Total financial assets	**3 452 862**	**29 790**	**-**	**3 482 652**
LIABILITIES				
Shareholder loans	(679 436)	-	-	(679 436)
Trade and other payables	(109 728)	-	-	(109 728)
Lease liability	(34 025)			(34 025)
Total financial liabilities	**(823 189)**	**-**	**-**	**(823 189)**
Net financial assets and liabilities	**2 629 673**	**29 790**	**-**	**2 659 463**

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	(123 877)	-	-	(123 877)
Lease liability	(43 427)	-		(43 427)
Total financial liabilities	**(796 368)**	**-**	**-**	**(796 368)**
Net financial assets and liabilities	**1 193 371**	**29 210**	**-**	**1 222 581**

7. FINANCIAL RISK (CONTINUED)

COMPANY - 2021	AMORTISED COST R'000	FVTPL R'000	DESIGNATED AS AT FVTPL R'000	TOTAL R'000
ASSETS				
Loans and advances	883 135	-	-	883 135
Investments	-	29 790	-	29 790
Trade receivables	225 674	-	-	225 674
Cash and cash equivalents	2 065 037	-	-	2 065 037
Total financial assets	**3 173 846**	**29 790**	**-**	**3 203 636**
LIABILITIES				
Shareholder loans	(679 436)	-	-	(679 436)
Trade and other payables	(93 817)	-	-	(93 817)
Lease liability	(34 025)	-	-	(34 025)
Total financial liabilities	**(807 278)**	**-**	**-**	**(807 278)**
Net financial assets and liabilities	**2 366 568**	**29 790**	**-**	**2 396 358**

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**

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.

7. FINANCIAL RISK (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

The Group and Company considers its maximum exposure to credit risk per class to be as follows:

Cash and cash equivalents	2 539 835	1 531 064	2 065 037	1 407 122
Trade receivables	26 341	24 777	225 674	203 610
Loans and advances	886 686	433 898	883 135	427 593
Investments	29 790	29 210	29 790	28 053
Total exposure at carrying amount	**3 482 652**	**2 018 949**	**3 203 636**	**2 066 378**

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 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.

	GROUP: 2021			GROUP: 2020		
RENTAL DEBTORS	0 - 30 DAYS %	30 DAYS+ %	TOTAL %	0 - 30 DAYS %	30 DAYS+ %	TOTAL %
Expected loss rate	69%	100%		53%	100%	

	0 - 30 DAYS R'000	30 DAYS+ R'000	TOTAL R'000	0 - 30 DAYS R'000	30 DAYS+ R'000	TOTAL R'000
Gross carrying amount	1 539	18 648	20 187	107	18 051	18 158
Lifetime expected credit loss	(1 067)	(18 648)	(19 715)	(56)	(18 051)	(18 107)
Net carrying amount	**472**	**-**	**472**	**51**	**-**	**51**

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.

	GROUP		COMPANY	
7.5.2 INVESTMENTS	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Standard monitoring	29 790	28 053	29 790	28 053
Special monitoring	-	1 157	-	-
Total exposure at carrying amount	**29 790**	**29 210**	**29 790**	**28 053**

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.

7. FINANCIAL RISK (CONTINUED)

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.

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.

7. FINANCIAL RISK (CONTINUED)

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.

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.

7. FINANCIAL RISK (CONTINUED)

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 to 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 the end of the 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.

7.5.3 ECONOMIC VARIABLE ASSUMPTIONS

The most significant period-end assumptions used for the ECL estimate at 31 March 2021 are set out below:

		2022	2023	2024	2025
% GDP	Base	3.62	1.91	2.40	2.00
	Downturn	(1.11)	3.23	0.94	2.94
	Optimistic	0.53	3.28	0.84	N/A
% Employment	Base	1.65	2.27	2.01	2.22
	Downturn	(2.05)	1.31	(0.72)	0.08
	Optimistic	1.18	2.10	1.74	N/A
% CPI	Base	4.59	4.67	4.69	5.22
	Downturn	4.10	3.83	3.23	3.39
	Optimistic	4.89	4.53	3.98	N/A
% HouseCE	Base	3.66	1.60	2.01	2.29
	Downturn	(1.66)	4.22	1.39	3.26
	Optimistic	0.83	2.92	1.96	N/A

7. FINANCIAL RISK (CONTINUED)

- The base scenario represents the best estimate view of expected future macroeconomic conditions;
- The downturn scenario represents a view of expected future macroeconomic conditions during a downturn period; and
- The optimistic scenario represents a view of expected future macroeconomic conditions during a period of good economic conditions.

The final Expected Credit Loss to be raised as an impairment provision under the IFRS 9 standard is calculated as an average of the ECL calculated by the model under each of the three scenarios, weighted by the probability of each of these scenarios occurring.

Probabilities assigned to the likelihood of each scenario:

SCENARIO	PROBABILITY
Base	65%
Downturn	25%
Optimistic	10%

The probabilities assigned to each likelihood are unchanged from prior year.

GROUPING OF INSTRUMENTS FOR LOSSES MEASURED ON A COLLECTIVE BASIS

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/ external supplementary data to use for modelling purposes.

7.5.4 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: 2021 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
GROUP 2021	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Standard monitoring	1 064 165	-	-	1 064 165
Special monitoring	-	80 021	-	80 021
Default	-	-	543 471	543 471
Gross carrying amount	**1 064 165**	**80 021**	**543 471**	**1 687 657**
Loss allowance	(91 514)	(121 791)	(587 666)	(800 971)
Carrying amount	**972 651**	**(41 770)**	**(44 195)**	**886 686**

7. FINANCIAL RISK (CONTINUED)

	GROUP: 2020 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
GROUP 2020	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**

	COMPANY 2021 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
GROUP 2021	STAGE 1	STAGE 2	STAGE 3	TOTAL
Standard monitoring	1 064 165	-	-	1 064 165
Special monitoring	-	80 021	-	80 021
Default	-	-	515 647	515 647
Gross carrying amount	**1 064 165**	**80 021**	**515 647**	**1 659 833**
Loss allowance	(91 381)	(121 716)	(563 600)	(776 697)
Carrying amount	**972 784**	**(41 695)**	**(47 953)**	**883 136**

	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
GROUP 2020	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**

7. FINANCIAL RISK (CONTINUED)

7.5.5 COLLATERAL

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

GROUP: 2021	GROSS EXPOSURE	CREDIT LOSS ALLOWANCE	CARRYING AMOUNT	FAIR VALUE OF COLLATERAL HELD
Stage 1	1 064 165	(91 514)	972 651	18 148
Stage 2	80 021	(121 791)	(41 770)	2 598
Stage 3	543 471	(587 666)	(44 195)	17 989
	1 687 657	**(800 971)**	**886 686**	**38 735**

COMPANY: 2021	GROSS EXPOSURE	CREDIT LOSS ALLOWANCE	CARRYING AMOUNT	FAIR VALUE OF COLLATERAL HELD
Stage 1	1 064 165	(91 381)	972 784	18 148
Stage 2	80 021	(121 716)	(41 695)	2 598
Stage 3	515 647	(563 600)	(47 953)	17 989
	1 659 833	**(776 697)**	**883 136**	**38 735**

	GROUP		COMPANY	
NATURE OF COLLATERAL HELD:	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Vehicles under instalment sale agreement	7 290	583	7 290	583
Equipment under instalment sale agreement	16 056	7 197	16 056	7 197
Special notarial bonds over moveable assets	6 404	237	6 404	237
Mortgage bonds over fixed property	8 985	7 058	8 985	7 058
Cession over loan portfolio	0	2 951	0	2 951
Total collateral held	**38 735**	**18 026**	**38 735**	**18 026**

No collateral repossessed during FY 2020/21 financial year and therefore no net proceeds for both Group and Company. (FY 2019/20: no collateral repossessed during FY 2020/21 financial year and therefore no net proceeds for both Group and Company.)

The impact of collateral included in the Expected Credit Loss amounts to R35.3 million. The impact was limited to the value of the Expected Credit Loss per facility. No collateral values were included in the calculation of the expected credit loss in prior year and the collateral was not re-valued at 31 March 2020 as the external team that was planned to inspect the collateral were not able to do the site visits during South Africa's national lockdown.

Collateral was valued externally by independent team of valuers as at 31 March 2021.

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;

7. FINANCIAL RISK (CONTINUED)

- 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 2021	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
Loss allowance as at 1 April 2020	38 839	74 429	594 925	708 193
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(9 683)	15 646	-	5 963
Transfer from Stage 1 to Stage 3	(7 492)	-	33 313	25 821
Transfer from Stage 2 to Stage 3	-	(46 649)	55 651	9 002
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	6 077	(26 237)	-	(20 160)
Transfer from Stage 3 to Stage 2	-	54	(386)	(332)
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/ LGDs/ EADs	(5 923)	(1 230)	2 676	(4 477)
New financial instruments issued	70 181	105 879	31 184	207 244
Financial assets settled during the year	(485)	(103)	(73 523)	(74 111)
Financial assets written off	-	-	(56 174)	(56 174)
Total net profit or loss charge during the year	**52 675**	**47 360**	**(7 259)**	**92 776**
Loss allowance as at 31 March 2021	**91 514**	**121 789**	**587 666**	**800 969**

GROUP 2020	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
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**

7. FINANCIAL RISK (CONTINUED)

COMPANY 2021	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
Loss allowance as at 1 April 2020	38 706	74 354	538 915	651 975
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(9 683)	15 646	-	5 963
Transfer from Stage 1 to Stage 3	(7 492)	-	33 313	25 821
Transfer from Stage 2 to Stage 3	-	(46 649)	55 651	9 002
Decrease in credit risk				-
Transfer from Stage 2 to Stage 1	6 077	(26 237)	-	(20 160)
Transfer from Stage 3 to Stage 2	-	54	(386)	(332)
Transfer from Stage 3 to Stage 1	-	-	-	-
Changes in PDs/ LGDs/ EADs	(5 923)	(1 230)	2 676	(4 477)
New financial instruments issued	70 181	105 879	31 184	207 244
Financial assets settled during the year	(485)	(69)	(44 719)	(45 273)
Financial assets written off	-	-	(53 067)	(53 067)
Total net profit or loss charge during the year	**52 675**	**47 394**	**24 652**	**124 721**
Loss allowance as at 31 March 2021	**91 381**	**121 748**	**563 567**	**776 696**

COMPANY 2020	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
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)	-	(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**

7.5.7 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 are 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 R28m were written off during the year in the Group (Company: R53m).

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

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 R186m (2020: R20.7m) were modified during the year in both Group and Company.

The additional interest on loans that were modified amounts to R6m (2020:R3.1m).

7.5.9 LOANS AND ADVANCES: SECTORAL ANALYSIS

CARRYING VALUE PER SECTOR - LOANS AND ADVANCES

Agriculture, forestry and fishing	21 233	17 201	18 913	13 789
Basic iron and steel	5 677	-	5 677	-
Beverages	5 596	1 306	5 596	1 306
Building construction	49 507	18 508	49 507	17 860
Business services	1 194	430	1 194	430
Catering and accommodation services	2 995	189	2 995	189
Electricity, gas and steam	32 218	-	32 218	-
Finance and insurance	191 351	159 948	191 351	159 948
Food	11 426	9 628	11 426	9 406
Footwear	2 395	-	2 395	-
Furniture	1 603	-	1 603	-
Glass and glass products	885	-	885	-
Machinery and equipment	868	-	868	-
Medical, dental and other health and veterinary services	2 764	5 740	2 764	5 291
Metal products excluding machinery	7 342	5 011	7 342	5 011
Motor vehicles, parts and accessories	94 651	106 742	94 651	106 742
Non-metallic minerals	35 181	1 460	35 181	1 460
Other community, social and personal services	107 253	454	107 253	454
Other chemicals and man-made fibres	7 564	1 730	7 564	1 730
Other industries	10 874	18 286	10 874	18 286
Other mining	30 246	4 595	30 246	4 595
Other services	3 681	4 560	2 449	3 922
Paper and paper products	119	-	119	-
Plastic products	10 126	3 194	10 126	3 194
Printing, publishing and recorded media	-	403	-	83
Television, radio and communication equipment	-	74	-	74
Textiles	6 541	178	6 541	178
Transport and storage	67 972	39 846	67 972	39 846
Water supply	-	-	-	-
Wearing apparel	3 816	-	3 816	-
Wholesale and retail trade	159 967	33 568	159 968	32 952
Wood and wooden products	11 642	847	11 642	847
Loans and advances net of impairments	**886 687**	**433 898**	**883 136**	**427 593**

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		
GROUP - 2021	Carrying value R'000	Total R'000	Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
Trade payables (including non-financial liabilities)	62 346	62 346	62 346	-	-
Deferred grants payable	2 639 237	2 639 237	1 501 097	1 138 140	-
Managed funds	69 704	69 704	69 704	-	-
Credit guarantees/indemnities issued to financial institutions [1]	31 446	31 446	31 446	-	-
Shareholder loans	679 436	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**3 482 169**	**3 725 944**	**1 664 593**	**1 153 140**	**908 211**
Undrawn financing facilities approved	-	284 071	284 071	-	-
Operating lease commitments	-	-	-	-	-
Liabilities for lease obligations	34 025	52 713	13 002	39 711	-
Undrawn guarantees/indemnities approved [2]	-	144 890	144 890	-	-
Total off-balance sheet items	**34 025**	**481 674**	**441 963**	**39 711**	**-**
Total contractual maturities	**3 516 194**	**4 207 618**	**2 106 556**	**1 192 851**	**908 211**

Credit indemnities issued	R129m.	Actuarial reserves	R33.8m
Undrawn indemnities approved	R567.8m	Possible future claims	R148m

[1] Total credit guarantees/indemnities issued to financial institutions amount to R108.6m. 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 amount to R567.8m. It is estimated that R148m 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)

GROUP - 2020	Carrying value R'000	Total R'000	GROUP Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
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 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.

COMPANY - 2021	Carrying value R'000	Total R'000	GROUP Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
Trade payables (including non-financial liabilities)	46 435	46 435	46 435	-	-
Managed funds	69 704	69 704	69 704	-	-
Shareholder loans	679 436	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**795 575**	**1 039 350**	**116 139**	**15 000**	**908 211**
Operating lease commitments	-	-	-	-	-
Liabilities for lease obligations	34 025	52 713	13 002	39 711	-
Undrawn financing facilities approved	-	284 071	284 071	-	-
Total off-balance sheet items	**34 025**	**336 784**	**297 073**	**39 711**	**-**
Total contractual maturities	**829 600**	**1 376 134**	**413 212**	**54 711**	**908 211**

7. FINANCIAL RISK (CONTINUED)

COMPANY - 2020	Carrying value R'000	Total R'000	GROUP Within 1 year R'000	2 - 5 years R'000	More than 5 years R'000
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**

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.

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:

VARIABLE RATE INSTRUMENTS	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
Financial assets	4 178 059	2 624 455	3 655 163	2 419 773
Financial liabilities	(297 012)	-	(297 012)	-
Total variable rate instruments	**3 881 049**	**2 624 455**	**3 358 151**	**2 419 773**

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

A change in 250 basis points (2020: 250 basis points) in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

250 basis points increase (2020: 250 basis points)	97 026	65 611	83 954	60 494
250 basis points increase (2020: 250 basis points)	**(97 026**	**(65 611)**	**(83 954)**	**(60 494)**

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.

7.9 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.

7. FINANCIAL RISK (CONTINUED)

- Risk assessment

  The Group relies on a rigorous process followed by the indemnified parties before they propose and accept a specific insurance risk. Some of the factors considered during the underwriting stage include:

  - past loss experience associated with the proposed risk
  - indemnifiable interest
  - probability of success
  - level of mitigation procedures adopted
  - location of the proposed risk
  - past and proposed rating terms of the risk
  - scope and terms of cover considered
  - results of surveys completed, where applicable
  - possible variations that may be applied to the risks indemnified

CONCENTRATION OF INSURANCE RISK

The concentration of insurance risk is managed by different levels of diversification mainly through the financial institutions that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country.

7.10 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).

7. FINANCIAL RISK (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Loans and advances to clients	1 687 655	1 142 091	1 659 831	1 079 568
Less: Credit loss allowance	(800 969)	(708 193)	(776 696)	(651 975)
Loans and advances net of credit losses	**886 686**	**433 898**	**883 135**	**427 593**
RECONCILIATION CREDIT LOSS ALLOWANCES OF LOANS AND ADVANCES				
Credit loss allowance for loans and advances - opening balance	708 193	768 590	651 975	710 203
Credit loss for the year	148 950	148 963	177 788	146 421
IFRS 9 adjustment - increase in impairments	-	-	-	-
Bad debts written off during the year	(56 174)	(209 360)	(53 067)	(204 649)
Credit loss allowance for loans and advances - closing balance	**800 969**	**708 193**	**776 696**	**651 975**
MATURITY OF LOANS AND ADVANCES				
Due within one year	738 045	842 389	710 817	781 212
Due after one year but within two years	433 265	179 803	432 912	178 950
Due within two to three years	225 478	56 287	225 235	55 795
Due within three to four years	127 457	39 250	127 457	39 250
Due within four to five years	85 474	24 362	85 474	24 361
Due after five years	77 936	-	77 936	-
Credit loss allowances on loans and advances	(800 969)	(708 193)	(776 696)	(651 975)
Loans and advances net of credit loss allowances	**886 686**	**433 898**	**883 135**	**427 593**

The loans and advances in the **sefa** portfolio are not traded in active markets. **sefa** is a development finance institution and the loans and advances are provided to clients at terms that are below commercial market rates and credit risk is measured in consideration with developmental impact as part of granting loans. The loans and advances are initially fair valued using prinicipal amount advanced to clients, as per loan agreements, and interest rates per the loan agreements, using the discounted cash flow method. The carrying amount of the loans and advances is a reasonable approximation of their fair value. Refer to note 7.1 and 7.4 for further detail.

7.11 INVESTMENTS

Investments are non-derivative financial assets consisting of equity investments where the Group does not control the entity to such an extent where consolidation is required and excludes investments where the group has significant influence or joint control.

The terms of these investments do not solely represent the payment of principal and interest and is therefore measured at FVTPL. These assets are not held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI') neither are these assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI'). These assets accordingly are carried at FVTPL.

Opening carrying value	29 210	53 894	28 053	50 931
Movement on fair value adjustments	(3 495)	(18 647)	(3 860)	(15 463)
(Disposal)/Aquisition of investments	4 075	(6 037)	5 597	(7 415)
Closing carrying value	**29 790**	**29 210**	**29 790**	**28 053**

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 of the underlying entity already includes impacts for COVID-19 and no further adjustments were considered necessary.

The fair value movement in the current financial year was R3.5 million (2020: R18.65 million), and it was recognised in profit or loss. There was no realised gain or loss in the financial statements.

8. EQUITY STRUCTURE

8.1 SHARE CAPITAL

Share capital consists of ordinary shares and is classified as equity. Issued share capital is measured at the fair value of the proceeds received less any directly attributable issue costs. An amount equal to the Par value of the shares issued is presented as share capital. Subsequent to initial recognition, equity is not re-measured.

	GROUP		COMPANY	
	2021	2020	2021	2020
AUTHORISED	R'000	R'000	R'000	R'000
500 000 000 ordinary shares at R1 each	500 000	500 000	500 000	500 000
ISSUED AND PAID				
308 300 000 ordinary shares at R1 each	308 300	308 300	308 300	308 300

Share Capital is fully paid.

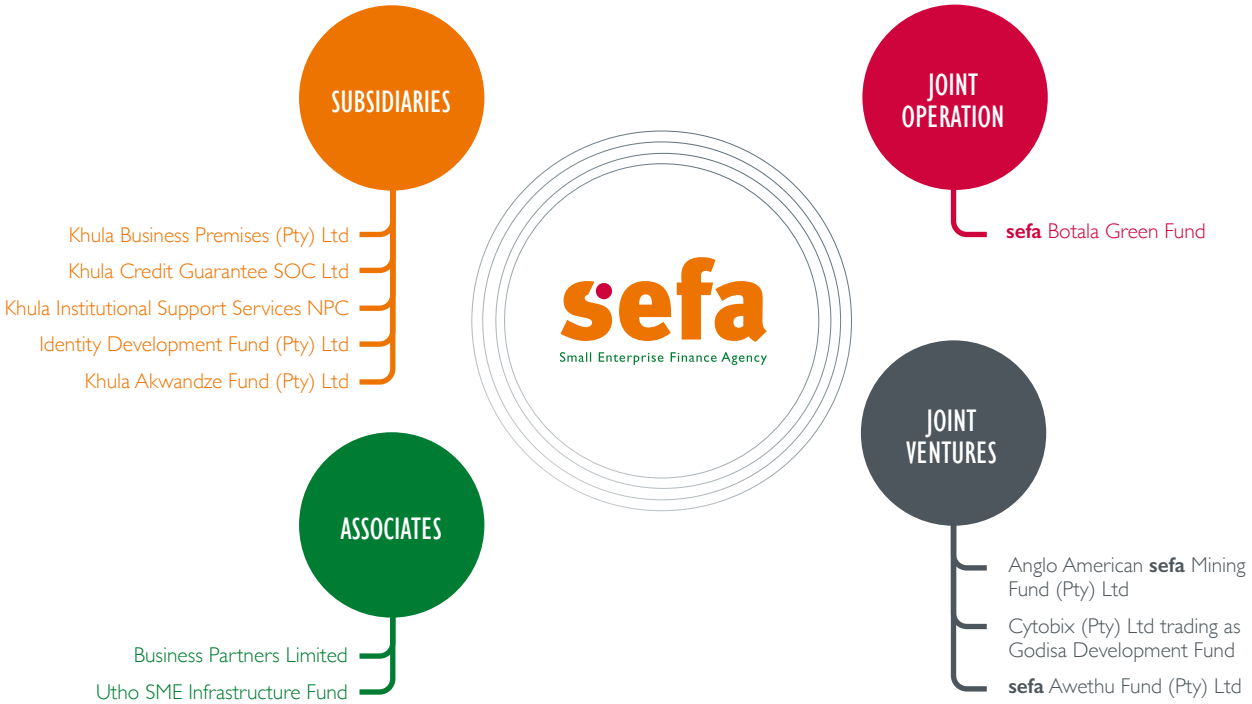
8.2 SHAREHOLDER RESERVES

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

Opening shareholder reserves	2 103 996	1 862 543	2 103 996	1 862 543
Government allocations advanced by the shareholder	196 786	241 453	196 786	241 453
Closing shareholder reserves	**2 300 782**	**2 103 996**	**2 300 782**	**2 103 996**

9. GROUP COMPOSITION

9.1 INTEREST IN OTHER ENTITIES AND OPERATIONS



9. GROUP COMPOSITION (CONTINUED)

SUBSIDIARIES		PRINCIPAL PLACE OF BUSINESS
Identity Development Fund Partnership	100%	21 Fricker Road, Illovo, Johannesburg
Khula Akwandze Fund (Pty) Ltd	75%	Mhlathi Farm, 1320 Malelane, Mpumalanga
Khula Business Premises (Pty) Ltd	100%	11 Byls Bridge Boulevard, Doringkloof, Centurion
Khula Credit Guarantee SOC Ltd	100%	11 Byls Bridge Boulevard, Doringkloof, Centurion
Khula Institutional Support Services NPC	100%	11 Byls Bridge Boulevard, Doringkloof, Centurion
ASSOCIATES		
Business Partners Limited	22%	37 West Street, Houghton Estate, Johannesburg
The Utho SME Infrastructure Fund	49%	2nd Floor, Progress House, 354 Rivonia Boulevard, Johannesburg
JOINT VENTURES		
Anglo **sefa** Mining Fund (Pty) Ltd	50%	44 Main Street, Johannesburg
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	50%	11 Byls Bridge Boulevard, Doringkloof, Centurion
sefa Awethu Youth Fund (Pty) Ltd	50%	11 Kotze Street, Braamfontein, Johannesburg
JOINT OPERATION		
sefa Botala Green Fund	50%	11 Byls Bridge Boulevard, Doringkloof, Centurion

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	
	2021	2020
INVESTMENTS IN SUBSIDIARIES	R'000	R'000
Unlisted shares in subsidiaries	422 837	55 000
Loans receivable	31 612	67 019
Total exposure to subsidiaries before impairments	454 449	122 019
Impairments on investments in subsidiaries	(44 718)	(70 076)
Total exposure to subsidiaries net of impairments	**409 731**	**51 943**

9. GROUP COMPOSITION (CONTINUED)

COMPANIES	2021 % interest	2020 % interest	Nature of activities	2021 Exposure before impairments R'000	2020 Exposure before impairments R'000
Identity Development Fund Partnership	100%	100%	SME Financing	26 000	28 000
Khula Akwandze Fund (Pty) Ltd	75%	75%	SME Financing	5 612	11 057
Khula Business Premises (Pty) Ltd	100%	100%	Property rental	-	-
Khula Credit Guarantee SOC Ltd	100%	100%	Credit indemnities	422 837	55 000
Khula Institutional Support Services NPC	100%	100%	Capacity building	-	-
Small Business Growth Trust Fund [2]	0%	81%	SME Financing	-	27 962
Exposure to subsidiaries before impairments				**454 449**	**122 019**

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.

[2] Refer to note 9.2.1 for disposal of subsidiary

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

	GROUP	
AUTHORISED	2021 R'000	2020 R'000
Profits	577	-
Losses	(65 699)	(90 984)
Aggregate net loss from subsidiaries	**(65 122)**	**(90 984)**

9.2.1 DERECOGNITION OF SMALL BUSINESS GROWTH TRUST

On 2 October 2020, following an arbitration process, a settlement agreement was reached and resulting outcome was the dissolution of the Small Business Growth Trust.

At the date of dissolution the carrying amounts of the Small Business Growth Trust were as follows:

Loans and advances [1]	-
Cash and cash equivalents	28
Total Current Assets	28
Total Assets	28
Trade and other payables	(7 995)
Total Current Liabilities	(7 995)
Total Liabilities	(7 995)
Total negative net asset value	(7 967)
Accounting gain on dissolution of the Small Business Growth Trust	7 967

The accounting gain on dissolution of subsidiary was included in other income for the group at 31 March 2021.

[1] Loans and advances balance of R29 710 410.00 was fully impaired and therefore carrying value of nil at the date of dissolution

9. GROUP COMPOSITION (CONTINUED)

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	
INVESTMENTS IN JOINT OPERATIONS	2021 R'000	2020 R'000
Loans receivable	19 084	29 000
Impairments of investments in joint operations	(19 084)	(29 000)
Total exposure to joint operations net of impairments	**-**	**-**

COMPANIES	2021 % interest	2020 % interest	Nature of activities	2021 Exposure before impairments R'000	2020 Exposure before impairments R'000
sefa Botala Green Fund	50%	50%	SME Financing	19 084	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.

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

	GROUP	
	2021 R'000	2020 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	
INVESTMENTS IN ASSOCIATES	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Unlisted shares in associates	98 622	98 622	98 622	98 622
Accumulated equity-accounted income, losses and impairments	653 376	627 941	-	-
Loans receivable	29 366	29 368	29 366	29 367
Impairment of loans	-	-	(28 994)	(29 003)
Total exposure to associates	**781 364**	**755 931**	**98 994**	**98 986**

9. GROUP COMPOSITION (CONTINUED)

ASSOCIATE	2021 % interest	2020 % interest	Nature of activities	COMPANY 2021 Total company exposure before impairments R'000	COMPANY 2020 Total company exposure before impairments R'000
Business Partners Limited	22%	22%	SME Financing	98 622	98 622
The Utho SME Infrastructure Fund	49%	49%	SME Financing	29 366	29 368
				1 27 988	**127 990**

TOTAL EXPOSURE TO ASSOCIATES BEFORE IMPAIRMENTS

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:

The aggregate amounts attributable to **sefa** were as follows:

STATEMENT OF FINANCIAL POSITION		
Non-current assets	5 686 096	4 575 791
Current assets	837	1 051 947
Non-current liabilities	(2 123 434)	(1 818 751)
Current liabilities	(76)	(362 275)
	3 563	**3 446**
Net assets at 100%	**423**	**712**
Group's share of net assets	751 998	726 565
Loan to associate	29 366	29 366
Costs capitalised on shares acquired	-	-
Total exposure to associates	**781 364**	**755 931**

STATEMENT OF COMPREHENSIVE INCOME		
Revenue	470 874	495 833
Expenses	(375 143)	(439 607)
Other comprehensive income	21 685	(18 178)
Profit and total other comprehensive income at 100%	117 416	38 048
Group's share of loss and total comprehensive income	25 433	10 237

[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

INVESTMENTS IN JOINT VENTURES	GROUP 2021 R'000	GROUP 2020 R'000	COMPANY 2021 R'000	COMPANY 2020 R'000
Loans receivable	188 185	184 628	188 185	184 628
Accumulated equity-accounted income, losses and impairments	(47 275)	(67 008)	-	-
Impairment of loans	-	-	(53 855)	(60 912)
Total exposure to joint ventures	**140 910**	**117 620**	**134 330**	**123 716**

Investments in joint arrangements were assessed and it was concluded that these agreements should be classified as joint ventures. In performing the assessment, the group considered the structure of the arrangements, the legal form of any separate vehicle, the contractual terms of the arrangements and other facts and circumstances.

COMPANIES	2021 % interest	2020 % interest	Nature of activities	2021 Total exposure R'000	2020 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	43 603	40 046
sefa Awethu Youth Fund (Pty) Ltd	50%	50%	SME Financing	60 000	60 000
Total exposure to joint ventures before impairments				**188 185**	**184 628**

The aggregate amounts attributable to **sefa** were as follows:

STATEMENT OF FINANCIAL POSITION	GROUP 2021 R'000	GROUP 2020 R'000
Non-current assets	102 333	62 386
Current assets	195 435	196 848
Non-current liabilities	-	-
Current liabilities	(356 541)	(357 128)
Net assets at 100%	**(58 773)**	**(97 894)**
Group's share of net assets	(47 275)	(67 008)
Loans to joint ventures	188 185	184 628
Total exposure to joint ventures	**140 910**	**117 620**
STATEMENT OF COMPREHENSIVE INCOME		
Revenue	18 244	27 429
Expenses	13 537	(41 407)
Total other comprehensive income / (Loss) at 100%	**31 781**	**(13 978)**
Group's share of total comprehensive income / (loss)	**23 183**	**(527)**

There are no significant restrictions on the ability of the joint ventures to transfer funds to **sefa** in the form of cash dividends or to repay loans advanced. There are no additional risks associated with **sefa**'s investments other than impairment recognised and the risks identified in the financial risk management note. All investments in joint ventures are non-current assets.

9. GROUP COMPOSITION (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
9.6 PROFIT FROM EQUITY ACCOUNTED INVESTEES				
PROFIT/ (LOSS) FROM EQUITY ACCOUNTED INVESTEES				
Anglo **sefa** Mining Fund (Pty) Ltd	19 872	(13 983)	-	-
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	2 966	532	-	-
sefa Awethu Youth Fund (Pty) Ltd	345	12 924	-	-
Income from joint ventures	**23 183**	**(527)**	**-**	**-**
LOSS AND OTHER COMPREHENSIVE INCOME FROM ASSOCIATES				
Business Partners Limited [1]	25 425	9 854	-	-
The Utho SME Infrastructure Fund	8	383	-	-
Income from associates	**25 433**	**10 237**	**-**	**-**
Profit from equity accounted investees	43 941	13 629	-	-
Other comprehensive (loss)/income from equity accounted investees	4 675	(3 919)	-	-
Total profit and other comprehensive income from equity investees	**48 616**	**9 710**	**-**	**-**

[1] The income from Business Partners consists of R20.75m profit (FY 2019/20: R13.8m) and R4.67m (FY 2019/20: R3.9m other comprehensive loss) 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
Department of Trade, Industry and Competition (the **dtic**)	Shareholder of the IDC
Business Partners Limited	An associate of **sefa**
The Utho SME Infrastructure Fund	An associate of **sefa**
Godisa Supplier Development Fund (Pty) Ltd	A joint venture of **sefa**
Anglo **sefa** Mining Fund (Pty) Ltd	A joint venture of **sefa**
sefa Awethu Youth Fund (Pty) Ltd	A joint venture of **sefa**
sefa Botala Green Fund	A joint operation of **sefa**
Industrial Development Corporation (IDC)	Parent and controlling party of **sefa**
Khula Business Premises (Pty) Ltd	Wholly owned subsidiary of **sefa**
Khula Credit Guarantee SOC Ltd	Wholly owned subsidiary of **sefa**
Khula Institutional Support Services NPC	Wholly owned subsidiary of **sefa**
Khula Land Reform Empowerment Facility	Wholly owned subsidiary of **sefa** [1]

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated in the Group financial statements, these are however not eliminated in the individual Company financial statements.

10. RELATED PARTIES AND DIRECTORS EMOLUMENTS (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
The following transactions were entered into with related parties:				
RENTAL INCOME RECEIVED FROM RELATED PARTIES:				
the **dtic**	5 214	7 448	5 214	7 448
Total rental income from related parties	**5 214**	**7 448**	**5 214**	**7 448**
INVESTMENT INCOME RECEIVED FROM RELATED PARTIES				
Interest on cash balances managed by IDC	45 820	32 765	29 410	29 410
MANAGEMENT FEES PAID TO RELATED PARTIES FOR TRAVEL MANAGEMENT				
IDC	451	731	451	731
MANAGEMENT FEES CHARGED TO RELATED PARTIES				
Khula Land Reform Empowerment Facility [1]	9 125	8 804	9 125	8 804
Khula Credit Guarantee SOC Ltd	-	-	7 355	6 144
Khula Institutional Support Services NPC [2]	(524)	(467)	3 492	3 113
Khula Business Premises (Pty) Ltd	-	-	12 139	13 303
Godisa Supplier Development Fund (Pty) Ltd	-	-	3 450	3 000
Total management fees charged to related parties	**8 601**	**8 337**	**35 561**	**34 364**
RELATED PARTY BALANCES RECEIVABLE/(PAYABLE)				
Khula Credit Guarantee SOC Ltd [3]	-	-	17 641	7 206
Khula Land Reform Empowerment Facility [1]	7 904	8 480	7 904	8 480
Khula Institutional Support Services NPC [3]	-	-	4 530	3 606
Khula Business Premises (Pty) Ltd [4]	-	-	417 694	354 027
Khula Business Premises (Pty) Ltd - impairment [4]	-	-	(226 058)	(173 943)
IDC - Cash managed	78 649	424 674	51 178	388 866
IDC - Shareholder's loan (liability) [5]	(679 436)	(629 064)	(679 436)	(629 064)
IDC - Shareholder's loan (equity) [5]	(2 300 782)	(2 103 996)	(2 300 782)	(2 103 996)
Aggregated related party balances payable	**(2 893 665)**	**(2 299 906)**	**(2 707 329)**	**(2 144 818)**

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

[2] The management fee charged to Khula Institutional Support NPC reflects a negative amount on consolidated level due to the subsidiary not being able to claim the VAT charged on the management fee. The subsidiary company is not a registered VAT vendor.

[3] Any outstanding related party balances are unsecured and will be settled in cash. No guarantees have been given or received.

[4] The loan issued to Khula Business Premises (Pty) Ltd is subordinated and bears interest at 75% of the prime lending rate. An impairment of R121m has been raised on the loan in the **sefa** Company.

[5] Refer to note 6.1 for specific terms

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

No material contracts were entered into involving the interest of any director or executive management member. All compensation paid to key management is disclosed under note 10.2.

10. RELATED PARTIES AND DIRECTORS EMOLUMENTS (CONTINUED)

10.2 DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Prescribed officers as prescribed by the Companies Act, are individuals who, despite not being a director of the Company:

- exercise general executive control over and management of the whole, or a significant portion, of the business and activities of the Company; or
- regularly participate 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	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Mr M Mahosi [3]	2019/08/01	-	926	409	725	340
Ms D Mabuza	2019/08/01	-	353	198	353	198
Ms M Makara	2019/08/01	2021/05/31	466	259	405	259
Mr J Kganyago	2019/08/01	-	531	300	460	300
Mr M Radebe	2019/08/01	-	205	141	205	141
LFV Mosupye [2]	2014/12/04	-	118	38	28	-
Ms S Mudau	2020/10/01	-	260	-	240	-
Ms Z Ngcobo	2020/10/01	-	269	-	249	-
Ms H Tsoadi [1]	2020/10/01	-	200	-	180	-
Ms N Mlonzi	2019/08/01	2020/07/31	110	149	110	149
HN Lupuwana-Pemba	2012/09/01	2019/06/30	-	117	-	117
NA Dlamini	2016/10/01	2019/07/31	-	174	-	174
NS Dlamini [1]	2016/10/01	2020/07/31	83	237	73	237
C Groves	2016/10/01	2019/07/31	-	177	-	177
PM Mainganya [1]	2016/10/01	2019/07/31	-	81	-	81
K Molewa	2016/10/01	2019/07/31	-	176	-	176
KK Moloto	2016/10/01	2019/07/31	-	198	-	198
NA Osman	2016/10/01	2019/07/31	-	123	-	123
HR Ralinala	2016/10/01	2019/07/31	-	196	-	196
Total directors' fees paid			**3 521**	**2 973**	**3 028**	**2 866**

[1] Directors fees for the services rendered were paid to the IDC.

[2] This director only serves on the Board of the subsidiary company, KCG.

[3] The group amounts for 2021 and 2020 include remuneration paid to the director by Business Partners Limited (an associate of the **sefa** Group).

10. RELATED PARTIES AND DIRECTORS EMOLUMENTS (CONTINUED)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
10.2.2 EXECUTIVE MANAGEMENT				
EXECUTIVE MANAGEMENT REMUNERATION				
Employment benefits	12 678	12 680	12 678	12 680
Post-employment benefits	-	-	-	-
Total executive management remuneration	**12 678**	**12 680**	**12 678**	**12 680**

2021

EXECUTIVE	BASIC SALARY AND ACTING ALLOWANCE R'000	INCENTIVE BONUS (SHORT-TERM) R'000	INCENTIVE BONUS (LONG-TERM) R'000	RETIREMENT, MEDICAL AND OTHER BENEFITS R'000	TOTAL R'000
M Matshamba [1]	1 144	-	-	203	1 347
SA Molepo [2]	1 349	-	-	253	1 602
RV Ralebepa	2 198	-	-	424	2 622
B Sefolo	2 130	-	-	345	2 475
N Shwala	2 202	-	-	273	2 475
NS Mbatha	1 821	-	-	336	2 157
Total executive management remuneration	**10 844**	**-**	**-**	**1 834**	**12 678**

2020

EXECUTIVE	BASIC SALARY AND ACTING ALLOWANCE R'000	INCENTIVE BONUS (SHORT-TERM) R'000	INCENTIVE BONUS (LONG-TERM) R'000	RETIREMENT, MEDICAL AND OTHER BENEFITS R'000	TOTAL R'000
SA Molepo [2]	2 752	-	-	448	3 200
VV Matsiliza [4]	150	-	-	1 079	1 229
GN Nadasan [5]	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 [3]	635	-	-	122	757
Total executive management remuneration	**9 428**	**-**	**-**	**3 252**	**12 680**

[1] Appointed 1 November 2020

[2] Seconded to the company by the National Empowerment Fund from 1 December 2018 up to 30 September 2020

[3] Appointed 1 November 2019

[4] Resigned 30 April 2019

[5] Resigned 31 July 2019

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 (FY 2019/20: 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.

	COMPANY	
FRUITLESS AND WASTEFUL EXPENDITURE	2021 R'000	2020 R'000
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.

IRREGULAR EXPENDITURE		
Opening balance relating to the prior year	7 529	-
Relating to the current year	-	-
Condoned by Accounting Authority	-	7 529
Closing balance	-	-
	7 529	**7 529**

All items reported as irregular and wasteful were above the transactional significance level of R234 987.

12. FAIR VALUE MEASURMENT

12.1 FAIR VALUE MEASURMENT 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.

12. FAIR VALUE MEASURMENT (CONTINUED)

GROUP - 2021	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000	TOTAL R'000
ASSETS MEASURED AT FAIR VALUE				
Investments	-	-	29 790	29 790
	-	**-**	**29 790**	**29 790**
LIABILITIES NOT MEASURED AT FAIR VALUE				
Shareholder's loans	-	-	679 436	679 436
	-	**-**	**679 436**	**679 436**
GROUP - 2020				
ASSETS MEASURED AT FAIR VALUE				
Investments	-	-	29 210	29 210
	-	**-**	**29 210**	**29 210**
LIABILITIES NOT MEASURED AT FAIR VALUE				
Shareholder's loans	-	-	629 064	629 064
	-	**-**	**629 064**	**629 064**
COMPANY - 2021				
ASSETS MEASURED AT FAIR VALUE				
Investments	-	-	29 790	29 790
	-	**-**	**29 790**	**29 790**
LIABILITIES NOT MEASURED AT FAIR VALUE				
Shareholder's loans	-	-	679 436	679 436
	-	**-**	**679 436**	**679 436**
COMPANY - 2020				
ASSETS MEASURED AT FAIR VALUE				
Investments	-	-	28 053	28 053
	-	**-**	**28 053**	**28 053**
LIABILITIES NOT MEASURED AT FAIR VALUE				
Shareholder's loans	-	-	629 064	629 064
	-	**-**	**629 064**	**629 064**

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 R3.5 million (2020: R18.65 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 2021 or 2020.

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

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. FAIR VALUE MEASURMENT (CONTINUED)

12.2 FAIR VALUE MEASURMENT OF NON-FINANCIAL ASSETS

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

GROUP - 2021	LEVEL 1 R'000	LEVEL 2 R'000	LEVEL 3 R'000	TOTAL R'000
ASSETS				
Investment properties	-	-	183 480	183 480
	-	**-**	**183 480**	**183 480**
GROUP - 2020				
ASSETS				
Investment properties	-	-	177 115	177 115
Investment properties held-for-sale	-	-	-	-
	-	**-**	**177 115**	**177 115**
COMPANY - 2021				
ASSETS MEASURED AT FAIR VALUE				
Investments	-	-	-	-
	-	**-**	**-**	**-**
COMPANY - 2020				
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 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 9% to 15.5% (FY 2019/20: 11% - 17%).

The investment properties were valued by independent valuators in 2021 using market related rentals and market related capitalisation rates. The significant inputs and assumptions are developed in close consultation with management.

Refer to note 5.4 and note 5.5 for the reconciliation of the carrying amounts of non-financial assets classified within Level 3.

13. EVENTS AFTER THE REPORTING PERIOD

13.1 EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period that would require disclosure in the financial statements.

HOW TO REACH US

For more information regarding the sefa's financial offerings or other non-financial assistance, call our Client Liaison Centre on 012 748 9600

Write to us at helpline@**sefa**.org.za.

Alternatively, you can visit any of our Regional Offices near you or our website:

www.**sefa**.org.za

GAUTENG REGION

JOHANNESBURG OFFICE (GAUTENG SOUTH)

17 Empire Road, Hillsidehouse, Parktown, Johannesubrg, 2193

Tel: 011 484 0889/01 484 0850

e-mail: **sefa**gpeast@**sefa**.org.za

RIVERSANDS OFFICE (GAUTENG NORTH)

Riversands Incubation Hub, Block 3, 8 Incubation Drive, Riverside View, Extension 15, Midrand

Tel: 087 288 6000

sefagpnorth@**sefa**.org.za

FREE STATE REGION

BLOEMFONTEIN OFFICE

4 and 5, Preller Square, Graaf Reinet Street, Dan Pienaar, Bloemfontein
Tel: 051 436 0150
sefafs@**sefa**.org.za

SEDA WELKOM

1 Reinet Street, Welkom
Tel: 057 916 1960
sefafs@**sefa**.org.za

SEDA TROMPSBURG

53Voortrekker Street, Khoisan Building, Trompsburg
Tel: 051 713 9500
sefafs@**sefa**.org.za

SEDA BETHLEHEM

Cnr Richer and Malan Street, Bethlehem
Tel: 058 718 5900
sefafs@**sefa**.org.za

SEDA SASOLBURG

Eric Louw Street, Boiketlong, Zamdela, Sasolburg
Tel: 061 974 5500
sefafs@**sefa**.org.za

WESTERN CAPE

CAPE TOWN

9th Floor, Clicks Building, 2 Long Street, Cape Town, 8001
Tel: 021 418 0126/021 425 6774
sefawc@**sefa**.org.za

KHAYELITSHA

No 42, Ncumo Road, 2nd floor, Harare Library, Khayelitsha
Tel: 021 361 1360
sefawc@**sefa**.org.za

SEDA VREDENBURG

20 West Coast Centre, 11 Long Street, Vredenburg
Tel: 022 713 4405
sefawc@**sefa**.org.za

SEDA EDEN DISTRICT (GEORGE)

1st floor; Old Mutual Building, Cnr York Road & Hibernia, George
Tel: no 044 803 4900
sefawc@**sefa**.org.za

SEDA BELLVILLE

23 Vrede St, Lowville Place, 2nd Floor, Bellville 7350
Tel: 021 949 2227
sefawc@**sefa**.org.za

SEDA BEAUFORT WEST

119 Donkin Street, Russels Building, Beaufort West
Tel: 022 414 3368
sefawc@**sefa**.org.za

EASTERN CAPE REGION

EAST LONDON OFFICE

Chesswood Office Park, 2nd Floor, 8-10 Winkley Street, Berea, East London, 5241
Tel: 043 721 1510
sefael@**sefa**.org.za

SEDA PORT ELIZABETH

329 Cape Road, 4th Avenue Newton Park, Port Elizabeth, 6001.
Tel: 041 391 6200
sefape@**sefa**.org.za

NORTHERN CAPE REGION

KIMBERLEY OFFICE

72 Long Street, Business Partners Building, Kimberley, 8301
Tel: 053 832 2275
sefanc@**sefa**.org.za

SEDA KURUMAN

Seda Kgalagadi, Cnr Church and Rose Street, Kuruman, 8416
Tel: 053 714 3160
sefanc@**sefa**.org.za

KIMBERLEY UPINGTON

Seda Siyanda, 3rd floor, Old Sanlam Building, CNR Scott and Hill Street, Upington, 8800
Tel: 054 337 8280
sefanc@**sefa**.org.za

SEDA DE AAR

C/o Main & Station Street, De Aar, 7000
Tel: 053 632 7590/4
sefanc@**sefa**.org.za

SEDA NAMAKWA

3 Rivier Street, Springbok, 8240
Tel: 027 712 8504
sefanc@**sefa**.org.za

HOW TO REACH US

LIMPOPO

POLOKWANE OFFICE
Suite 4, 43 Biccard Street, Biccard Park, Polokwane, 0699
Tel: 015 294 0900
sefalp@**sefa**.org.za

SEDA THOHOYANDOU
Bindu Lavhathu Business Complex,Thohoyandou
Tel: 015 960 8700
sefalp@**sefa**.org.za

SEDA TZANEEN
13 Danie Joubert street,Tzaneen, 0850
Tel: 015 306 6400
sefalp@**sefa**.org.za

SEDA MOKOPANE
40 Retief Street, Old Nedbank Building, Mokopane, 0600
Tel: 015 492 9600
sefalp@**sefa**.org.za

SEDA GROBERSDAL
Mutual Building shop4 & Office 10, 12 Hereford Street, Groblersdal, 0470
Tel: 013 262 9430
sefalp@**sefa**.org.za

NORTHWEST

RUSTENBURG OFFICE
32B Heystek Street, Sunetco Building,Rustenburg, 0299
Tel:014 592 6391
sefanw@**sefa**.org.za

SEDA KLERKSDORP
West End,2nd Floor; 51 Leask Street,Klerksdorp, 2570
Tel: 018 487 9120
sefanw@**sefa**.org.za

SEDA VRYBURG
8 Moffat Street,Vryburg, 8600
Tel: 053 928 8800
sefanw@**sefa**.org.za

MAHIKENG
4059 Joules Street; IDT Building; Industrial Site; Mahikeng; 2745
Tel: 018 391 9900
sefanw@**sefa**.org.za

MPUMALANGA

NELSPRUIT
Corner Ferreira and Streak Street, 3rd Floor; Suite 301, MAXSA Building, Nelspruit, 1200
Tel: 013 755 3923
sefamp@**sefa**.org.za

SEDA SECUNDA
South Wing, Govan Mbeki Building,Lurgi Square, Secunda, 2302
Tel: 017 634 4339
sefamp@**sefa**.org.za

SEDA MALELANE
Lorence Street, Rotunda Circle, Malelane, Nkomazi
Tel: 013 790 1183
sefamp@**sefa**.org.za

SEDA BUSHBUCKRIDGE
Shop 21 Simunye Shopping Centre, 1263 Arend Street, Hazyview,1246
Tel: 013 799 5340
sefamp@**sefa**.org.za

SEDA WITBANK
Cnr OR Tambo & Mandela Street, Shop L2-IA, Saveways, Crescent Shopping Centre, Witbank,1035
Tel: 013 655 6970
sefamp@**sefa**.org.za

KWAZULU-NATAL REGION

DURBAN OFFICE
21st Floor; Office 2102, Durban Embassy Building, Anton Lembede Street, Durban, 4001
Tel: 031 368 3485
sefakzn@**sefa**.org.za

SEDA PORT SHEPSTONE
46 Bisset Street, Lot No 456, Port Shepstone, 4240
Tel: 039 688 1560
sefakzn@**sefa**.org.za

SEDA LADYSMITH
93/94 Murchison Street, Ladysmith, 3370
Tel: 036 638 9780
sefakzn@**sefa**.org.za

SEDA RICHARDS BAY
Lot 61 1237 viaVerbana,Veldenvlei, Richards Bay, 3900
Tel: 035 90 1 2660
sefakzn@**sefa**.org.za

SEDA NEWCASTLE
28 Scott Street, Newcastle, 2940
Tel: 034 328 0620
sefakzn@**sefa**.org.za

SEDA IXOPO
17 Margaret Street, Ixopo
Tel: 039 834 7100
sefakzn@**sefa**.org.za

SEDA PIETERMARITZBURG
2nd Floor,The Tourism Hub Building, 283 Langalibalele Street, Pietermaritzburg
Tel: 033 264 310
sefakzn@**sefa**.org.za

IDC PIETERMARITZBURG
1st Floor ABSA Building, 15 Chatterton Rd, Pietermaritzburg, 3201
Tel: 033 328 2560
sefakzn@**sefa**.org.za


Thank you sefa

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

sefa Head office physical address
Bylsbridge Office Park,
Cnr Olievenhoutbosch Street & Jean Avenue,
Building 14 , Block D,
11 Byls Bridge Boulevard,
Highveld Extension 73
Centurion, 0157
Tel: +27 12 748 9600
helpline@sefa.org.za
talktous@sefa.org.za

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www.sefa.org.za