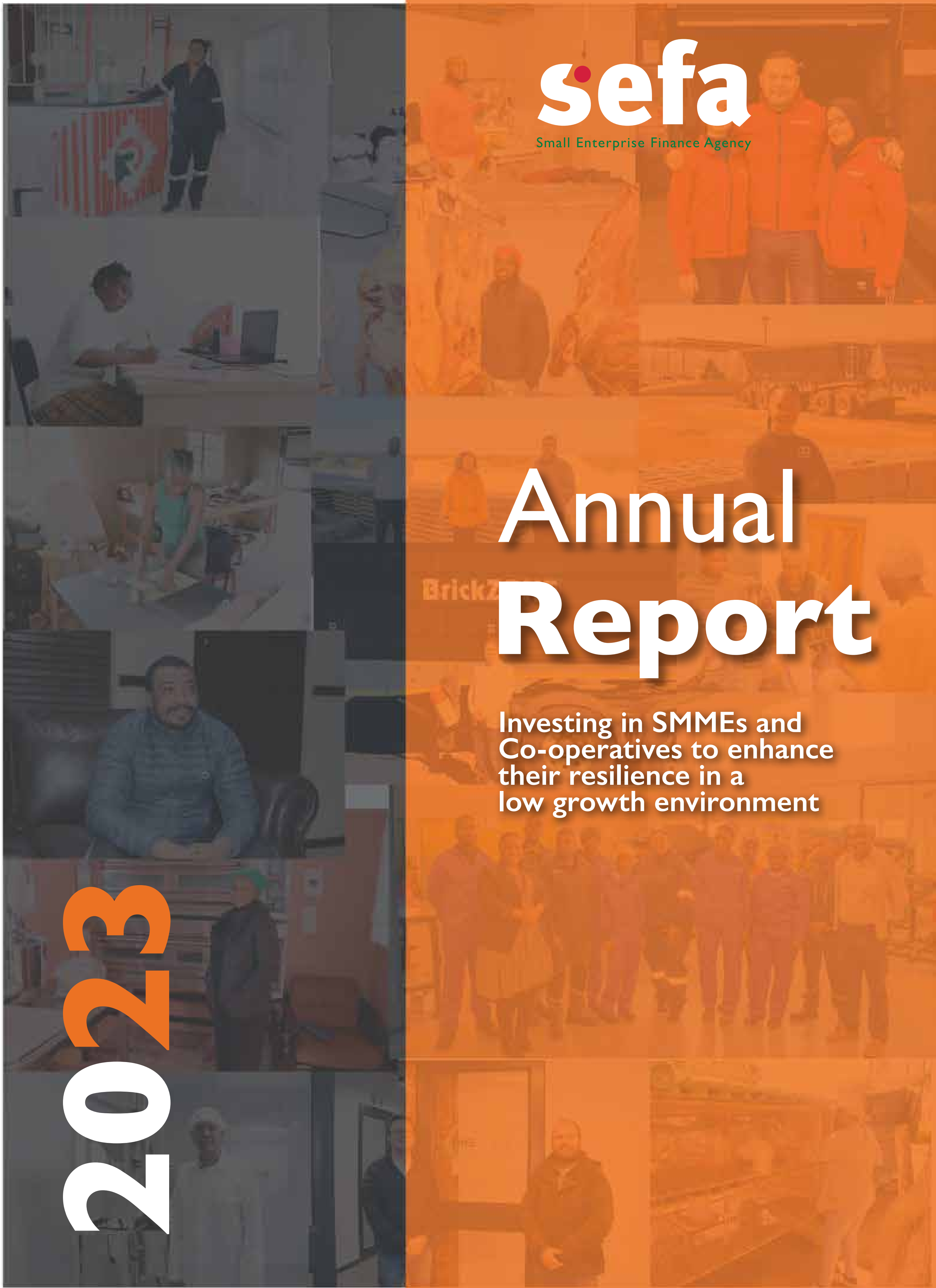


sefa

Small Enterprise Finance Agency

Annual **Report**

Investing in SMMEs and Co-operatives to enhance their resilience in a low growth environment

2023

RAMOHLALE INDUSTRIES

CONTENTS

LIST OF ACRONYMS

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

BRICKZONE (PTY) LTD

FOREWORD BY THE HONOURABLE MINISTER OF SMALL BUSINESS DEVELOPMENT

Ms Stella Ndabeni-Abrahams

Member of Parliament

Honourable Minister of Small Business Development

The South African government has prioritised the development of SMMEs to accelerate growth, create jobs, and build a more inclusive economy. These aspirational goals are included in the country's 2030 National Development Plan, whose targets are aligned broadly to the United Nation's Sustainable Development Goals, as well as reflected in the country's Economic Reconstruction and Recovery Plan.

The National Development Plan is clear that 9 million of the 11 million jobs we need to create by 2030 should come from SMMEs. To achieve this outcome, we need to rethink our SMME and co-operatives eco-system and how it functions. To this end, the Department of Small Business Development recently developed the third iteration of the small enterprise development strategy for the country – the National Integrated Small Enterprise Development Strategy (NISED). The NISED, which was approved by Cabinet in the year under review,takes an ecosystem approach, enabling various public and private actors to operate in a targeted, collaborative and coordinated manner.

The NISED compels us to act with more deliberation and urgency in five areas.

First, we need to improve the regulatory environment for SMMEs and cut red-tape that constrains entrepreneurs, ranging from informal micro-traders to high growth tech start-ups.

Second, we need to tackle barriers to entry that preclude SMMEs from participating in key value chains and markets. Enterprise supplier development remains a key instrument to increase levels of black ownership and women ownership in the economy, and as DSBD, we are actively partnering with corporates and state-owned companies to unbundle supply chains for SMME participation. We are also supporting numerous localisation and export developer initiatives, especially focused on the African market to leverage the African Continental Freetrade Area (AfCFTA).

Third, the NISED compels us to scale up business development services for SMMEs and co-operatives. This includes incubation for start-ups, acceleration for scale-ups, and to ensure greater accessibility in townships and far- flung rural areas.

Fourth, and coming closer to the mandate of **sefa**, we are focusing on closing the SMME credit gap estimated by the World Bank to be more than R350 billion. Most township enterprises do not use a bank account, and most of our small enterprises, especially start-ups, are deemed un-bankable by banks and financial institutions that require collateral and a track record.

To address this, as DSBD we have developed an SMME and Co-operatives Funding Policy, that will be taken to Cabinet for approval during the 2023/24 financial year. The Policy looks at ways to increase credit allocation to SMMEs and co-operatives, including creating a Fund of Funds, de-risking bank lending to SMMEs, improving credit information systems to support poor borrowers, as well as developing a moveable collateral registry to get banks to recognise plant, vehicles and even livestock, for example, as collateral.

During the year under review, **sefa** played a very important role in contributing towards addressing the credit gap for small businesses. During the 2022/23 financial year, **sefa** approved loans to the value of R1.706 billion and disbursed R2.4 billion to SMMEs and co-operatives. Over the same period, **sefa** was able to impact 74 762 SMMEs, that in turn, helped facilitate 104 547 jobs.

In line with the transformation agenda of the South African government, R2.09 billion was disbursed to black-owned enterprises, R928 million to women-owned enterprises and R551 million to youth-owned businesses. At the same time, R952.8 million was disbursed into enterprises in villages and rural towns and R545 million to township-owned enterprises.

This is significant, but needs to be scaled even further as SMMEs face new challenges of load-shedding, high inflation and market volatilities.

The year ahead will also see **sefa** integrated into the new Small Enterprise Development and Finance Agency, that gives effect to the Cabinet decision to provide integrated government financial and non-financial support to SMMEs, including co-operatives. This will enable government to have one single integrated institution that can facilitate access to the full spectrum of financial and non-financial support needed by SMMEs across their lifecycles, accessible in all parts of the country.

I have full confidence that the Board of Directors, management, and staff of **sefa** will continue to implement accessible, effective and efficient financial services to SMMEs and co-operatives as they prepare to be part of the new merged entity.

I would like to thank the Board, management and staff for their support, as well as the Portfolio Committee on Small Business for their valuable insights and oversight work in holding us accountable for the mandate we have been given.

Ms Stella Ndabeni-Abrahams,

Member of Parliament, Honourable Minister of Small Business Development

CHAIRPERSON'S STATEMENT

Dr Mzukisi Jonathan Qobo

Interim Chairperson of the Board

Whilst the South African economy is making a recovery, the country along with the rest of the world, is experiencing the impact of risks from the war in Ukraine. The escalating power crisis and accompanying loadshedding continue to impact the economy. According to a 2023 report published by Nedbank, in 2022 the country experienced over 3 773 hours of load-shedding, compared to 121 hours of load-shedding outages in 2014.

The South African economy continues to battle with high unemployment. The StatsSA quarterly labour (QLFS) results of quarter 4 for the year 2022 indicate that the unemployment rate was 32,7% with Black African and Coloured population groups being more vulnerable. Furthermore, the graduate unemployment rate was 10,6% that is 22,1% percentage points lower than the national official unemployment rate.

To deal with these challenges, our government has employed a deliberate strategy to ensure that small businesses and cooperatives are supported, so that they are able to positively impact the economy and create jobs. In line with this strategy, the implementation of the economic recovery plan played a significant role in rejuvenating economic recovery over the reporting period. Self-employment and small businesses hold value for the South African economy, with the potential to help uncover new opportunities that will deliver the jobs needed to reduce high employment and poverty.

Increased loadshedding has changed the economic environment in which SMMEs in South Africa operate and continues to impact businesses and industries. During the year under review, business activity was constrained, and **sefa** funded clients lost revenue generating opportunities, experienced production losses and lost peak sales because of loadshedding. Businesses were affected by loadshedding differently and devised coping strategies such as using the loadshedding schedule to plan production. Unfortunately, some did not have any plan in place. Many black-owned businesses lack the capabilities required to cope during periods of economic strains, and many of these rely on **sefa** support.

This is especially so for women and youth-owned businesses. In response, the DSBD and **sefa**, during the period under review, approved a programme to fund alternative energy generation to sustain the productivity of the SMMEs. Preparations for launching this programme are underway.

The period under review was complex, with several issues coalescing to create a considerable potential risk for the business environment. **sefa** made progress in its development of the small business ecosystem and has remained focused on its goals despite the volatile economic climate.

In spite of specific macro-economic challenges in South Africa, **sefa** has delivered a strong operating performance demonstrating its commitment to being a catalyst for the development of sustainable SMMEs and co-operatives through the provision of finance. During the year under review, **sefa** approved loans to the value of R1.7 billion (FY22: R2.5 billion) and disbursed R2.4 billion (FY22: R2.3 billion) into the South African economy. We disbursed R2.09 billion to black-owned businesses (FY22: R2.1 billion), R928 million to women-owned enterprises (FY22: R990 million), R551 million to youth-owned businesses (FY22: R494 million), R953 million to businesses in rural towns and villages (FY22: R979 million) and R37 million to entrepreneurs with disabilities (FY22: R38 million).

The funding impacted 74 762 businesses and co-operatives that have created and sustained 104 547 jobs into the South African economy. The loan book approvals for the year under review is lower when compared to the R2.5 billion approved in the previous financial year, However, **sefa** managed to increase its disbursement into the South African and to youth-owned businesses during the year under review.

Corporate Governance

sefa continues to embed good governance practices underpinned by integrity, competence, responsibility, accountability, fairness, and trust. The Board has considered the organisation's risks and opportunities, material matters and operating environment and the impact thereof on **sefa's** strategy and ambitions.

The Board has put in place structures to ensure that the entity complies with the relevant legislation and regulations in the execution of its mandate whilst providing flexibility in the company's management. There are appropriate measures in place to mitigate risks through our risk management function that continues to facilitate and monitor the organisation's implementation of risk management practices.

The constitution of the Board Committees and their related activities undertaken during the year under review are set out in the Corporate Governance Report on page 44.

Outlook

sefa's growth strategy is based on increasing financial inclusion for the small business sector by scaling out its reach to transform townships and rural towns and villages. A one-size-fits-all approach is no longer fit for purpose, but rather a nuanced understanding of differences across regions could help create more appropriate, impactful interventions. It is important that **sefa** keeps up the momentum it has gained since its inception in 2013 and stays on the path to becoming a leading catalyst for development finance in the country for small businesses and cooperatives.

Given what is at stake, we must reflect deeply about opportunities and risks, the good and the bad. Moments of reflection can help us in making course correction and strengthen our systems and processes. The current geo-political climate and global value chain constraints provide an opportunity for increased localisation for SMMEs and cooperatives to deliver new products and expand their footprints. **sefa** will need to capitalise on these opportunities and help build leading businesses from the ground up by leveraging our partnerships in the small business ecosystem.

sefa will continue to monitor the effect of interest rate movements in SA on its loan book performance, especially in a climate where major economies are raising interest rates to record high as consumer prices are on the rise. Small businesses and cooperatives' liquidity and cashflow are extremely sensitive to rates hikes, and this has profound impact on job prospects and households. In turn, this potentially raise upside risks including impairments. Developing key product propositions to support our businesses to navigate the challenging operating environment remains a key priority. The organisation will continue to drive product innovation and delivery of services through digital platforms that enhance performance and drive operating efficiency.

Appreciation

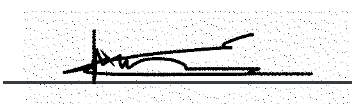
Firstly, I must extend, on behalf of the Board of Directors, our appreciation for the leadership of former Chairperson, Ms Simthandile Siwisa, who steered the Board towards delivering on its undertakings during the period under review. She brought much needed guidance and focus.

I would like to further express our gratitude to **sefa** management and its excellent staff for delivering a strong performance and making significant progress in the organic growth of this institution for being a catalyst of finance for small businesses. Your commitment to service has contributed to **sefa's** positive and consistent performance over the period. The small business ecosystem appreciates the development of this platform for strong future growth of their business.

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

Furthermore, I wish to express my gratitude to the Honourable Minister Stella Ndabeni-Abrahams for her calm leadership and wisdom. Her support, encouragement, and guidance during the period when the organisation has been navigating a complex merger process, have been a source of vitality for the Board and the entity in its entirety.

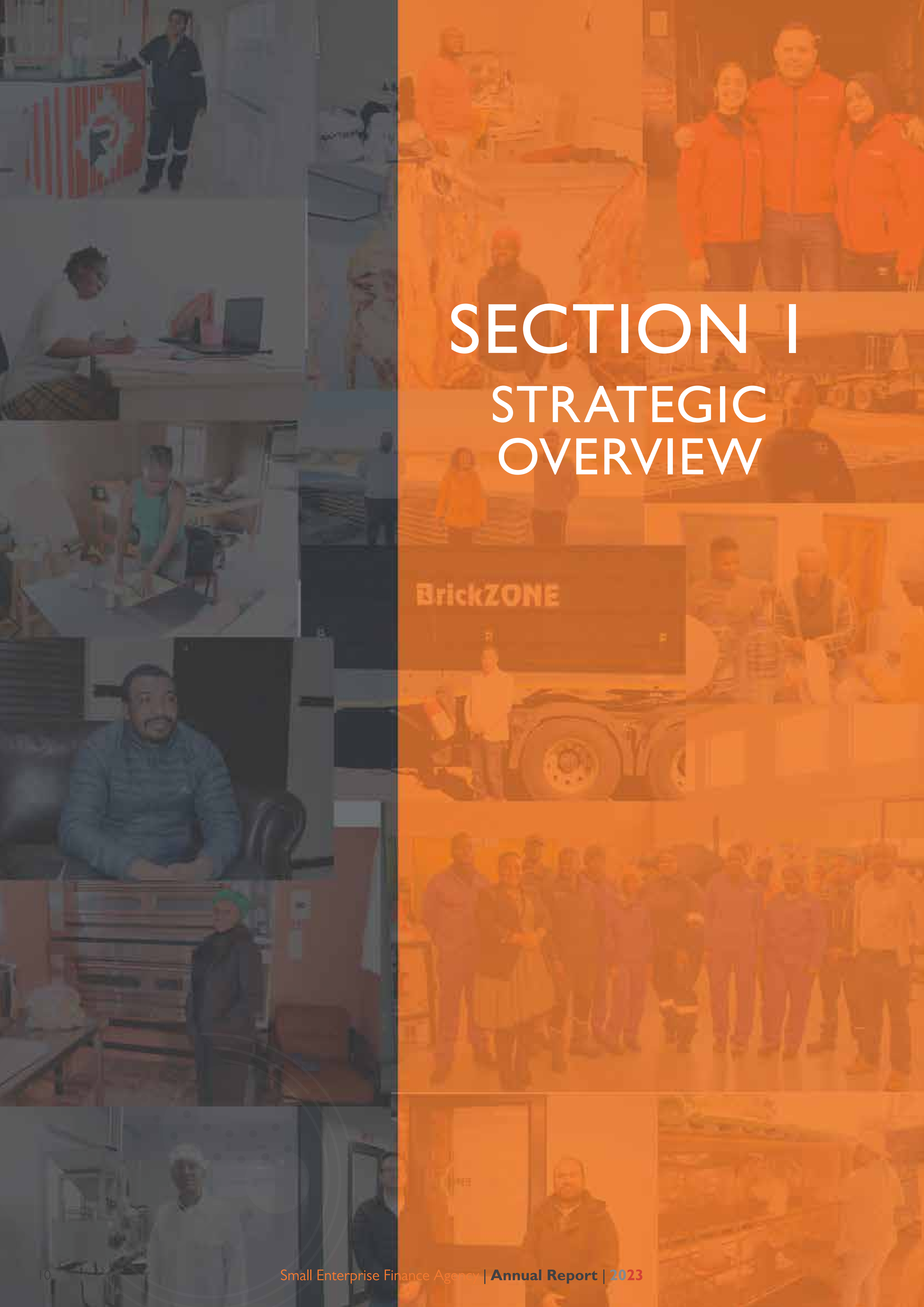
Lastly, to our clients, as **sefa**, we remain committed to supporting you to build and grow your businesses while contributing to developing the South African economy and reducing unemployment. It is our desire to build a resilient small enterprise ecosystem and to work alongside our clients through various stages of growth. Thank you.



Dr Mzukisi Jonathan Qobo

Interim Chairperson of the Board

ZJ HARDWARE

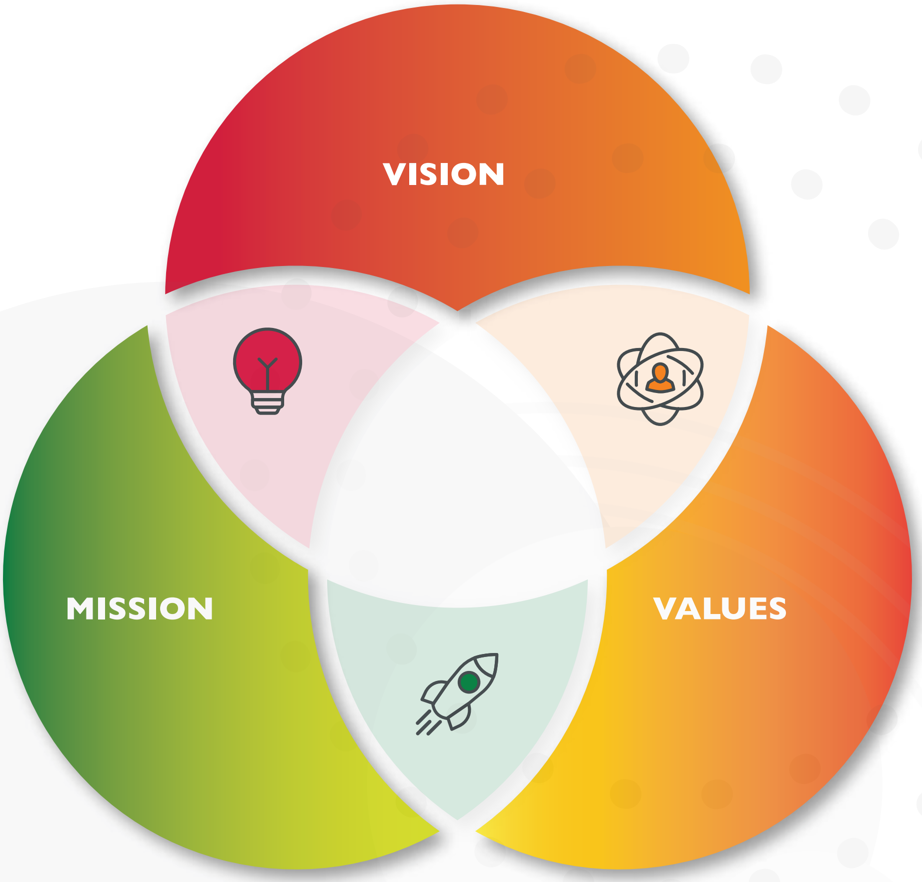


SECTION 1

STRATEGIC OVERVIEW

VISION

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



MISSION

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

- Providing loan and credit facilities to SMMEs and cooperative enterprises;
- Providing credit guarantees;
- Supporting the institutional strengthening of financial intermediaries so that they can effectively assist SMMEs and co-operatives;
- Creating strategic partnerships with a range of institutions for sustainable SMME and co-operative enterprise development and support;
- Developing, through partnerships, innovative finance products, tools and channels to speed up increased market participation in the provision of finance; and
- Monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities.

VALUES

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

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

POLICIES AND LEGISLATION

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

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)

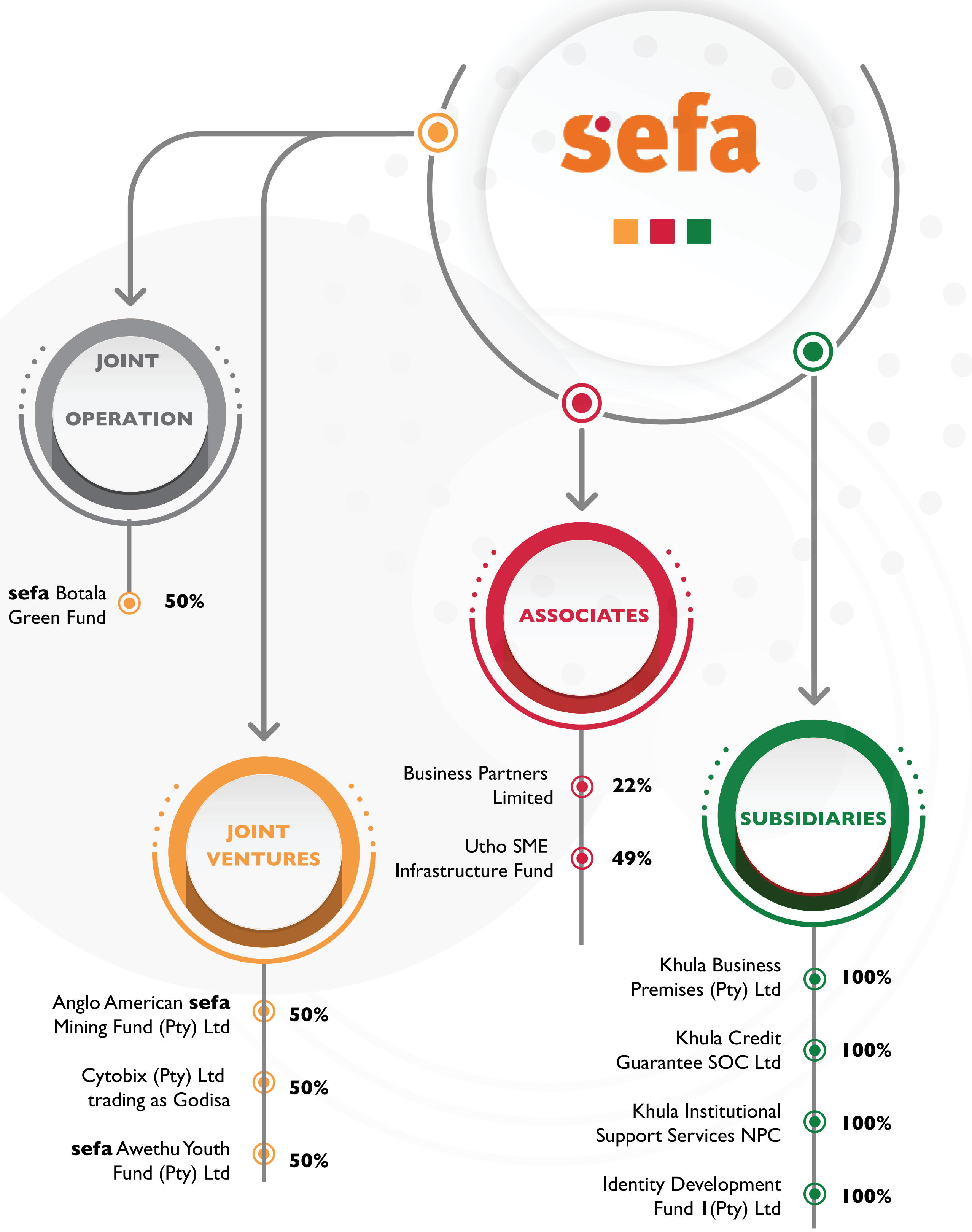
SECTOR-BASED POLICIES

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

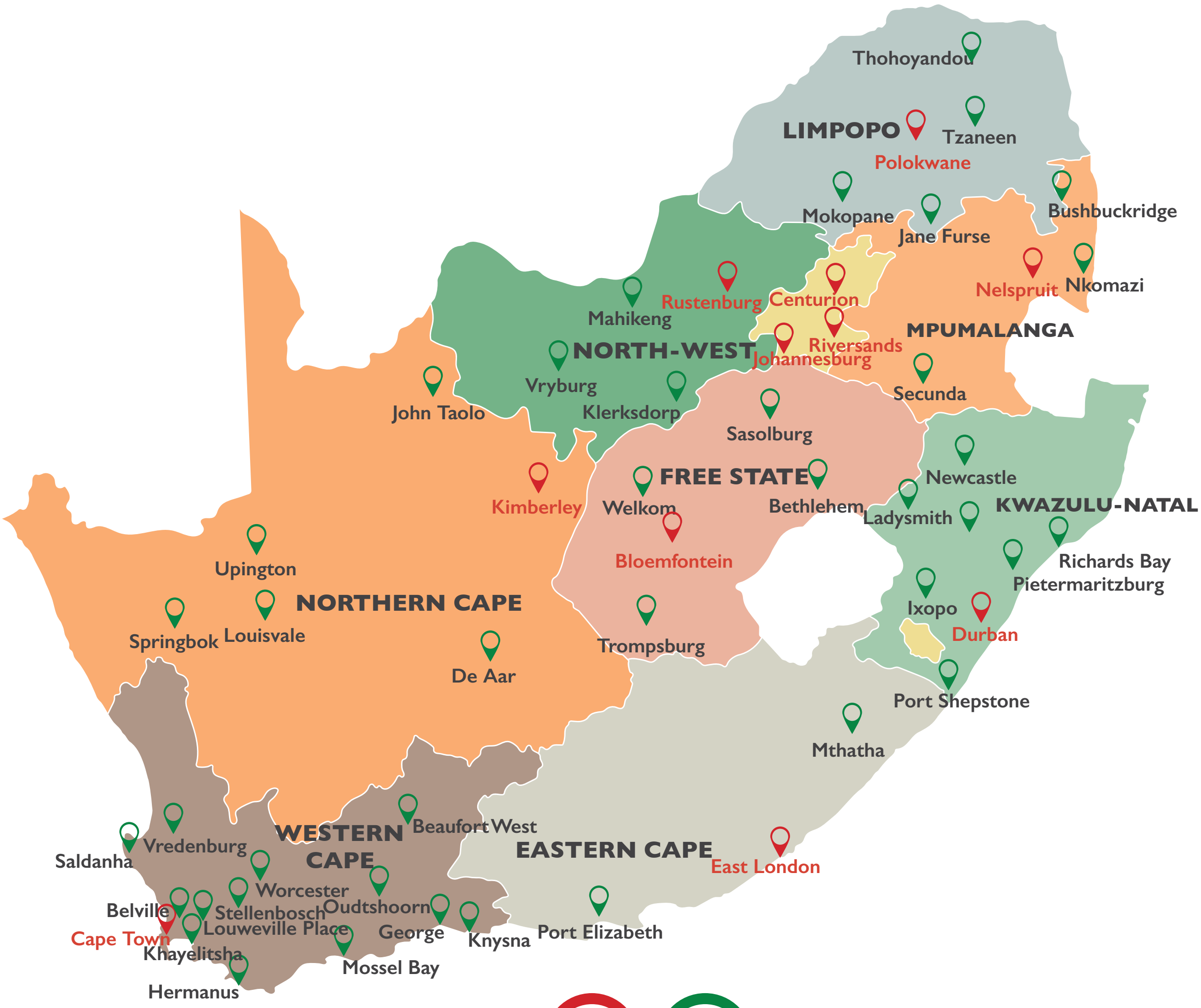
LEGISLATION

- National Small Business Act 1996, revised 2004
- National Credit Act No. 24 of 2005
- Industrial Development Act No. 22 of 1940
- Financial Intelligence Centre Act (FICA) No. 38 of 2001, as amended
- Consumer Protection Act 2008
- Companies Act No. 71 of 2008, as amended
- Co-operatives Act No. 14 of 2005, as amended
- Insurance Act No. 18 of 2017, as amended
- Promotion of Access to Information Act No. 2 of 2000, as amended
- Public Finance Management Act 1999, as amended

GROUP STRUCTURE



SEFA GEOGRAPHIC FOOTPRINT



sefa Offices
Co-locations

11 main offices

40* Co-locations

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

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

sefa's Financial Intermediary Structure

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

Loan Eligibility Criteria

Direct Lending Channel

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

Wholesale Lending Channel

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

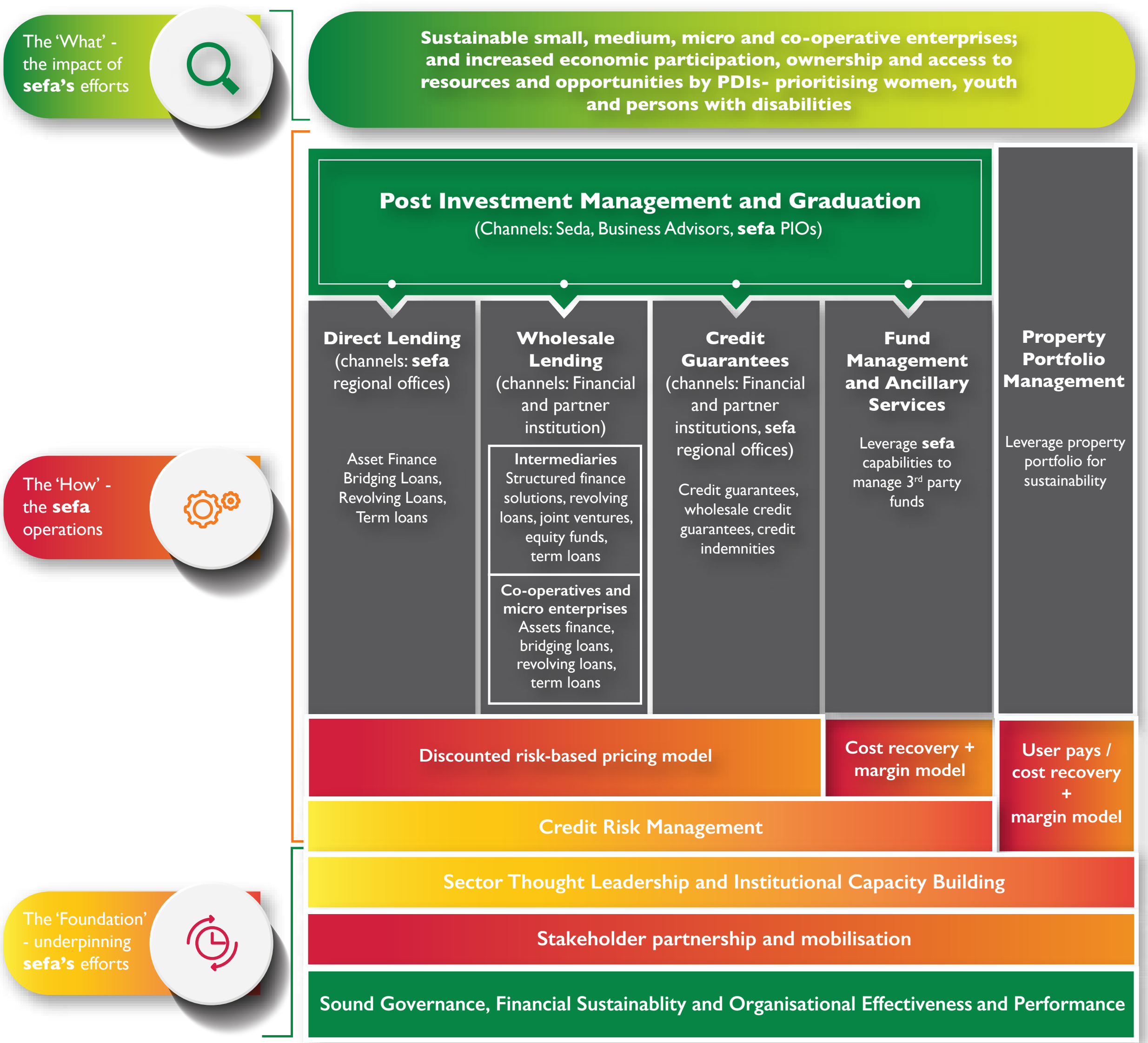
Target Market

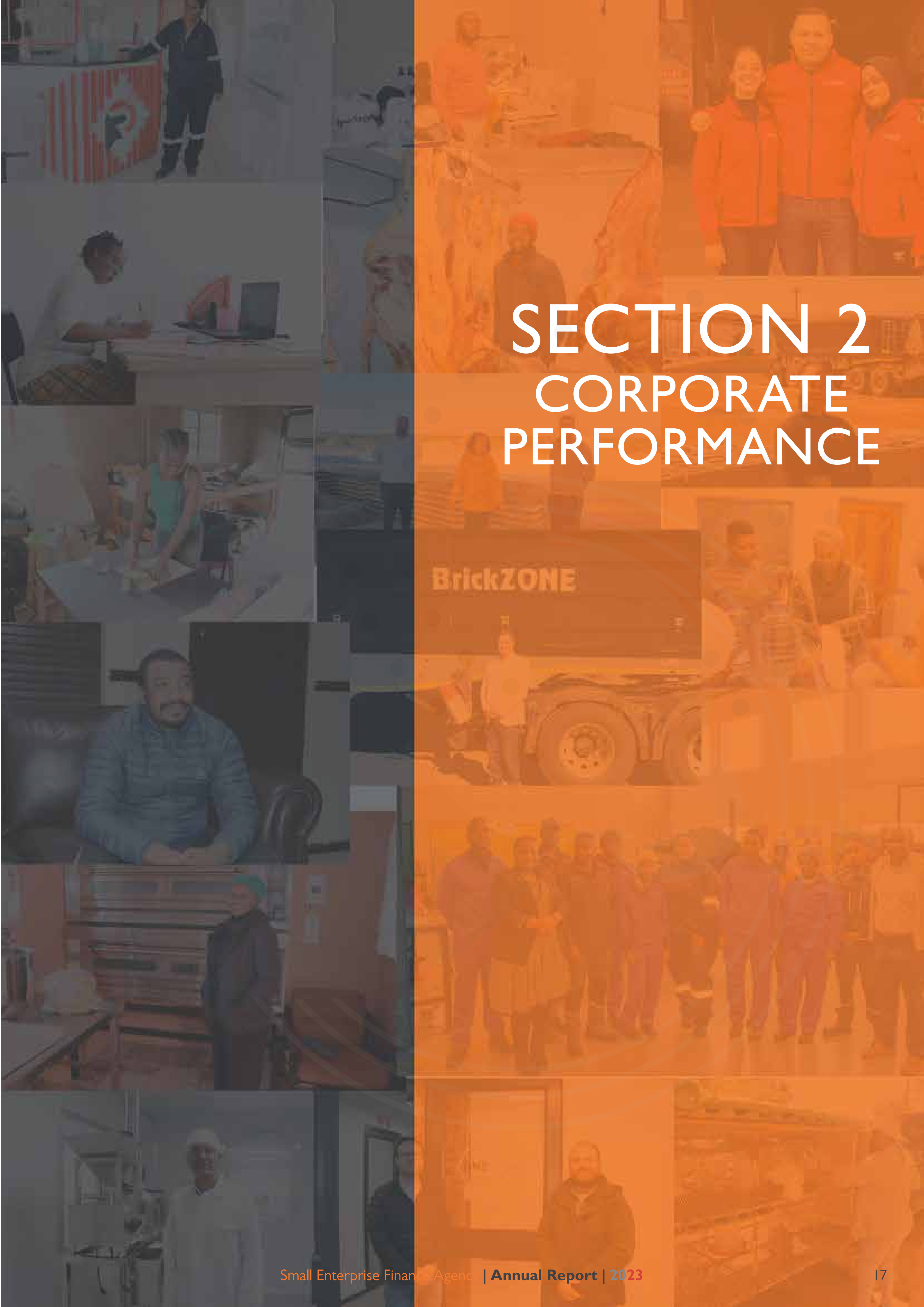
sefa's loan financing programmes primarily focus on black people, women, youth, rural communities and people with disabilities. These programmes are aligned with the New Growth Path (NGP), Industrial Policy Action Plan (IPAP) and the National Development Plan (NDP).

sefa funds qualifying business ventures primarily in the following sectors:

- Services (including retail, wholesale and tourism);
- Manufacturing (including agro processing);
- Agriculture (specifically land reform beneficiaries and contract-farming activities);
- Construction (small construction contractors);
- Mining (specifically small-scale miners); and
- Green industries (renewable energy, waste, and recycling management).

Operating Model, Distribution Channels and Products





SECTION 2
CORPORATE PERFORMANCE

CORPORATE PERFORMANCE

Small, Medium and Micro-enterprises (SMMEs) and cooperatives in South Africa operated with resilience during the year under review (2022) as they balanced the impact of risks in the micro and macro-economic environment. The rising interest rates, high inflation, supply chain concerns, elevated commodity prices, low consumer sentiment, and geopolitics were among the factors leading to financial and economic volatility deepening uncertainty for businesses.

Small businesses are generally more vulnerable to crises and unexpected shocks due to their size and little to no reserves. Overall, small businesses continued to trade at steep and unfavourable conditions when compared to large sized businesses.

The SMME third quarterly report (Seda,2023) shows that the total number of SMMEs increased by 148 000 businesses (+5.9% y-o-y) and this brought back the number of SMMEs to pre-COVID level. The ability of small business and cooperatives to survive and thrive in extremely difficult situations is justifiably a source of pride and deserves to be recognised as it gives hope for South Africa to deal with the triple challenges of poverty, inequality and high unemployment. The small businesses and cooperatives remain a key sector for the attainment of the objectives of National Development Plan in creating sustainable jobs.

On reflection, favourable government policies for small businesses are yielding some positive results and have paved a way for economic recovery. The implementation of the Economic Reconstruction and Recovery Plan remained a key driver to rebuild the South African economy to be sustainable, resilient and inclusive. In pursuit of economic transformation and job creation, **sefa** continued to play a critical role in facilitating access to finance for small businesses and cooperatives in the South African economy.

During the year under review, **sefa** approved loans to the value of R1.7 billion representing 76% of the annual target and disbursed R2.4 billion into the economy representing 121% of the annual disbursement target for the year. The finance supported 74 762 businesses and facilitated 104 547 jobs in the economy. The number of businesses supported represented 88% of the target and 99% of jobs target.

The underperformance on the number of SMMEs financed and jobs primarily relates to the slow implementation of the Township and Rural Entrepreneurship Programme (TREP). During the implementation, TREP experienced inadequate staffing and high staff turnover challenges coupled with low quality applications. In addition, the uptake of programme funds in the Informal and Microfinance programme contributed to the slow uptake of funds from microfinance intermediaries post COVID-19. The MFIs are struggling to recover in their loan book partly because of high impairments/bad debts and challenges relating to achieving operational and financial sustainability. There is a lack of MFI institutional diversity across the country to lend to informal micro enterprises.

Deploying machine learning and advanced analytics thoughtfully and to their full potential can support improvements in small businesses and cooperatives access to finance leading to their success, and their overall experience. **sefa** has implemented an online loan application system during the year under review to increase reach and improve internal efficiencies for the loan application process. Small businesses are confronted with consumers with fast changing needs and are more demanding and less willing to make trade-offs. Agility and responsiveness are therefore necessary to meet the ever changing clients demands.

sefa conducted a survey of its funded clients to assess the impact of loadshedding on their businesses. Respondents of the survey indicated that they suffered loss of revenue and production due to loadshedding and 76% of respondents indicated that they do not have alternative power in place to mitigate the effect of loadshedding. Persistent power outages disrupt economic activity and weigh heavily on business and consumer confidence. To reduce the negative impact on business, there is an urgent need to provide financing to small business to secure alternative power source.

PRODEK (PTY) LTD

Due to macroeconomic conditions of inflationary growth, stagflation, power outages and rising interest rates, this has transitioned to economic growth deteriorating and **sefa** has not been spared the adverse effects of these developments. For instance, in the year under review, there is evidence on **sefa's** loan book performance relating to greater delinquencies, a slowdown in volume growth and higher costs. To reduce the effect of this, the **sefa** Post Investment and Monitoring Division has implemented a short-term collections strategy to combat the declining collection rates.

Furthermore, **sefa** has developed a power purchase product aimed at assisting small businesses with acquiring alternative technology that can mitigate the impact of loadshedding on their businesses. The proposal was submitted to the National Treasury via the Department of Small Business Development (DSBD) for approval of the utilisation of the Township Rural Enterprise Programme (TREP) funding allocation.

Over the short to medium term, **sefa** will need to improve their short-term resilience and invest in the long term to innovate and prepare the path for future profitability, increased growth, and greater reach. **sefa** need to focus on innovation, with the goal of instilling a truly entrepreneurial culture and attracting and retaining the talent needed to contribute within such a culture.

sefa needs to find ways to balance macro and micro risks, incorporating the diverse factors shaping the economy and understanding the implications for clients and its portfolios. The current combination of events is unprecedented, and the challenge cannot be finessed by simple tweaks to model parameters. To both minimise risk and unlock pockets of value, more fundamental changes are required.

Committed partnerships will continue to be a winning strategy to build capacity and bring change in the South African small business sector. Inevitably, navigating uncertain business environment means that stakeholders in the small business ecosystem need to cooperate to create a favourable environment that will enable market access, access to finance and reduce red tape for small business and co-operatives. To stimulate access to finance, **sefa** will continue to work with organisations in lending that understands that market dynamics have changed and that there are strong incentives to rethink traditional industry practices.

Medium Term Expenditure Framework

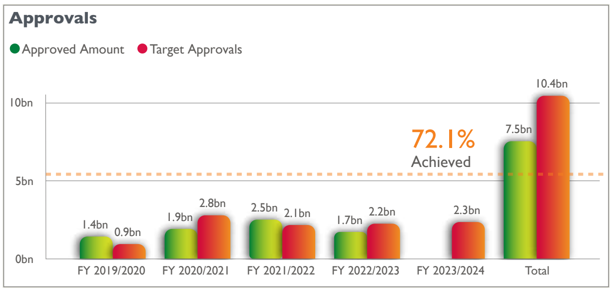
The pandemic has drastically altered the status quo with subdued GDP growth, sluggish tax revenue collection, increase in business closures and unemployment.

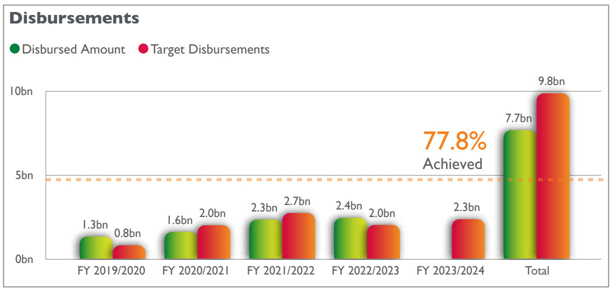
Over the medium-term expenditure framework (MTEF) period, **sefa** will improve the organisation's performance and market position by focusing on the following phases:

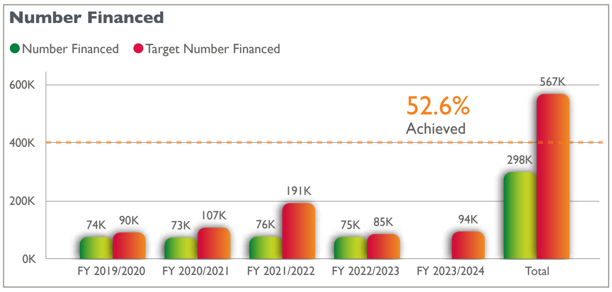
- **Phase 1 – Building the Core: sefa** will focus on taking the organisation back to basics, placing the customer at the centre of what it does.
- **Phase 2 – Scaling up Capabilities: sefa** will focus on cost and efficiency dimensions through digitisation of its channels and introducing market interface and engagement tools. This is vital in the current pandemic reality, which is likely to persist long into the MTEF period.
- **Phase 3 – Innovating the Delivery Model:** As new, tech-driven platforms take shape in **sefa's** operations, the need to maintain the innovation momentum will be fundamental towards the tail end of the MTEF. **sefa** will intensify its usage of 4IR tools such as machine learning and artificial intelligence (AI), improving decision-making all along the operational value chain.

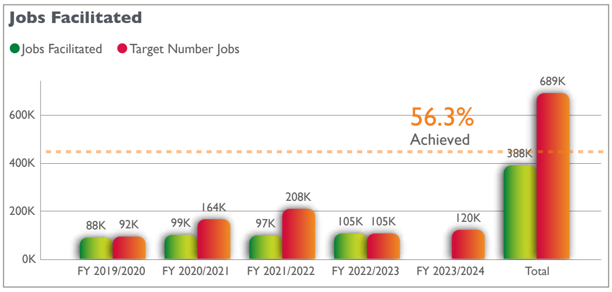
Loan Book Performance Trends over the Medium-Term Strategic Framework Period

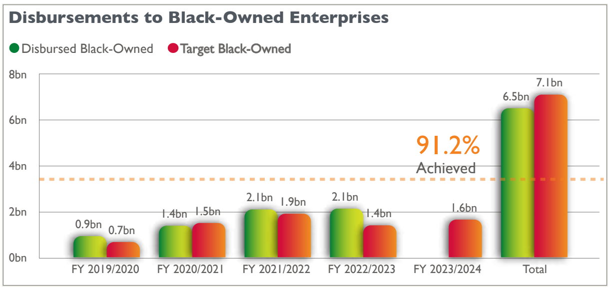
The dashboard below depicts **sefa** performance over the Medium-Term Strategic Framework (MTSF) period and what the organisation has managed to achieve thus far and how much effort is required to achieve the targets set for the period.

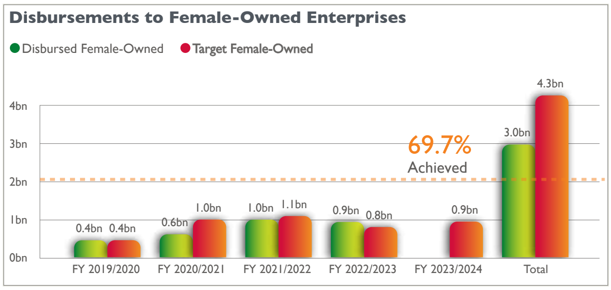


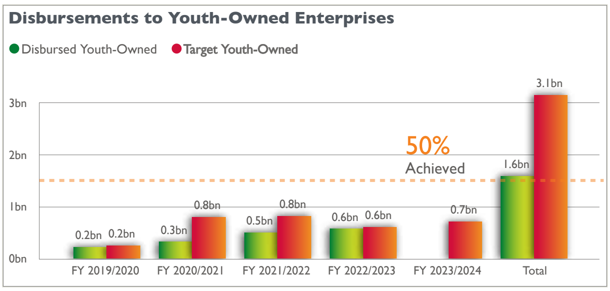


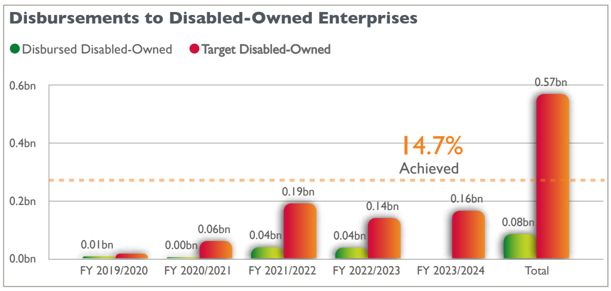


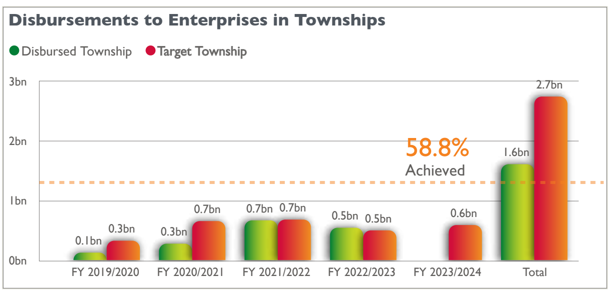


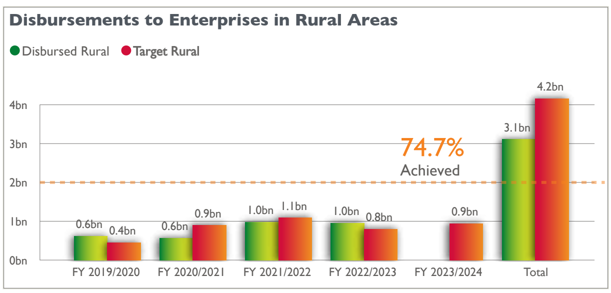












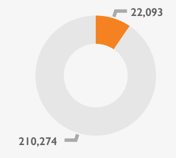
sefa's Provincial Spread

The diagram below depicts **sefa's** provincial disbursements, number of SMMEs financed, in relation to total SMMEs in different provinces and the jobs facilitated for the FY2022/23.

EASTERN CAPE
Regional Offices
East London

Co-Locations
Port Elizabeth

sefa share of SMME Market

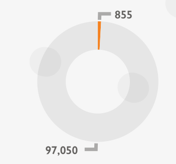


232,367 Total SMMEs
R251,010K Disbursements
23,766 Jobs Facilitated

FREE STATE
Regional Offices
Bloemfontein

Co-Locations
Welkom
Trompsburg
Bethlehem
Sasolburg

sefa share of SMME Market

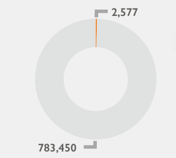


97,905 Total SMMEs
R91,100K Disbursements
1,606 Jobs Facilitated

GAUTENG
Regional Offices
Johannesburg

Co-Locations
Riversands
Ekurhuleni

sefa share of SMME Market

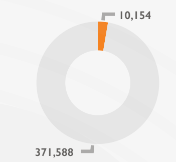


786,027 Total SMMEs
R774,000K Disbursements
15,163 Jobs Facilitated

KWAZULU-NATAL
Regional Offices
Durban

Co-Locations
Port Shepstone
Ladysmith
Richards Bay
Newcastle
Pietermaritzburg
Ixopo

sefa share of SMME Market

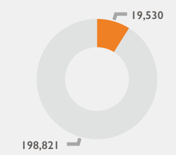


381,742 Total SMMEs
R364,125K Disbursements
16,976 Jobs Facilitated

LIMPOPO
Regional Offices
Polokwane

Co-Locations
Thohoyandou
Tzaneen
Mokopane
Jane Furse

sefa share of SMME Market

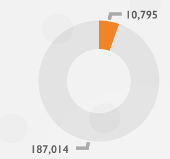


218,351 Total SMMEs
R239,426K Disbursements
21,071 Jobs Facilitated

MPUMALANGA
Regional Offices
Nelspruit

Co-Locations
Secunda
Nkomazi
Bushbuckridge

sefa share of SMME Market

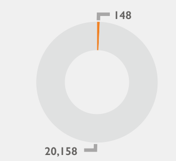


197,809 Total SMMEs
R291,638K Disbursements
13,256 Jobs Facilitated

NORTHERN CAPE
Regional Offices
Kimberley

Co-Locations
John Taolo Gaetswe
Upington
De Aar
Springbok

sefa share of SMME Market

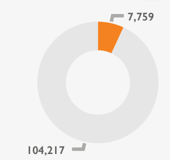


20,306 Total SMMEs
R38,017K Disbursements
477 Jobs Facilitated

NORTHWEST
Regional Offices
Rustenburg

Co-Locations
Klerksdorp
Vryburg
Mahikeng

sefa share of SMME Market



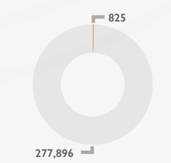
111,976 Total SMMEs
R103,843K Disbursements
8,479 Jobs Facilitated

WESTERN CAPE
Regional Offices

Cape Town

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

sefa share of SMME Market



278,721 Total SMMEs
R272,355K Disbursements
3,663 Jobs Facilitated

Corporate Performance against Predetermined Targets

The 2022/23 financial year was a year of recovery from the COVID-19 pandemic and the resultant lockdowns. For the year under review, **sefa** performance against targets was as follows: 71% of measurement indicators achieved (100% and above), 18% achieved (75% - 99%), and 11% (below 75%).

The underperformance can be attributed largely to the following programmes:

- **TREP** - experienced inadequate staffing and high staff turnover challenges coupled with low quality applications.
- **Uptake of programme funds in the Informal and Microfinance programme** - the slow uptake of funds from microfinance intermediaries post COVID-19. The MFIs are struggling to recover in their loan book partly because of high impairments/bad debts and challenges relating to achieving operational and financial sustainability. There is a lack of MFI institutional diversity across the country to lend to informal micro enterprises.
- **SME Wholesale** - Lack of quality business proposal received from Intermediary Institutions.

		FY2021/22			FY2022/23		
Objective	Measure	Annual Target	Annual Achievement	% of Annual Target Achieved	Annual Target	Annual Achievement	% of Annual Target Achieved
Customer perspective							
Enhanced access to finance by SMMEs & Cooperatives	Total Approvals (R'000)	2 147 999	2 494 642	116%	2 233 333	1 706 706	76%
	Total Disbursements to SMMEs and Co-operatives (R'000)	2 712 999	2 322 121	86%	2 003 796	2 431 559	121%
	Number of SMMEs and Co-operatives financed	191 433	76 129	40%	84 831	74 762	88%
	Number of jobs facilitated	207 729	96 589	46%	104 968	104 547	100%
	Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	813 900	494 399	61%	601 139	551 415	92%
	Facilities to people with disabilities (R'000)	189 210	37 872	20%	140 266	36 678	26%
	Facilities disbursed to women-owned businesses (R'000)	1 085 200	990 258	91%	801 518	928 361	116%
	Facilities disbursed to black-owned businesses (R'000)	1 899 100	2 084 921	110%	1 402 657	2 092 489	149%
	Facilities disbursed to enterprises in villages and rural communities (R'000)	1 085 200	977 100	90%	801 518	952 856	119%
	Disbursements to township-based enterprises (R'000)	678 250	665 483	98%	500 949	545 093	109%
Customer satisfaction	Level of customer satisfaction	65%	77%	118%	83%	56%	67%
Enhanced **sefa** brand visibility	Annual brand visibility index	Not applicable			50%	66%	132%

Corporate Performance against Predetermined Targets (continued)

		FY2021/22			FY2022/23		
Objective	Measure	Annual Target	Annual Achieve-ment	% of Annual Target Achieved	Annual Target	Annual Achieve-ment	% of Annual Target Achieved
Strategic stakeholder relations with key constituencies	Maintain level 3 risk maturity	Not applicable			3	3,5	117%
	Number of leads generated	Not applicable			100	435	435%
Financial Perspective							
Building **sefa** financial sustainability	Cost-to-income ratio (2016/17 = Measure excluded impairments, finance charges & grants)	106%	56,3%	188%	87%	66%	132%
	Accumulated Impairment provision as a percentage of total loans and advances	38%	35,4%	107%	38%	45,5%	84%
	Collection Rate (All in cash)**	85%	87%	102%	87%	74%	85%

Corporate Performance against Predetermined Targets (continued)

		FY2021/22			FY2022/23		
Objective	Measure	Annual Target	Annual Achieve-ment	% of Annual Target Achieved	Annual Target	Annual Achieve-ment	% of Annual Target Achieved
Capital raising	Percentage Growth in Revenue (excl. Grant income and MTEF)	21,0%	42,5%	202%	10%	47%	466%
	Rand value of additional capital raised	Not applicable			R85 000	R123 804	146%
	Cost to income ratio (excluding repairs and maintenance)				400%	333%	120%
	Lettable area vacancy rate (target 10%)				30%	28%	106%
	Rental collections rate				40%	53%	133%
	The ratio of emergency repairs to preventative repairs and maintenance				45%	10%	450%
	Ratio of SMME tenants in portfolio (access to facilities)				20%	2%	10%
	Portfolio at Risk				42%	49%	86%
	Capital Leverage (KCG)	6,25	6,38	102%	6,25	6,32	101%

Corporate Performance against Predetermined Targets (continued)

		FY2021/22			FY2022/23		
Objective	Measure	Annual Target	Annual Achievement	% of Annual Target Achieved	Annual Target	Annual Achievement	% of Annual Target Achieved
Organisational Business Processes							
Enhanced service delivery and stakeholder satisfaction	Progress in Automation of **sefa** business processes	100%	60%	60%	100% automation of business assessment, PIM/WR and disbursement processes	100%	100%
	Enterprise Content Management	Not applicable			Phase one implementation of Enterprise Content Management	100%	100%
	Direct Lending (Avg Days)	45	26	173%	40	57	70%
	Wholesale Lending (Avg Days)	60	33	182%	55	54	102%
A financially sustainable organisation	Blended first default rate	Not applicable			6%	6%	100%
Enhanced service delivery and stakeholder satisfaction	Number of client and funding partner interventions (mentorship)	Not applicable			165	240	145%
	Customer Growth - (Number of **sefa** customers improving turnover with 5% or more in the financial year	20	30	150%	30 clients	52	173%
People, Learning and Growth							
Sound governance and a high performing organisation	Number of publications produced	Not applicable			Six sector and value chain analysis reports	9	150%
					Bi-annual business conditions survey	3	150%
	Employee Satisfaction Index	62%	63%	102%	65% employee engagement index	65%	100%
	Productivity Index	Not applicable			Establishment of productivity baseline	100%	100%
	Percentage of staff (P-band and above) that scores 3.5 or more in the annual performance assessment *Calculation: Staff Performance (in P- band and above) = (Total Number of employees ÷ Number of employees with Performance Score of 3.1 or above) x 100*	50%	40%	80%	55%	58%	105%

SECTION 3
GOVERNANCE

BOARD OF DIRECTORS

Dr Mzukisi Qobo (49)

Board Interim Chairperson

Appointed to the Board on 02 May 2022

Appointed as Interim Chairperson on 01 May 2023

PhD International Studies, [University of Warwick], Master of Arts (International Relations) [University of Stellenbosch], Bachelor of Arts [University of Cape Town]

Board Committees and sefa related entities

C

NOMCO BP

Adv. Nokuzola Gloria Khumalo (63)

Appointed to the Board on 03 May 2022

LLM - Advanced Labour Law (UKZN), LLB Degree, Post Grad certificate PLT (Practical Legal Training) (LEAD / Law Society), Post Grad Diploma in Industrial Relations Management UKZN, National Diploma in Human Resources Management (Natal Technikon (DUT), Bcom. Honours in Human Resources Management (UKZN)

sefa related entities and Committees

C

HCRC SEC AC KCG

NOMCO

Mr Mxolisi Dalukhanyo Matshamba (57)

(CEO – Executive Director)

Appointed on 01 November 2020

Fintech Programme – Said Business School (Oxford University), Master of Business Administration – Corporate Strategy and Corporate Finance (Milpark Business School), BCom Finance (National University of Lesotho)

Board Committees and sefa related entities

KBP BP KCG SEC

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

BOARD OF DIRECTORS

Ms Cingashe Nogaya Motale (44)

Appointed to the Board on 03 May 2022

Diploma in Marketing & Business Management (Damelin Business College Walmer Gardens), Women in Leadership (University of the Free State)

Board Committees and sefa related entities

HCRC SEC BCIC KBP

Mr Motse Mfuleni (52)

Appointed to the Board on 03 May 2022

sefa related entities and Committees

HCRC RC SEC

Ms Nonzuzo Makanda (37)

Appointed to the Board on 03 May 2022

M Com Economics (University of KwaZulu-Natal) B Com Honours: Business Management specialising in Investments (UNISA); B Com Economics & Finance (UNISA)

sefa related entities and Committees

C

AC NOMCO BCIC RC

Ms Ziyanda Futhi Ngcobo (36)

Appointed to the Board on 01 October 2020

Admitted Attorney, LLB (University of KwaZulu-Natal), Competition Law and Policy -Certificate of Competence (University of Witwatersrand)., Advanced Company Law I -Certificate of competence (University of Witwatersrand)

sefa related entities and Committees

C

SEC NOMCO HCRC KBP

Mr Bonolo Molemo Ramokhele (36)

Appointed to the Board on 05 May 2023

CA (SA), HDipAcc (Wits) (University of Witwatersrand), BAccSci (University of Witwatersrand)

sefa related entities and Committees

C

RC NOMCO BCIC AC

Ms Hilda-Marie Tsoadi (39)

Appointed to the Board on 01 October 2020

CA (SA), Honours in Accountancy: (University of Johannesburg), Bachelor in accounting Degree (Rand Afrikaans University now University of Johannesburg),

sefa related entities and Committees

BCIC KCG RC


sefa

EXECUTIVE MANAGEMENT

Mr Mxolisi (MD) Matshamba (57)

Chief Executive Officer

Appointed on 01 November 2020

(Refer to Board of Directors' profiles)

Ms Candice Lauren (CL) Williams (37)

Acting Chief Financial Officer

Appointed on 01 April 2020

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

Mr Eric Nyarko (EN) Kwadjo (54)

Acting Executive Manager: Post Investment Monitoring

Appointed on 01 June 2013

Master of Business Administration, Milpark Business School, BCom (Hon), UNISA, BCom General, UNITRA

Mr Xolani Meva (45)

Acting Executive Manager: Direct Lending

Appointed on 01 December 2018

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

Ms Nokonwaba Shwala (54)

Executive Manager: Human Capital Management

Appointed on 01 January 2015

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

Mr Lwandiso Makupula (51)

Executive Manager: Wholesale Lending

Appointed on 01 February 2023

BCom Accounting Honours, University of Natal Durban BCom, Accounting, University of Natal Pietermaritzburg,

CHIEF EXECUTIVE OFFICER'S OVERVIEW

Mr Mxolisi Dalukhanyo Matshamba

Chief Executive Officer

Operating Environment

The South African economy grew marginally at 2% in real terms in 2022 (from 4.9% in 2021). The low growth environment results in less business opportunities for all, with the small businesses being the hardest hit. Unemployment remained high at 32.9% in Q1 2023, from 32.7% during the quarter ending 31 December 2022. The income inequality too remains high, with the Gini Coefficient index of 63 in 2022.

As a Development Finance Institution, **sefa** continuously aspires to support the development and sustainable growth of its target market. In the past financial year, we have continued to work hard, with the limited resources at our disposal, to achieve this goal with dedication and focus.

Despite the challenges posed by the limited electricity supply, the continued tightening of monetary policy in an endeavor to contain inflationary pressures, rising unemployment rate, particularly among the youth, and the overall high cost of living for our clients and the communities they serve, we remain committed to supporting our clients as far as possible. We provided financial assistance, as well as technical expertise, to help enterprises thrive in these uncertain times.

Key Highlights for the 2023 Financial Year

During the year under review, **sefa's** loan book was at R4.18 billion including funds. This reflects a 22.9% growth relative to the 2022 financial year achievement. In terms of customer perspective output indicators, **sefa** approved loans to the value of R1.7 billion and disbursed R2.4 billion into the South African economy in support of 74 769 enterprises. These businesses in turn helped create and sustain 104 710 jobs.

Looking at developmental impact, **sefa** disbursed R2.09 billion to enterprises owned by Black entrepreneurs (against the target of R1.4 billion), R928.7 million to businesses owned by women (relative to R801 million target), R551 million to enterprises owned by youth (vs the target of R601 million), and R36.7 million to entrepreneurs with disabilities (against the target of R140 million).

Performance to date over the Medium-Term Strategic Framework (MTSF) period: 01 April 2019 to 31 March 2024

Over five-year MTSF period commencing 1 April 2019 to 31 March 2024, **sefa** had planned to approve loans to the value of R10.5 billion. To date, **sefa's** approvals amount to R7.5 billion or 72.1% of the total target. The targeted disbursements over the same period were R9.7 billion and as at 31 March 2023, **sefa** had disbursed R7.7 billion (or 77.7% of the five-year target) into the South African economy.

sefa has to date financed 298 000 SMMEs and Co-operatives (or 52.6% of the five-year target) and facilitated 388 000 jobs (representing 56.3% of the targeted jobs over the MTSF period). During the year under review, a number of programme managers were recruited to enhance the performance of targeted programmes that were previously underperforming. These include the Programme Manager for TREP, Co-operatives, and

Persons with Disabilities. Other critical positions have also been filled, however, the pending merger between **sefa**, Seda and Cooperative Banks Development Agency (CBDA) remains a challenge in attracting the desired candidates for the vacant positions given the short-term nature of the contracts.

Post-Investment, Monitoring, Workout and Restructuring (PIM-WR) and Collections

The tough economic conditions persisted in the year under review, with some of our clients struggling to honour their loan repayments. The PIM-WR team worked tirelessly to identify the struggling clients and restructured their accounts accordingly. However, there were also clients who could afford to repay their loans but chose not to. This was discovered through a dedicated project that the **sefa**-wide team set up during the year and paid regular visits to the funded clients across the country, assisting them where they could, and improving collections where the clients were able to do so.

Improved collections from this exercise will help **sefa** extend its reach to new clients, and thus contribute meaningfully to supporting youth-owned businesses, as well as those run in our country's townships, rural towns, and villages.

Human Capital Management

At **sefa,** we recognise and value our people as they have played a critical role in the performance achievement in the year under review. Our employees' skills, experiences, innovation, and determination to deliver on our mandate have enabled us to grow from year-to-year despite the challenges that the organisation at large continues to face.

We remain committed to investing in our employees to ensure that they have the requisite knowledge, skills, and other resources to enhance their performance. For instance, the second round of the **sefa** Management Development Programme (MDP) took place and ten managerial employees participated and completed the programme during the review year.

In addition, in an endeavour to empower youth and promote entrepreneurship, we partnered with the University of Pretoria on the Work Readiness and Entrepreneur Programme. Through this programme, 27 interns enrolled and completed the course during the year under review.

Furthermore, to assess how efficiently we are deploying our resources, as well as to establish developmental areas, a productivity index was introduced. To this end, the productivity baseline for the lending business was established. The plan is to expand the scope to other areas of business in the coming years. We also plan to identify opportunities for improvement through this index, so that we can improve our profitability, and achieve a more effective and efficient workforce soon.

The pending merger between **sefa**/Seda/CBDA continues to adversely impact on our ability to attract and retain talent at **sefa** as the filling of positions is on a temporary basis, which deters us from recruiting the right caliber of employees. Nevertheless, indications are that we are close to concluding the merger and the current uncertainty will abate.

Outlook

Looking ahead, we remain determined to continue playing an essential role in development financing, while adapting to the rapidly changing business environment. We will remain vigilant in monitoring emerging trends and taking proactive measures to ensure that we can continue to support our clients and strategic partners effectively.

Acknowledgments

I would like to convey my gratitude to the Honourable Minister, Stella Ndabeni-Abrahams (MP) for her unwavering support and guidance throughout the year. The Director General and the Department of Small Business Development at large for the support. A word of thanks goes to our former Chairperson, Ms Simthandile Siwisa and a warm welcome to the current Chairperson, Dr Mzukisi Qobo for his continued guidance and leadership. We look forward to constructive engagements with you as we pursue our goal of developing and growing a sustainable small business sector, make a meaningful contribution to the economic growth, and promote the financial inclusion.

Our sincere gratitude goes to all our stakeholders for their continued support. Without your commitment and dedication, the performance being shared in this report would not have been possible. We look forward to achieving our shared goals with you in the coming years.

Mr Mxolisi Dalukhanyo Matshamba

Chief Executive Officer: **sefa**

CHIEF FINANCIAL OFFICER'S STATEMENT

Ms Candice Williams
Acting Chief Financial Officer

Overview

The 2023 financial year was a challenging one for small businesses as the adverse economic conditions had a negative impact on individuals and businesses. The increase in inflation, continued loadshedding and the increase in the prime lending rate have resulted in challenges for many small businesses. The impact of these adverse economic conditions has been noted in the lower than anticipated collections and the higher impairment rates for the period. The overall **sefa** impairment rate has increased from 35.4% (FY2022) to 45.5% (FY2023).

For the financial period under review, **sefa** continued to implement the Economic Recovery Programmes/ Township and Rural Economic Programmes (TREP), in response to the current economic challenges. Business Viability Programme (BVP) and the Youth Challenge Fund (YCF) also continued to be implemented under the Direct Disbursements to direct clients and intermediaries from **sefa's** balance sheet amounted to R1.19 billion representing an achievement of 81% against the budgeted amount. The Retail Direct Lending (DL) exceeded their target for year, whilst there was underperformance noted within the TREP programme and the Wholesale Lending Division.

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

Disbursements (R'000)	31 March 2023	31 March 2022
Wholesale SME Lending	78 195	137 546
Wholesale Micro Lending	177 300	216 002
Direct Lending - Loans	373 710	313 926
SBIF	60 847	88 068
Business Viability (BVP	53 426	48 974
Economic Recovery Programmes (ERP/TREP)	387 444	771 532
Youth Challenge Fund	62 276	22 152
EU ESD Fund	-	49 972
Disbursements from sefa's balance sheet	**1 193 198**	**1 648 172**

Financial Position and Performance

The net loans and advances have increased by R87 million to a carrying amount of R1.61 billion at year end (2022: R1.52 billion). The increase was a result of disbursements to the value of R1.2 billion. However, the impairments were above what had been targeted and therefore net loan book growth was lower than expected. The liquidity of the balance sheet improved during the year due to the higher cash balances of R4.1 billion at year end (2022: R3.3 billion). Cash balances increased by a net amount of R805 million from the prior year closing balances. Additional ring-fenced funds were received during the year for the various lending programmes. **sefa's** net asset value is currently R1.30 billion (2022: R1.28 billion) indicating some growth in the net asset value.

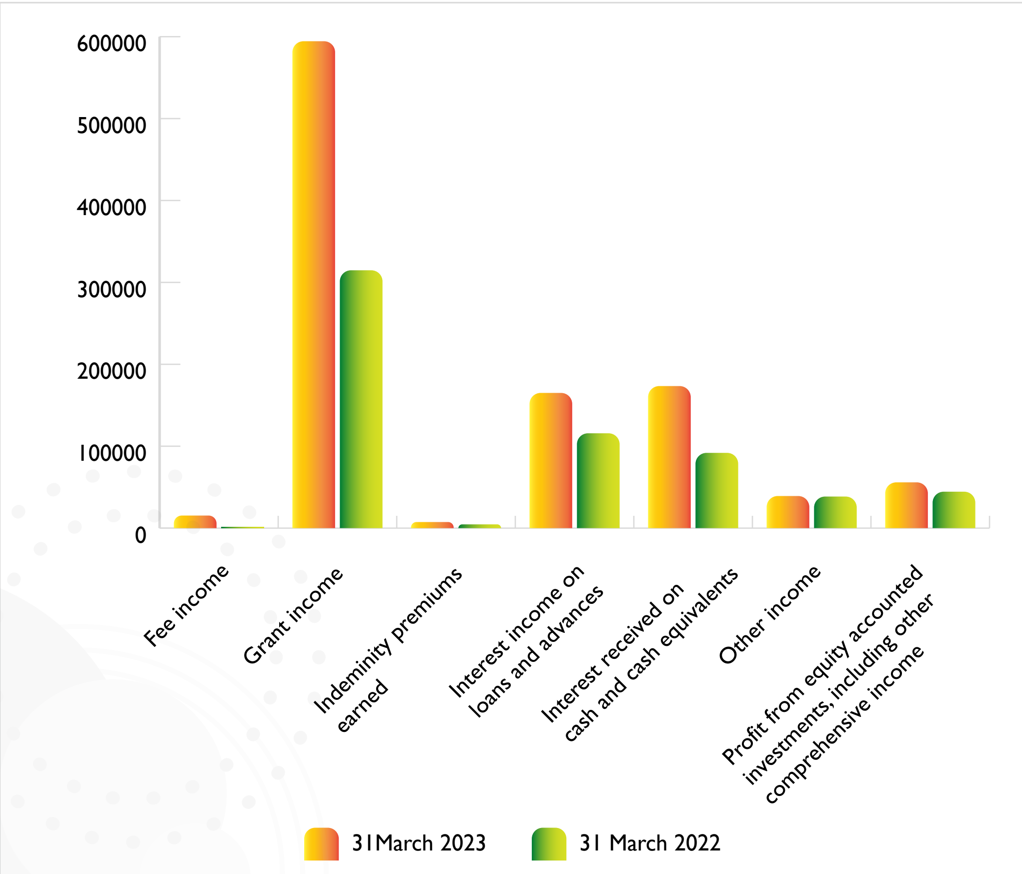
The operational efficiency of **sefa** in the current year showed a decline from the prior year. This was reflected in the cost-to-income ratio of 66.6% (2022: 56%), although this ratio was better than budgeted (2023 budget: 88%). There were planned projects, including significant repairs to properties, that drove the increased cost-to-income ratio. As explained further below, income streams for **sefa** have improved since prior year and operational costs have been contained. **sefa** continues to monitor its operational costs closely to ensure operational efficiency while also continuing to fulfil its mandate of developing sustainable SMMEs and co-operatives through the provision of various sources of funding.

Financial Performance

The group reported a loss before tax of R223 million (2022: R171 million). The factors contributing to the loss before tax are explained further in the following paragraphs.

Revenue

Interest on loans and advances increased from the previous year by R49 million due to the increased loan book size as well as the increased prime lending rate.



Other Revenue and Interest Earned

Interest on cash and cash equivalents has increased by R81.5 million from the previous year due to the higher prime lending rate as well as the higher average cash balances held during the 2023 financial year. This was driven mainly by the various funding allocations received under the Township and Rural Entrepreneurial programmes (TREP) from the Department of Small Business Development.

sefa's share of net profits and other comprehensive income from equity-accounted investments was higher in the current year compared to the previous year. The main contributors were a profit of R58 million from Business Partners Limited (Pty) Ltd while. The loss from the Anglo **sefa** Mining Fund is attributable to a reduction in the fair value of their listed investments.

Other income is mainly made up of management fees earned and other recoveries. An increase in other income from the previous year was noted, mainly as a result of increased indemnity premiums earned. Rental income earned from the property portfolio increased by R3 million in the current year due to improved recoveries of costs incurred by tenants.

Grant Income and Expense

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

Grant Income and grant expense (R'000)	31 March 2023	31 March 2022
Grant received: Blended Finance	10 857	18 303
Grant received: Small Business and Innovation Fund	45 798	30 608
Grant received: COVID-19 relief and Economic recovery programmes	430 749	261 630
Grant received: European Union	6 840	4 250
Grant received: Youth Challenge Fund	15 195	-
Grant received: Micro Finance	85 000	-
Total Grant Income	**594 439**	**314 790**
Grant expense: Blended Finance	(10 857)	(18 302)
Grant expense: Small Business and Innovation Fund	(48 661)	(26 739)
Grant expense: COVID-19 relief and Economic recovery programmes	(79 477)	(42 612)
Grant expense: Youth Challenge Fund	(2 573)	-
Total Grant Expense	**(141 568)**	**(87 653)**

Expenses

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

Operating expenditure (excluding grant expenses, impairments and bad debts written off) increased by R147 million year on year. A significant portion of the increase was as a result of an increase in personnel expenses (R41 million), an increase in investment property expenses (R39 million) and the reversal of SARS penalties and interest which reduced other operating expenses by R27 million in the prior year.

The net loss of investment properties increased by R42 million in the current year. The increased losses were mostly driven by the significant repairs and maintenance costs incurred on various properties.

Loans and Impairments

The year-on-year increase in net loans and advances amounts to R149 million (10% increase). This is due to growth in the disbursements in new programmes as stated previously.

Loans and Advances (R'000)	31 March 2023	31 March 2022
Loans and advances to clients	3 290 772	2 609 379
Less: Credit loss allowance	(1 675 974)	(1 082 769)
Total loans and advances net of credit losses	1 614 798	1 526 610
Impairment Ratio - Loans and advances (incl. direct lending legacy book*)	51%	41%
Impairment Ratio - Loans and advances (excl. direct lending legacy book*)	49%	39%

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

Investments and Funds (R'000)	31 March 2023	31 March 2022
Total investments and funds	1 156 931	1 197 698
Less: Credit loss allowance	(208 282)	(176 223)
Total investments and funds net of credit losses	**948 649**	**1 021 475**
Impairment Ratio - Investments and Funds	18%	15%

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

Overall Impairment Ratio **sefa** group (excluding Direct Lending legacy book and the impact of capitalisation of KCG)	45.5%	35.4%

The gross loans and advances increased by R677 million to R3.3 billion at year end as a result of the growth in disbursements in the loan portfolio.

Overall impairments write-off and bad debt provisions on loans and advances have increased by a net amount of R594 million from the previous year due to declining collection rates. Small businesses continue to find their cashflows under pressure due to rising inflation and operational costs. At year end, the impairment provision was R1.68 billion (2022: R1.1 billion).

Cash and Cash Equivalents

sefa cash and cash equivalents for the group increased significantly from the previous financial year to R4.1 billion at the end of financial year (2022: R3.3 billion). Included in these cash balances for the group are funds that have been ring-fenced for specific programmes:

Programme	2023 R'000
The Economic Recovery Programme/TREP (incl Blended Finance)	R2 241 011
The European Union (ESD)	R131 296
SBIF	R240 059
Tourism Equity Fund (programme is on hold)	R325 535

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

sefa received the following funds during the financial year:

Programmes	2023 R'000	2022 R'000
Economic Recovery Programme/TREP	1 164 319	1 326 973
Co-operative Development Support Programme	71 659	68 625
Youth Challenge Fund (from DSBD(2023) and DSBD and EU(2022))	29 848	206 777
Tourism Equity Fund	90 430	242 800
sefa MTEF Allocation	258 658	251 706
Total Funds Receipts	**1 614 914**	**2 096 881**

The FY2024 strategic priorities, as highlighted in the **sefa** Corporate Annual Performance Plan of 2023/2024, include building a sustainable loan book, improving performance on key development indicators and improving the cost structure.

A financially sustainable organisation and to reduce losses going forward, are included in **sefa's** outcomes in the 2023/24 Corporate Plan. This would be measured by a growth in the net asset value of the **sefa** group from R1.4 billion to R1.5 billion by FY2026, improving the impairment ratio from 45.5% at FY2023 to 38% by FY2026. In order to improve the quality of the loan book and lower the overall impairment rate **sefa** will need to improve collections and tighten processes on loan approvals to ensure improved credit quality of its loan book. This will be done through a fully capacitated post-investment monitoring team to improve collections, instituting the pre-investment processes and also offering strategic mentorship to clients. Improvements also need to be taken on the due diligence processes involved pre-investment. Write-offs of debt that has been deemed to be irrecoverable, without any other reasonable prospects of recovery also need to be approved to align to the **sefa** policy and requirements of IFRS 9. **sefa** also aims to achieve a budgeted cost to income ratio of 74% in FY2024 with an improvement in the ratio to 62% by FY2026

Key projects that will be finalised in FY2024 to support the above include the financial sustainability model and improvements to IT front-end automation.

Ms Candice Williams

Acting Chief Financial Officer

MASHAYINDLELA TRADING AND PROJECTS CC

CORPORATE GOVERNANCE REPORT

Governance

Our vision to be the leading catalyst for the development of sustainable Small, Medium and Micro-Enterprises (SMMEs) and cooperative enterprises, through simple access to finance, efficiently and sustainably throughout South Africa, is executed through ethical and good governance practices that continue to evolve to counter any challenges in our economy. The Board, being the custodian of ethical governance with the collective responsibility of setting an ethical tone at the top, ensures that high ethical standards and governance practices are cascaded to 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, as such, is committed to the principles of Integrity, Competency, Responsibility, Accountability, Fairness, and Transparency. The Board ensures accountability for **sefa** performance and oversees the management implementation of the approved strategy, thus ensuring that the company delivers on its mandate.

Key Governance activities FY2022/23

sefa continues to manage the risks posed by the ripple effects of the COVID-19 pandemic and the current economic challenges facing the country (namely rising interest rates and electricity challenges) which have a direct impact on SMMEs. These challenges inadvertently impact **sefa's** business as SMMEs are challenged with keeping their businesses running optimally and therefore may be unable to meet their loan repayment obligations to **sefa**, as can be deduced from the high impairment rates, as reported. In response to these challenges, **sefa** and the Executive Authority, DSBD have considered alternative measures to assist the SMMEs, for example, alternative energy supplies to reduce the impact of load shedding.

Further, focus in the year under review related to the impending merger of **sefa** with two other related agencies, and identified plans to mitigate the impact on the business and serving the SMMEs.

The following key decisions were taken by the Governance Structures, amongst other related matters and governance instruments:

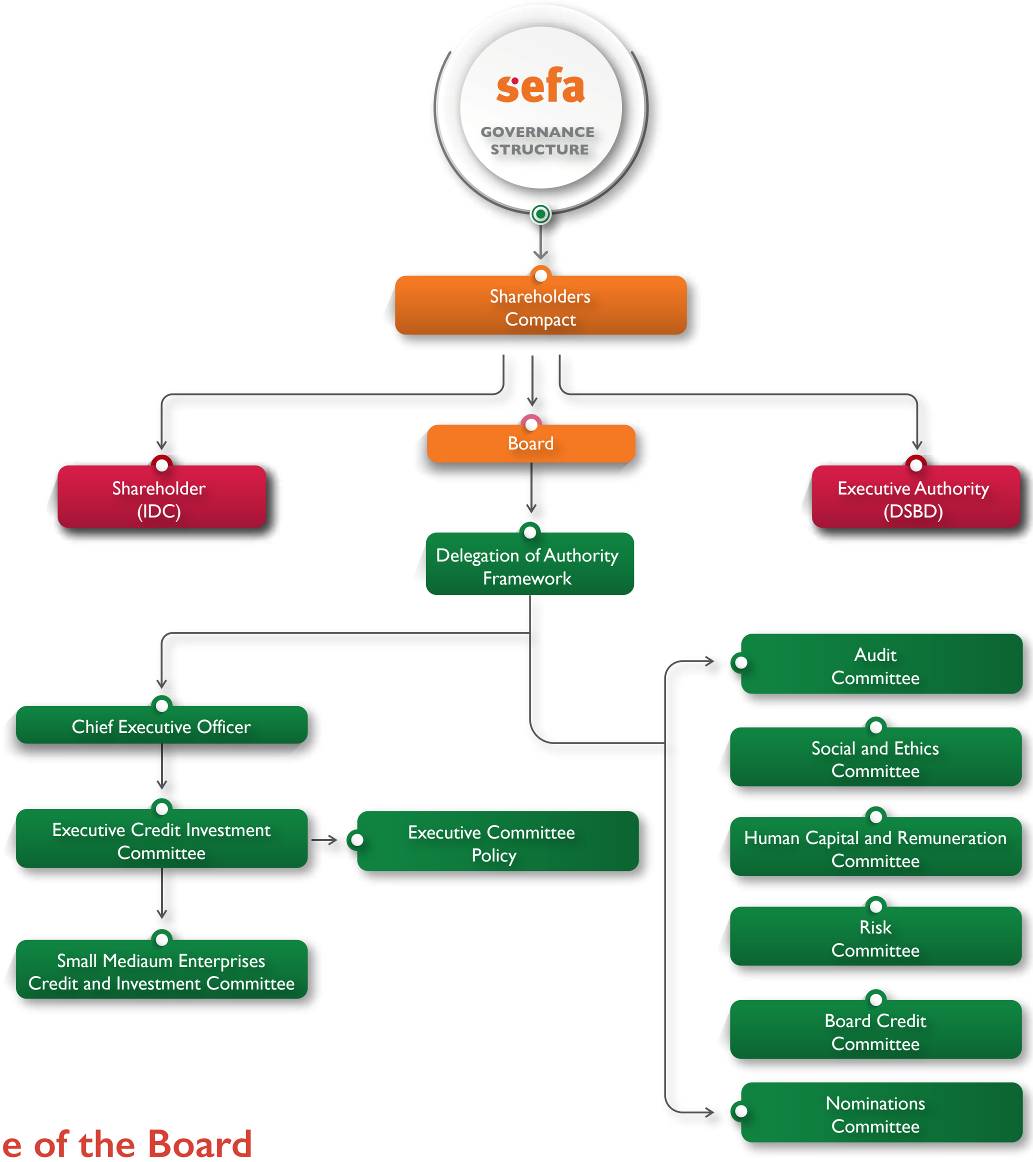
Corporate Plan and Budget: Approved the Corporate Plan for the period 2023/24 to 2024/2026 and the Annual Performance Plan for FY2023/24

Shareholders Compact: Approved and Recommended the Shareholders Compact for FY2022/23

Board Oversight: Approved the Q4FY2021/22; Q1FY2022/23; Q2FY2022/23; and Q3FY2022/23 Performance Report for submission to the Executive Authority, DSBD.

Delegation of Authority Matrix: Approved the revised Delegation of Authority Matrix for adequacy and improved effectiveness.

sefa Governance Structure



The Role of the Board

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

The Chairperson of the Board is an independent Non-Executive Director and provides leadership to the Board to ensure effective discharge of its responsibilities. No individual director has unfettered powers in relation to decision making. The Chairperson presides over the Board meetings and facilitates sound decision making. The Chairperson ensures that discussions are focused and encourages members to air their views on matters brought before the Board. The Board fulfils inter alia, the following roles and functions:

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

Composition of the Board

The Board has a unitary structure comprising the Board Chairperson, Chief Executive Officer and an adequate number of Directors, the majority of whom are Non-Executive Directors. The Board comprises nine directors, seven of whom are independent non-executive directors. A majority of the directors are appointed by the Executive Authority, the Minister of Small Business Development, whilst the Shareholder, IDC, nominates two Members. The Shareholder and Executive Authority are cognisant of the requisite skills requirements when appointing Directors. The former Board's term ended on 31 April 2022, and a new Board was appointed on 1 May 2022. The Profiles of the Board Members are provided on pages 27 and 28.

The non-executive Directors are principally free from any business relationship that could hamper their objectivity or judgement in terms of the business and activities of the Company. All the Non-executive Directors have unrestricted access to the Company's information, documents, records, and property in the interest of fulfilling their responsibilities, in line with the agreed Board process. The non-executive Directors have unfettered access to the Company's employees, external auditors, professional advisors, and internal auditors, in line with the process defined in their respective Charters. The non-executive Directors act in the best interest of the Company, using a range of governance instruments in the execution of their fiduciary duties. The Board has approved a Directors Code of Conduct, Declarations of Interest and Ethics Policy to guide its members

The Chairperson and the CEO roles are separate.

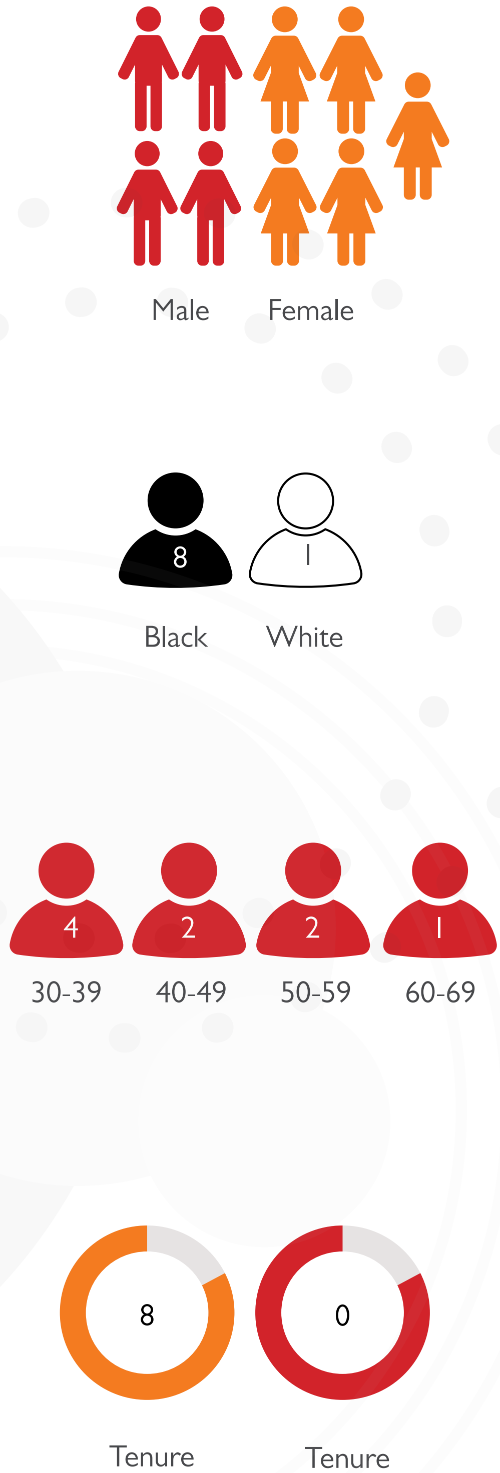
Board Chairperson

The Chairperson of the Board is an independent Non-Executive Director and provides leadership to the Board to ensure the 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, ensuring that discussions are focused, whilst members are encouraged to air their views on matters brought before the Board.

Chief Executive Officer

The CEO is appointed by the Board in consultation with the Shareholder and the Executive Authority and is responsible for the day-to-day operations of the Company assisted by Executive Management Committees. Mr Matshamba was appointed as the CEO of the **sefa** on a three-year contract effective from 01 November 2020, and as an Executive Director of the Company, in accordance with the Company's Memorandum of Incorporation. The CEO's contract requires a 3-month notice and expires on 31 October 2023.

Board Tenure and Demographics



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

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 varied expertise and personalities ensure that robust engagements are held at the Board and Committee meetings. The previously reported need for an independent Chartered Accountant was addressed post the reporting period and has enhanced the technical skills of the Audit Committee.

A	Industry Knowledge/ Experience	
1.	Industry experience (Development Funding)	3 of 9
2.	Knowledge of sector (Small Business Development)	3 of 9
3.	Knowledge of broad public policy direction	2 of 9
4.	Understanding of government / legislation/ legislative process	4 of 9
B	**Technical Skills/ Expertise**	
5.	Accounting	3 of 9
6.	Development/Corporate Finance/ Fund Management / Investment	4 of 9
7.	Operations	4 of 9
8.	Commercial Law	2 of 9
9.	Marketing experience	1 of 9
10.	Information Technology	1 of 9
11.	Public Relations	1 of 9
12.	Strategy Development and Implementation	4 of 9
13.	Risk Management (Incl. experience in developing and implementing risk management systems)	2 of 9
14.	Human Resource Management	1 of 9
15.	CEO/Executive/Senior Management experience	5 of 9

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 six Committees set out below, without abdicating any of its responsibility. Committee members were nominated by the Board amongst the Directors based on experience and expertise. These Committees also serve the **sefa** subsidiary entities.

The Audit Committee is 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 oversite responsibilities for the financial reporting process, systems of internal control, audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct. It provides independent advice and guidance to the Board regarding the adequacy and effectiveness of management's practices and potential improvements to those practices. The Social and Ethics Committee is constituted as a statutory Committee of the Board of **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 oversite on social and ethical matters relating to the Company.

The Board Credit and Investment Committee's primary role is to provide oversite and monitoring of all **sefa** investment portfolios and to ensure 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, being cognisant of the developmental imperatives.

The Human Capital and Remuneration Committee assists 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 also annually considers the Board fees for the ultimate approval by the Shareholder at the Annual General Meeting.

The Risk Committee assists the board in identifying, assessing, prioritising and management of key risks inherent in all **sefa** Group business activities, whilst the Nominations Committee assists with overseeing the governance processes including nominating members to the Subsidiary Boards and Board Committees based on related skills requirements.

Committees may co-opt specific expertise to enhance its composition, although such co-opted members do not have voting rights. There were no co-opted Members during the year under review by any of the Committees. All Board Committees have charters that guide the execution of their respective mandates, which are achieved through effective meetings, execution of the annual work plans, deep dive sessions and periodic Board workshops. The Board workshops focus on strategic planning and review of the Corporate Plan, which incorporates five-year budgets. Deep dive sessions are held to discuss specific matters as part of ongoing development and understanding of the Company, as and when required.

The Board held a deep dive session on 25 August 2022 on **sefa** Operations, focusing on the lending portfolio, **sefa** credit investment and risk policy and procedures, as part of onboarding.

Board and Committee Meetings and Attendance for the FY2022/23

Board and Committee meetings are held quarterly, with additional meetings scheduled for out-of-cycle reporting and other related activities. Since the COVID-19 pandemic which saw the Board successfully shift from in-contact meetings to electronic meetings, via Microsoft Teams, all meetings were held electronically.

Audit Committee	Board Credit & Investment Committee	Human Capital & Remuneration Committee	Nominations Committee	Risk Committee	Social and Ethics Committee
AC	BCIC	HCRC	NOMCO	RC	SEC

	Date Appointed	Board	Board Strategy Session	AC	BCIC	HCRC	NOMCO	RC	SEC
No. of meetings held:		17 (8 SM)	1	12 (4 SM)	7 (2 SM)	6 (2 SM)	5 (3 SM)	4	3
AMR Mahosi* (Chairperson)	01/08/2019	1							
DL Mabuza*	01/08/2019	1							
SF Mudau*	01/10/2020	1							
S Siwisa (Chairperson)	03/05/2022	16	1		3		5	1**	
MD Matshamba	01/11/2020	16	1						1
Adv NG Khumalo	03/05/2022	15	1	12		7	5		3
MJ Kganyago	01/08/2019	14	1	12	7		5	4	
N Makanda	03/05/2022	16	1	12	7		5	4	
M Mfuleni	03/05/2022	14	1			6		4	2
C Motale	03/05/2022	14	1	9	6			4	2
ZF Ngcobo	01/10/2020	11	A			6	4		3
MJ Qobo	02/05/2022	10	A			6	4	3	
TV Tobias-Pokolo	03/05/2022	15	1		6				3
H Tsoadi	01/10/2020	12	1		4				

Notes:
SM: denotes Special Meeting.
** Rotated on 31 April 2022.*
*** Member withdrew from the Risk Committee based on Charter provisions.*

Performance Appraisal

The Board views assessments of its performance as a vital tool to enhance its effectiveness. Generally, an independent service provider is procured to conduct the annual Board performance appraisal. The outcome of that appraisal process would be considered by the Board and remedial action implemented. The report would further be submitted to the Shareholder and Executive Authority. The Board did not conduct an independent assessment during the year under review due to the changes in its composition over the past two years.

However, during the second half of the financial year, the Board Chairperson conducted one-on-one meetings with individual directors to discuss Board related matters, including areas of concern and improvement.

Directors' Induction and Continuous Development

As part of enhancing the Directors' skills, the Company Secretariat arranges membership and/or renewal 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, including the IoDSA, as part of ongoing development as a Director. In-house sessions, where possible, are also arranged as part of a scheduled meeting agenda. In the year under review, each governance received training from an independent service provider on the respective roles. A director undertook the IoDSA training on Being a Directors Part 1 to 4, two Social and Ethics Committee members attended training officered by the IoDSA on the Social and Committee Programme.

Executive Authority and Shareholder Engagements

To facilitate effective performance monitoring by the Executive Authority, and in line with Treasury Regulation 29.3.1, the Minister meets with the Board as and when necessary, at most, on a quarterly basis. The Board has concluded a Shareholder's Compact with the Executive Authority and the Shareholder. A Governance Framework has been concluded and governs the relationship between **sefa** and the Shareholder.

The Minister held engagements with the **sefa** Board Chairperson on different Company matters. To ensure alignment on the crafting of the **sefa** Corporate Annual Performance Plan FY2023/24, a presentation was provided by the DSBD at the **sefa** Board Strategy session held in November 2022.

Conflicts of Interest

The Board recognises the importance of acting in the best interests of the Company and therefore adheres to the provisions of the Companies Act and the Directors' Code of Conduct, Declaration of Interest and Ethics Policy, by disclosing, and avoiding, conflicts of interest. Directors have a fiduciary duty to disclose the nature of their interests and are required to declare their general interests annually, by 30 April, and at each meeting in respect of matters on the agenda.

Board Remuneration

sefa Non-Executive Directors are remunerated for meetings attended. Other ad hoc non-meeting duties performed on behalf of the company, and approved by the Chairperson, are payable at an hourly rate based on the Board or Committee Fees as approved by the Shareholder. The Shareholder approved the applicable Board Fees at the AGM held on 29 March 2022. No performance-based remuneration or retainer fees are paid to directors.

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

Delegation of Authority

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

Company Secretary

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

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ENTERPRISE RISK

Enterprise Risk Management

Enterprise risk management in **sefa** includes the methods and processes used to manage risks and realise opportunities related to the achievement of **sefa's** objectives. Principle 11 of King IV report on Corporate Governance for South Africa of 2016, states that the Governing Body (Board) should govern risk in a way that supports the organisation in setting and achieving its strategic goals.

Enterprise Risk Management Framework

The enterprise risk management framework places emphasis on **sefa's** ERM programmes and provides structure, consistency, and the assurance that **sefa** has covered all the necessary issues. The framework aims to enable the organisation to proactively anticipate risks, to ensure that appropriate responses are developed and implemented, thereby ensuring achievement of strategic objectives and long-term sustainability.

The risk management process is designed to identify, assess, and respond to, report on, and monitor the risks that threaten the ability of **sefa** to achieve business strategy and objectives within defined risk appetite.

Governance & Culture	Strategy & Objective-Setting	Performance	Review & Revision	Information, Communication, & Reporting
1. Exercises Board Risk Oversight 2. Establishes Operating Structures 3. Defines Desired Culture 4. Demonstrates Commitment to Core Values 5. Attracts, Develops, and Retains Capable Individuals	6. Analyzes Business Context 7. Defines Risk Appetite 8. Evaluates Alternative Strategies 9. Formulates Business Objectives	10. Identifies Risk 11. Assesses Severity of Risk 12. Prioritizes Risks 13. Implements Risk Responses 14. Develops Portfolio View	15. Assesses Substantial Change 16. Reviews Risk and Performance 17. Pursues Improvement in Enterprise Risk Management	18. Leverages Information and Technology 19. Communicates Risk Information 20. Reports on Risk, Culture, and Performance

Enterprise Risk Management Governance

sefa follows a three lines of assurance approach to risk management. Risks are owned and managed within the departments/business units (first line of assurance) and reviewed at least quarterly. Governance teams (from the second line of assurance) review risks and controls, including those relating to information security, compliance, and business continuity. Internal Audit as the third line of assurance reviews risks and controls independently and objectively.

The Board is responsible for maintaining and reviewing the effectiveness of **sefa's** risk management activities from a strategic, financial, and operational perspective. These activities are designed to identify and manage the risk of failure to achieve business objectives or to successfully deliver our business strategy.

Key Organisational Risks

sefa's risk identification process follows a dual approach:

- A bottom-up approach at a department/business unit level. This identifies risks that threaten an individual business unit's activities. These risks are consolidated to the Executive Committee.
- A top-down approach at a strategic level. This identifies risks that threaten the delivery of strategy. The diagram below summarises **sefa's** key organisational risks on a residual basis since the last reporting period.

IMPACT	**Catastrophic**	5	10	15	20	25
	Major	4	8	6 12 7 4	2 16 3	1 20
	Moderate	3	6	10 9	8 12 9 5	15
	Minor	2	4	6	8	10
	Insignificant	1	2	3	4	5
		Very rare	Unlikely	Possible/likely	Probable/likely	Almost certain
		Likelihood (Likelihood of risk occurring over lifetime of objective (i.e. 12 months))				

Top 10 Organisational Risks

1. Inadequate recovery of invested funds – Low collections and high impairments
2. Inadequate Capacity in People, Systems, Processes to achieve levels of impact, performance and innovation.
3. Financial crimes and unethical business practices
4. Loss of confidential information resulting in reputational damage due to cybercrimes
5. Inability to meet properties portfolio objectives and achieve market related tenant occupancy.
6. Lack of clarity and uncertainty surrounding how a merger with Seda will be managed.
7. Inability to define and secure long term financial sustainability of **sefa** to meet its mandate and strategic objectives.
8. Limited system automation and ability to adapt to new business models and technologies.
9. Not meeting legal, contractual, and regulatory obligations.
10. Failure of IT security controls.

Compliance Management

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

sefa as a lending institution, continues to operate in an environment that is highly regulated and many of the activities and services are subject to legal and regulatory influences. New laws, new interpretations of existing laws, changes to existing regulations and heightened regulatory scrutiny could affect how **sefa** operates.

The regulatory universe is reviewed on an annual basis to ensure its applicability and relevance. The legislation that impacts **sefa** includes, but is not limited to:

1. Consumer Protection Act 68 of 2008
2. Occupation for Occupational Injuries and Disease Act,1993 (Act 130 of 1993)
3. Companies Act 71 of 2008
4. Financial Advisory and Intermediaries Services Act 37 of 2002
5. Financial Intelligence Centre Act 38 of 2001
6. Financial Sector Regulation Act 9 of 2017
7. Income Tax 58 of 1962
8. Insurance Act 18 of 2017
9. Labour Relations Act 66 of 1995
10. National Credit Act 34 of 2005 - (National Credit Amendment Act 7 of 2019))
11. Occupational Health and Safety Act 85 of 1993
12. Preferential Procurement Policy Framework Act 5 of 2000
13. Protection of Personal Information Act 4 of 2013
14. Public Finance Management Act 1 of 1999
15. Cybercrimes Act 19 of 2020
16. Industrial Development Act 22 of 1940 (Amendment Act 49 of 2001)
17. Protection of Constitution Democracy against Terrorist and Related Activities Act 33 of 2004

Compliance monitoring is performed on completed compliance risk management plans and, where necessary, escalated to governance structures.

During the period under review, the compliance function, played an active role in inculcating a compliance culture. This was spearheaded by strengthening the control environment through the development of an Anti-Money Laundering Policy that was widely consulted, prior to its tabling at governance structures.

Training and awareness remained critical to the creation of an environment where compliance is understood and valued as organisational performance is pursued. Training conducted during the past year included the following:

- Protection of Personal Information Act
- National Credit Act
- Financial Intelligence Centre Act

A pocket guide on POPIA was developed and electronically issued to staff. The internal communication platform, e-**sefa**, was also used to share information on grey listing. The reporting period saw an increased emphasis on FICA training in that the Risk Management and Compliance Programme (RMCP) and Know-Your-Client (KYC) Guide were used to train regional offices.

Broad-Based Black Economic Empowerment is a key focus area and initiatives to improve **sefa's** rating are ongoing and the strategy for FY2023/24 was finalised for implementation.

Financial Intelligence Centre Act (FICA)

As an accountable institution in terms of the Financial Intelligence Centre Act, **sefa** has the obligation to screen, risk rate, monitor its clients on an ongoing basis and provide relevant training relating to initiatives to combat money laundering and terrorist financing. The Know Your Client (KYC) Guide was reviewed to incorporate The Financial Intelligence Centre (FIC) amendments issued in December 2022 and the Risk Management and Compliance Programme (RMCP) was revised accordingly for approval by the Board.

sefa is not precluded from conducting business with a politically exposed person (PEP) or a prominent influential person (PIP). The identification of a PEP/PIP does not on its own provide reason to decline or reject an application for funding. An approved PEP/PIP Guide is in place for the management of identified PEPs. This requirement by the FIC is met through the implementation of the PEP/PIP procedure guide that ensures **sefa** appropriately manages any legal and reputational risks associated with conducting business with PEPs. During the period under review, a total of 13 PEPs and/or PIPs were identified of which 13 such deals were approved and reported to the Social and Ethics Committee as per the approved PIP/PEP Procedure document.

Khula Credit Guarantee (KCG)

Khula Credit Guarantee's (KCG) responsibility to submit a quarterly and annual quantitative reporting template (QRT) and annual qualitative regulatory report (QRR) to the Prudential Authority was successfully met. The annual Prudential Authority supervisory visit was held during quarter three of the period under review.

INTERNAL AUDIT

Objective

Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach when evaluating and improving the effectiveness and efficiency of risk management, control, and governance processes. The internal audit activity also assists **sefa** to achieve its objectives by evaluating and developing recommendations for the enhancement, or improvement of the processes to ensure:

- Reliability and integrity of financial and operational information,
- The effectiveness of operations,
- Safeguarding assets and,
- Compliance with laws, regulations, and controls

sefa has an established in-house Internal Audit function under the direction of the Head of Internal Audit. The purpose, authority, and responsibility of the internal audit activity are defined in the Audit Charter, which is reviewed and approved annually by the Audit Committee. The internal audit activity executes its work according to the Treasury Regulations and the Standards of the Institute of Internal Auditors (IIA). For the best management practice, reference is made to King IV, Principle 15, which outlines requisite internal audit arrangements to provide relevant and objective assurance that contribute to the effectiveness of governance, risk management, and control processes.

Summary of the work done and Control Environment

The internal audit activity has provided **sefa** with independent, objective, and value-added services that ensured that financial, compliance, environmental, operational, and performance objectives are achieved and improved. In FY 2023, 20 projects were completed on a risk-based internal audit plan approved by the Audit Committee. Based on the work performed and the King IV framework's assessment of the general control environment, **sefa's** control environment is satisfactory but requires management's sustained attention.

Fraud Risk Management

sefa continues to implement a Fraud and Corruption Prevention Strategy as part of the overall governance and risk management. The effectiveness of the strategy is monitored on an ongoing basis by management and the Board. Management is responsible for the prevention of incidents and occurrences of fraud and corruption and does this through the design, implementation, and monitoring of a sound system of internal controls.

In FY 2023, the following key activities continued to be a cornerstone of the fraud and strategy implementation plan:

- A fraud risk management plan which specifically focuses on fraud and corruption was approved.
- Education and awareness of potential incidents of fraud and corruption are conducted regularly. Over 75% of staff attended the sessions which educated and boosted employee confidence in management's zero-tolerance approach towards fraud at **sefa**.
- To promote fraud and corruption prevention, **sefa's** continued its partnership with Vuvuzela Fraud (Whistleblower) Hotline, administered by an independent service provider. The Vuvuzela Hotline provides employees with confidentiality to disclose suspected fraud and corruption.
- Furthermore, the Audit Committee continued to exercise its oversight by ensuring that all calls logged to the **sefa** Vuvuzela Hotline, administered by an independent external service provider, are followed up.
- A panel of twenty-seven forensic firms was extensively utilised to probe new cases at **sefa**. Consequently, four cases were referred to the commercial crime unit of law enforcement. Internally, consequence management is constantly applied.

SECTION 4
PERFORMANCE

HUMAN CAPITAL MANAGEMENT, FACILITIES MANAGEMENT & STAKEHOLDER MARKETING & COMMUNICATIONS

Ms Nokonwaba Shwala

Executive Manager:
HCM I FM | MC

During FY2022/23, **sefa** continued to deliver on its ambitious target of impacting the SMMEs and Cooperatives ecosystem through financial support as outlined in the entities FY2022/23 annual targets and reported in this annual performance report. **sefa** continued to perform much better than the previous year, which was largely during the two years of the pandemic. This has been only possible because of the commitment, skills and capabilities of our people serving our clients every day.

We are proud of our people and how they continue to contribute to the success of **sefa** even during the challenging times. The lessons learned during the pandemic, had not only been the catalyst for rethinking how we work and organise ourselves, but it has also prompted a change in how we view the world-of-work. We are committed to creating a positive and productive environment in which our people are enabled to perform their best and are healthy, resilient, and happy at work.

Our people strategy is designed along 4 pillars that guide us in our people practices: these pillars, drive our journey towards high performance organisations (HPO):

- **Optimised workforce:** Putting the right talent in the right roles at the right time
- **Leaders of the future:** Developing leaders through our MDP programs and similar, who inspire, empower and role model the right behaviours.
- **One-sefa-one culture:** Through our culture sessions, continuously engaging and enhancing on matters relevant to **sefa**, that binds together as we prepare for the merged entity.
- **Safe Entity:** Optimised business processes, strengthened accountability, clear consequence management principles and safeguarding our employees in all Facilities that they are placed in.

Overview of Performance Achievements

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

- HCM focused on the filling of strategic and critical vacancies during the reporting period in compliance with the recruitment moratorium conditions posed by the planned **sefa**/Seda/CBDA merger.
- The implementation of the second round of the **sefa** Management Development Programme (MDP) was completed. Ten (10) employees enrolled onto the programme and 9 successfully completed it whilst 1 employee resigned in the midst of the programme.
- A work readiness and entrepreneur programme were implemented in partnership with the University of Pretoria and 27 interns participated in and completed the programme.
- An employee engagement survey was conducted and yielded a 65% engagement index, which was a slight increase on the FY2021/22 survey index of 63%.
- Several employee engagement interventions were conducted during the reporting period and included a virtual Youth Day event, a **sefa** Women's Month Gala Dinner and Heritage Month celebrations that were hosted across all **sefa** offices.
- The culture transformation project initiated in FY2019/20 also continued with the implementation of culture workshops that were attended by approximately 70% of **sefa** staff. The purpose of the culture workshops was to unpack the existing culture challenges, whilst mapping a new culture vision aimed at driving a high-performance organisation.
- A productivity measurement framework was established during the reporting period. The framework defined the key productivity measurement parameters and a productivity baseline was established for the lending business functions.
- **sefa** continued with the utilisation of ICAS services to facilitate its employee wellness programme (EWP). The implementation of employee wellness interventions such as webinars and digital campaigns were continued to support and enhance the overall wellbeing of employees.
- Implementation of occupational health and safety interventions continued that aimed to ensure the provision of a safe, healthy, and secure working environment.
- Renewal of office leases, procurement of additional office space, shared office spaces with Seda and establishment of new office spaces.
- The decline in COVID-19 positive cases mirrored the national decline in overall COVID-19 positive cases. Only eight COVID-19 positive cases were reported during the 2022/23 financial year, and all eight recovered.

sefa's HPO Journey

The strategic initiatives delivered during the reporting period were aimed at driving the organisation towards the HPO optimisation stage. The key achievements included the implementation of management development programme, implementation of culture transformation workshops and the establishment of a productivity baseline for the lending business functions. The progress on the HPO journey has been hampered by the restrictions on the filling of vacancies resulting from **sefa**/Seda/CBDA merger project. Some of the challenges the organisation faced included the inability to attract or retain talent due to the short-term employment options available.

Key Milestones achieved on the HPO Journey

- **Leaders of the Future:** Second intake of MDP (() Managers completed the programme and Junior Managers Development Programme initiated with 14 participants
- **Youth Empowerment: sefa** Work Readiness and Entrepreneur Programme implemented with 27 interns participating in the programme.
- Employee Engagement Index at 65%
- **One sefa One Culture:** Culture transformation sessions implemented with 70% employee coverage
- **Productivity Measurement:** A productivity framework was developed including the establishment of a productivity baseline for Lending functions
- **Fit for work Employees:** Continuous implementation of wellness interventions through ICAS Employee Wellness Programme
- **Safe Entity:** Optimised business processes, strengthened accountability, clear consequence management principles and safeguarding our employees in all office environments that they are placed in.

sefa Employee Profile

The **sefa** employee profile reflects a diverse workforce that continues to drive the delivery of the organisation's mandate. Our talent acquisition processes during the reporting period were primarily aimed at capacitating the critical business functions to ensure continuity and performance excellence as the organisation navigates through various challenges such as the post COVID-19 transition and the **sefa**/Seda/CBDA merger process.

Talent Acquisition and Retention

The HCM Division prioritised the filling of vacant strategic and critical positions. The focus during the reporting period was to ensure that the required skills are available and to enable the organisation to make the correct investment decisions while executing its mandate.

sefa Talent Profile

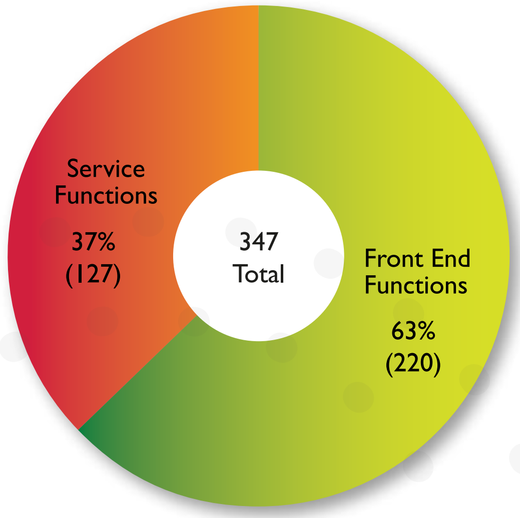
During the period under review, **sefa's** headcount was 347 employees, including fixed-term contractors and interns. The organisation continued to keep a flexible component of its workforce at a minimum in alignment with the moratorium on recruitment due to the planned **sefa**/Seda/CBDA merger. **sefa** has maintained a steady staff profile reflecting 63% of the staff compliment in front-end business functions, whilst 37% is in support services.

sefa's employee job category profile as at March 2023 reflects the following job category representation: 1% executive management, 16% management, 52% professionals, 19% administrators, 2% support staff and 10% interns. During the reporting period, the HCM Division's resourcing efforts included the use of Fixed-Term Contract (FTC) employees to fill critical vacancies. The year under review included the implementation of various **sefa** programmes such as the township, rural entrepreneurship programme (TREP) 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.

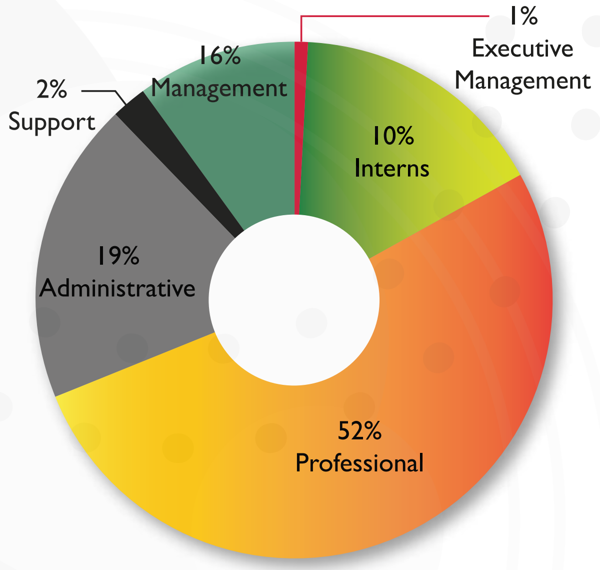
The gender profile that the organisation has a 57% female representation and 43% male representation.

The **sefa** employee race profile for the reporting period reflected a 96% black representation: African, Coloured, and Indian. A comparison of the actual employee profile for the FY2022/23 financial year against the numerical target as per the employment equity plan reflects a slight over-representation of African employees and future efforts are to drive the increase of coloured, indian, and white representation where opportunities arise.

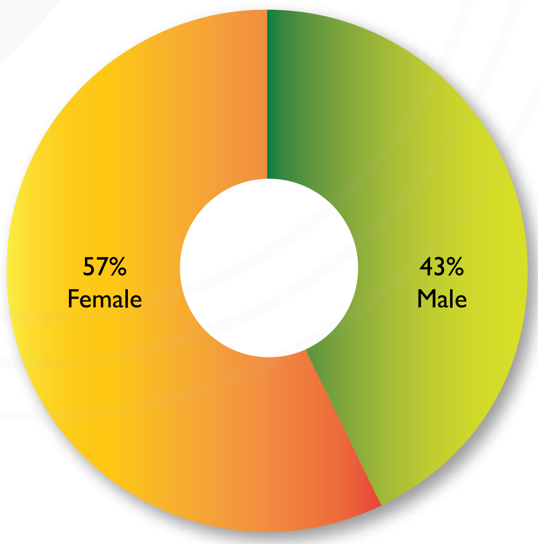
Headcount: Front-end vs Support Business Functions Profile

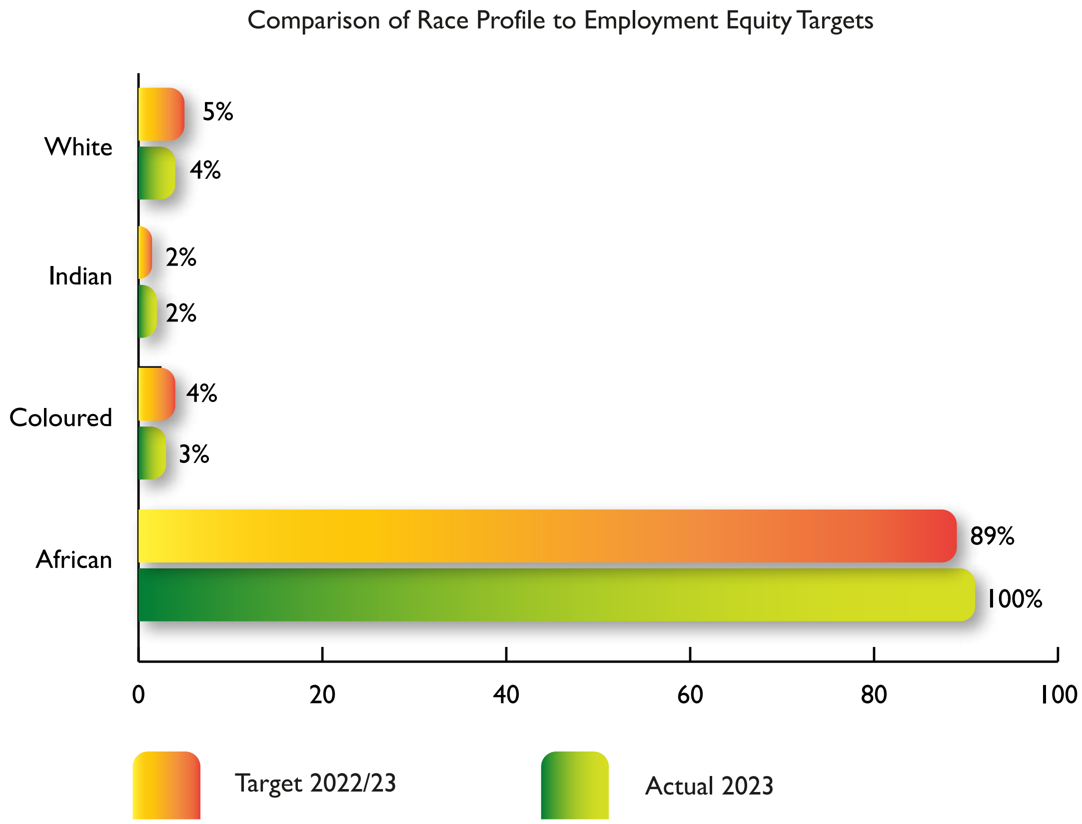


Job Category Profile



Gender Profile





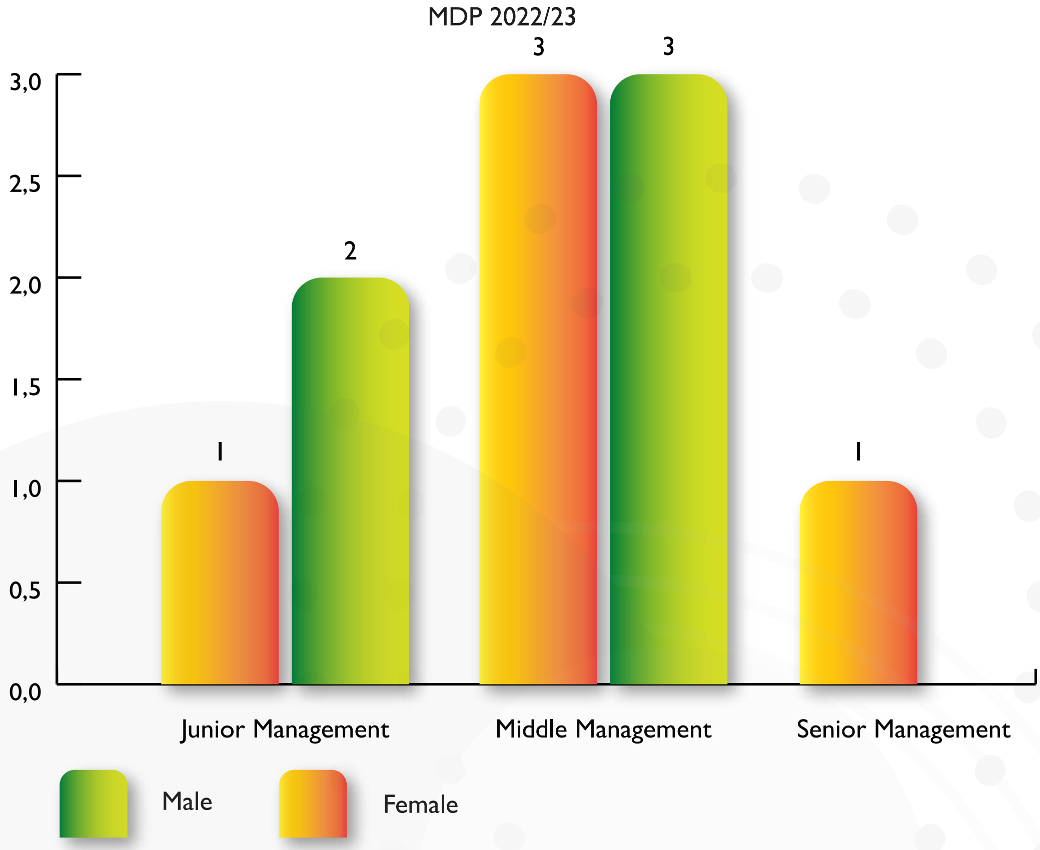
Leaders for the Future

Learning and development initiatives have been delivered in support of the HCM's strategic objectives of transitioning the organisation to an HPO status through focus on leadership development. The focus for learning and development was in development of future leadership capability. The following were the flagship projects that were implemented:

Developing Future Leaders

The 2022/23 reporting period included a continuation of our flagship Management Development Programme (MDP), a formal programme delivered in partnership with the University of Pretoria. Nine employees at senior management level participated in and successfully completed the six-month long programme that focused on improving management capability skills. The MDP, that took place from June to November 2022, included the practical application of management skills that had a strong business integration element, bringing the learning into the business in real time. The chart below depicts the demographics of the programme beneficiaries, namely, five females and four males.

Management Development Programme (MDP) Candidates FY2022/23



sefa Senior, Middle, and Junior Management Development Programme

1. The capacity-building interventions implemented, were aligned with Human Capitals' strategic objectives for FY2022/23 geared towards targeted people management practices, to enable **sefa's** growth journey towards a High-Performance (HPO).
2. The **sefa** Management Competency Framework was created in collaboration with the University of Pretoria in FY2021/22. The **sefa** Management Competency Framework underpins the Senior, Middle, and Junior Management Development Programmes.
3. In FY2022/23, Ten beneficiaries were enrolled, and nine completed the Senior Management programme successfully with one resignation.
4. In FY2022/23 – 19 Beneficiaries are participating in the Junior and Middle Management programme. The programme commenced in Dec 2022 and will conclude in July 2023.

Targeted Learning Interventions

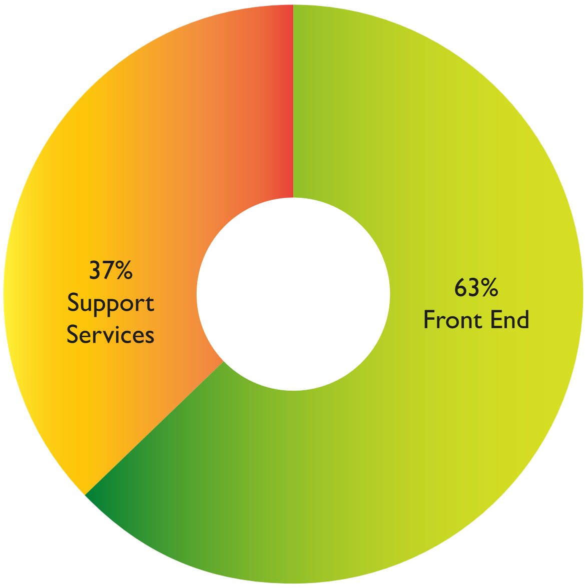
Targeted learning programmes implemented during the reporting period were aligned to the business requirements as outlined in the Workplace Skills Plan (WSP) for FY2022/23. 77% of planned programmes and added learning interventions, as per the WSP, were implemented.

The implemented Interventions are as per the following categories:

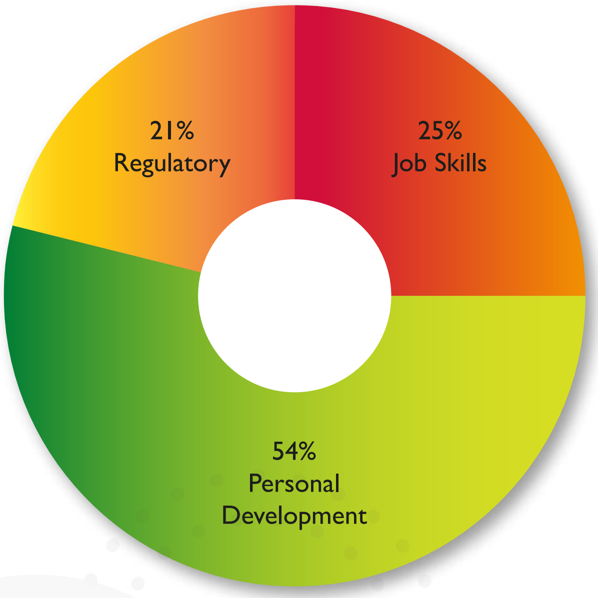
- Jobs
- Personal development
- Regulatory

Types of Learning Interventions Implemented

Training expenditure for front-end vs services category was 63% and 37% respectively and depicted in the graph below.



Front-end vs Services Training Expenditure



Study Assistance Programme (SAP)

sefa continued to offer financial assistance to employees who wish to study further to enhance their skills through the study assistance programme. During the reporting period, 15 beneficiaries were awarded financial assistance for part-time studies. The SAP beneficiaries were financed for a range of formal qualifications with special focus on the following skills areas:

- Financial accounting
- Development finance
- Business management
- Law
- Marketing management

Work Readiness Programme

Learnerships and Internships for unemployed learners are a critical pillar in building future skills and offering experience and insights into the world of work. In order to build future skills for the organisation, the HCM division initiated a work readiness and entrepreneur programme that was delivered in partnership with the University of Pretoria. Twenty-nine learners and interns completed the six-month programmes aimed at empowering the learners and interns with the skills required to effectively participate and integrate more easily into the work environment. All the participants successfully completed the work readiness programme.

sefa Learnership for Unemployed Youth

sefa is hosting this learnership as part of their commitment to developing Youth.

This Learnership aims to provide the 14 Learners with valuable work experience and the opportunity to acquire a Qualification through an accredited institution, Cornerstone Performance Solutions ®.

The learnership commenced on 15 March 2023, and it is a 12 Month Programme.

sefa Programmes	Female	Male	Total
Senior Management Development Programme (MDP)	5	5	10
Junior and Middle Management Development Programme (JMMDP)	11	8	19
sefa Learnership	11	3	14
TOTAL	**27**	**16**	**43**

***sefa** Learners and the Executive Manager HCM at the launch in March 2023*

Organisational Development and Change Management

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

- **sefa** continued with the implementation of the culture change project aligned to the investors in people standard. Culture and values alignment Workshops were implemented during the reporting period. Approximately 70% of the overall staff compliment attended the sessions that were aimed at soliciting employee's inputs on culture redefinition and the key interventions envisaged to support a high-performance organisation.

- The FY2022/23 employee engagement survey was implemented during the reporting period. The Employee Engagement Index is currently at 65% that is a slight increase on the index of 63% during the previous 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 culture transformation, improvement on leadership and management capability, implementation of recognition programmes will be prioritised in the FY2023/24 period.

- A productivity measurement framework was designed to establish a culture of measuring productivity towards the improvement of employee performance. The framework defined the key productivity factors to be considered and a productivity baseline was established for front-end business functions.

- Change management support continued for strategic projects ensuring that the 'people' side of change is structured and effectively implemented when introducing new projects or new ways of working. A change management framework has been developed to support business with a methodology to effectively implement operational changes.

Improved Employee Relations and Discipline

The focus during the reporting period was on strengthening constructive workplace relations through the implementation of the following initiatives:

- The effective resolution of labour disputes and disciplinary cases within a reasonable time, to avoid disruption of productivity.
- Consultative forums and bilateral with stakeholders, helped improve the relationships with the relevant stakeholders.

Provision of an Adequate, Safe and Secure Working Environment

The HCM division is the custodian of the occupational health and safety (OHS) function, which is responsible for the implementation of all health, safety, and facilities management matters.

The OHS and Facilities function seeks to ensure a safe, healthy, and conducive work environment across all **sefa** offices. The focus during the reporting period was a safe transition post COVID1-9 through the delivery of health and safety protocols to ensure a safe working environment. Such protocols included the continuation of COVID-19 screening measures across all **sefa** offices.

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

Health and Safety

- Zero (0) incidents recorded during the reporting period due to the safe and secure working environment in compliance with the OHS Act No. 85 of 1993.
- OHS Committee in place and representatives trained
- Ongoing maintenance of all office spaces in accordance with OHS requirements

Facilities Management

- Implementation of shared office spaces with seda
- Establishment of new office spaces acquired (Mthatha)
- Additional and new office spaces acquired
- Management of all office leases to ensure effective and timely provision of office spaces

sefa COVID-19 Cases

The numbers of COVID-19 positive cases mirrored the downward national trends, and eight cases were recorded during the reporting period. All eight employees recovered fully. Safety precautions such as employee screening at all offices, provision of PPE and decontamination of office spaces were continued during the reporting period.

Employee Wellness

sefa continued to support the promotion of physical and mental health, as well as overall employee wellbeing through its Employee Wellness Programme (EWP). Employee wellbeing remained a central focus area due to increased stress and anxiety from the social and economic challenges resulting from the COVID-19 pandemic.

The focus during the reporting period was the delivery of interventions to create awareness and prevention of key psychosocial challenges such as mental health challenges. The key problems reported during the FY2022/23 period included psychosocial support to employees on mental health, trauma, and loss issues. Employee wellness campaigns were also implemented to improve employee health, well-being, motivation, and productivity.

Strategic Outlook for the Year Ahead

The human capital strategic work plan for the year ahead will be centred on the execution of a sound leadership capability pipeline and improvement of productivity levels towards high-performance organisation. **sefa** will continue to implement a culture of transformation and performance enhancement programmes to support a high-performance culture. Learning programmes for front-end employees will also continue. The strategic focus in the new year will primarily support culture transformation through increased productivity and leadership capability. The year ahead will also focus on the implementation of interventions aimed at ensuring that **sefa** has a solid resource pool with fit-for-purpose employees geared to increase **sefa's** performance.

STAKEHOLDER MARKETING AND COMMUNICATIONS

Purpose of the Department

To ensure that the mandate of **sefa** is met through communication channels focusing on the message communicated to the target market.

Key Strategic Marketing Objectives

- Communicate and market the **sefa** brand and product offerings to all relevant client segments through various media and channels.
- Develop a vibrant stakeholder engagement culture.
- Create a positive **sefa** brand image across all platforms through consistent messaging.
- Collaborate with internal stakeholders to enhance the **sefa** culture.

Highlights

The Stakeholder Marketing and Communication Department plays a significant role in ensuring that **sefa** maintains its reputation as the lender of choice in the DFI's space. This was accomplished by strategically working with internal stakeholders efficiently and effectively, while ensuring we meet **sefa's** mandate.

During the period under review, the department continued to focus on information dissemination and enhancing **sefa** brand visibility through several touchpoints at **sefa** engagement sessions, roadshows with the Minister in collaboration with Seda, social media platforms, TV, radio, print, and via outdoor advertising.

The following information summarises key Stakeholder Marketing and Communication activities that took place during the financial period.

Marketing, Brand and Digital Campaigns

Outdoor advertising took place in six provinces. These included Gauteng (Sandton, Soweto, and Germiston), KZN (Durban), North West (Rustenburg and Mahikeng), Limpopo (Naboomspruit and Thohoyandou), Mpumalanga (Emalahleni) and Eastern Cape (Mthatha and East London).

The department shone a spotlight on five **sefa** funded clients in the Eastern Cape that share **sefa's** vision and job creation mandate. This was achieved through temporary outdoor signage at their sites/ venues announcing they will be "Opening Soon".

These included the success story campaign to celebrate National Entrepreneur's Month, youth entrepreneurs funded by **sefa**, female entrepreneurs funded by **sefa**, a fraud campaign encouraging external stakeholders to report any incidents of fraud, theft, and corruption at **sefa**, as well as an awareness campaign encouraging external stakeholders to "Talk to Us" for application enquiries, etc.

Social media

sefa experienced a significant increase in social media engagement and visibility through their intensive engagement activities and themed digital campaigns. Nine-themed digital campaigns on various social media platforms have played a crucial role in achieving this growth.

The specific content that contributed to the increase in followers and likes on **sefa's** social media pages includes posts related to the success story campaign celebrating National Entrepreneur's Month, the TREP and the Youth Challenge Fund outreach session events. These posts likely helped promote the funds **sefa** offered, attracting more interest and engagement from the social media community.

Facebook

The engagement activities led to a substantial increase of 27,676 likes on **sefa's** Facebook page.

This shows that the content resonated with the audience and generated interest in the organisation's programs and offerings.

Twitter

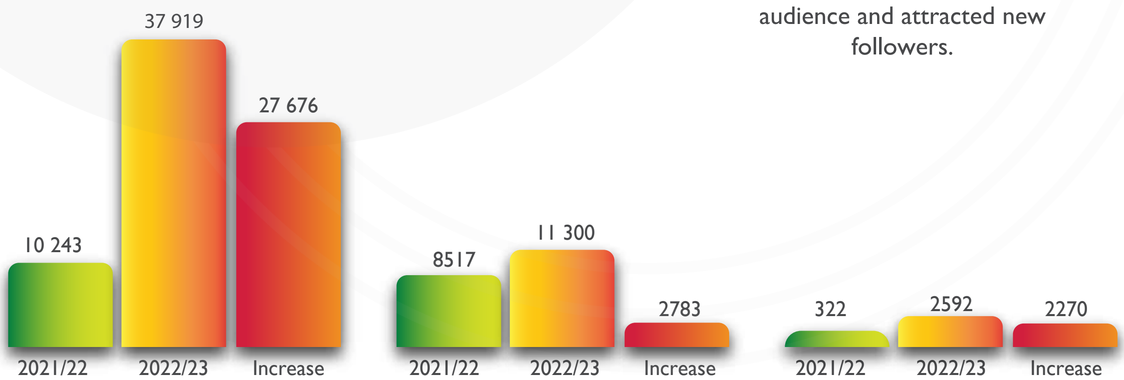
The engagement efforts resulted in an increase of 2,783 followers on **sefa's** Twitter account.

This growth signifies that the themed campaigns and outreach event posts were well-received by the Twitter community.

LinkedIn

sefa's LinkedIn page witnessed a boost of 2,270 followers.

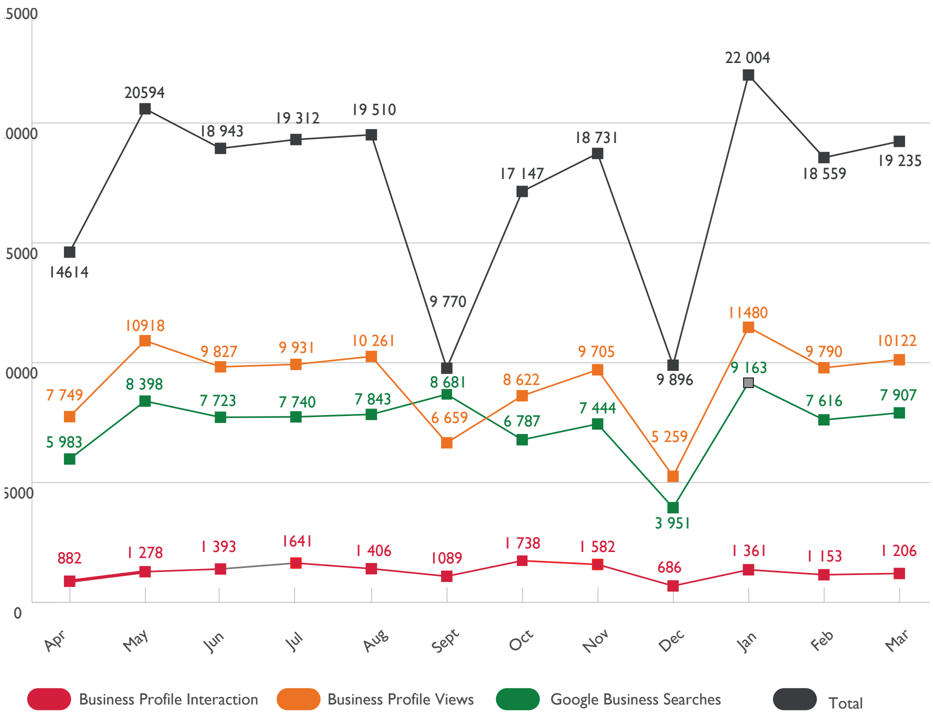
This indicates that the content shared on LinkedIn, possibly focusing on professional development opportunities and business-related news, resonated with the audience and attracted new followers.



Overall, these positive results suggest that **sefa's** social media strategy and content effectively reached and engaged with their target audience, ultimately enhancing their presence and visibility within the social media community.

Google Business Profile Activity

An interaction is when a customer calls, messages, makes a booking, then is sent to **sefa's** website or requests directions from the Business Profiles. Website analytics are used to measure the relevant activity.



Client Liaison Centre

The Client Liaison Office continues to excel in delivering a diverse range of services tailored to meet the unique needs of sefa's valued applicants and inquisitive clients. Our commitment to customer satisfaction is unwavering, offering multiple avenues for assistance, including direct phone calls, in-person consultations and responsive e-mail support.

This past fiscal year, our Client Liaison Centre reached new heights by expanding its scope to offer essential technical support for sefa's cutting-edge online application platform. This enhancement exemplifies our dedication to streamlining processes and ensuring a seamless experience for our stakeholders.

	Outbound Calls	Inbound Calls	Total Calls
Quarter 1	2 166	9 030	11 196
Quarter 2	2 217	5 344	7 561
Quarter 3	2 039	3 678	5 717
Quarter 4	1 754	4 662	6 416

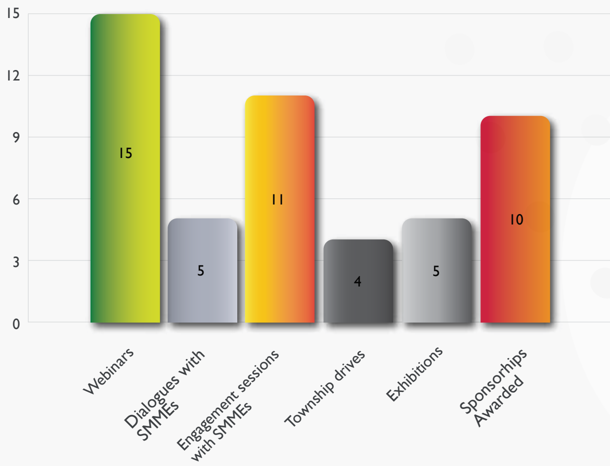
Stakeholder Engagements Activities

sefa's outreach activities such as the roadshows were reignited after the lockdown measures were relaxed, and other external stakeholder engagement activities resumed.



The DSBD Minister and the Deputy Minister placed emphasis on the District Development Model (DDM). The roadshow was undertaken in collaboration with the Small Enterprise Development Agency (Seda) and municipalities across the country.

During the period under review, the following events took place:



sefa, Seda, and DSBD hosted the Inaugural Presidential SMME and Co-operatives summit to celebrate SMME's. This event will, in future, take place on an annual basis.

Four collaborative partnerships were held with the following stakeholders, Heilbronn, Rand West City Local Municipality, Musina Makhado Special Economic Zone, and Beaufort West Local Municipality, to educate and disseminate information. These were in the form of engagement sessions.

Media, Public Relations and Advertising

The department ran two TV campaigns on SABC channels comprising 101 advertising slots from November to December 2022 and again in March 2023. **sefa** secured three television interviews. In addition, 44 radio interviews and adverts on community radio stations were deployed in selected areas. The radio and television advertising were supported by extensive social media activity. Several **sefa** clients were profiled, particularly those participating in the TREP, Youth, Amavulandlela Schemes, as well as women-owned businesses.

The DSBD roadshows that took place across the country generated extensive media coverage, which included interviews with the Minister and Deputy Minister of small business development (DSBD), Stella Ndabeni-Abrahams, and Sidumo Dlamini, as well as the **sefa** CEO Mr. Mxolisi Matshamba.

23 print advertisements were placed in a selection of national and community magazines and newspapers.

Internal Stakeholders

As much as communication with our external stakeholders is very important, our internal stakeholders (staff) are equally important. During the period under review, the following activities were undertaken:

- Four employee product information sessions
- 14 internal campaigns
- Six editions of the 'the **sefa**Zen' internal digital magazine

Several internal brand campaigns were facilitated in collaboration with the Risk Department and HCM Department to enhance the **sefa** culture, and several events were hosted in this regard.

Brand and Corporate Identity workshops were conducted to entrench the brand elements and improve **sefa's** external communication by staff.

Exciting and live content of **sefa** external activities was shared and streamed with employees to keep them informed on **sefa's** involvement with business communities and/or related activities.

In addition, one edition of the Asibonisane external electronic newsletter was released.

Internal Communication

Internal communication campaigns play a crucial role in fostering a positive and cohesive organisational culture. Here's a breakdown of the internal campaigns that **sefa** implemented to enhance its culture and brand while aligning with the "culture transformation theme":

Internal Events:

sefa organised four internal events aimed at promoting collaboration, team spirit, and a sense of belonging among employees. These events provided opportunities for employees to interact, share experiences, and celebrate achievements together.

Internal Brand Survey:

The internal brand survey allowed **sefa** to gather feedback and insights from employees regarding their perceptions of the organisation's brand. This survey helped identify areas of improvement.

sefa Brand and Corporate Identity Workshop:

This workshop was designed to educate employees about **sefa's** brand identity, templates, and documents to ensure all the documents align with the **sefa** corporate identity, and ensure that employees fully understand the brand's essence.

Brand Index Survey

In 2022/23 the department conducted an annual brand visibility index to measure brand recognition, and the public's perception of **sefa's** brand equity and reputation. Different variables in line with the brand index were tested and its overall performance was 66%.

The department conducted two surveys on social media, one poll on social media and one survey via our external e-newsletter in preparation for the brand index survey.

Website Activity

A total of 126 497 page views were recorded on the **sefa** website during the reporting period. In February 2023, we started using Google analytics to track the performance of the **sefa** website.

Between 01 February and 19 June 2023, the **sefa** website gained 54 000 new visitors. The top visited page was the Youth Challenge page, and this spike is attributed to the call for participation that was published on the website.

The department is coordinating a revision of content on the website, contributing to its performance.

LENDING OVERVIEW

Despite the continued adverse impact of the COVID-19 pandemic and loadshedding that affect small businesses, **sefa** grew its loan book to R4.18 billion (FY 2022/23) from R3.5 billion (FY 2021/22). This 19% growth is mainly driven by Direct Lending at R2.7 billion (R2.1 billion: FY 2021/22) whilst the Wholesale Lending book maintained its composition of R1.4 billion in the review year (R1.4 billion: FY 2021/22).

The current year's approvals recorded R1.7 billion, which is a deceleration compared to R2 billion approvals registered in the FY2021/22. On a positive note, overall disbursements grew by 33% year-on-year from R1.8 billion the previous year to R2.4 billion in the year under review.

The growth of the loan book can be attributed to the continued implementation of programmes such as Township and Rural Entrepreneurs (TREP), the Small Enterprise Manufacturing Support Programme (SEMSP), the Business Viability Programme (BVP) and the Youth Challenge Fund (YCF). These programmes were introduced to support SMMEs navigate and overcome the devastating effects of COVID-19 and loadshedding on the economy.

The R422 million approved for 70 SMMEs aimed at supporting these enterprises improve their survival and viability prospects. The Business Viability Programme (BVP) was established to help rescue and maintain businesses that were affected by COVID-19. The Youth Challenge Fund (YCF) was set up to fund youth owned SMMEs, to help them establish, grow, or acquire businesses across all sectors, with additional focus on technological and innovation orientated enterprises. R81 million was approved to 12 YCF SMMEs.

The SEMSP 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. R274 million was approved to 42 applicants of SEMSP during the year under review.

PROGRAMME	CHANNEL
Business Viability Programme (COVID-19)	Direct Lending
Youth Challenge Fund (YCF)	Direct Lending
Small Enterprise Manufacturing Support Programme (SEMSP)	Direct Lending
Township and Rural Entrepreneurship 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 and comprises 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). **sefa's** Lending divisions in collaboration with Seda embarked on various interventions to enhance the pre-investment support and business development services that Seda already provides.

Seda played an integral role in assisting applicants package their applications and in ensuring that the compliance requirements are met by applicants. This applies more specifically to TREP applications, where Seda also introduced Touch Points to widen its reach to even more far-flung rural areas and to act as a point of entry and packaging for the TREP programmes. The Touch Points also assist with conducting the screening of all applications and ensuring compliance with the criteria of the **sefa** programmes, particularly TREP.

The DSBD ensured that the portfolio intensified its collaboration by co-ordinating efforts between **sefa**, Seda and DSBD. This included the critical role of market access programmes, as well as driving and enhancing localisation through programmes such as the Small Enterprise Manufacturing Support Programme (SEMSP).

DSBD initiated engagements with retailers and wholesalers to identify South African manufactured goods, which resulted in various products being listed. **sefa** supported the market access programme through providing funding for the enterprises whose products were identified and listed as goods to be promoted.

The DSBD continues its quest to drive blended finance products and programmes for SMMEs and continues to engagement with sister departments such as the Department of Tourism and the Department of Forestry, Fisheries and Environment to unlock more capital for SMMEs.

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

SMMEs continued to struggle to regain positive operating momentum, whilst adjusting to current operating environment and depressed economy. In addition, the intermediaries that **sefa** partners within 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 economic activity in the country was depressed. For a greater part of the year, **sefa** continued to service clients using the hybrid delivery model with remote consultations and virtual engagements with clients. On the one hand, this has its benefits such as cost and time saving, but it does also lead to various business interruptions as some **sefa** clients suffer interrupted connectivity to the internet, particularly during loadshedding.

Lastly, ensuring that the **sefa** target market SMMEs are funding ready remains a significant challenge. Many 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. To ensure an enhanced client experience, **sefa** is embarking on an upgraded automation initiative to improve customer relationship management.

This will include an enhanced loan origination system and post investment implementation support, as well as 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** continues to implement in collaboration with DSBD and Seda yielded results and have become a vital part of **sefa** business. These programmes will receive specific attention to drive conclusion of more partnerships that will result in more capital being availed to SMMEs.

The experience gained while operating in the year under review within a context of challenging and uncharted circumstances has assisted **sefa** to adapt its processes, systems, and delivery model. **sefa** anticipates that the loan book growth experienced in FY 2022/23 will continue in the future as **sefa** strives to increase financial inclusivity and deliver financial support to underserved SMMEs.

WHOLESALE LENDING

Mr Lwandiso Makupula

Executive Manager: Wholesale Lending

Informal and Microfinance

The operating environment for Micro Entrepreneurs

Micro entrepreneurs continued to operate in an ever-increasing negative economic environment over the last year, as has been the case since the start of the COVID-19 pandemic in 2020. The MFI conducted regular surveys with clients and discovered that the key factors contributing to this negative environment are:

- The lingering impact of COVID-19
- Violence and floods in KwaZulu-Natal
- Job losses of relatives and other villagers
- Inflation
- Loadshedding

Lingering Impact of COVID-19

The COVID-19 pandemic that was characterised by hard lockdowns, travel restrictions and restrictions on major events such as the Moria Easter gathering over a two-year period impacted many clients who either lost their business or are now struggling to recover.

Violence and floods in KwaZulu-Natal

Both events proved disruptive and led to stock losses and the clients' inability to procure stock and make payments to their credit providers including the MFIs.

Job losses of relatives and other villagers

City-based relatives previously contributed to the household income, by transfer payments, lost their jobs and now draw from household resources as they moved back to their clients and rural areas. Often more skilled and better resourced villagers having spent some time in urban areas comes back to outcompete rural entrepreneurs.

Inflation

There have been sharp increases in the price of goods and services over the past two years that could not be passed on to the clients. This resulted in micro entrepreneurs having to contend with lower levels of profitability.

Load shedding

Micro entrepreneurs' businesses have been severely impacted by load shedding that interrupts production processes, stock availability and the ability to deliver services.

All the factors above led to decline in the businesses and in many cases the closure of micro businesses. For the first time in more than 30 years, the decline in business activities impacted on the demand for micro finance services amongst **sefa's** larger micro finance institutions leading to negative or stagnant growth in the loan books of these clients.

This led to increases in the bad debts losses and decline in profitability of the MFIs, and smaller drawdowns from **sefa** by these MFIs, over the last 12 months. The vulnerabilities in the eco system for micro entrepreneurs over past three years is apparent in both small emerging and large well-established MFIs. The immediate impact for **sefa** in the period were smaller drawdowns from the MFIs to **sefa**.

During the period under review, the **sefa** Micro Finance Programme focussed on:

1. Consolidating and stabilising the relationship with the two largest MFIs.
2. Supporting and stimulating the emergence and growth of new MFIs.
3. The development and establishment of a Micro Finance Fintech solution for MFIs and micro entrepreneurs.
4. Re-establishing the co-operatives programme within **sefa**.

The strategic focus detailed above enabled the following results over a three-year period starting in April 2020.

Outcome	Outcome Indicator	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Actual
1. Enhanced access to finance by SMMEs and co-operatives	Value of Approvals: small & medium enterprises (R'000)	R55 000	R150 000	R158 100
	Value of Disbursements: small & medium enterprises (R'000) - end user disbursements	R249 489	R269 847	R293 916
	Number of SMMEs and cooperatives financed	65 574	62 348	71 096
	Number of Jobs facilitated	65 668	64 087	74 647
	Disbursements to black-owned enterprises (R'000)	R249 489	R188 893	R299 974
	Disbursements to women-owned enterprises (R'000)	R241 922	R107 939	R289 499
	Disbursements to youth-owned enterprises (R'000)	R43 963	R80 954	R42 831
	Disbursements to enterprises owned by entrepreneurs with disability (R'000)	R0	R6.5	R41.5
	Disbursements to township-owned enterprises (R'000)	R10 144	R67 462	R9 965
	Disbursements to enterprises located in rural towns and villages (R'000)	R230 026	R107 939	R262 926

Overall performance across the three-year period ending FY2022/23 showed a year-on-year improvement. However, support to entrepreneurs with disabilities, youth, and township-based entrepreneurs, remained below target.

The performance over the last two years can specifically be attributed to the consolidation and stabilisation of the relationship between **sefa**, SEF and Phakamani. This led to SEF increasing its total facility from **sefa** to R150 million and Phakamani to R120 million. These developments strengthened **sefa's** relationship with these institutions and allowed the stakeholders to look at joint problem solving on issues relating to interest rates charged to clients and addressing eco-system challenges such as load shedding.

As part of the strategy to support the growth and development of new MFIs and to diversify the number of entities through which **sefa** serves micro entrepreneurs, the Micro Finance department deliberately set out to find and nurture new entities. In the FY2021/22 financial year one new micro finance institution emerged, and with the continued support of **sefa**, it is expected that the Sunrise Woman's Development Foundation will continue to grow as it has in the 2023 financial year. Similarly, the support to Ezemali, a financier for equipment, continued.

In the FY2022/23 three new MFIs came on board with **sefa's** support:

Name of Partner	Provinces	Product	Target Market	Facility
Agriseed	Gauteng, North West, KwaZulu-Natal, Free State	Agricultural inputs seeds, fertilisers	Young farmers	Loan: R15M Grant: R1.3M Total: R16.3M
Dingwa	Gauteng, Western Cape	Predominantly tyres and repairs to taxis	Taxi Industry	Loan: R10M Grant: R1M Total: R11M
Masiyenze	Western Cape	Bridging loans to small contractors and sub-contractors in the building industry	Small artisan-based contractors (plumbers, electricians etc.)	Loan: R5M Grant: R1M Total: R6M
Green Riders	Western Cape	Renting battery operated bicycles to young people to do last mile deliveries mostly in the fast-food sector	Unemployed township youth	Loan: R15M

The Micro Finance Department managed to secure approval for **sefa** to engage in a structured finance solution with the Baking Industry and Confectionary Incubator of South Africa (BICSA). BICSA, working in collaboration with Seda, GRD (German Development Organisation) and the Baking Industry seta, worked to stimulate and encourage the emergence of artisanal bakers and confectioners in townships. The partnership with BICSA is aimed at training township and rural-based bakers to develop home based bakeries capable of delivering 100 loaves per day to sell locally at prices below market. BICSA will further train the bakers in basic baking skills and some entrepreneurial development, assist the entrepreneur to apply for funding from **sefa** and support the business for the period of the loan to ensure that the business remains viable. This programme will be fully implemented in the FY2023/24 financial year.

Fintech Franchise solution for micro finance Institution and Micro Entrepreneurs

In June 2022, **sefa** approved the development of a fintech solutions whereby Micro finance Institutions can access institutional support such as loan book management software, as well as accounting and human resource management software to reduce the operating costs for MFIs by creating a shared services environment. This platform will also enable micro entrepreneurs to aggregate their demand through the development of a bulk buying platform.

The technical specifications for the system were developed in quarters three and four of the period under review and it is anticipated that the procurement of a system will be completed by the end of quarter two in the new financial period. This will facilitate new and smaller existing MFIs coming on board.

Co-operatives

The co-operative programme was moved to Micro Finance in quarter three of the period under review. The **sefa** team worked very closely with Seda to develop a pipeline and after the allocation of staff to the programme in quarter four, funding was approved for six co-operatives in North West and Limpopo provinces.

The biggest internal challenge for the Micro Finance programme remains staffing and internal capacity. The table below shows the skills position in the department as at 31 March 2023

Skills area	Current Number of staff members	New acquisitions in 2022/23	Vacancies	Impact of shortage
Relationship Manager/ Investment Associate Micro Finance	2	1 new staff member in July 2022 for Micro Finance	1	A lack of capacity to develop a pipeline of new partners.
Relationship Manager/ Investment Associate Co-operatives	3	3 new internal allocations in January 2023	Not applicable	
Financial Analysts Micro Finance and Co-ops	1	1 new staff member in June 2022	1 specifically for Co-ops	A lack of capacity to do the necessary financial analysis on new deals.
Micro Finance Capacity Development Officer Co-ops and Micro Finance	Not applicable		2 One each for Micro Finance and Co-operative	Lack of capacity to assist MFIs or Co-ops to become investment ready and to provide support during early stages of development.

The second challenge is also of an internal nature in that the support functions of legal and credit analyst are constantly hamstrung by staff attrition caused by the short employment contracts **sefa** offers. Young professionals invariably move on to more secure employment offers.

The way forward

The FY2023/24 financial year will focus on consolidating the gains made in the previous year, providing continued support to the younger MFIs, and building new MFIs. Additionally. the Fintech must become fully operational, co-operative support must continue and support should be extended to at least 30 more co-operatives in the 2023/24 financial year.

Small and Medium Enterprises Wholesale

Lending

According to South African Reserve Bank "data on corporate (turnover <R 400 m) and retail SMMEs, businesses in this segment have significant success accessing credit from commercial banks. These businesses are usually formal in nature, and they have the administrative and operational capacity to meet the credit criteria of the commercial banks."

SA SME Fund and FinFind on the other hand identified in their "Inaugural South African SMME Access To Finance Report" ("FinFind Report" of 2018) concluded that the SMME sector in South Africa provides a compelling, largely untapped market opportunity for innovative funders who are able to develop new lending models and risk assessment tools tailored to address the challenges of this complex and burgeoning market given the significant credit gap of around USD30 billion (R 548 billion).

Considering the above, **sefa**, through 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 to crowd-in financial and business support. as well as technical resources of the public and private sector strategic partners. The SME Wholesale Lending channel is complementary to Direct Lending and focuses on intermediaries with a niche offering, typically with expertise to provide non-financial support to SMEs. Through these partnerships, **sefa** can extend its reach to underserved SMEs.

The SME Wholesale programme is a significant contributor to **sefa** 's loan book performance, with R184.77 million approved to eight new intermediaries in the FY2022/23 and R742.48 million disbursed by intermediaries to SMEs between April 2022 and March 2023. 1378 SMEs have been financed, facilitating 15 379 jobs from April 2022 to March 2023 as a direct result of the R742.48 million disbursed to SMEs as a deployment into the economy. The disbursement also emanates from approvals done in the previous financial year (FY2021/22) which rolled over into the reporting financial year.

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

Fund Management Services

1. Godisa Supplier Development Fund (Godisa), aimed at Transnet suppliers, has achieved significant progress since inception and assisted 49 SMMEs to the value of R115.50 million. It is noted that the fund will end in early 2024. Other state-owned entities are being pursued to duplicate the initiative through their respective Enterprise Supplier Development (ESD) programmes to set up similar funds that can be managed by **sefa**.
2. Employment Promotion through SMME Support Programme (EPSSP) – The European Union Commission has allocated budget support of €30 million of the EPSSP to **sefa**. €10 million (R150 million) was made available to **sefa** for on-lending as the ESD Fund, **sefa** then matched with R150 million to create a R300 million fund. The remaining €20 million is for Innovation Fund which is implemented through the Khula Credit Guarantee. This funding provides an opportunity for **sefa** to increase access to finance, crowd-in private sector investment and scale up support to SMMEs. The total budget for the EU/**sefa** ESD Fund is R300 million. An amount of R210 million has been approved and committed to retail financial intermediaries. **sefa** is still in the process of committing the remaining R90 million to other intermediaries.
3. Small Business and Innovation Fund (SBIF) – **sefa** was appointed by the Department of Small Business Development as the implementing agency for a R2.1 billion SBIF that commenced in 2019/20. The strategic objectives of the fund are to:
   - Increase business formation to facilitate business dynamism through a stream of new entries into the market.
   - Incentivise innovation and growth; and
   - Expand the number of high growth and innovative companies and to enable these companies to compete internationally.

Of the 2.1 billion, **sefa** received circa R700 million following budget reallocation by the National Treasury.

For the financial year under review, a total of R69 900 000 was approved under this fund towards three clients.

Apart from the above approvals, a total of 11 intermediaries disbursed R186.4 million to 392 SMEs creating 3 150 jobs.

New Partnerships

• Nora Finance (Pty) Ltd

Nora Finance (Pty) Ltd was registered in 2012, initially as a goods and services provider for public sector clients. Nora is 100% black ownership with one shareholder and a Level 1 BBBEE contributor based in Woodmead, Gauteng, 2191.

Although Nora conducts its operations from Johannesburg, they have a national footprint (by leapfrogging on digitisation) in terms of their clientele. The entity has a staff compliment of 11 people across four divisions i.e., micro-lending, project finance, corporate finance advisory, as well as insurance broking. In relation to their request to **sefa**, they have a loan book of around R18 million consisting of project financing, purchase order financing, as well as invoice discounting instruments. They possess an NCR license, as well as an FSP registration.

The company comprises four divisions namely, Micro Lending, Corporate Finance Advisory, Insurance Broking as well as SMMEs Project Finance. The latter will house and manage the **sefa** loan.

Nora Finance (Pty) Ltd is the borrower and obligor to the **sefa** loan and was granted a debt facility of R30 million. This amount will be extended to their SMEs using 3 (three) products i.e., viz: Equity / Project Financing, Purchase Order, as well as Invoice Discounting. It is expected that Nora will support on average 25 (twenty-five) SMEs per annum over a period of five 5 years totalling an estimated 125 SMEs. This intervention is estimated to create and/or maintain around 260 jobs annually over a period of 5 years (1300 in total) across urban, township and rural geographies of the country.

Over and above the standard **sefa** developmental targets, Nora Finance has targeted to disburse 90% of the funds to black-owned businesses as opposed to the target of 70%. This developmental impact returns will be attributed to **sefa**.

NORA FINANCE WHEN YOU NEED IT MOST

• Kenote Finance (Pty) Ltd

Kenote Finance is one of the few wholly owned black female lending companies in the FinTech industry that is dominated by traditional alternative private lending institutions. The objective of the business is to provide alternative purchase order funding to previously disadvantaged and pro black owned Small, Medium and Micro Enterprises who are service providers to public and private corporations and/state owned institutions and Government departments.

Kenote was established in 2016, it opened its doors in Marikana (Northwest) offering micro loans and purchase order funding at a small scale. By year end they had signed up about 600 revolving customers with the limited own capital from the owner. Seeing the growing need of their funding solution being embraced by the market, **sefa** granted a R10 million term loan facility, with R5 million drawn down to date, to assist in scaling up the business and to facilitate job sustenance and job creation. The investment has enabled Kenote to double its disbursements within six months with 97% disbursed to black owned enterprises, 68% to youth, 36% to women, and about 28% to people living with disabilities. This resulted to circa 200 jobs facilitated.

Kenote Finance
where everyone is welcome

- ### Enable Capital (Pty) Ltd

Enable Capital is a niche provider of funding solutions to SMEs working as subcontractors in the fibre industry. The company opened its doors in 2018 where in it provides trade finance solutions through Invoice Discounting to Small, Medium, and Micro enterprises who are subcontractors in the telecommunications industry. The company is majority black owned with 60% shareholding and is level 2 BBBEE contributor. The company headquarters are based in Cape Town however, they have a national customer base which they service through satellite offices and agents across the country.

The company has well established relationships with primary contractors who are subcontractors to the Fibre Network Operators in the fibre space, these include Afritel, Light Fibre, APR and MCT Telecommunications, with the corporate partners including Vuma, Frogfoot, Metrofibre, Vodacom, Liquid Telecoms, Herotel, and DFA.

The business was started with owners' contribution as means to prove the concept. The demand for their Invoice Discounting product grew exponentially in 2019 and 2020. The huge demand for fibre was especially driven by remote working arrangements brought about by COVID-19 pandemic resulting in high demand for fibre network and infrastructure rollout.

It was this demand that propelled Enable Capital to start capital raising to meet the unprecedented demand. **sefa** granted a R30 million facility at the end of 2020 to assist to meet the demand and target SMEs that are woman, youth and people living with disabilities. An additional R35 million was granted in March 2023 as the demand grew further in the fibre market and a need to diversify into renewable energy space as the country battles with energy crisis and agro processing being an added market opportunity. This resulted to 288 SMMEs funded, and 10 000 jobs facilitated from the initial facility drawn down. The funds were predominantly spent on black owned contractors including women, youth and SMMEs operating in urban and semi-rural provinces. It is envisaged that with the new facility granted, the projected jobs facilitated will reach 60 000 and over 700 SMMEs will be supported.

ENABLE

Developmental Impact

Over the past financial year, a total sum of funding to the value of R742.48 million was disbursed to 1378 SMEs through retail financial 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:

- R742.57 million disbursed to SMEs.
- 1378 SMEs received funding.
- 15 379 jobs facilitated.

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

	No. of SMEs	Amount disbursed in 2022/2023
Total No. of SMEs	1378	R742.57 million
Black	1224	R512.56 million
Female	473	R211.76 million
Youth	428	R123.66 million
Township-based	445	R183.27 million
Rural based	528	R211.66 million
People with disabilities	14	R18.84 million

In the FY2022/23 financial year, a significant improvement was demonstrated with the deployment of funds (through intermediaries) having increased by 30%.

This was demonstrated through developmental impact particularly within the designated groups, which has displayed a similar trend in line with the improved deployment of funds into the economy. Of note, the number of SMEs financed increased by 138%, whilst funds that went to black owned SMEs increased by 147%.

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

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

Land Reform Empowerment Facility (LREF)

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

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

The LREF has made noticeable progress over the years through its achievement of a portfolio growth from R63 million to R 626 million, financed 1035 agriculture and land reform projects which altogether created at least 9000 jobs, of which at least 40% thereof, were women-owned businesses.

Regarding FY2022/23 developmental impact indicators, the Fund facilitated the following:

- R218 million was disbursed to 286 emerging farmer projects.
- R132 million was disbursed to majority black-owned businesses.
- R31.87 million was disbursed to many women-owned businesses.
- 2056 jobs were facilitated (created and sustained).
- R81 million was disbursed to businesses in priority provinces.

ALUMBI EVENTS

LREF Financial Position

The LREF financial position as of 31 March 2023 is shown below.

LREF Financial Position	R'000
Outstanding balance from projects	R317 077
LREF money market balance	R163 553
Undrawn commitments	R17 000
Available for new investments	R146 553

Portfolio – Distribution by Financial Intermediary

Financial Intermediary	Outstanding loan balance
Akwandze Agric Finance	R62 786 350
Ithala Finance	R16 174 580
FNB Agribusiness	R98 135 362
Lona Citrus	R55 542 322
ABSA Agribusiness	R5 667 068
Capital Harvest	R51 001 006
Amadlelo Agri	R17 792 035
Maloney Eye	R14 998 685
Total	**R307 420 286**

KHULA CREDIT GUARANTEE (KCG)

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

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

KCG product offerings

KCG offers the following products to PFIs:

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

2022/23 Performance

KCG Strategic Indicators Performance for the 2022/23 financial year is shown below.

Key Performance Area	FY2022/23		
	Target R'000	Actual R'000	% Achieved
Value of approvals: Financial institutions	250 000	265 696	106.3%
Value of guarantees taken up: Financial institutions	342 500	449 782	131.3%
No. of SMMEs and co-operatives financed through KCG	623	1 371	219.9%
No. of jobs facilitated (created and sustained)	7 949	5 579	70%
Value of guarantees taken up by black-owned enterprises	239 750	375 430	156.6%
Value of guarantees taken up by women owned enterprises	137 000	127 146	92.8%
Value of guarantees taken up by youth owned enterprises	102 750	109 182	106.3%
Value of guarantees taken up by enterprises located in rural areas	137 000	171 805	125.4%
Capital leverage effect	6.25 times	6.32 times	1.12%

KCG has achieved 106.3% of annual target for approvals largely due to KCG core business contributing 71% of annual target, which was further compounded by 15% of NBFIs and Supplier Credit at 11%. The total approvals for the year under review was R265.7 million. This exceeded targeted approvals of R250 million by 6%. The portfolio guarantees approvals largely came from Sasol Siyakha ESD (R150 million), ASISA (R75 million) and Praxis Financial Services (R30 million).

The total value of guarantees taken up was R449 814 million, representing 131.3% of the yearly target. This was largely due to portfolio guarantees achieving 122.28% of annual target and supplier credit making up 106.3% of annual target, which was strengthened by high performance of supplier credit and SSSP at 25% at R87 million.

KCG funding taken up grew by 49.9% year-on-year to R449.8 million in the financial period, from R300 million in the previous period. As at 31 March 2023, ABSA ALS had the largest indemnity value at R114.6 million followed by Absa Agriculture at R102.5 million, Barnes Reinforcing Industries (BRI) at R74 million and FNB Agriculture at R58.5 million.

The taken ups are dominated by commercial banks at 63% followed by supplier credit at 17% and Non-Bank Financial Institutions at 11%. There was a large improvement in the utilisation of the guarantee from NBFIs largely due to Bizcash at R43.5 million making 9.7% of the total taken-ups.

Portfolio Performance for the period 1 April 2022 – 31 March 2023

Institution	Guarantee Type	No. of SMMEs	Jobs	Status	Taken- up	Indemnity Value (R)
Sasol Siyakha	Portfolio	3	391	Taken-up	Active	31 479 052
TCBS	Portfolio	17	1 220	Taken-up	Active	3 262 897
BizCash	Portfolio	0	0	Taken-up	Active	43 529 778
ABSA Automotive	Portfolio	2	15	Taken-up	Active	6 994 716
ABSA Agriculture	Portfolio	12	325	Taken-up	Active	102 531 442
FNB Agriculture	Portfolio	6	35	Taken-up	Active	59 477 000
ABSA ALS	Portfolio	10	276	Taken-up	Active	114 634 874
Portfolio Guarantees		**50**	**2 262**			**361 909 758**
BRI	Supplier Credit	6	213	Taken-up	Active	74 000 000
Macsteel	Supplier Credit	6	213	Taken-up	Active	3 207 824
Spaza Shop	TREP	4 599	4 525			10 695 999
Total		**4 655**	**7 000**			**449 813 581**

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

Indemnities Authorised but not taken-up as at 31 March 2023

RFI	Status	Approval date	Active	Facility not taken up (R)	Facility Limit Approved (R)
Sasol Siyakha BEE	Authorised	23 May '16	Active	-	20 000 000
Sasol Siyakha ESD	Authorised	26 Mar '18	Active	27 211 944	30 000 000
Sasol Siyakha	Authorised	31 Mar '23	New	150 000 000	150 000 0000
TCBS	Authorised	15 Aug '16	Active	48 358 477	50 000 000
FNB Agriculture	Authorised	27 Mar '20	Active	102 673 000	160 000 000
Mr Price Group	Authorised	27 Mar '19	Active	30 000 000	30 000 000
ABSA Agriculture	Authorised	29 Mar '21	Active	49 518 522	160 000 000
Mercantile Bank	Authorised	27 Mar '19	Not activated	150 000 000	150 000 000
ABSA ALS	Authorised	27 Mar '20	Active	9 062 702	150 000 000
ABSA AA	Authorised	2 Jan '22	Active	180 505 284	187 500 000
SBSA	Authorised	22 June '22	Not activated	150 000 000	150 000 000
UBank	Authorised	19 Mar '21	Not active	30 000 000	30 000 000
Bizcash	Authorised	9 Mar '22	Active	31 134 222	30 000 000
ASISA	Authorised	31 Mar '23	New	75 000 000	75 000 000
BRI	Authorised	3 June '19	Active	0	30 000 000
Macsteel SA	Authorised	30 Aug '21	Not active	60 000 000	60 000 000
				1 128 992 945	**1 537 500 000**

According to Bureau for Economic Research (BER) South Africa has gone from 121 hours of load-shedding outages in 2014 to over 3 773 hours of load-shedding in 2022. So far, 2022 is on record as the most intensive year of load-shedding in South African history with over 157 days of persistent power outages. According to the Council for Scientific and Industrial Research (CSIR), December 2022, on its own, had more load-shedding than in any year before. 2022 also far exceeded 2019's stage 6 load-shedding. The 2023 outlook for load-shedding is even worse, and the Nedbank Group Economic Unit forecast that load-shedding is likely to persist over the next three years. The South African Reserve Bank is estimating that there will be over 200 days of load-shedding in 2023, which will have a severe impact on GDP growth due to the adverse effects load-shedding is having on businesses' ability to operate and especially in the small-business sector.

The continuous power outages affect small businesses particularly those in townships and rural settlements the most because they do not have the financial resources to search for alternate sources of energy quickly enough.

Small businesses are the backbone of the economy in terms of creating jobs in communities in which they operate. They often must consider the livelihoods of such communities if they are to shed jobs. Load-shedding pushes these SMMEs to close shops for the active part of the business day and thus impacting projected revenue generation and the ability to service loans from commercial lenders. The inability to service loans result in negative outlook from lenders when considering whether to extend bank facilities such as working capital, overdraft, and term loans for such SMMEs.

There has however been a steady increase in KCG's book to R1.5 billion in the financial period from R1.3 billion in the FY2021/22 period. The increase in the facilities not taken up has almost doubled to R1.1 billion in FY2022/23 from R688.3 million in the previous year thus showing the hesitation of lenders to extend loans to SMMEs despite having approved cover from KCG. The low take-up of these new indemnities, low approvals and unutilised facilities has a negative impact on KCG projected revenue and henceforth limited impact on providing access to finance to destitute SMMEs.

Summary of the Newly Approved Facilities in the Financial Period

Association for Savings and Investment South Africa (ASISA) R75 million

A portfolio guarantee of R75 million for Association for Savings and Investment South Africa (ASISA) Enterprise and Supplier Development Trust (ESD) was approved in Q4 of the FY2022/23 period.

The purpose of this portfolio credit guarantee facility is to provide access to finance by enabling and facilitating the provision of loans by lenders to Small, Medium and Micro Enterprises ("SMMEs") in the following sectors: Automotive, ICT, Healthcare, Green Economy and general SMMEs. Moreover, these sectors are in alignment with the EU Budget Support Programme (EU Innovation Fund).

ASISA ESD emerges from 'Foster the Future' initiative formed by ASISA, which consists of three independent entities, namely, ASISA Enterprise and Supplier Development (ESD), the ASISA Foundation, and the ASISA Academy. The objective of the ASISA initiative is to address two of the key social shortfalls currently plaguing South Africa and constraining economic growth, namely, unemployment and education.

The initiative's objectives are as follows:

- **ASISA Enterprise and Supplier Development (ESD)** Grow the black-owned SMME segment, not only through business development and funding, also by providing access to market through ASISA members' supply chains therefore increasing job creation.
- **ASISA Foundation** Helps young black people, workers, and economically vulnerable citizens onto the road of financial literacy.
- **ASISA Academy** Helps young people entering the financial services industry or considering it as a career (facilitation of employment for black graduates).

The purpose of the initiative is to fast-track job creation by unlocking the growth potential of South Africa's small and medium enterprise (SMMEs) sector. The sustainable development of potential black owned SMMEs is achieved through an innovative combination of tailored business support, access to market and financial support structured according to the specific needs of each SMME and the market. Eligible black owned SMMEs are carefully selected from the supply chain of ASISA member companies.

The two funds (ED Trust 1 and SD Trust 2) are currently managed by Edge Growth Ventures (Pty) Ltd as the Fund Manager, which is an enterprise and supplier development firm that focuses on strategic partnerships that connects businesses and SMME development, commercial leadership, and enterprise development strategy. Edge Growth's services include strategy and advisory, SMME growth support, programme management and fund management.

Sasol ESD funding products

Sasol Siyakha Enterprise and Supplier Development Trust (ESD): R150 million

A portfolio credit guarantee of R150 million for Sasol Siyakha ESD was approved in Q4 of the period under review. The purpose of this portfolio credit guarantee facility is to provide cover to SMMEs who apply for financial assistance from Sasol Siyakha through the Enterprise and Supplier Development programme to establish, expand or acquire new or existing businesses but lack sufficient collateral.

Sasol Siyakha Enterprise and Supplier Development function was established to ensure focused and integrated delivery of Sasol's programmes aimed at contributing to the development of SMMEs and the diversification of Sasol's supplier pool. Sasol Siyakha is a vehicle employed to stimulate economic growth, transformation, and the creation of jobs in the energy sector. This was in recognition that a growing small, medium, and micro-sized enterprise (SMME) sector is vital for broadening economic participation and delivering on the country's economic development objectives. While the focus of SMME development activities is primarily within the communities in which Sasol operates, it is expected that this programme will contribute positively and more broadly to economic development and transformation. The ESD remains a strategic business partner that champions customer's localisation requirements to create competitive value for the business.

Sasol Siyakha's primary objectives are as follows:

- Identifying and nurturing entrepreneurial talent and capability
- Accelerate development of transformed SMMEs by:
  - supporting them with relevant resources including funding; and
  - creating meaningful opportunities to enable participation in commercial supply chains, including Sasol's.
- Ensure transformation of Sasol supply chain and apply responsible sourcing and procurement principles.

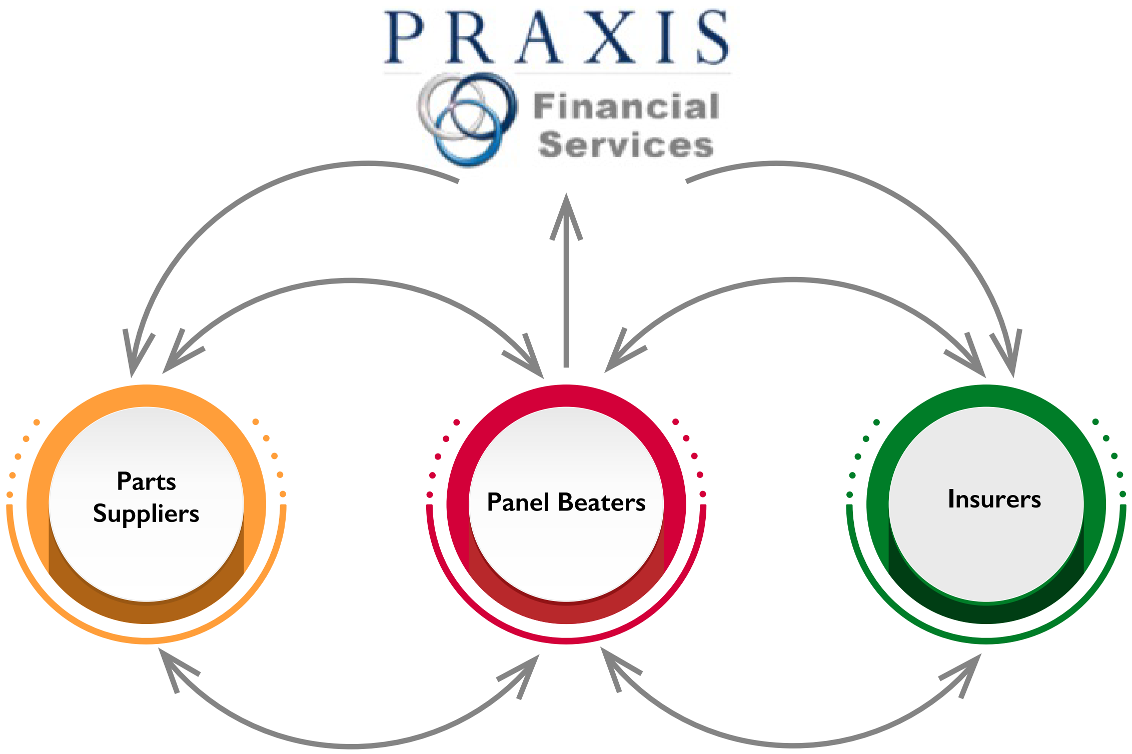
Sasol's approach to enterprise and supplier development is to nurture, grow and sustain SMMEs by providing:

- technical and business development support, through mentoring and coaching
- loan funding to qualifying SMME suppliers through the Sasol Siyakha Enterprise and Supplier Development Trust

Funding Vehicles

Grant Funding	Tysis Fund	Siyakha Fund
Up to 100k Non-Sasol supplier (ED)	**Up to 250k**	**From 250k above**
Fund Offerings	**Fund Offerings**	**Fund Offerings**
Grant fund as part of ED development (Acquire Tools, Equipment, Technical Accreditation and Software Management Programmes)	Purchase order funding Working Capital Asset Financing	Asset Financing Loan Consolidation Working capital

Praxis Financial Services: R75 million



This supplier credit guarantee facility of R75 million was approved in Q1 during the FY2022/23 to be utilised to provide a credit guarantee cover to Praxis Financial Services to enable access to credit facilities by emerging black owned motor body repairers. This facility will assist Praxis to provide a funding solution to the black insurance approved panel beaters for the full working capital cycle. The main purpose of this facility is to have a supplier credit guarantee managed by Praxis that can be availed to motor part suppliers (Original Equipment Manufacturers -OEM parts suppliers) so that they can extend larger credit facilities to black emerging insurance approved panel beaters.

Praxis is a leading provider of short-term finance to the panel beating industry that provides a unique offering to address the working capital requirements of motor body repairers. This is achieved primarily through the funding of parts for repairs to consumers' insured vehicles. The business also provides an information technology platform to enable the seamless interaction between motor body repairers, parts suppliers, and insurers within the industry, and it aims to ultimately institutionalise this funding market in South Africa.

Praxis' value proposition is to bring together the parts suppliers with panel beaters who have insurance approved jobs and enable credit facilities to the panel beaters. Insurers are seeing the value Praxis brings to the value chain. With Praxis as an independent intermediary in the process, insurers can achieve a lot of their objectives around transparency, participating in funding without directly procuring themselves or imposing burdensome unique processing requirements on Panel Beaters who are not equipped to deal with it.

Praxis' opportunity is embodied in it being the independent owner of the information exchange across the sector, and in doing so it has enabled the following:

- It provides access to funding the full working capital cycle for Panel Beaters.
- It synchronises and modernises the information exchange across all participants in the value chain; and
- It captures the eroded value and re-distributes it across the value chain based on common incentives for all players i.e., parts suppliers, panel beaters and insurers.

Township and Rural Enterprises Economy Programmes (TREP) update

Spaza Shop Support Programme (SSSP)

During the FY2021/22 financial period the Spaza Shop Support Programme offering was increased from R7 000 (R3 500 grant and R3 500 credit) to R15 000 (R10 500 grant and R4 500 credit). Nedbank as a partner bank has been rolling out the bulk disbursement of the R7000 top-ups to the previously approved clients and the R10 500 grant for the new applications. In the FY2022/23 year a lot of top ups were achieved totalling 4936 towards a target of 5440 and thus leaving a balance of 504 which would be achieved in Quarter 1 of the next financial period.

There were, however, challenges though where some end users were not made aware of the top-ups to their closed loop purchasing cards. To address the problem **sefa** used a social media campaign to alert clients to check their cards for additional money disbursed to them.

The SSSP facility is still gaining momentum although it is towards the end of its life span particularly with the increased offering. **sefa** remains hopeful that in the FY2023/24 the programme be over-subscribed to boost additional funding being injected into the programme to benefit spaza shop owners. Two new strategic wholesaler partners namely Vuleka Platform and TucSSYS are responsible for increased numbers in Gauteng, Free State and Mpumalanga.

The Spaza Shop Support Programme has recorded the following since inception:

- 10 650 applications
- 6 554 approvals
- 6 031 cards have been collected by applicants
- 65 289 000 has been disbursed to spaza owners (SMMEs)
- R42 779 250 has been spent on approved wholesalers

Spaza Shop Support Programme – Provincial Spread

			Nedbank			
	Province	**Approvals**	**Male**	**Female**	**Youth**	**No of Jobs**
1	**KZN**	2 742	1 060	1 617	574	3 049
2	**NW**	135	93	42	18	153
3	**GP**	696	332	364	162	865
4	**LP**	1 345	717	625	208	1 397
5	**NC**	120	51	67	22	129
6	**EC**	760	302	448	166	850
7	**FS**	335	200	127	76	418
8	**MP**	267	146	116	57	292
9	**WC**	154	57	96	23	168
		6 554	**2 958**	**3 502**	**1 306**	**7 321**

Disbursed Amount (R)	No. of Clients	Total Disbursed
3 500	5 440	19 040 000.00
7 000	4 936	34 552 000.00
10 500	1 114	11 697 000.00
	6 554	**65 289 000.00**

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

ABSA has been appointed as a partner bank to implement the AA programme. Due to a late start, limited applications were disbursed towards the end of Q4 of the FY2021/22 financial year. A major challenge came from clients whose funding needs changed or who declined the offers that had been presented by the bank. ABSA offers applicants a maximum loan of R1 000 000 with a grant of 20% but limited to R100 000 per client.

For the year under review, ABSA has funded seven clients with the AA facility at a value to R6.9 million and created 81 sustainable jobs.

The AA Programme is aimed at:

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

Performance of Existing Facilities for the Year under Review

1. Alternative Finance Solutions t/a BizCash: R75 million.

A portfolio Credit Guarantee of R75 million for BizCash was approved in the 2021/22 period. The purpose of this portfolio credit guarantee is to encourage and facilitate the provision of funding to SMMEs via the purchase of transferable instruments in the form of invoices, purchase orders and contracts by offering to absorb 80% of Bizcash' s Irrecoverable Loss in the event of a Default.

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

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

For the year under review Bizcash has extended loans to 48 SMMEs to the value of R43.5 million and thus creating and maintaining 1164 sustainable jobs.

2. ABSA Agriculture

ABSA Agriculture portfolio credit guarantee was approved in May 2018 to assist black small-holder farmers to enable equity acquisitions by workers' trust funds or B-BBEE investors in the farming enterprises of ABSA's top 20% agriculture clients. The purpose of the facility is to enhance delivery of agriculturally based financial solutions towards acquisition, expansion, and joint ventures initiatives where there is a strong business case, but there is lack of sufficient collateral.

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

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

For the year under review, ABSA facility of R160 million had a taken-up value of R102.5 million thus contributing 22.8% of the total take-ups for the year. The facility has assisted 25 farmers with an average transaction size of R15 million thus creating and maintaining 509 sustainable jobs.

3. Sasol Siyakha

Sasol Siyakha BEE Trust was approved in 2016 for R50 million to provide guarantees to SMMEs who apply for financial assistance from Sasol Siyakha through the Enterprise and Supplier Development programme. This facility was created to serve as a vehicle to assist black suppliers, contractors and entrepreneurs with the creation, development, funding, and accelerated growth of their enterprises, and thereby deliver successful B-BBEEs to the local economies in the areas in which Sasol Group has presence and for the benefit of Sasol Group.

In the year under review, the facility contributed to 7.0% of the portfolio guarantee taken up at R31.5million, and it has assisted nine SMMEs who have created and maintained 208 jobs. The R50 million facility has been fully utilised and henceforth a new facility of R150 million has been approved for the next financial period to enable Sasol Siyakha ESD to continue to provide funding to SMMEs.

4. FNB Business Agriculture

The facility was approved in 2017 and later increased by R100 million in March 2020 to make a total facility to be R160 million. FNB Business Agriculture facility exists to proactively promote black economic empowerment in the agriculture sector. The facility focuses on the emerging black farmers in the entire agricultural value chain, who are producers of inputs, primary and secondary production, as well as agri-businesses. FNB, due to its national footprint, leverages its existing network and customer base to identify possible transactions.

For the period under review, the FNB agriculture facility contribution to portfolio guarantees taken up is 13.2% and it has assisted ten farmers with funding of R59.5 million and thus it has created and maintained 234 sustainable jobs.

5. ABSA Alternative Lending Solutions (ALS)

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

For the year under review, the ABSA ALS take-ups were R114.6 million representing 25.5% of total taken ups. These taken ups under ABSA ALS have assisted 53 SMMEs who have created and maintained 1041 sustainable jobs.

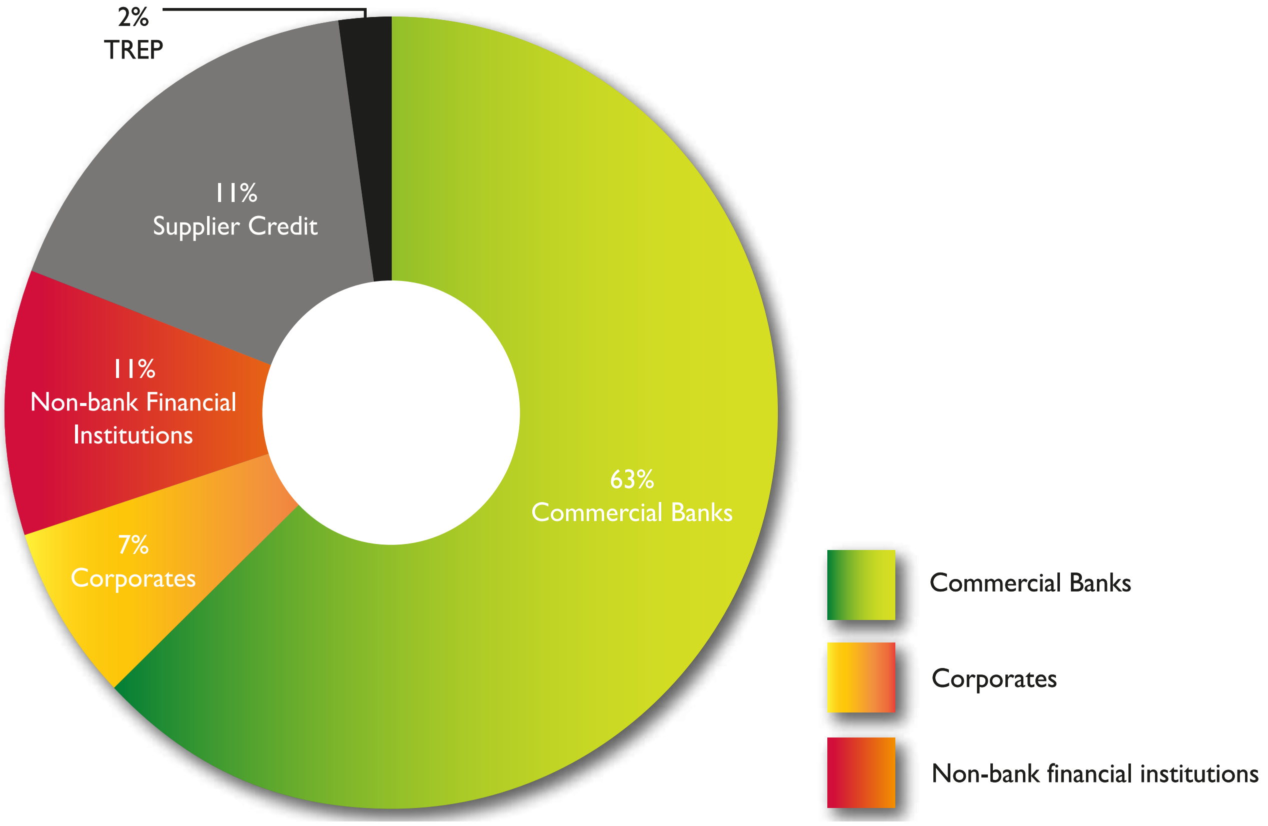
6. Barnes Reinforcing Industries (BRI)

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

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

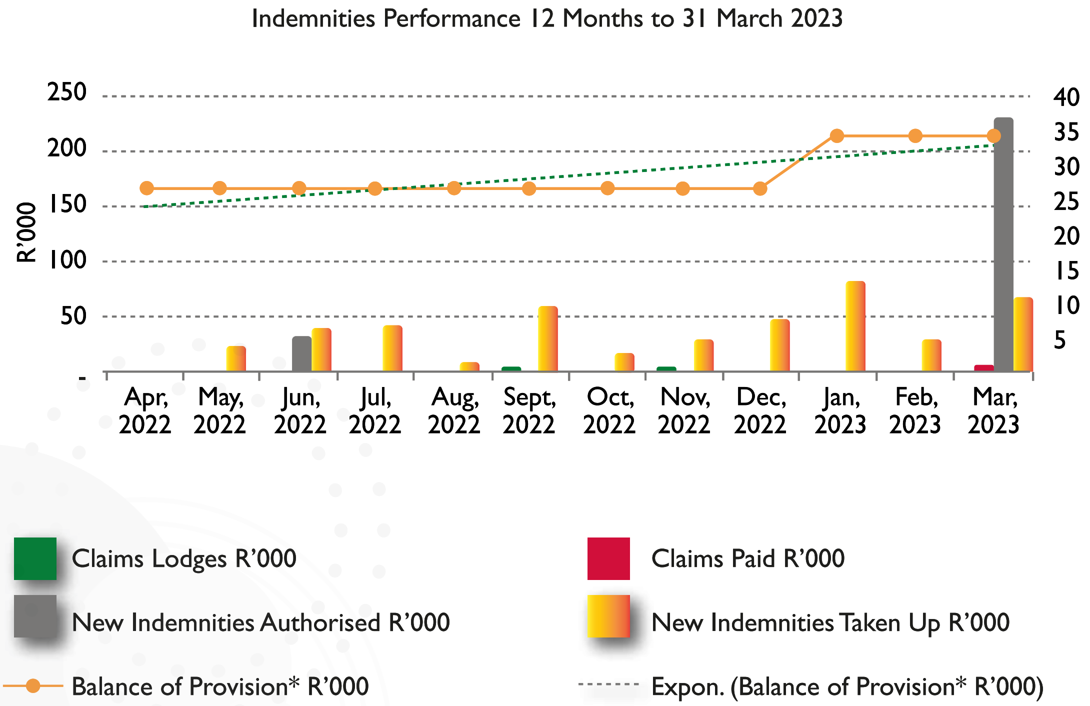
This BRI supplier credit guarantee facility assisted 20 SMMEs in the steel supply business to maintain 119 jobs with a revolving taken up facility of R74 million utilised during the year under review.

Portfolio split for the period 1 April 2022–31 March 2023



Claims Provisioning

For year ended 31 March 2023 the balance of total technical provision in relation to claims lodged and claims paid is depicted in the graph below:



The new indemnities taken up have an upward trigger to the movement of technical provision, whereas claims have an inverse relation to the balance of provision. The provision is adjusted on a quarterly basis to reflect the new upward/downward movement on business. At year end, all movements are matched to financial statements and are adjusted to match the anticipated growth in business as per the approved budget. The new indemnities for the year are largely from ABSA ALS (R114.6 million), ABSA Agriculture (R102.5 million) and FNB Business Agriculture (R59.5 million) whereas the other take-ups are renewals and therefore do not affect the movement on provisions. The balance of provision has been R26.8 million for the larger part of the financial year with the increase to R34.8 million towards the last quarter of the year. The claims have been below R1 million peaking at R5.6 million in the last quarter of the financial year.

TREP offerings

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

Product	Amount per applicant	Partner Bank
Automotive Aftermarket	R500 000 blended finance (80% loan and 20% Grant) R1million applications can also be accommodated	ABSA
Spaza Shop Support Programme	R15 000 (70% grant (R10 500) and 30% (R4 500) credit) through a closed loop purchasing card at participating wholesalers.	Nedbank

Automotive Aftermarket

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

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

Spaza Shop Support Programme

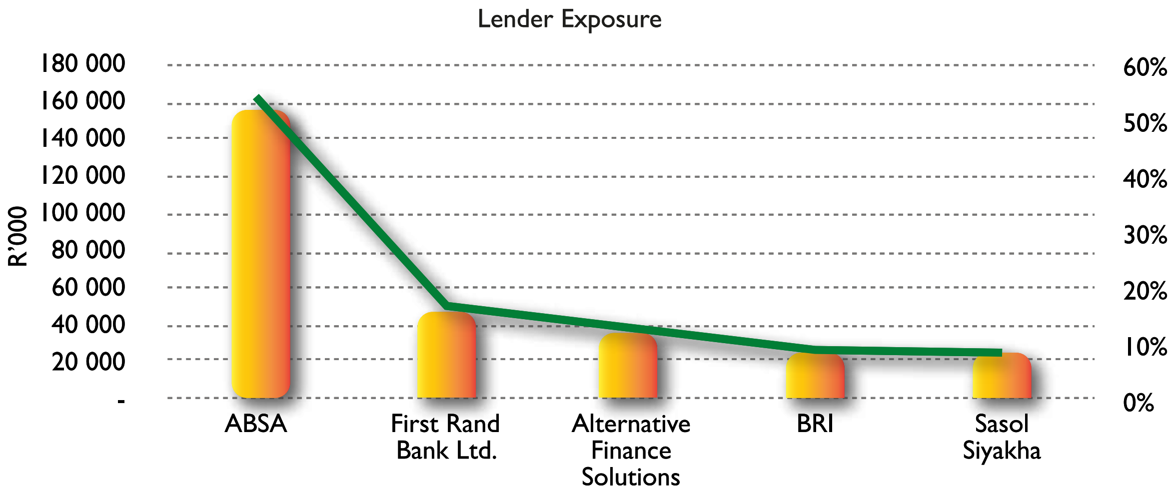
The Spaza Shop Support Programme is targeted at township and rural entrepreneurs who own spaza shops, general dealers, or grocery stores. It is offered in partnership with Nedbank and through KCG. The objectives of this scheme are to formalise informal businesses into micro enterprises, facilitate the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

Concentration of Insurance Risk

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

Risk Across Funders

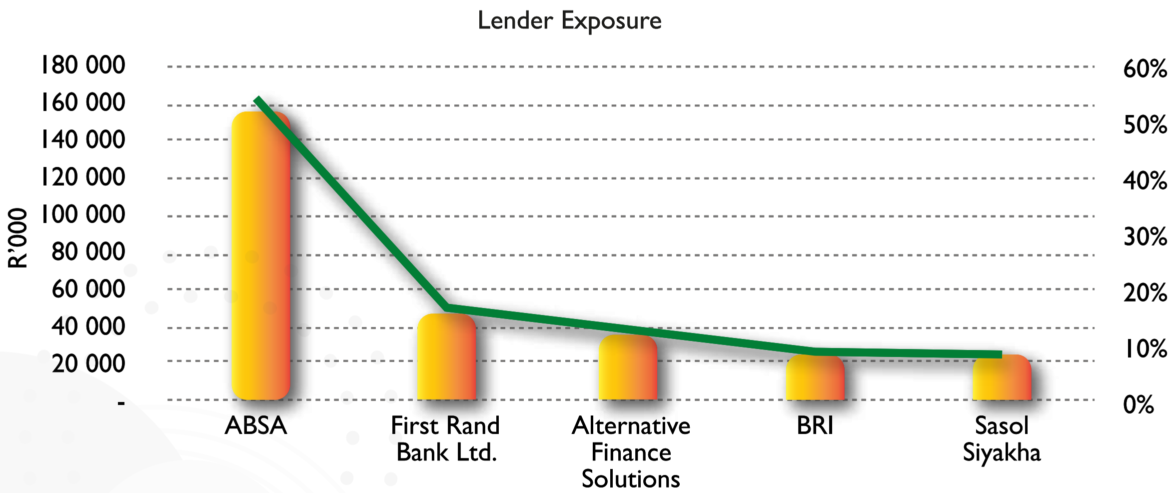
The credit guarantee risk split is as shown in the following diagram. The bars represent the exposure in absolute amounts whereas the black line shows the proportional contribution of exposure to the book.



ABSA (Agri and ALS) at 55% followed by FNB Agriculture at 15% and BRI at 14% account for the largest share of the risk whereas Sasol Siyakha and others account for the remainder below 10%.

Business Sector Spread

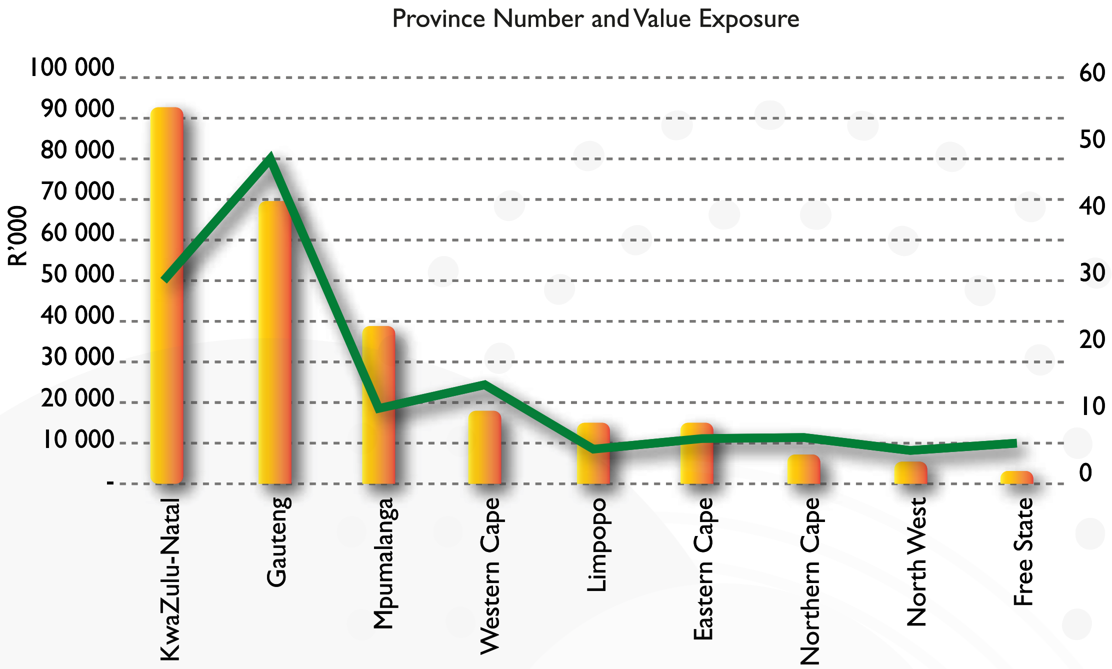
The following graph shows the concentration in exposure by business sector:



Agriculture has the largest exposure at 45% of the book followed by construction at 15%, whereas wholesale and retail businesses has dropped to just below 5% from 31% in the 2021/22 period. Other sectors such as manufacturing, mining, transport, automotive, catering, and other sectors all have the lowest exposure of the entire book.

Risk Spread Across the Provinces

The following graph shows the concentration in exposures by province. The bars represent exposure in absolute amounts whereas the black lien shows the number of taken-ups (risks).



KwaZulu-Natal has the highest exposure in current indemnity, but the number of policies (taken ups) is less than Gauteng which has less indemnity value. This means that there are larger individual loans covered in KZN as compared to the ones in Gauteng.

KCG Partner Financial Institutions

Mercantile Bank Approved facility R150 million	Sasol Siyakha Approved facility R150 million	Praxis Financial Services Approved facility R30 million
Mr Price Group Approved facility R30 million	ABSA Agribusiness R160 million ABSA ALS: 150 million Approved facility R310 million	Barnes Reinforcing Industries Approved facility R30 million
FNB Business Agriculture Approved facility R160 million	ABSA: TREP - AA Approved facility R187.5 million	Nedbank: TREP - SSSP Approved facility R87.5 million
Macsteel SA Services Approved facility R60 million	Alternative Finance Solutions T/A Bizcash Approved facility R75 million	Standard Bank Approved facility R150 million

Association for Savings & Investments South Africa:
Approved facility R75 million
Managed by Edge Growth Ventures

Key Challenges

- Lengthy approval process within the banking partners for the use of the guarantee
- Low visibility of KCG

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 required KCG to be 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 SMMEs would be developed in the forthcoming years. KCG is planning to develop several products such as working capital loans, trade finance and start-up loans that target professional and vocational graduates.

The guarantee is kept invisible to the end beneficiary to reduce moral hazard. This has been widely accepted by the Partner Financial Institutions.

KCG SUCCESS STORIES

Brightfire Pictures (Pty) Ltd

Location: Gauteng Province

Job Creation: 250

Funding Amount: R1,250,000

Funder: Alternative Finance Solutions T/A Bizcash

Sector: Arts, entertainment, and recreation.

Brightfire Pictures (Pty) Ltd is a fast growing and award-winning, 100% Black female-owned and managed media and video entertainment company founded in 2019.

The company creates highly resonant entertainment video content and commercially viable marketing assets.

Bizcash was able to assist the client with a revolving working capital facility of R1.2 million to support current and new projects, as well as start a new division in media broadcasting within the business. The financial assistance from Bizcash to Brightfire Pictures was done on the back of a guarantee facility provided by KCG.

Madam and Sir (Pty) Ltd

Location: KwaZulu-Natal Province

Job Creation: 24

Funding Amount: R370,000

Funder: Alternative Finance Solutions T/A Bizcash

Sector: Accommodation and food service activities.

Madam and Sir (Pty) Ltd is an upmarket and casual dining restaurant located in the heart of Florida Road Durban I KwaZulu Natal.

This is a majority black-female owned and managed entity. With the funding from Bizcash, Madam and Sir (Pty Ltd were able to double their restaurant seating capability from 50 patrons by a further 60 seats. The funding was also used to finance kitchen equipment to introduce new offerings to their menu as well as to revamp the store. The facility used for expansion from Bizcash was enabled by the guarantee cover provided by KCG.

Africa Star Products CC

Location: Western Cape Province

Job Creation: 30

Funding Amount: R2,000,000

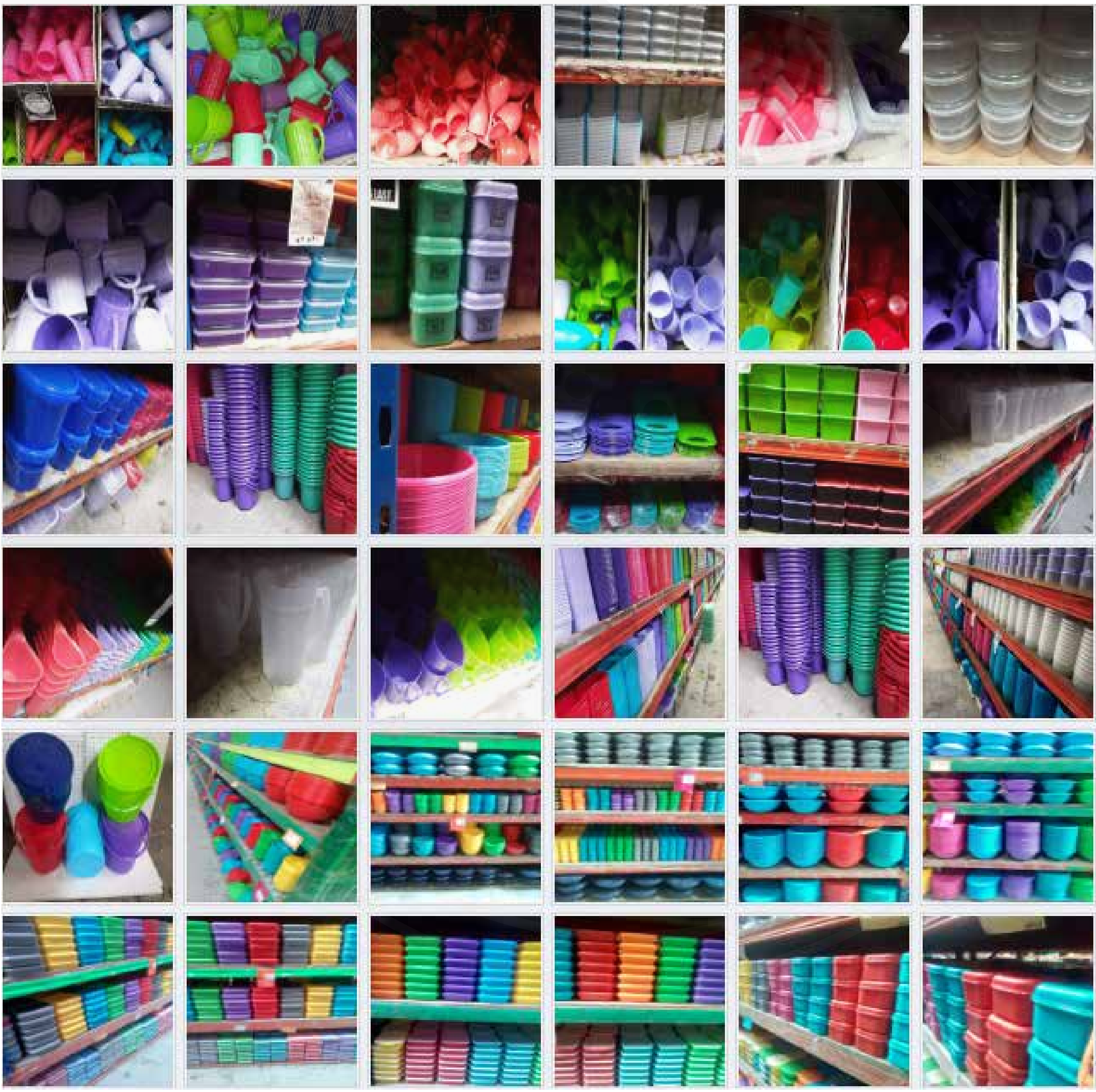
Funder: Alternative Finance Solutions T/A Bizcash

Sector: Manufacturing

This business established in 2011 is 100% Indian owned and it manufactures and sells a variety of lower-end Tupperware and other plastic products. The products are sold both in retail and wholesale. The business is growing from strength-to-strength taking advantage of certain main competitors closing. Bizcash has been able to assist the client with working capital to assist the client meet the increased demand due to the lowered manufacturing costs because of the rand depreciation.

The business has increased the number and designs of plastic moulds allowing the business to expand their current product range.

The funding which Africa Star Products received from Bizcash for expansion was enabled by the guarantee cover from KCG.



DIRECT LENDING

Mr Xolani Meva

Acting Executive Manager:
Direct Lending

Background

Direct Lending channel provides funding to SMMEs and Cooperatives from a minimum of R50k to a maximum of R15m. The channel is positioned as a complimentary intervention to wholesale lending and enables **sefa** to cover a wider reach of the SMME financing landscape.

The channel provides support through a suite of regional offices and co-locations. Direct lending financial instruments are as follows:

- Asset finance
- Term loans
- Revolving credit facilities
- Purchase order product
- Bridging loans / Contract financing

The offerings are structured in the form of programmes to address specific niche markets. Some of the Direct Lending programmes are the following:

- Township and Rural Entrepreneurship Programme – targeted at supporting SMMEs operating in township and rural areas.
- Youth Challenge Fund – this programme is geared towards providing support to enterprises owned and managed by the youth.
- Small Enterprise Manufacturing Support Programme – a financing instrument targeted at SMEs operating in the manufacturing sector.
- Amavulandlela Funding Scheme – for entrepreneurs with disabilities
- Inyamazane Funding Scheme – for military veterans

Historic Performance

Approvals

The following table outlines Direct Lending approval performance for the past five financial years. During the 2022/23 financial year, Direct Lending approved a total of R1,069 million.

APPROVALS	
Financial Year	**R'000**
FY 2018/2019	R272 644
FY 2019/2020	R443 319
FY 2020/2021	R1 242 442
FY 2021/2022	R1 472 063
FY 2022/2023	R1 069 870

Approvals per Programme

Direct Lending approvals are dominated by Normal Direct Lending (37%) followed by SEMSP (26%) as a well as TREP (20%).

Approvals per Programme	R'000	%
Normal Direct Lending	R400 774	37.46%
SEMSP	R274 433	25.65%
TREP	R215 333	20.13%
Youth Challenge Fund	R80 985	7.57%
Business Viability Programme (BVP)	R66 682	6.23%
Purchase Order Product	R28 346	2.65%
Business Recovery Programme (BRP)	R3 316	0.31%
TOTAL	**R1 069 870**	**100.00%**

Disbursements

The table below presents disbursements for the previous five financial years. A total of R945 million was disbursed during the 2022/23 financial year. This is significant impact as disbursements account for actual investments by **sefa** in the economy.

DISBURSEMENTS	
Financial Year	**R'000**
FY 2018/2019	R156 189
FY 2019/2020	R229 156
FY 2020/2021	R832 439
FY 2021/2022	R1 156 698
FY 2022/2023	R945 226

Operational Performance

The table below illustrates Direct Lending operational performance in terms of approvals, disbursements as well as developmental impact.

PERFORMANCE INDICATOR	BASE YEAR ACHIEVED AUDITED FY 2021/22 R'000	TARGET FY 2022/23 R'000	PERFORMANCE ACHIEVED FY 2022/23 R'000	% ACHIEVED
Approvals	R1 472 063	R1 333 333	R1 069 870	80%
Disbursements	R1 156 862	R1 000 000	R945 226	95%
Number of SMMEs supported	1567	528	917	174%
Jobs created and/or maintained	8947	4573	8942	196%
Disbursements to black-owned SMMEs	R1 107 682	R700 000	R911 528	130%
Disbursements to women owned SMMEs	R426 044	R400 000	R299 855	75%
Disbursements to youth owned SMMEs	R274 219	R300 000	R275 739	92%
Disbursements to SMMEs operating in townships	R417 023	R250 000	R305 332	122%
Disbursements to entrepreneurs with disabilities	R16 419	R70 000	R17 792	25%
Disbursements to SMMEs operating in rural towns and villages	R364 358	R400 000	R306 462	77%

- Approvals: Direct Lending managed to achieve 80% of its approvals target. This represents a decline of 27% when compared with the previous financial year.
- Disbursements: R945 million was disbursed, and this represents 95% of the target of R1 billion.
- Developmental impact: A total of 917 enterprises were supported and this represents an average of R1 million per enterprise. This is a clear demonstration that Direct Lending can stretch its average allocation in terms of reach. The number of jobs created and/or maintained amounted to 8942 – which is an average of nine jobs created/maintained per enterprise. A total of R306 million was disbursed to enterprises located in rural towns and villages and R305 million in businesses located in townships. This performance is the result of TREP. Significant impact was also achieved with businesses owned and managed by black entrepreneurs.

Sectoral Impact

Table below outlines sectoral impact in terms of disbursed facilities

Economic Sector	Disbursed Amount R'000
Accommodation and food service activities	R57 418
Administrative and support activities	R15 589
Agriculture, forestry and fishing	R64 548
Arts, entertainment and recreation	R1 554
Construction	R75 284
Education	R3 751
Electricity, gas, steam and air conditioning supply	R8 298
Financial and insurance activities	R2 338
Human health and social work activities	R32 485
Information and communication	R32 729
Manufacturing	R321 061
Mining and quarrying	R20 348
Other service activities	R6 157
Professional, scientific and technical activities	R1 610
Real estate activities	R18 091
Transportation and storage	R90 781
Water supply; sewerage, waste management and remediation activities	R21 947
Wholesale and retail trade; repair of motor vehicles and motorcycles	R171 236
Total	**R945 226**

Manufacturing, as well as wholesale and retail trade are the dominant sectors at 33.9% and 18%, respectively. In terms of the manufacturing sector, this performance is attributable to the Small Enterprise Manufacturing Support Programme (SEMSP) whereas retail trade is influenced by the Township and Rural Entrepreneurship Programme (TREP). SEMSP is a financing instrument that enables the DSBD Portfolio's Localisation, as well as Market Access Programmes.

Other sectors accounted for less than 10% of Direct Lending's total disbursement for the year. Transport and logistics (9.6%), Construction (7,9%) as well as accommodation and related services (6%) - this is an indication of other sectors that present opportunities for entrepreneurship.

Strategic Initiatives

In addition to the core lending activities, Direct Lending implemented certain strategic initiatives during 2022/23 financial year.

This section outlines these strategic initiatives:

- Seda – **sefa** collaboration. In anticipation of the pending merger, Seda and **sefa** established a steering committee that is geared towards streamlining the offerings of the entities. The steering committee developed terms of reference and the goal is develop a framework that will guide the provinces.
- Participation in the various masterplans with a view to identifying opportunities that can lead to the creation of blended finance instruments – like that which led to the establishment of the Small Enterprise Manufacturing Support Programme. Discussion is underway with the Department of Forestry, Fishing and Environment (DFFE)
- Collaboration with players in the SMME ecosystem: Direct Lending continues to engage various institutional players in the SMME ecosystem landscape. The primary purpose of such engagements is to achieve the following:
  - Deal origination – quality pipeline development
  - Information dissemination – to manage market expectations.
  - Brand building and position – to ensure **sefa's** contributes to sector dialogues.

Some of these partnerships are formalised through MOUs with institutions that play a complimentary role in the provision of support to the SMME sector. The following MOUs are some that were signed during the 2022/23 financial year:

- South African Mobile Devices Distributors (SAMDRA) and Repairers Ass & Seda.
- University of Johannesburg
- Industrial Development Trust
- Automobile Industry Development Centre (AIDC) – Eastern Cape
- Bongani Rainmaker Logistics
- Gauteng Enterprise Propeller
- Young Entrepreneurs Africa Institute
- Technology Innovation Agency
- bpSA

DIRECT LENDING SUCCESS STORIES

Prodek (Pty) Ltd

Prodek (Pty) Ltd trading as Prodechem is a 100% black youth-owned business that was incorporated in 2017 and started operating in 2019. The business is owned by Ms. Debbie Grobbelaar. The business started by manufacturing toilet paper and nappies and required funding to set-up the manufacturing side of cleaning detergents and establishing retail outlets around the Mangaung area.

Aileni (Pty) Ltd

Aileni (Pty) Ltd is a 100% black-owned business situated in the rural village of Moroka in Thaba Nchu in Free State Province that was incorporated in 2021. The business is owned by Ms. Palesa Masisi who is very passionate about baking and growing of herbs. The business offers baking and confectionery services to local grocery stores and community.

Black Phoenix Holdings Two (Pty) Ltd

Black Phoenix Holdings Two (Pty) Ltd, trading as Nazaru Bricks, is a bricks manufacturing business that has been in business since 2019. The business is 100% black owned by Ms Nazia Carrim, operating in the province of Limpopo. **sefa** approved and disbursed funds which were utilised for an additional brick manufacturing machine, CAT truck together with a trailer, forklifts, and the provision of raw material to expand an existing cement bricks manufacturing business.

Ramohlale Industries (Pty) Ltd

Ramohlale Industries has been in business since February 2016. Mr. Mpho Ramohlale, the Founder and Chief Executive Officer, has more than 20 years of experience having worked in different capacities to lead teams in various complex engineering projects for companies such as AirBus, Denel and Eskom. The business is 100 % black-owned, operating in Limpopo province. The business offers pump repairs, electric motor rewinding and engineering fabrication services. **sefa** approved and disbursed funds which were utilised to purchase equipment.

BrickZone (Pty) Ltd

Brickzone (Pty) Ltd is a concrete material manufacturing business based in Kimberley in the Northern Cape. The business is fully owned by Mr Brandly Van Wyk a 38-year-old entrepreneur. The business manufactures and distributes cost-effective building materials and construction products such as paving bricks, blocks, steel fencing, windows, cement bricks, sand and stone. Brickzone (Pty) Ltd has an off-take agreement in which they will supply concrete items for a five-year period. The local municipality of Francis Baard spends a total of R10 million per annum on paving bricks to repair roads in townships such as Galeshewe, Puthanang, Roodepan, Homelite and Homevale. The municipality has been sourcing all these bricks from Bloemfontein Free State due to lack of supply for in Kimberley. **sefa** assisted the business to acquire a tipper truck, three delivery trucks, two site tippers, tailored machine, and tools, a TLB, a brick machine and the property from which it is operating.

EJ Investment Holdings (Pty) Ltd

EJ Investment Holdings (Pty) Ltd trading as Oasis-De Aar is a startup and youth owned business owned by Mawela Mulaudzi. The business was registered with the idea of setting up a water franchise through Oasis Water (Pty) Ltd. The business had approached **sefa** for total funding to start a franchise outlet.

Oasis Water sells bottled purified water (still and sparkling) and refill options, carbonated soft drinks, energy drinks, ready to drink and concentrated juices and purified ice. The rationale of bringing Oasis Water to De Aar, is to provide potable drinkable water to the local community and businesses.

Motheo Technical and Business Services (Pty) Ltd

Motheo Technical and Business Services (Pty) Ltd was established in 2013 by Mr Motshabi Banny Segomotso. The business is based at Kuruman in the Northern Cape Province and focuses on boiler making and steel fabrication services. The business supplies, installs and maintains technical equipment within the Northern Cape and nationally. **sefa** assisted the entrepreneur with acquiring generator as an alternative power supply, to help them overcome loadshedding.

Anzotron (Pty) Ltd

Anzotron (Pty) Ltd is a company set up by Mr. Mava Mkukwana for the specific purpose of holding a Shell Ultra City greenfield development to be located on the N2 interchange that links the Mdantsane Township to East London and King Williams Town. The company was approved funding towards settingup a Shell Ultra City fuel retail centre which comprises of Spar Express, Steers, Debonairs , Fishaways and KFC drive through. This investment contributed significantly to the creation of more than 125 jobs.

Family Cottage at Longwoods (Pty) Ltd

Family Cottage at Longwoods (Pty) Ltd, trading as Maphitha Abattoir is a 100% black owned commercial meat supplier in Ulundi, a town in the Zululand District Municipality in KwaZulu-Natal. Maphitha Abattoir was established in 2018 by Mr Ntandoyenkosi Khayelihle Sithole, the sole director. The business currently employs 22 permanent employees from the surrounding communities who depend on the business for the source of income to their households. Family Cottage at Longwoods also trades as Maphitha Butchery based in the CBD of Ulundi and is also 100% owned by Mr Ntandoyenkosi Khayelihle Sithole.

Maphitha Abattoir specialises in fresh and processed meat products supplying customers both in the public and private sector including but not limited to hospitals, schools, local butcheries, street vendors, etc. The abattoir produces consumer products such as hamburgers, sausages, steak, and beef stew cubes. The business currently supplies meat to customers such as Maphitha Butchery, Garden Court, Nongoma Inn, Engen Garage, Caltex Garage, Total Garage and to various catering companies. **sefa** approved funding for the business to increase stock levels, pay salaries, and working capital. Through **sefa** funding, eight new jobs were created while retaining 22 jobs for the local community of which 11 are women.


ONE BIO
VENTURE STUDIO
Dr. Nick Walker
Gian-marco Melfi

CREDIT RISK MANAGEMENT

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

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

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

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

Overview

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

sefa's credit risk management objectives are to:

- Maintain sound credit granting standards.
- Identify, assess, and measure credit risk clearly and accurately across the **sefa's** loan portfolio within each separate business unit, from the level of individual facilities up to the total portfolio.
- Control and plan credit risk taking into consideration external stakeholder expectations and avoid undesirable concentrations; and
- Monitor credit risk and adherence to agreed controls.

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

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

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

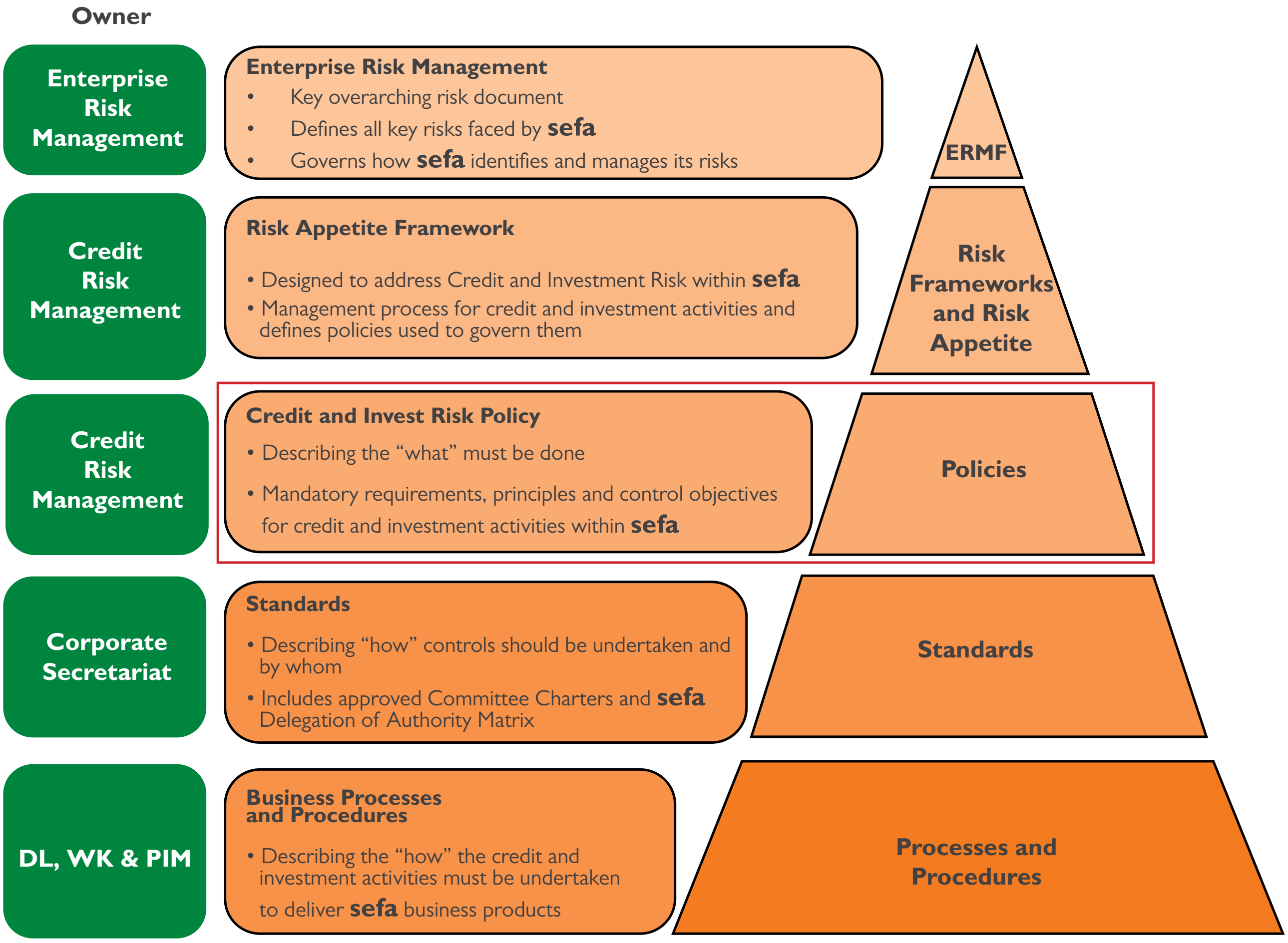
In the year under review, various loan schemes and other government support initiatives like the Township and Rural Empowerment Programmes (TREP), Business Recovery Package (BRP) and Business Viability Programme were deployed to provide financial support and to stimulate the economy impacted by the COVID-19 pandemic and other macro-economic events. In the second year of their implementation, the Credit Risk Management Unit had to address ongoing operational issues related to their implementation and refine its decision-making tools for the respective schemes and related reporting tools.

The Unit together with the Post Investment Monitoring Unit (PIM) completed the identification, verification, and valuation of all self-financed assets. In the period under review, the project was undertaken using **sefa's** PIM. PIM identified and verified all assets that **sefa** has either purchased or bonded to its clients with desktop valuations performed on the verified assets. **sefa's** financed assets register consists of installment sales agreement (ISA) equipment, installment sale agreement vehicles, notarial bonds and first 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 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, as well as its planning and decision-making processes. **sefa** therefore dedicates considerable resources to its control and management. Credit risk management encompasses the process of identification, measuring, monitoring, and controlling of all credit decisions and exposures within **sefa**.

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



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 during business generation.

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

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

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

The ongoing governance of **sefa's** risk-taking activities is devolved by management. For credit risk management, **sefa** has Board and corporate level risk committees that are mandated to maintain credit policies. The chief executive officer (CEO), therefore has functional responsibility for managing credit risk across the institution, through structures such as the Management Credit and Investment Committee (MANCOM), the Small, Medium Enterprise Credit Committee (SME) and the Post Investment Monitoring Committee (PIMC). The CEO chairs the Executive Credit and Investment Committee (ECIC). 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 works closely with the frontline. 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 repay all liabilities in a timely manner. Assumptions made in arriving at the projected cash flows are scrutinised for and stress tested against key performance drivers.

Credit Risk Control and Governance: Committee Structure

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

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

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

Responsibilities include:

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

Credit Risk Management Enhancements during the Financial Year under Review

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

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

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

Credit and Investment Risk Policy is ratified by the **sefa** Board annually and in the current year, an amendment with regards to prohibition of lending to previously written off was made to bring further alignment to **sefa's** Delinquency Policy.

Credit Risk Rating and Expected Credit Loss Models

sefa continuous to increase the predicative powers of its bespoke Credit risk rating models and completed the implementation and migration to IFRS 9 in the financial year ending 31 March 2021. The standard is intended to replace the superseded accounting standard for financial instruments (IAS 39). The standard contains requirements for a new impairment model, which is aimed at the early recognition of losses on a more forward-looking basis and on a broader scope of financial instruments. **sefa** recalibrated and validated its internally developed credit risk rating models in the financial year under review, to increase their respective predictive powers and robustness regarding the recalibration of the expected credit loss (ECL) model. The model has been in existence since the 2018 financial year.

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

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

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

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

Stage 1
Performing
(Not impaired)

- Performing loans with no significant deterioration in credit quality since origination.
- Accounts in current status.
- 30 days past due (DPD) back stop.

Stage 2
Performing
(Credit deteriorated)

- Arrears>30 dpd<90 dpd
- PD deterioration rules since origination.
- High Risk (12 months minimum cure period).
- Watch list framework applied to wholesale lending portfolio, to determine clients with significant shift in credit risk i.e. where there are grounds for concern regarding their financial health.

Stage 1
Non-performing
(Credit impaired)

- Credit impaired on origination or subsequent to initial recognition.
- Regulatory default being:
- 90 days past due
- Unlikeliness to pay indicators
- Distressed restructures (cure period = forbearance plan period).
- Workout and recovery

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

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

Stage 1

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

Stage 2

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

Stage 3

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

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

Approach to Credit Modelling

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

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

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

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

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

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

Credit Risk Exposures

The financial sustainability of **sefa** is critical. **sefa** therefore dedicates resources to gain a clear and accurate understanding of credit risk across its portfolios. Further enhancements were made at both divisional (wholesale and direct lending) reporting levels, on the reporting of the credit portfolio, including the measurement of the quality of the loan book. This resulted in more consistent and insightful portfolio analysis, evaluation and reporting using improved metrics.

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

The Approach to Management and Representation of Credit Quality

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

sefa's Internal risk grading and PD mapping scale

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

The credit quality descriptions above can be summarised as follows:

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

Risk Performance

Credit Exposures by Internal PD Description as at 31 March 2023

Asset Class	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Low	799 454	82 757	716 697	20.3%	10.4%
Medium	587 211	100 287	486 924	14.9%	17.1%
High	543 299	190 113	353 187	13.8%	35.0%
Default	2 009 585	1 647 058	362 527	51.0%	82.0%
Grand Total	**3 939 549**	**2 020 215**	**1 919 334**	**100.0%**	**51.28%**

Note: Loan balance exclude equity investment in financial intermediaries

12-month PDs by Product Description as at 31 March 2023

	12m PD			
	0 Days	0-30 Days	31-60 Days	61-90 Days
Asset Class	%	%	%	%
Co-Operative Loans	34.2%	43.0%	69.1%	97.5%
Direct Lending Loans	31.6%	58.2%	83.7%	96.2%
Government Support Loans	49.8%	93.4%	99.8%	100.0%
Land Reform	6.7%	10.8%	40.7%	48.8%
Micro Loans	17.5%	59.9%	84.3%	93.8%

Credit Exposures by Internal PD Description as at 31 March 2022

Asset Class	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Low	1 051 451	118 536	932 914	33.3%	11.3%
Medium	672 651	153 109	519 542	21.3%	22.8%
High	286 524	139 908	146 616	9.1%	48.8%
Default	1 143 663	960 075	183 588	36.3%	83.9%
Grand Total	**3 154 288**	**1 371 628**	**1 782 660**	**100.0%**	**43.48%**

12-month PDs by Product Description as at 31 March 2022

Asset Class	12m PD 0 Days %	0-30 Days %	31-60 Days %	61-90 Days %
Co-Operative Loans	45.9%	68.1%	78.4%	99.7%
Direct Lending Loans	42.7%	71.7%	90.2%	98.1%
Government Support Loans	10.7%	13.1%	40.8%	100.0%
Land Reform	8.4%	34.9%	74.9%	93.8%
Micro Loans	13.2%	17.3%	35.2%	83.2%

Asset Classification of Direct Lending Loan Book as at 31 March 2023

Loan Type	Total Outstanding balance R'000	Arrears R'000	No. of Accounts
Default	**334 603**	**329 857**	**178**
Bridging Loan	45 676	45 676	32
Grant	6 983	5 318	5
Instalment Sale	83 259	81 960	54
Revolving Credit	30 679	30 679	9
Term Loan	168 005	166 224	78
Special Mention	**86 920**	**38 054**	**115**
Instalment Sale	27 093	10 724	37
Term Loan	59 827	27 330	78
Standard	**2 318 454**	**602 161**	**4 614**
Bridging Loan	31 887	26 979	29
Instalment Sale	663 426	133 442	745
Revolving Credit	2 339	71	3
Term Loan	1 620 803	441 668	4
Substandard	**5 551**	**549**	**5**
Instalment Sale	133	133	1
Term Loan	5 418	416	4
Total	**2 745 527**	**970 621**	**4 912**

Note: Included in Direct Lending are Government Support Loans with a total outstanding balance of R623 909 874 and arrears of R111 191 893. The accounts are classified as Standard.

- **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.

Asset Classification of Direct Lending (Government Support Programmes) Loan Book as at 31 March 2023

Loan Type	Total Outstanding balance R'000	Arrears R'000	No. of Accounts
Standard	**610 361**	**109 828**	**2 498**
Bridging Loan	1 359	-	1
Instalment Sale	62 824	914	185
Revolving Credit	546 178	108 914	2 312
Term Loan	13 548	1 363	46
Substandard	**13 548**	**1 363**	**46**
Instalment Sale	431	-	1
Term Loan	13 117	1 363	45
Total	**623 910**	**111 192**	**2 544**

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

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

Direct Lending Loan Book Expected Credit Losses and Coverage Ratio as at 31 March 2023

Loan Type	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Bridging Loan	60 834	55 008	5 826	1.5%	90.4%
Instalment Sale	658 807	341 189	317 618	16.7%	51.8%
Revolving Credit	356 757	282 323	74 433	9.1%	79.1%
Term Loan	2 863 152	1 341 695	1 521 457	72.7%	46.9%
Total	**3 939 549**	**2 020 215**	**1 919 334**	**100.0%**	**51.28%**

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

Loan Type	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Bridging Loan	50 523	45 870	4 653	2.4%	90.8%
Instalment Sale	416 248	229 211	187 037	20.1%	55.1%
Revolving Credit	30 819	30 041	778	1.5%	97.5%
Term Loan	1 570 978	690 365	880 613	75.9%	43.9%
Total	**2 068 568**	**995 487**	**1 073 081**	**100.0%**	**48.12%**

Direct Lending Loan Book Expected Credit Losses and Coverage Ratio as at 31 March 2023

Asset Class	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Bridging Loan	50 523	45 870	4 653	2.4%	90.8%
Instalment Sale	416 248	229 211	187 037	20.1%	55.1%
Revolving Credit	30 819	30 041	778	1.5%	97.5%
Term Loan	570 978	690 365	880 613	75.9%	43.9%
Total	**3 939 549**	**2 020 215**	**1 919 334**	**100.0%**	**48.12%**

Expected Credit Losses and Coverage Ratio as at 31 March 2023

Asset Class	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Co-Operative Loans	5 259	5 259	-	0.2%	100.0%
Direct Lending Loans	2 068 568	995 487	1 073 081	65.6%	8.1%
Micro Loans	107 884	59 846	48 038	3.4%	55.5%
Wholesale Loans	662 050	307 684	354 366	21.0%	46.5%
Sub Total	**2 843 760**	**1 368 276**	**1 475 484**	**90.2%**	**48.1%**
Land Reform Loans	310 529	3 352	307 176	9.8%	1.1%
Total	**3 154 288**	**1 371 628**	**1 919 334**	**100.0%**	**43.48%**

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

Wholesale lending realised a coverage ratio of 50.8% (2022: 46.5%). The direct (retail) lending loan book has a coverage ratio of 56.5% (2022: 48.1%). The increase in the coverage ratio was largely attributed to the increase in the TREP and SEMSP initiatives amongst other government support programmes, we note that most of these facilities have since come out of interest moratoriums with capital repayments due.

Stage Approach of the Total Loan Outstanding Balances on Debt Instruments as at 31 March 2023

Asset Class	Total Outstanding Balance R'000	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000
Co-Operative Loans	5 709	-	-	5 709
Direct Lending Loans	2 745 593	793 656	499 869	1 452 068
Micro Loans	167 250	70 810	5 068	91 373
Wholesale Loans	711 434	226 555	186 048	298 831
Sub Total	**3 629 987**	**1 091 021**	**690 986**	**1 847 981**
Land Reform Loans	309 562	188 323	29 746	91 493
Total	**3 939 549**	**1 279 344**	**720 732**	**1 939 473**

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

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

Stage Approach to the Measuring of ECLs on Debt Instruments Accounted for at Amortised Cost as at 31 March 2023

Asset Class	Total Outstanding Balance R'000	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000
Co-Operative Loans	5 709	-	-	5 709
Direct Lending Loans	1 551 888	131 035	227 442	1 193 411
Micro Loans	96 279	4 934	4 005	87 340
Wholesale Loans	361 177	19 308	49 291	292 577
Sub Total	**2 015 053**	**155 278**	**280 737**	**1 579 038**
Land Reform Loans	5 161	294	293	4 575
Total	**2 020 215**	**155 572**	**281 030**	**1 583 613**

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

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

Asset Class	Total Outstanding Balance R'000	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000
Co-Operative Loans	5 259	-	-	5 259
Direct Lending Loans	995 487	150 902	227 442	677 216
Micro Loans	59 846	1 610	4 375	53 861
Wholesale Loans	307 684	6 024	79 354	222 306
Sub Total	**1 368 276**	**158 536**	**251 098**	**958 642**
Land Reform Loans	3 352	584	1 335	1 433
Total	**1 371 628**	**159 120**	**252 433**	**960 075**

Stage Approach according to Net Carrying Amount as at 31 March 2023

Asset Class	Total Outstanding Balance R'000	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000
Co-Operative Loans	-	-	-	-
Direct Lending Loans	1 193 705	662 621	272 428	258 656
Micro Loans	70 971	65 876	1 063	4 032
Wholesale Loans	350 258	207 247	136 757	6 254
Sub Total	**1 614 934**	**935 743**	**410 248**	**268 942**
Land Reform Loans	304 400	188 029	29 453	86 918
Total	**1 919 334**	**1 123 772**	**439 702**	**355 860**

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

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

Asset Class	Total Outstanding Balance R'000	Stage 1 R'000	Stage 2 R'000	Stage 3 R'000
Co-Operative Loans	-	-	-	-
Direct Lending Loans	1 073 081	747 158	194 206	131 717
Micro Loans	48 038	30 663	16 425	949
Wholesale Loans	354 366	164 547	166 120	23 699
Sub Total	**1 475 484**	**942 368**	**376 752**	**156 364**
Land Reform Loans	307 176	194 049	85 903	27 224
Total	**1 919 334**	**1 136 417**	**462 655**	**183 588**

Stage Approach according to Coverage Ratio as at 31 March 2023

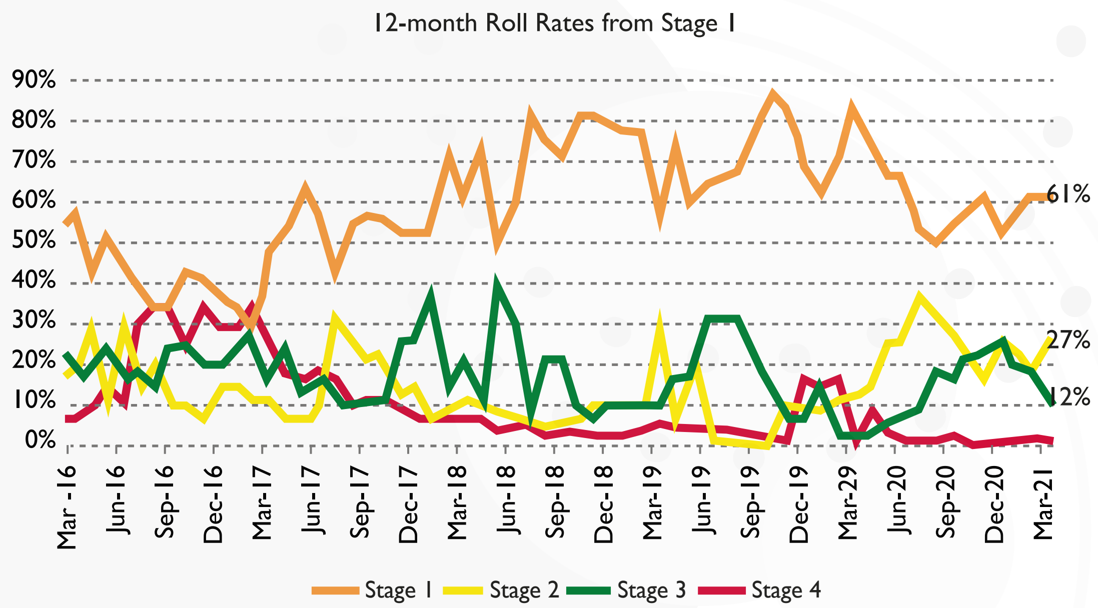
Asset Class	Coverage Ratio %	Stage 1 %	Stage 2 %	Stage 3 %
Co-Operative Loans	100.0%	0.0%	0.0%	100.0%
Direct Lending Loans	56.5%	16.5%	45.5%	82.2%
Micro Loans	57.6%	7.0%	0.0%	95.6%
Wholesale Loans	50.8%	8.5%	26.5%	97.9%
Sub Total	**55.5%**	**14.2%**	**40.6%**	**85.4%**
Land Reform Loans	1.7%	0.2%	1.0%	5.0%
Total	**51.28%**	**12.16%**	**38.99%**	**81.65%**

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

Stage Approach according to Coverage Ratio as at 31 March 2022

Asset Class	Coverage Ratio %	Stage 1 %	Stage 2 %	Stage 3 %
Co-Operative Loans	100.0%	0.0%	0.0%	100.0%
Direct Lending Loans	48.1%	16.8%	46.3%	83.7%
Micro Loans	55.5%	5.0%	0.0%	98.3%
Wholesale Loans	46.5%	3.5%	32.3%	90.4%
Sub Total	**48.1%**	**14.4%**	**40.0%**	**86.0%**
Land Reform Loans	1.1%	0.3%	1.5%	5.0%
Total	**43.48%**	**12.28%**	**35.30%**	**83.95%**

sefa's 12-month Roll Rates from Stage 1



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

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

12% transitioned into Stage 3 and while 0% were closed.

The table below indicates the different industry exposures of the direct lending loan book as at 31 March 2023.

Sector Exposures of the Direct (Retail) Lending Loan Book as at 31 March 2023

Industry	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Agriculture, hunting, forestry and fishing	81 576	52 435	29 141	3.5%	64.3%
Community, social and personal services	398 419	232 264	166 155	17.2%	58.3%
Construction	228 753	173 303	55 450	9.9%	75.8%
Electricity, gas and water supply	67 881	41 921	25 960	2.9%	61.8%
Financial intermediation, insurance, real estate and business services	102 703	63 097	39 606	4.4%	61.4%
Manufacturing	799 116	448 690	350 426	34.5%	56.1%
Mining and quarrying	85 400	49 770	35 630	3.7%	58.3%
Transport, storage and communication	256 242	69 773	186 469	11.1%	27.2%
Wholesale and retail trade	298 346	182 176	116 170	12.9%	61.1%
Total	**2 318 436**	**1 313 429**	**1 919 334**	**100.0%**	**56.65%**

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

Industry	Total Outstanding Balance R'000	ECL R'000	Net Carrying Amount R'000	% Balance Outstanding	Coverage Ratio %
Agriculture, hunting, forestry and fishing	64 854	36 524	28 331	3.1%	56.3%
Community, social and personal services	288 331	120 565	167 765	13.9%	41.8%
Construction	176 593	124 935	51 657	8.5%	70.7%
Electricity, gas and water supply	41 872	22 074	19 798	2.0%	52.7%
Financial intermediation, insurance, real estate and business services	84 821	59 412	25 409	4.1%	70.0%
Manufacturing	696 039	266 847	429 192	33.6%	38.3%
Mining and quarrying	56 372	12 944	43 428	2.7%	23.0%
Transport, storage and communication	244 929	152 751	92 178	11.8%	62.4%
Wholesale and retail trade	414 757	199 435	215 321	20.1%	48.1%
Total	**2 068 568**	**995 487**	**1 073 0814**	**100.0%**	**48.12%**

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

Sectorial Weighted and ZAR Weighted PDs

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

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

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

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

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

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

Credit Risk Mitigation

sefa takes collateral on transactions 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 collateral to the transaction until the loan is fully amortised. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants. In view of the lessons learnt and the increasing level of impairments, collateral has now become an important instrument to enhance credit quality and mitigate the credit risk inherent in **sefa's** lending transactions. The business units in **sefa** pursue the procurement of acceptable collateral on credit transactions on a case-by-case basis. The decision to which kind of collateral can be acceptable will depend on the circumstances of a particular transaction and it is taken only after a thorough credit appraisal process.

Where collateral is offered or deemed to be prudent, consideration is given to the eligibility of collateral in terms of the economic value of the underlying assets and the enforceability of **sefa's** legal rights or entitlement to the asset. The main types of collateral taken comprise notarial bonds over existing plant and equipment (business assets), instalment sale agreements on the underlying moveable assets financed, cession of debtors' book and collateral mortgage bonds over secondary and investment properties if available. In addition, **sefa** takes personal suretyships to demonstrate clients' commitment. The security coverage required is determined by the risk profile, the materiality of the loan and the sustainability and repayment of the funds' application. Financial and behavioural covenants are also an important tool for credit risk mitigation within **sefa**.

INFORMATION AND COMMUNICATION TECHNOLOGY

Overview

The Information Technology Department is the internal Information and Communication Technology (ICT) Service Provider to **sefa** and the institution's central ICT department. It has the task of dispensing enterprise ICT systems and services for all **sefa** staff, clients, and partners. With responsibility to take on digital transformation and other business critical projects, the role of IT is more visible than before. Between maintaining infrastructure, coming up with new ways to use information and data to drive business forward, and leading digital transformation efforts, IT still needs to maintain service levels and ensure stability of IT Systems and associated infrastructure. The IT Department has nine employees consisting of management, professionals, as well as entry level employees.

The IT Department provides support for all IT services through the Service Request Management processes. The Service Request management process is responsible for accepting, approving, and delivering user requests for new equipment or standard IT services.

The IT Department is tasked with the planning, implementation and support of core Information and Communications Technology (ICT) systems and infrastructure services within **sefa**. The IT Department currently covers the following key areas:

- Infrastructure and operations
- Networks and telephony
- Business applications and solutions delivery
- ICT governance and strategy
- IT service delivery

Infrastructure and Operations

The infrastructure and operations team ensures an up-to-date, stable, secure, and dynamic server infrastructure for the o, which includes Microsoft Windows and Linux servers consisting of both physical and virtual machines. The environment supports business critical applications such as:

- A hybrid email infrastructure hosted on premises as well as in the Office 365 cloud.
- **sefa** web SharePoint infrastructure

Other critical functions provided by this department include monitoring, securing, backing up and restoring IT systems. The department manages the staff lifecycle process, in alignment with HR processes, and provides authentication for all client systems.

Furthermore, the infrastructure and operations team further designs, develops and maintains **sefa's** network, internet, telephony, VPN services, and network security infrastructure, spans across 13 regions and remote offices, providing seamless and secure connectivity to all stakeholders. This department is also responsible for the provisioning and support of Wi-Fi connectivity to all boardrooms and meeting venues as well as the Wi-Fi "hotspots" areas located throughout the organisation. The department manages the telephone management system and the telecommunication enablers.

Business Applications and Solutions Delivery

The business applications and solutions delivery team is involved in the development and integration of new ICT software applications that are custom built to **sefa's** needs, while also enhancing and maintaining current ICT applications that are already in production. This mandate is accomplished by first understanding business processes in divisions and support departments. Once these processes are understood and analysed, the next step is to identify gaps and/or opportunities for enhancements, to improve the client experience when interacting with the said areas.

The same team is tasked with the deployment, and maintenance and support of IT systems that support **sefa's** core mission of funding small enterprises. The team is responsible for ensuring that systems are operating effectively and actively coordinating across multiple business administrative departments, as well as for regularly engaging end users to improve their experience.

These systems include:

- Enterprise Resource Planning (ERP) – Sage
- **sefa**LAS
- Finfind Loan Origination System
- **sefa's** automated internal workflows

ICT Strategy and Governance

The ICT strategy and governance team is responsible for the implementation of the ICT strategy, cybersecurity strategy and IT Governance framework for **sefa** by providing an oversight of all ICT projects and ensuring that the project management office is managing and delivering all ICT projects in an efficient and effective manner, within budget, at the right time and of the right quality.

The team is also responsible for the IT disaster recovery framework and testing activities, as well as for scheduling simulations of system failures to test the effectiveness of disaster recovery processes. The services include management and coordination of both internal and external IT audits, management of IT risks, as well as documentation and facilitation of the IT Department's policies and procedures, ensuring compliance with policies, rules, and regulations such as the Protection of Personal Information Act (POPIA) and the Electronic and Communications Act.

IT Service Delivery

The IT service delivery team acts as an interface between IT and the **sefa** community. The primary focus of their work is to provide uninterrupted client services and support. IT service delivery provisions the human and technology resources to enable and support **sefa's** staff to implement the mandate of funding small enterprises. The core functions of the service delivery team include provisioning and maintenance of audio-visual services, networking, and telephony client services, including Wi-Fi and computing services in all staff and working environments. The function comprises staff members with various professional support focuses.

The service delivery teams include:

- The centralised help desk.
- Desktop and network support.
- Audio-visual services and client computing.

Summary of Key Achievements

The following key deliverables were achieved in 2022/23:

IT Risk Management

At the top of the priority list of risks in 2020 is the risk of Cyber-attacks on **sefa** infrastructure and systems.

Frequent scans are conducted to identify and remediate vulnerabilities in our systems with a defined and integrated vulnerability management processes. The perimeters of the network have been upgraded and are monitored to protect **sefa** against unsolicited users. The user access management standard and procedures empower both IT and business system users to put in place sufficient controls to mitigate risks. This has assisted in remediating audit findings.

Cybersecurity User Awareness

A cybersecurity user awareness programme was defined and approved in 2020. Although some elements of this programme could not be implemented in accordance with the plan, IT conducted a user awareness programme through **e-sefa**. The awareness programme sensitises **sefa** system users of prevalent cyber-attacks and creates a cyber-apt community of users.

ICT Governance Implementation

IT has reviewed all the necessary processes to enable the formation of IT governance structures, in line with **sefa's** newly updated IT governance framework. This is instrumental in shaping management and control of IT assets. These structures will be implemented in the FY2023/24 financial year, namely the IT Steering Committee and the Change Control Advisory Board Committee.

Progress in terms of IT strategy implementation was reported on a quarterly basis at the Risk Committee of the Board.

IT Threat Management

To improve threat detection, incident management and management of IT vulnerabilities in **sefa**, IT has deployed a variety of tools to reduce the information security incidents and vulnerabilities:

- Vulnerability Management
- Microsoft Defender Endpoint Encryption Management

IT also entrusted an independent service provider, specialising in information security threat management, with performing an external security assessment and penetration test to gain visibility of the state of vulnerabilities affecting our external, internet-facing systems and applications.

Network and Wi-Fi Infrastructure Upgrade

IT initiated projects to upgrade the network and Wi-Fi infrastructure across all regions by installing new network equipment known as switches, controllers, and Wi-Fi access points. The aim of the upgrade is to increase Wi-Fi coverage and improve performance. The IT department deployed new network and Wi-Fi equipment for the new Durban and Umtata offices. IT is further coordinating a project for the installation of a new fibre network for the regions. This project will be concluded in July 2023 as installation delays were encountered.

Network Security Upgrade

To further strengthen the security of the organisation's IT infrastructure, IT installed an additional firewall for both on premises and the Data Centre. This device prevents any unauthorised access to the organisation's information.

Furthermore, with the use of firewall devices, IT further segmented and separated network communication by implementing firewalls for various data and voice traffic. IT also initiated more security related projects namely, perimeter firewall upgrade and firewall assurance projects to be concluded in 2023/4 financial year.

Remote Working Initiatives

With the advent of COVID-19 and the need for remote and online working, the IT department deployed soft phones to critical personnel, for example help desk agents, procurement personnel and finance personnel. The soft phone is a software programme for making telephone calls over the internet using computers and laptops.

Furthermore, Microsoft TEAMS is used for conducting online meetings. The IT department enabled staff to work remotely by deploying a Virtual Private Network (VPN) client to staff computers. This VPN client allows secure access to **sefa's** resources, for example servers and production systems, over the internet. Client VPN access was also tested successfully.

User account automation on Active Directory (AD)

IT has been using Microsoft Identity Management (MIM) to synchronise biographical user data such as name, surname, office contact details and designation, from the Sage system to the Outlook Address Book (residing in Active Directory). MIM also disables the accounts if an employee resigns and leaves the employment of the organisation.

In FY2023/24 IT embarked on the MIM Enhancements Project. The MIM system will now cater for full automation of staff AD accounts, namely creation of new accounts, adding and creation of email address and the automatic management of these accounts throughout the staff members' tenure at **sefa**. During FY2023/24, IT has already embarked on intensive interaction and planning with HCM and other stakeholders, to completely reconfigure the system, and finalise the project before September 2023.

Office 365 Advanced Threat Protection (ATP)

In the fight against cybersecurity attacks, IT implemented a new application, Office 365 Advanced Threat Protection through the upgrade of the **sefa** Microsoft licenses to enterprise level 5. It is a cloud-based email filtering service that can help protect **sefa** from malware and viruses. **sefa** staff rely heavily on emails to do business and to communicate with colleagues, collaborators, and customers. However, email is also the most prolific attack vector that threat actors are actively using to target and compromise our users and to breach our security environment.

Following the implementation of ATP, there was immediate observability on spoofed domains, spam and phishing attacks and top targeted users. Monitoring and implementation of mature processes continues and assists in increasing the cybersecurity posture of the organisation.

IT Asset Management System

IT went through a process of documenting the policies and processes for IT asset management. The asset management system enables the effective management of all computer hardware and software through the adoption and implementation of an ICT Service Management (ITSM) tool process and controls and the automation thereof. This system is aligned to best practices and will assist with the following:

- Better management of IT assets,
- Ensure software license compliance,
- Easier reporting of the current IT assets, and
- Assist relevant stakeholders in making data-driven decisions on IT asset Management.

Modernised IT service strategy

IT started a process to modernise the IT service strategy with four key principles that will tailor best practices to ensure that the institution achieves its strategic objectives. The principles are:

- Enhanced capability and competency
- Service orientated processes
- Improved quality of service
- Digital enablement

The service Strategy will assist IT in delivering better, cost effective and more efficient ICT services to all **sefa** stakeholders. For the IT Department to support **sefa's** strategic objectives, the target operating model will need to be enhanced in the long term. A target operating model identifies customer service and technology components required to effectively service the customer.

Customer journey experience inputs were acquired from the regions through a process of facilitated workshops conducted with regional heads. These, along with results from the planned IT service management maturity assessment and customer satisfaction assessments, will serve as inputs into the development of the Target IT Service Delivery Operating Model.

Audio-Visual Hardware Refresh

Owing to aging Audio-Visual infrastructure in the boardrooms at the head office and all regions, IT embarked on a project to refresh the aging hardware. The project will be completed in the 2023/4 financial year.

Staff Computing Desktop Replacement

IT has replaced a total of 104 computers at **sefa's** head office and across all four regions. This is a continuous improvement process for the staff computing environment and will equip the staff with modern computers to meet clients' expectations.

Summary of Key Challenges

Maintenance Backlog

Most of the IT infrastructure (audio-visual, network, Wi-Fi, and end user computing devices) has aged or reached the end of life. Inadequate funding over the years is a major challenge that has resulted in maintenance backlog and equipment failures.

Scarce Skills Set

As new technologies become available, the regular need to upskill staff in hardware on various platforms increases. There is a challenge to meet rapidly increasing business demands on time due to limited budgets and limited skilled resources.

Human Capital Constraints

IT has been able to meet the expected deliverables and key initiatives, but is faced with the lack of the required resources to meet these deliverables. To meet **sefa's** strategic objectives and reduce over reliance on external consultants and service providers, the staff and cost constraints must be addressed.

Key Risks

The threat of cyber-attacks continues to be a major risk to **sefa** and has become even more significant as **sefa** embarks on its digital transformation journey. IT has placed emphasis on the cybersecurity risk and has embarked on an initiative to implement a cybersecurity strategy that focuses on policies, processes, technologies, and resources.

Conclusion

In conclusion, IT will continue its drive to ensure that the skills gap is addressed by continuing with LinkedIn and Pluralsight technical and professional training to improve technical skills for all IT employees. These two training platforms provide IT employees with access to thousands of courses authored by industry experts including mock-up tests, labs, hands on learning and recognised certification in various IT technical fields.

POST INVESTMENT MONITORING, WORKOUT & RESTRUCTURING

Mr Eric Nyarko Kwadjo

Acting Executive Manager: Post Investment Monitoring

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

Overview

The FY2022/23 financial year was plagued by rising inflation, increasing costs of capital equipment, supply issues when importing equipment, whilst having to navigate the disastrous effects of loadshedding in the country.

Throughout the year, there has been an urgency to assist SMMEs with additional funding and access to finance. This resulted in a significant increase in the number of new clients. Consequently, the Post Investment Monitoring (PIM) division had to increase the headcount to address the increasing volumes.

The division has been re-aligned to focus on the core activities of monitoring, collections, workout and restructuring and business support.

To maximise the impact of PIM, there was an increased focus on site visits to ensure that **sefa** is visible to clients so that concerns, as well as corrective actions, are addressed at an early stage to improve the quality of the interventions and consequently the loan book.

During the year, a project team was created, with the purpose of addressing the poor collection rates within the Direct Lending department. Project champions were appointed for each region to visit clients together with staff from the PIM division to have frank discussions with defaulting clients. Revised collection strategies were implemented to address projects and clients that remain unwilling to repay **sefa** are dealt with accordingly and often leading to litigation.

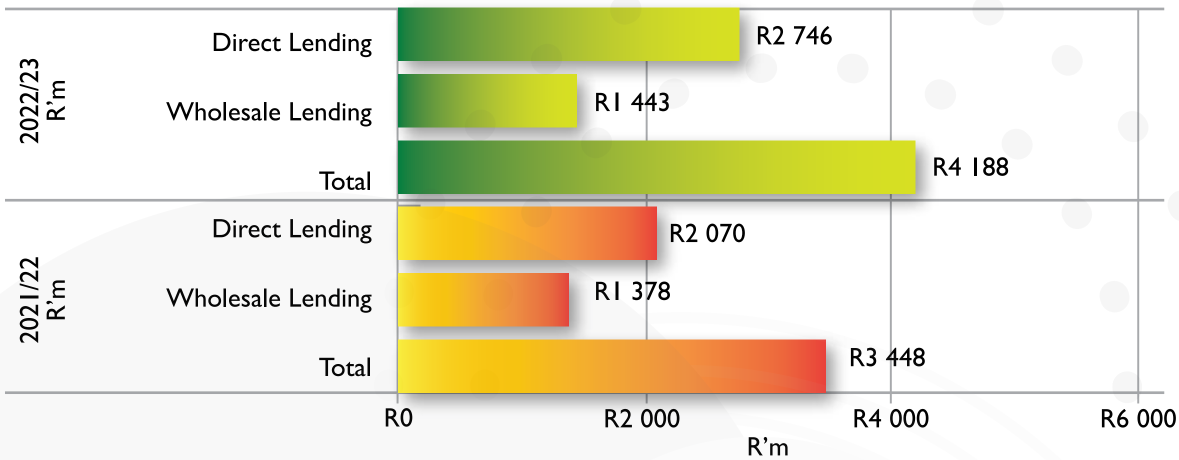
The economy has impacted the collection rates in general, seeing that clients have less available cash flow to service debt due to increased inflation and operational costs. This is evident in the increase in the number of debit orders that are returned each month.

A number of loans were restructured to assist clients with temporary cashflow shortages to allow them to generate enough turnover to start repaying **sefa**.

Total Portfolio Under Management

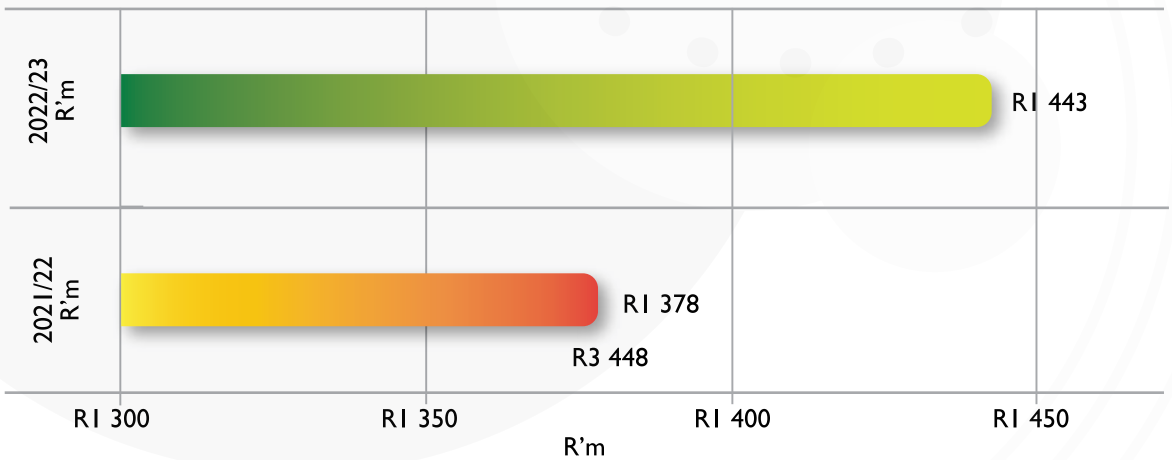
sefa has a total loan book of R4.19 billion as of 31 March 2023. This comprises R1.44 billion in Wholesale Lending (WL) representing 31% and R2.75 billion in Direct Lending (DL) representing 69%.

Total Portfolio



Wholesale Lending Portfolio

At the end of the 2022/23 financial year, the WL portfolio closed at R1.443 billion. This reflects a year-on-year increase of 4.5% from R1.378 billion at March 2022.The increase was underpinned by the disbursement of R196.5 million to funding partners and offset by repayments. R95.6 million (51%) of the R196.5 million was disbursed to new funding partners/ intermediaries.

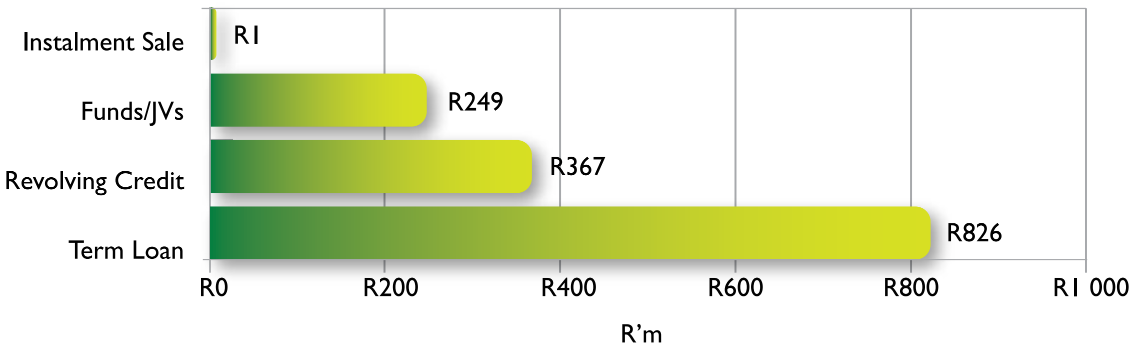


Portfolio Growth

The portfolio consists of term loans (R826.1 million), revolving credit facilities (R367.3 million), instalments sale agreements (ISA) (R601 thousand) and the Funds/JV (R248.8 million).

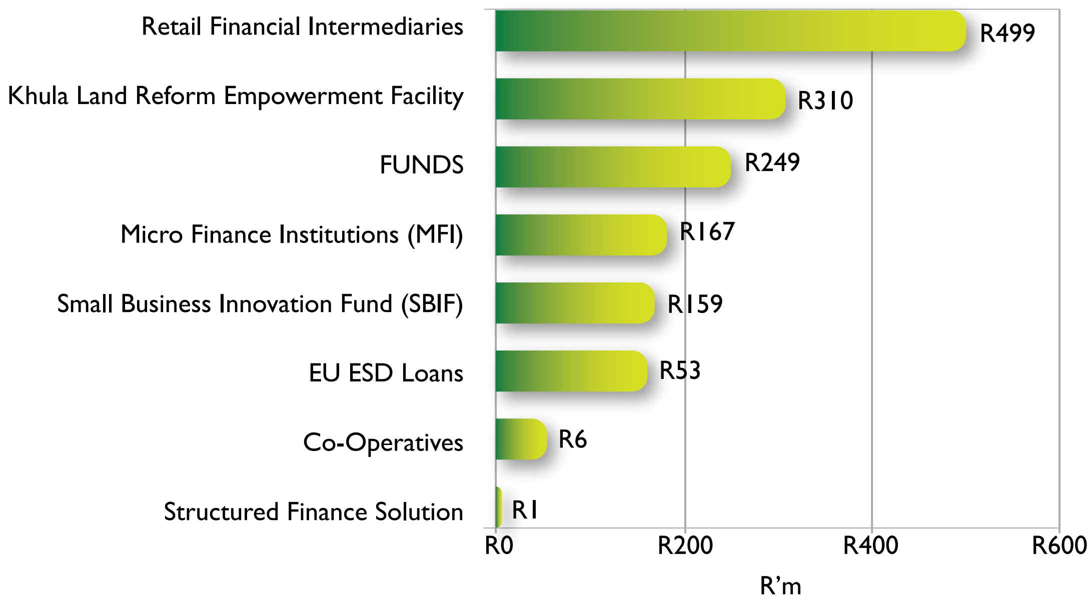
The term loans decreased by 1%, the ISA decreased by 67%, the revolving facilities increased by 46% and Funds/JV decreased by 15%).

Portfolio Product Spread



Product Contribution to the Portfolio

The portfolio is segmented into Retail Financial Intermediaries, the Khula Land Reform Empowerment Facility, specialised Funds and Joint Ventures, microfinance institutions, Small Business Innovation Fund, European Union Enterprise Supplier Development Fund, co-operatives, and Structured Finance Solutions.



Structured Finance Solution (SFS)

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

Year-on-year exposure decreased by R1.2 million from R1.8 million in March 2022 to R601 thousand at March 2023. The decrease was a result of receipts of instalments. There was no growth in the loan book because the draw-down term on the facility has lapsed and no new LDPs were signed.

Co-operatives (Co-ops)

The exposure is 100% in the feeding scheme. The portfolio increased by 9%, from R5.3 million in March 2022 to R5,7 million at the end of March 2023. The increase was the result of interest that accrued over the year.

European Union Enterprise Development Fund (EU ESD Fund)

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

The portfolio exposure recorded a decrease of 29%, from R75 million reported in March 2022 to R53 million at the end of March 2023. The decrease was mainly due to funds returned by intermediaries that had not been disbursed due to changes in arrangements with their farmers.

Microfinance Institutions (MFIs)

The MFI portfolio is funding micro enterprises across all sectors with a strong presence in rural villages and townships.

This portfolio increased by 55% from R108 million in March 2022 to R167 million at the end of March 2023. The increase was due to disbursements of R90 million to one funding partner with the balance offset by repayments from that funding partner on the revolving facilities.

Small Business Innovation Fund (SBIF)

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

During the year, the portfolio increased by 31% from R121.5 million in March 2022 to R159 million at March 2023. The increase was mainly due to disbursements of R60.8 million to four funding partners and subsequent repayments. The net effect is an increase of R37.5 million.

Funds and Joint Ventures Investments

The exposure is diversified into different sectors such as agriculture, mining, information, and communication technology (ICT) and general services. Year on year, the portfolio exposure decreased by 15% from R292.2 million in March 2022 to R248.8 million at March 23. The decline was due to distribution receipts of R49.6 million from two funding partners.

Khula Land Reform Empowerment Facility (KLREF)

31% of the exposure is invested in sugarcane, 17% in citrus and the remaining 52% in various agricultural activities. KLREF funding partners/intermediaries are ABSA Bank Ltd, First Rand Bank Ltd, Ithala Development Finance Corporation, Akwandze Agricultural Finance, Capital Harvest Emerging Farmers and Lona Group (Pty) Ltd, who on-lend to SMMEs in the agricultural sector. The exposure has decreased less than 1% from R310.4 million in March 2022 to R309.6 million at the end of March 2023.

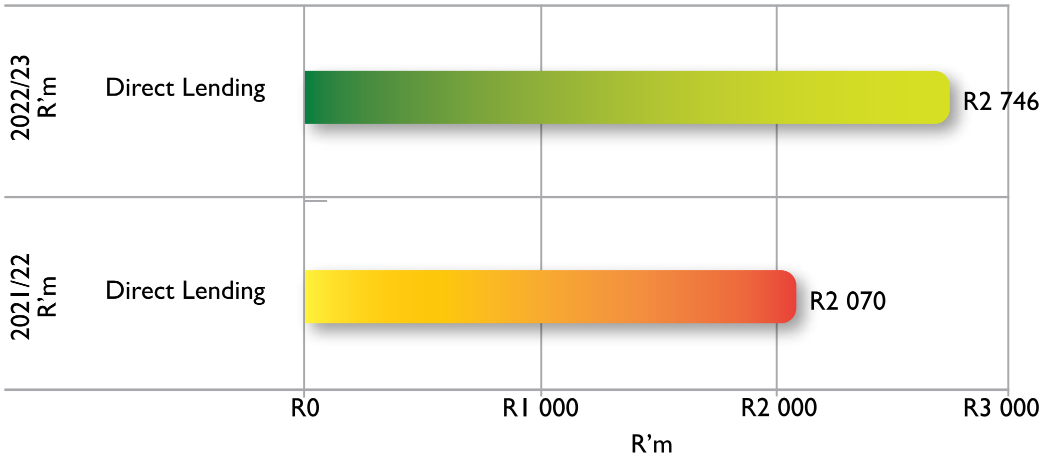
Retail Financial Intermediaries (RFIs)

The exposure is diversified into different sectors such as transport (taxis), property management, health services, manufacturing, supplier development, agriculture, invoice discounting and general services. The portfolio increased by 8%, from R 463.5 million reported in March 2022 to R498.7 million at the end of March 2023. The increase was mainly due to disbursements of R96.8 million to seven funding partners and subsequent repayments and the net effect is an increase of R35.2million.

Direct Lending Portfolio

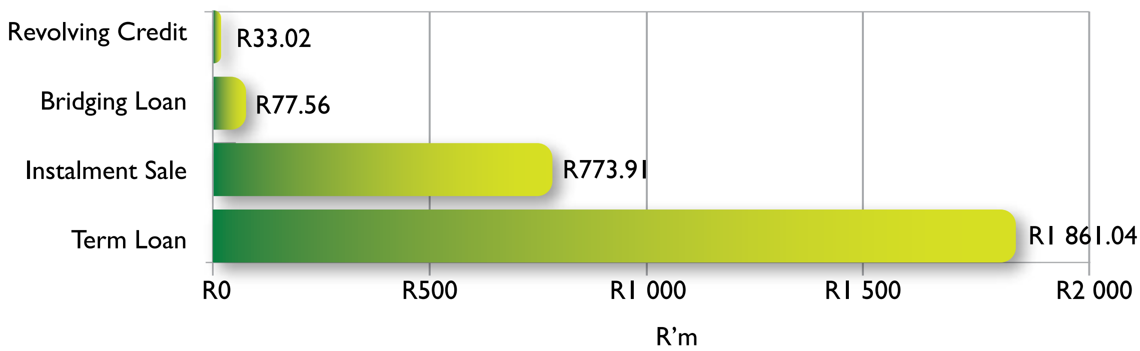
The DL loan book had a balance of R2.7 billion as of 31 March 2023. This is a 24.6% increase, which was largely due to higher lending activities in retail loans, coupled with continued disbursements to the TREP programme and recovery support.

Direct Lending Portfolio



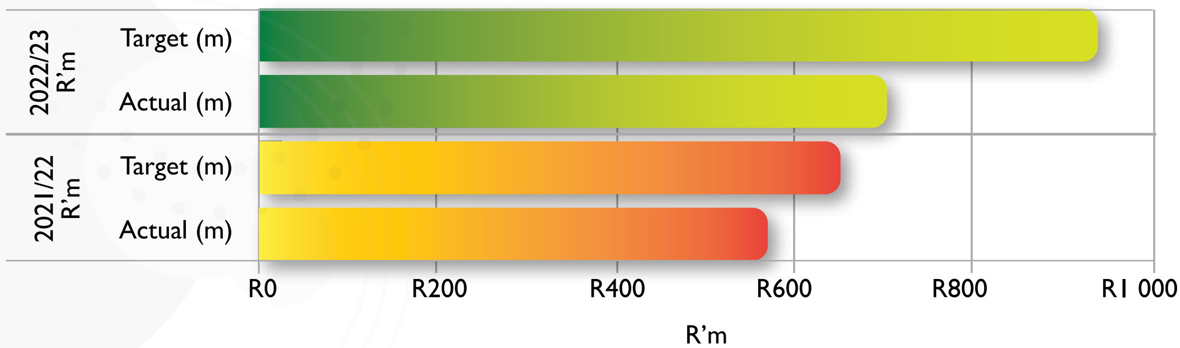
The loan portfolio consists of term loans (R1.861 billion), instalments sale agreements (ISA) (R773.9 million), bridging loans (R77.6 million) and revolving credit facilities (R33 million). It must be noted that R152 million of the term loans are COVID-19 relief funds. There has been an increase in all product types during the year as follows: term loans 30%, instalment sale agreements 43%, bridging loans 18% and revolving facilities increased by 3%.

Portfolio Products Spread



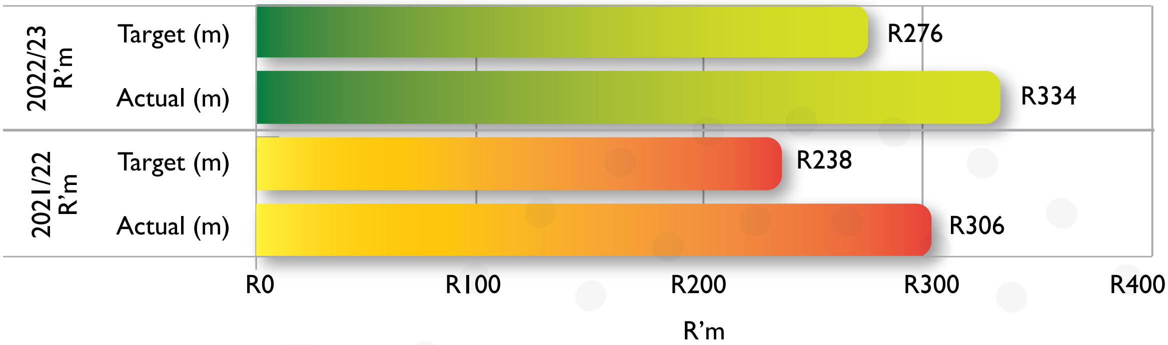
Total Collections

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



Wholesale Lending Collections

Wholesale Lending collections was R334.2 million, which represented 121% of the R275.5 million annual target. The actual collections were 9% higher than the previous year. This is largely due to early payments received on revolving facilities.

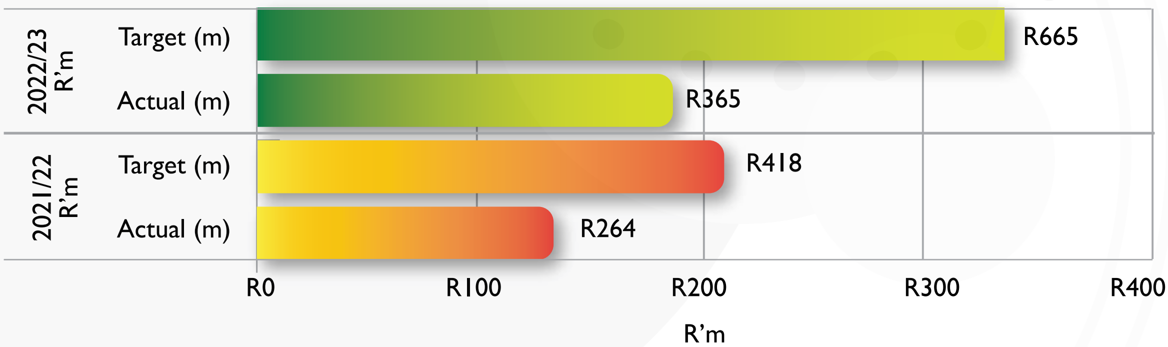


Direct Lending Collections

Direct Lending collections amounted to R364.7 million, which represents 54.8% of the R665.2 million annual target. The actual collections were 38% higher than the previous year. SMMEs, in general, were impacted by the unfavourable economic conditions exacerbated by the impact of load shedding, rising inflation, increases in the lending rates and access to markets resulting in low collection rates.

Several clients were unable to commence with repayments as they had suffered delays with the importing of equipment and machinery. Client behaviour continued to impact the on-time collections as many clients actively cancelled debit orders. The increase in the number of clients impacted the ability to curb the portfolio arrears rolling forward. Additional resources were recruited to manage the increased volumes. The COVID-19 relief funds and TREP programme are being managed in the newly established collection hub specifically catered to government programmes. Improvements are continually being applied to the new collection system to improve the effectiveness of the collection efforts.

Direct Lending Collections



Workout and Restructuring

The operating environment for small enterprises continues to be challenging and unrelenting. The persistence of load shedding on the supply side and the squeeze on disposable income on the demand side has had a generally detrimental effect on **sefa's** clients. This led to the operational challenges coupled with cash flow squeeze on clients in the portfolio. Due to these factors, many clients have struggled to keep up with repayments which dictated the restructuring of loan exposures.

Some companies did not recover fully from the challenges emanating from circumstances relating to the COVID-19 pandemic. These factors impacted business operations. It is within this framework that **sefa** restructured 92 clients in the form of payment holidays, extension of repayment period, reduction of instalments and capitalisation of interest in arrears and a mix of these interventions.

Between April and September 2020 **sefa** disbursed R300m in COVID-19 relief funds to 1160 clients with a 36-month repayment period. These loans are nearing the final repayment dates; however, the exposures indicate that approximately 50% is still outstanding. In view of this mismatch, **sefa** is currently reviewing the performance of each of the loans to ascertain those that qualify for restructuring depending on the operational capability of the underlying business.

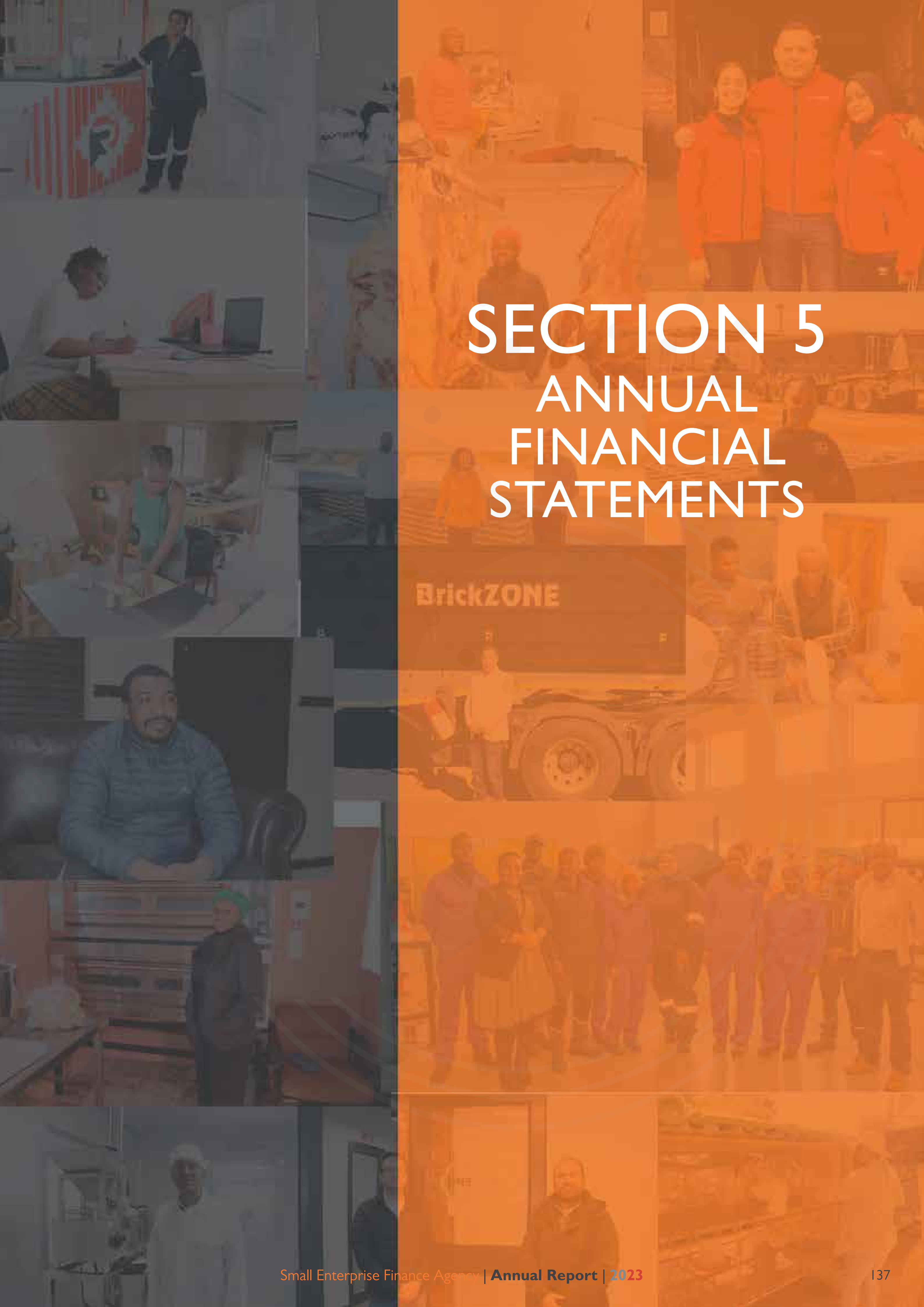
Portfolio Mentorship and Business Support Panel

The provision of mentorship and business support continued during the year and 237 interventions were completed. Of this number, 96 interventions were completed on Direct Lending clients with the focus directed at assisting businesses to manage cash-flows and maintain working capital, liquidity, and funds for growth and expansion along with the implementation of proper operational systems to ensure business operations are effective and efficient. The focus extended to marketing strategies to ensure that clients are properly aligned with market trends and demands to improve the prospects of sustainability.

There was also a special mentorship project concluded on 141 TREP clients. The project included a diagnostic process that focussed on owner capabilities and shortcomings, financial sustainability and development of financial discipline, efficient utilisation of human resources, operational systems, creating sustainable market share, technical skills and lastly, a focus on compliance with the regulatory requirement.

The mentors' findings indicated that load shedding is affecting most businesses. Most clients do not have financial systems in place as they do not record business transactions. Some businesses have poor locations that impact the ability to attract new markets, whilst other clients have changed premises without notifying **sefa**. Cash constraints or insufficient working capital affects many clients and this is exacerbated by high fuel costs and more especially for clients using generators.

sefa spent R4.533 million on business support for the year, which included an amount of R1.692 spent on the TREP project.



SECTION 5

ANNUAL FINANCIAL STATEMENTS

SMALL ENTERPRISE FINANCE AGENCY (SOC) LIMITED

Group and Company Annual Financial Statements for the Year Ended 31 March 2023

Registration Number: 1995/011258/0

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

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

INDEX TO THE ANNUAL FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 31 MARCH 2023

The directors of **sefa** (the Company) are responsible for the maintenance of adequate accounting records and the preparation of the Group (the Company and the related entities) annual financial statements, together with the related information. These Group annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), 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 predetermined 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. Systems of internal controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. Accounting policies are supported by judgements, estimates and assumptions which comply with IFRS.

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, Deloitte 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 145 - 147.

The directors are of the opinion that the Group annual financial statements fairly present the financial position of the Group and the results of its operations and cash flow information for the year ended 31 March 2023.

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 28 August 2023 and are signed on its behalf by:

Dr Mzukisi Jonathan Qobo

Interim Chairperson of the Board

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023

Introduction

sefa is a State-Owned Company in terms of the Companies Act and is a Schedule 2 listed entity in terms of the Public Finance Management Act (PFMA) and Treasury regulations. This report is presented in accordance with the provisions of the prescribed legislation and addresses the performance of **sefa** (the Group), 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 Development Finance Institution (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 (DTIC) through **sefa's** shareholder, the Industrial Development Corporation of SA Ltd (IDC) (Refer to note 8.2). An allocation of R258.7 million (2022: R251.7 million) was received from government to support **sefa's** activities.

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

sefa also receives grant funding from the Department of Small Business Development (DSBD), donor funding (The European Union) and collaborative efforts (from DTIC, Department of Tourism and the Small Enterprise Development Agency (SEDA)). The DSBD committed to funding in the amount of R1.2 billion (2022: R921 million).

Public Finance Management Act

sefa's Board of Directors are responsible for the development of the Company's strategic direction. The Company's strategy and business plan are captured in the Shareholder's Compact which is agreed with the shareholder and forms the basis for the Company's detailed action plans and on-going performance evaluation. The responsibility for the day-to-day management of the Company vests in line management through a clearly defined organisational structure and through a formal Delegation of Authority.

sefa has a comprehensive system of internal controls, which is designed to ensure that the Company's objectives are met, including the requirements of the Companies Act and the recommendations of King IV. These systems and controls meet the requirements of the PFMA. There are processes in place to ensure that where these controls fail, such failure is detected and corrected.

Insurance Act

sefa's wholly owned subsidiary Khula Credit Guarantee (SOC) Ltd (KCG) is registered as a short-term insurer and is subject to the Insurance Act 18 of 2017.

Significant Matters

Grants Received

During the financial year ended 31 March 2023 and 31 March 2022, **sefa** received a number of grants from the Department of Small Business Development. A majority of these grants were to fund programmes aimed at Township, Rural and Entrepreneurial Programmes as well as, SMME Relief for the impact emanating from COVID-19 and post economic recovery programmes in response to the COVID-19 pandemic.

Amendments to Tax Legislation

The Eleventh Schedule of the Income Tax Act was amended and legislation promulgated to provide an exemption for grants received from the Department of Small Business Development. On 19 January 2022, Act No. 20 of 2021: Taxation Laws Amendment Act was issued by the Presidency. Section 47 of the Taxation Laws Amendment Act replaced the current Eleventh Schedule (Government Grants Exempt From Normal Tax, Section 12P) with a new list of Government Grants now exempted, which includes the various programmes under which **sefa** received funding from the Department of Small Business Development. Per the Eleventh Schedule in the Income Tax Act, the exemption is deemed to have come into operation on the date on which the grant was awarded to the recipient thereof and applies in respect of any amount received or accrued in respect of that grant on or after that date. Therefore, the application of the exemption is retrospective.

The programmes listed in the Eleventh Schedule which apply to **sefa** are as follows:

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

In the 2021 financial year the legislation had not yet been promulgated and, therefore, in the 2021 financial statements **sefa** was required to present the tax impact on the grants as per tax legislation that was in place at the time of signing the financial statements. The tax liability for the amount of R 270 million was then reversed post the promulgation of the Taxation Laws Amendment Act in the prior financial year, comparative numbers.

Merger

The National Small Enterprise Amendment Bill (enabling legislation) on the proposed merger between **sefa**, Small Enterprise Development Agency (SEDA) and Cooperative Banks Development Agency (CBDA) has been submitted to Parliament. However, the timelines for the finalisation of the merger have not yet been finalised.

The assumption is that **sefa's** operations will continue for the foreseeable future. The Bill has been issued for public comment and then there may be a lengthy process to approve and enact the bill. Parliament is also expected to go into recess soon which may also limit the time available to enact the bill. The enactment of the enabling legislation and the finalisation of the merger processes will determine how these entities will operate in the future. It is expected that this process will extend beyond 31 March 2024.

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 (2022: R nil).

Share Capital

The authorised and issued share capital remained unchanged during the year (2022: unchanged).

Directors

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

Non-Executive Directors		
Director	Appointment date	Retirement date
Mr AMR Mahosi	2019/08/01	2022/04/30
Mr MJ Kganyago	2019/08/01	2023/04/11
Ms DL Mabuza	2019/08/01	2022/04/30
Ms ME Makara	2019/08/01	2021/05/31
Mr M Radebe	2019/08/01	2022/03/31
Ms SF Mudau	2020/10/01	2022/04/30
Ms ZF Ngcobo	2020/10/01	n/a
Ms HM Tsoadi	2020/10/01	n/a
Ms S Siwisa	2022/05/01	2023/04/28
Ms N Makanda	2022/05/02	n/a
Mr M Mfuleni	2022/05/02	n/a
Ms CN Motale	2022/05/02	n/a
Dr M Qobo	2022/05/02	n/a
Ms TV Tobias-Pokolo	2022/05/02	2023/03/14

Non-Executive Directors		
Director	Appointment date	Retirement date
Adv NG Khumalo	2022/05/03	n/a
Mr BM Ramokhele	2023/05/05	n/a
Mr SP Simelane	2023/08/15	n/a

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

Materiality and Significance

Materiality levels for reporting in terms of Section 55(2)(b)(i) of the PFMA

Section 55(2)(b)(i) of the Public Finance Management Act (PFMA) states that the annual report and financial statements should include particulars of any material losses through criminal conduct, 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 R95.5 million has been adopted.

Unauthorised, Fruitless and Wasteful and Irregular Expenditure

Unauthorised expenditure

No expenditure was classified as unauthorised during the financial year (2022: Rnil).

Fruitless and wasteful expenditure

The PFMA defines fruitless and wasteful expenditure as expenditure which was made in vain and could 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 28 August 2023, not otherwise dealt with in the report that would affect the operations of the Group or Company significantly.

DECLARATION BY THE GROUP COMPANY SECRETARY

FOR THE YEAR ENDED 31 March 2023

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

28 August 2023

INDEPENDENT AUDITOR'S REPORT

to the 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 Small Enterprise Finance Agency and its subsidiaries (the group) set out on pages 148 to 242, which comprise the consolidated and separate statement of financial position as at 31 March 2023, consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2023, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act, 2008 (Act No.71 of 2008) (the Companies Act).

Basis for Opinion

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

We are independent of the group in accordance with the Code of Professional Conduct for auditors of the Independent Regulatory Board for Auditors (IRBA) 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.

Other Matters

We draw attention to the matters below. Our opinion is not modified in respect of these matters:

Previous period audited by predecessor auditor

The consolidated and separate financial statements of the group for the year ended 31 March 2022 were audited by another auditor in terms of section 4(3) of the Public Audit Act of South Africa, Act 25 of 2004 (PAA). An unmodified opinion on those statements was issued on 16 August 2022.

National Treasury Instruction Note No. 4 of 2022-23: PFMA Compliance and Reporting Framework

On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular and fruitless and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the financial statements, only the current year and prior year figures are disclosed in note 11 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the financial statements of the group. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now required to be included as part of other information in the annual report of the auditees. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The 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, the requirements of the PFMA and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine 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 directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and / or the Company or to cease operations, or have 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 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 the 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 financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, we must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected outcomes presented in the annual performance report. The directors are responsible for the preparation of the annual performance report.

We selected the following outcome presented in the annual performance report for the year ended 31 March 2023 for auditing. We selected an outcome that measures the group's performance on its primary mandated functions and that is of significant national, community or public interest.

Outcome	Pages in the Annual Report
Outcome 1: Enhanced access to finance by SMMEs and Co-operatives	22

We evaluated the reported performance information for the selected outcome against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the group's planning and delivery on its mandate and objectives.

We performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the group's mandate and the achievement of its planned objectives
- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there are adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

We performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.

We did not identify any material findings on the reported performance information of the selected subject matter.

Report on the audit of compliance with legislation

In accordance with the PAA and the general notice issued in terms thereof, we must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The Board of Directors is responsible for the group's compliance with legislation.

We performed procedures to test compliance with selected requirements in key legislation in accordance with the AGSA findings engagement methodology. This engagement is not an assurance engagement. Accordingly, we do not express an assurance opinion or conclusion.

Through an established AGSA process, we selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the Group, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual Financial Statements

The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework, as required by section 55(1) (b) of the PFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Asset Management

Loans were provided to related companies, which were not approved by way of a special resolution adopted by the shareholders within the previous two years as required by section 45(3)(a)(ii) of the Companies Act 71 of 2008.

Other Information

The accounting authority is responsible for the other information. The other information comprises the information included in the document titled "Small Enterprise Finance Agency and its subsidiaries (the group) Annual Financial Statements for the year ended 31 March 2023", which includes the Directors' Report as required by the Companies Act of South Africa and the declaration by the Group Company secretary, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. 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 consolidated and separate financial statements and findings on the reported performance information and compliance with legislation does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, 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, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. There have been material changes to the disclosures relating to the expected credit losses due to weaknesses identified in the review controls over the determination of the expected credit loss provisions.

Other reports

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

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

Auditor tenure

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche is performing the audit of Small Enterprise Finance Agency and its subsidiaries (the group) for the 1st year.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Harshal Kana
Partner

11 September 2023
5 Magwa Crescent
Waterfall City
Johannesburg

STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 March 2023

	Note	Group		Company	
		2023 R'000	2022 R'000	2023 R'000	2022 R'000
ASSETS					
Cash and cash equivalents	4.1	4 125 758	3 320 688	3 505 358	2 716 425
Trade and other receivables	4.2	31 411	20 779	203 568	215 054
Current tax asset	3.1	-	-	-	-
Deferred grants receivable	4.4	307 042	313 360	379 127	369 610
Loans and advances	7.10	1 614 793	1 527 626	1 614 793	1 526 608
Investment properties held-for-sale	5.4	-	-	-	-
Equipment, furniture and other tangible assets	5.1	9 554	8 088	8 963	8 088
Intangible assets	5.2	660	202	660	202
Right-of-use asset	5.6	14 249	21 923	14 249	21 923
Investment properties	5.3	182 118	185 133	-	-
Investments	7.11	47 402	33 337	47 402	33 337
Deferred tax asset	3.3	3	3	-	-
Investments in subsidiaries	9.2	-	-	449 215	479 634
Investments in joint operations	9.3	-	-	-	-
Investments in associates	9.4	883 885	836 823	98 934	98 955
Investments in joint ventures	9.5	55 620	101 647	48 698	102 414
TOTAL ASSETS		**7 272 495**	**6 369 609**	**6 370 967**	**5 572 250**
EQUITY AND LIABILITIES					
Share capital	8.1	308 300	308 300	308 300	308 300
Shareholder reserves	8.2	2 811 146	2 552 488	2 811 146	2 552 488
Other reserves		2 223	18 148	-	-
Retained earnings		(1 825 626)	(1 602 699)	(2 615 149)	(2 334 083)
Equity attributable to owners of the parent		**1 296 043**	**1 276 237**	**504 297**	**526 705**
Non-controlling interest		(179)	271	-	-
Total equity		**1 295 864**	**1 276 508**	**504 297**	**526 705**
LIABILITIES					
Trade and other payables	4.3	154 682	130 305	112 330	109 594
Lease liability	5.6	18 498	27 090	18 498	27 090
Tax payable	3.1	-	-	-	-
Deferred grants payable	4.4	4 937 177	4 169 622	4 937 177	4 169 622
Outstanding claims reserve	6.2	23 974	7 788	-	-
Unearned risk reserve	6.2	43 635	19 057	-	-
Post-retirement medical liability	6.3	769	567	769	567
Shareholder loans	6.1	793 267	734 043	793 267	734 043
Non-current liability		4 629	4 629	4 629	4 629
Total liabilities		**5 976 631**	**5 093 101**	**5 866 670**	**5 045 545**
TOTAL EQUITY AND LIABILITIES		**7 272 495**	**6 369 609**	**6 370 967**	**5 572 250**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 March 2023

	Note	Group		Company	
		2023 R'000	2022 R'000	2023 R'000	2022 R'000
Interest income on loans and advances	2.2	165 068	115 784	165 068	115 786
(Increase)/Decrease in credit losses on loans and advances	2.4.3	(593 590)	(293 529)	(593 207)	(306 072)
Bad debts written off[1]	2.4.3	(485)	(44 560)	(3)	(43 102)
Loss from lending activities		**(429 007)**	**(222 305)**	**(428 142)**	**(233 388)**
Other interest earned and other revenue	2.3	235 441	149 788	235 372	143 963
Grant income	2.6	594 439	314 790	594 439	314 790
Lease liability finance cost	5.6	(2 473)	(2 922)	(2 473)	(2 922)
Finance costs	6.1	(59 224)	(54 607)	(59 224)	(54 607)
Gross profit/(loss) after finance costs		**339 176**	**184 744**	**339 972**	**167 836**
Net fair value (loss)/gain on investment properties	5.5	(3 015)	1 653	-	-
Increase in impairments on related party loans	2.4.5	-	-	(112 840)	(58 733)
Decrease/(Increase) in impairments on cash	4.1	(2)	7 510	(4)	6 114
Decrease/(Increase) in impairments on investments	2.4.2	7 897	(9 339)	(29 739)	(1 873)
Investment property expenses		(97 477)	(57 821)	-	-
Personnel expenses		(250 103)	(208 645)	(250 103)	(208 645)
Grant expense	2.6	(141 568)	(87 653)	(141 568)	(87 653)
Other operating expenses		(149 905)	(46 973)	(86 784)	(44 461)
Operating loss	**2.4**	**(294 997)**	**(216 524)**	**(281 066)**	**(227 415)**
Profit from equity accounted investments, net of tax	9.6	71 808	45 069	-	-
Loss before tax		**(223 189)**	**(171 455)**	**(281 066)**	**(227 415)**
Income tax credit/ (charge)	3.2	-	269 732	-	270 011
Net profit/(loss) for the year		**(223 189)**	**98 277**	**(281 066)**	**42 596**
Other comprehensive income after tax:					
Other comprehensive income from equity accounted investments		(15 925)	(579)	-	-
Other comprehensive income/(loss) for the year	9.6	(15 925)	(579)	-	-
Total comprehensive profit/(loss) for the year		**(239 114)**	**97 698**	**(281 066)**	**42 596**
Profit/(Loss) and total comprehensive income/(loss) attributable to:					
Owners of the parent - profit/(loss) for the year		(222 927)	98 014		
Owners of the parent - other comprehensive income		(15 925)	(579)		
Non-controlling interest - for the year		(262)	263		
Total comprehensive income/(loss) for the year		**(239 114)**	**97 698**		

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 March 2023

Group		Share Capital	Retained Earnings	Share-holder Reserves	Other Reserves *	Non-Con-trolling Interest	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2021		**308 300**	**(1 700 713)**	**2 300 782**	**18 727**	**8**	**927 104**
Advances received on shareholder reserves	8.2	-	-	251 706	-	-	251 706
Other comprehensive income from equity accounted investments		-	-	-	(579)	-	(579)
Total comprehensive loss for the year		-	98 014	-	-	263	98 277
Balance at 31 March 2022		**308 300**	**(1 602 699)**	**2 552 488**	**18 148**	**271**	**1 276 508**
Advances received on shareholder reserves	8.2	-	-	258 658	-	-	258 658
Other comprehensive loss from equity accounted investments		-	-	-	(15 925)	-	(15 925)
Dividends paid by subsidiary						(188)	(188)
Total comprehensive income for the year		-	(222 927)	-	-	(262)	(223 189)
Balance at 31 March 2023		**308 300**	**(1 825 626)**	**2 811 146**	**2 223**	**(179)**	**1 295 864**

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

Company		Share Capital	Retained Earnings	Share-holder Reserves	Other Re-serves *	Non-Con-trolling Interest	Total
		R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2021		**308 300**	**(2 376 679)**	**2 300 782**	**-**	**-**	**232 403**
Advances received on shareholder reserves	8.2	-	-	251 706	-	-	251 706
Total comprehensive loss for the year		-	42 596	-	-	-	42 596
Balance at 31 March 2022		**308 300**	**(2 334 083)**	**2 552 488**	**-**	**-**	**526 705**
Advances received on shareholder reserves	8.2	-	-	258 658	-	-	258 658
Total comprehensive income for the year		-	(281 066)	-	-	-	(281 066)
Balance at 31 March 2023		**308 300**	**(2 615 149)**	**2 811 146**	**-**	**-**	**504 297**

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 March 2023

	Note	Group		Company	
		2023 R'000	2022 R'000	2023 R'000	2022 R'000
Cash flows from operating activities					
Cash utilised by operations	2.5	(336 756)	(430 425)	(324 830)	(468 598)
Loans and advances to customers or investees		(679 570)	(979 029)	(681 395)	(992 647)
Grant income received		1 361 994	1 845 175	1 361 994	1 845 175
Tax received/(paid)	3.1	-	-	-	-
Net cash generated from/(utilised by) operating activities		**345 668**	**435 721**	**355 769**	**383 930**
Cash flows from investing activities					
Purchase of equipment, furniture and other tangible assets	5.1	(4 386)	(5 197)	(3 795)	(5 197)
Purchase of intangible assets	5.2	(820)	-	(820)	-
(Acquisition) / disinvestment of investments		(6 168)	(8 257)	(6 168)	(8 257)
Interest received	2.3	185 555	92 705	153 116	72 805
Disinvestment / (Acquisition) of equity accounted investments	9.5	38 665	17 301	44 276	17 300
Investment in subsidiary	9.2	-	-	-	(56 378)
Proceeds from sale of equipment, furniture and other tangible assets		-	-	-	-
Net cash generated by investing activities		**212 846**	**96 552**	**186 609**	**20 273**
Cash flows from financing activities					
Capital funding received from the shareholder	8.2	258 658	251 706	258 658	251 706
Lease payment (capital portion)		(12 100)	(10 636)	(12 100)	(10 636)
Net cash from financing activities		**246 558**	**241 070**	**246 558**	**241 070**
Net increase in cash and cash equivalents		805 072	773 343	788 936	645 273
Cash and cash equivalents at beginning of year		3 320 712	2 547 369	2 716 443	2 071 170
Cash and cash equivalents at end of year	**4.1**	**4 125 783**	**3 320 712**	**3 505 379**	**2 716 443**

INDEX TO THE NOTES OF THE GROUP AND COMPANY FINANCIAL STATEMENTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

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.

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 2023.

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 of being probable is met.

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

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

Provisions are not recognised for future operating losses.

1.4.3 Contingent liabilities

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

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

1.4.4 Employee benefits

Short-term employee benefits

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

Defined contribution plan

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

1.4.5 Measurement principles

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

Assets	Measurement Principle
Cash and cash equivalents	Amortised cost
Trade and other receivables	Amortised cost
Loans and advances	Amortised cost
Investment properties held-for-sale	Fair value at the date of being classified as held-for-sale less subsequent impairments
Equipment, furniture and other tangible assets	Historical cost, less accumulated depreciation and impairment losses
Intangible assets	Historical cost, less accumulated amortisation and impairment losses
Deferred tax assets	Undiscounted amount measured at the tax rate at the reporting date
Investment properties	Fair value through profit or loss
Investments	Fair value through profit or loss
Investments in associates and joint ventures	Cost adjusted for share of movements in net assets, less impairment losses
Right-of-use Asset	Historical cost, less any accumulated depreciation and impairment losses
Deferred grants receivable	Conditional grants (grant provided to customers that may become repayable if the customer defaults on their loan) disbursed to customers is presented as deferred expenses and recognised on a systematic basis over the related loan term.

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

1.4.6 Determination of Fair Values

Determination of fair values

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

LEVEL 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

LEVEL 2: 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)

LEVEL 3: 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 2023.

1.5.2 New standards and interpretations, not yet effective

The pronouncements 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 pronouncements. It is expected that the Group will adopt the pronouncements on their effective date in accordance with the requirements of the pronouncements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

Topic	Key Requirements	Effective Date
IFRS 17 Insurance Contracts	IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. The new standard brings greater comparability and transparency about the profitability of new and in-force business and gives financial statements users more insight into an insurer's financial health. IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty related to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. Insurance contracts are required to be measured based only on the obligations created by the contracts. An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. Separate presentation of underwriting and financial results is required and will therefore give added transparency about the sources of profits and quality of earnings of insurers. This standard replaces IFRS 4 – Insurance Contracts. The impact of the new standard will be determined upon the finalisation of the implementation of the IFRS 17 project. The Group will restate comparative information at the adoption of IFRS 17. With the work ongoing a reliable estimate of the effect of the adoption of the standard on the profit or loss for the year ended 31 March 2023 is not yet available.	IFRS 17 will be effective for annual periods beginning on or after 01 January 2023.
Reference to the Conceptual Framework – Amendments to IFRS 3	The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are intended to update a reference to the Conceptual Framework without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the Conceptual Framework in use.	Effective for annual periods beginning on or after 01 January 2022.

Topic	Key Requirements	Effective Date
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	The amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counter party under the contract. The amendments are intended to provide clarity and help ensure consistent application of the standard. The impact on the Group will be limited as there are currently no onerous contracts.	Effective for annual periods beginning on or after 1 January 2022.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions.	In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

Topic	Key Requirements	Effective Date
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. Therefore, entities are encouraged to revisit their accounting policy information disclosures to ensure consistency with the amended standard. Entities should carefully consider whether 'standardised information, or information that only duplicates or summarises the requirements of the IFRSs' is material information and, if not, whether it should be removed from the accounting policy disclosures to enhance the usefulness of the financial statements.	1 January 2023
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. *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. The amendments are intended to provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. Although the amendments are not expected to have a material impact on entities' financial statements, they should provide helpful guidance for entities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.	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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

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 are determined by reference to the net asset value of the underlying entity.

Refer to note 2.4.2 for additional information.

2. RESULTS OF OPERATIONS

2.1 Interest income, dividend income, fee income, rental income and indemnity premiums earned

Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

Dividend income

Dividend income is recognised in profit or loss on the date the Group's right to receive payment is determined. Revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes.

Fee income

Fee income earned on the execution of a significant act is recognised when the significant act has been performed. Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service. Fee income is comprised of commitment fees and administration fees charged on some loans. These fees, where applicable to the loan, are due from customers on disbursement of the loan.

Rental income

Rental income is generated from investment properties that are subject to operating leases. An operating lease is a lease where substantially all of the rewards and risks incidental to ownership of the leased asset remains with the lessor. Receipts in respect of operating leases are accounted for as income on the straight-line basis over the period of the lease.

Indemnity premiums earned

Indemnity premiums earned are included in revenue and comprise the premiums earned on active contracts.

Premiums are earned and recognised as income from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten.

Grant income

The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grant income received is deferred on the statement of financial position and recognised as revenue on a systematic basis over the term of the related loan.

Other revenue

Other revenue is measured at the fair value of the consideration received or receivable and is presented net of indirect taxes. Other revenue comprises of bad debts recovered, management fee income on related parties and other sundry income.

Management fee income charged to related parties

Management fees are charged by **sefa** to related parties in the group for the shared service costs that are incurred. The management fees are charged in terms of the service level agreements in place with each subsidiary. At a Group level, these will eliminate, except for Khula Land Reform which is not consolidated in terms of IFRS requirements. Khula Land Reform is registered as a Non-profit Company. This company has been exempted from consolidation as **sefa** is acting as an agent.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
2.2 Interest income on loans and advances				
Interest received on loans and advances to clients	165 068	115 784	165 068	115 786
2.3 Other interest earned and other revenue				
Fee income	15 353	14 774	15 353	14 774
Indemnity premiums earned	7 434	4 584	-	-
Interest on overdue rental debtors	346	8 41	-	-
Investment property rental income	11 779	15 372	-	-
Investment property rental recoveries	13 960	7 488	-	-
Interest received on cash and cash equivalents	173 454	91 872	141 364	72 813
Interest received on related party loan	-	-	17 987	12 885
Dividends received on equity investments	-	-	11 752	-
Bad debts recovered	1 100	2 009	790	1 859
Management fee - related parties	7 619	8 782	43 721	37 563
Other sundry income	4 396	4 066	4 405	4 069
Total other interest and other revenue	**235 441**	**149 788**	**235 372**	**143 963**
Total other interest earned	173 800	92 713	159 351	85 698
Total other revenue	61 641	57 075	76 021	58 265
2.4 Operating loss				
Is arrived at after taking into account the following:				
2.4.1 Specific items:				
Audit fees	3 910	3 798	2 491	2 386
Contributions to defined contribution plans	14 395	15 427	14 395	15 427
Depreciation	2 903	2 896	2 902	2 897
Amortisation	362	1 041	362	1 041
Penalties and interest - South African Revenue Services	-	(26 993)	-	(26 993)
	21 570	**(3 831)**	**20 150**	**(5 242)**

2.4 Operating loss (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
2.4.2 Increase/(decrease) in impairments on investments:				
Impairment of Investments in Associates	-	-	21	39
Impairment of Joint Ventures	-	-	13 506	7 071
Impairment of Other Investments	(7 897)	9 339	(7 897)	9 339
Impairment of Joint Operation	-	-	-	-
Impairment of Subsidiaries	-	-	24 109	(14 576)
Investment written off	-	-	-	-
Total increase in impairments on investments	(7 897)	9 339	29 739	1 873

Impairment losses are recognised in proportion to the entities share in the reduction of the investees net asset value, if any. The individual investments' fair value less cost of disposal have been used as the recoverable amount as there is no reason to believe that value in use would materially exceed its fair value less cost of disposal as the abovementioned changes in the net asset value would have an equal impact on the future cash flows which would realise when the investments are ultimately disposed of.

	Group 2023 R'000	Group 2022 R'000	Company 2023 R'000	Company 2022 R'000
2.4.3 Increase/(decrease) in expected credit losses on loans and advances:				
Increase/(Decrease) in expected credit losses - loans and advances	593 590	293 529	593 207	306 072
Bad debt written off - loans and advances (1)	485	44 560	3	43 102
Total increase in expected credit losses on loans and advances	594 075	338 089	593 210	349 174
(1) On a portfolio basis the split of bad debt written off is as follows:				
Micro Finance portfolio	-	-	-	-
Co-operatives portfolio	-	6 557	-	6 557
Direct Lending Portfolio (Loans issued before 1 April 2016)	-	36 055	-	36 055
Direct Lending Portfolio (Loans issued after 1 April 2016)	485	490	3	490
Khula Akwandze Fund	-	1 391	-	-
Identity Development Fund	-	67	-	-
	485	44 560	3	43 102

Refer to 7.5.7 for the additional policy notes.

2.4 Operating loss (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
2.4.4 Increases/(decreases) in bad debt provisions on rental debtors:				
Increase in bad debt provision - rental debtors	4 155	2 548	-	-
Loss on disposal of rental debtors	-	-	-	-
Total increase in bad debt provisions on rental debtors	**4 155**	**2 548**	**-**	**-**
2.4.5 Increases/(decreases) in bad debt provisions on related party loans:				
Increase in bad debt provision on Khula Business Premises (Pty) Ltd	**-**	**-**	**112 840**	**58 733**
2.4.6 (Decrease)/increase in provisions and reserves relating to the credit indemnity product:				
Indemnity claims incurred	7 694	2 491	-	-
Claims provision	16 185	(2 111)	-	-
Indemnity reserves	24 578	(2 490)	-	-
Total increase in indemnity provisions and reserves	**48 457**	**(2 110)**	**-**	**-**
2.4.7 Loans and advances: Impairment movement per sector				
Administrative and support activities	28 780	-	28 780	-
Agriculture, forestry and fishing	11 382	(461)	10 996	1 960
Arts, entertainment and recreation	168	-	168	-
Basic chemicals	2 036	840	2 036	840
Basic iron and steel	6 261	6 968	6 261	6 968
Beverages	2 395	2 698	2 395	2 698
Building construction	38 682	(1 827)	38 682	(1 827)
Business services	5 486	577	5 486	577
Catering and accommodation services	10 969	(2 680)	10 969	(2 680)
Education	507	-	507	-
Electricity, gas and steam	2 720	20 887	2 720	20 887
Electricity, gas, steam and air conditioning supply	-	-	-	-
Finance and insurance	1 884	62 610	1 884	62 610
Financial and insurance activities	-	-	-	-
Food	94 489	37 854	94 489	37 854
Footwear	2 219	(1 102)	2 219	(1 102)

2.4 Operating loss (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Furniture	(20)	103	(20)	103
Glass and glass products	(91)	161	(91)	161
Government	-	(775)	-	(775)
Human health and social work activities	3 120	-	3 120	-
Information and communication	9 342	-	9 342	-
Machinery and equipment	14 487	11 042	14 487	11 042
Manufacturing	48 622	-	48 622	-
Medical, dental and other health and veterinary services	2 983	579	2 983	579
Metal products excluding machinery	18 968	17 232	18 968	17 232
Motor vehicles, parts and accessories	(36)	(2 984)	(36)	(2 984)
Non-metallic minerals	13 678	12 842	13 678	12 842
Other chemicals and man-made fibres	(955)	(1 335)	(955)	(1 335)
Other community, social and personal services	160	14 582	160	14 582
Other industries	12 312	(4 065)	12 312	(3 859)
Other mining	24 593	15 982	24 593	15 982
Other services	99 043	8 592	99 043	18 508
Paper and paper products	5	(8)	5	(8)
Plastic products	(4 044)	6 566	(4 044)	6 566
Printing, publishing and recorded media	25	(733)	25	(733)
Professional, scientific and technical activities	114	-	114	-
Real estate activities	1 348	-	1 348	-
Television, radio and communication equipment	1 373	735	1 373	735
Textiles	36 490	17 962	36 490	17 962
Transport and storage	31 354	35 120	31 354	35 120
Water supply; sewerage, waste management and remediation	6 735	-	6 735	-
Wearing apparel	13 951	6 032	13 951	6 032
Wholesale and retail trade	45 221	29 794	45 221	29 794
Wood and wooden products	6 834	(259)	6 837	(259)
Total movement on credit loss allowances	**593 590**	**293 529**	**593 207**	**306 072**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

2.4 Operating loss (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
2.4.8 Bad debts written off/ (recovered) per sector:				
Bad debts written off/(recovered) - Loans and advances				
Bad debts written off	485	44 560	3	43 102
Bad debts recovered	(1 100)	(2 009)	(790)	(1 859)
Total bad debts written off/ (recovered)	**(615)**	**42 551**	**(787)**	**41 243**
Bad debts written off/(recovered) - Per sector:				
Agriculture, forestry and fishing	-	1 391	-	-
Building construction	-	9 732	-	9 732
Business services	-	2 543	-	2 543
Finance and insurance	(1)	158	(1)	158
Food	-	3 762	-	3 762
Government	-	361	-	361
Medical, dental and other health and veterinary services	-	225	-	225
Other community, social and personal services	-	(5)	-	(5)
Other chemicals and man-made fibres	-	3 488	-	3 488
Other industries	-	15 693	-	15 692
Other services	(24)	75	(24)	159
Printing, publishing and recorded media	3	983	3	983
Transport and storage	(413)	1 013	(413)	1 013
Wholesale and retail trade	(352)	3 132	(352)	3 132
Total bad debts written off/(recovered)	**(615)**	**42 551**	**(787)**	**41 243**

2.5 Cash utilised by operations

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Loss before tax	(223 189)	(171 455)	(281 066)	(227 415)
Adjustments for:				
Depreciation	14 085	12 883	14 084	12 883
Amortisation	362	1 041	362	1 041
Fair value adjustment	3 015	(1 653)	-	-
Impairments - Investments	(7 897)	9 339	(7 897)	9 341
Impairments - Subsidiaries and equity accounted investees	-	-	37 636	(7 465)
Income from associates and joint ventures	(71 810)	(45 069)	-	-
Dividends received from associate	-	-	(11 188)	-
Increase in indemnity reserves	24 578	(2 490)	-	-
Interest charged on shareholder's loan	59 224	54 607	59 224	54 607
Interest on related party loans	-	-	(17 987)	(12 885)
Investment income and interest on overdue rental debtors	(173 800)	(92 713)	(141 928)	(72 813)
Grant income	(594 439)	(314 790)	(594 439)	(314 790)
Profit)/loss on sale of equipment	16	-	16	-
Provision for bad debts - loans	591 166	293 529	593 207	306 072
Provision for bad debts - rental debtors	4 155	2 548	-	-
Investment written off	(276)	-	(276)	-
Bad debts written off	485	44 560	3	43 102
Increase in impairments on cash	2	(7 510)	4	(6 114)
Increase in impairments on related party loans	-	-	112 840	58 733
Post-retirement liability	203	31	203	31
Increase in provision for indemnity claims	16 185	(2 111)	-	-
Operating loss before changes in working capital	**(357 935)**	**(219 253)**	**(237 202)**	**(155 672)**
Changes in working capital	**21 179**	**(211 172)**	**(87 628)**	**(312 926)**
Increase)/decrease in trade and other receivables	(6 129)	(192 881)	(19 380)	(252 806)
Loans issued to related parties	4 415	10 303	(70 982)	(26 584)
Decrease)/increase in trade and other payables	22 893	(28 594)	2 734	(33 536)
Cash utilised by operations	**(336 756)**	**(430 425)**	**(324 830)**	**(468 598)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
2.6 Grant Income and grant expense				
Grant received: Blended Finance	10 857	18 302	10 856	18 302
Grant received: Small Business and Innovation Fund	45 798	30 608	45 799	30 608
Grant received: European Union	6 840	4 250	6 840	4 250
Grant received: Covid_19 relief and post economic recovery				
Programmes	430 749	261 630	430 749	261 630
Grant received: Youth Challenge Fund	15 195	-	15 195	-
Grant received: Micro Finance	85 000	-	85 000	-
	594 439	**3 14 790**	**594 439**	**314 790**
Grant expense: Blended Finance	(10 857)	(18 302)	(10 857)	(18 302)
Grant expense: Small Business and Innovation Fund	(48 661)	(26 739)	(48 661)	(26 739)
Grant expense: Covid_19 relief and post economic recovery				
Programmes	(79 477)	(42 612)	(79 477)	(42 612)
Grant expense: Youth Challenge Fund	(2 573)	-	(2 573)	-
	(141 568)	**(87 653)**	**(141 568)**	**(87 653)**

3. TAXATION

3.1 Current tax asset/ (tax payable)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year. Refer to note 3.2 for additional information.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Tax receivable/(payable) at the beginning of the year	-	(296 951)	-	(297 012)
Tax as per statement of comprehensive income (net of deferred tax)	-	270 011	-	270 011
Tax Penalty	-	26 993	-	26 993
Tax (refund received)/paid	-	(53)	-	8
Tax (payable)/receivable at the end of the year	-	-	-	-

3.2 Income tax expense

Income tax expenses comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in other comprehensive income or equity.

Current tax

Current tax is measured using tax rates enacted or substantively enacted at the reporting date. Current taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, in other comprehensive income or in equity. Current tax also includes any adjustment to tax payable in respect of previous years when necessary.

The Group offsets current assets and current tax liabilities only when:
- The Group has a legally enforceable right to set off current tax assets against current tax liabilities.
- The Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax

Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged to other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or equity.

Refer to note 3.3 for additional information on deferred tax.

The corporate tax rate was amended from 28% to 27% for all years of assessment ending on or after 1 March 2023. Current tax has been calculated at a rate of 27% (2022 : 28%).

3.2 Income tax expense (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Current tax expense - current year	**-**	**(270 011)**	**-**	**(270 011)**
- Current year	-	-	-	-
- Prior year under/(over) provision	-	(270 011)	-	(270 011)
Deferred taxation - current year	**191 372**	**(99 256)**	**153 087**	**(86 624)**
- Current year	**122 327**	**(87 797)**	**116 765**	**(76 328)**
- Prior year under/(over) provision	**-**	**-**	**-**	**-**
- Rate change adjustment	**-**	**36 279**	**-**	**32 907**
- Tax Loss movement	**69 045**	**(47 738)**	**36 322**	**(43 203)**
Deferred tax asset not recognised in the current year	**(191 372)**	**99 535**	**(153 087)**	**86 624**
Income tax expense	**-**	**(269 732)**	**-**	**(270 011)**
Reconciliation of taxation amount:				
Loss before taxation	(223 189)	(171 455)	(281 066)	(227 415)
Taxation at standard rate of 27% (2022 : 28%)	(60 261)	(48 007)	(75 888)	(63 676)
Tax effect of permanent differences(1)	(134 381)	(89 192)	(77 144)	(55 855)
- Non-deductible expenses	84 934	32 287	84 681	32 287
- expenses attributable to exempt grant income	38 224	24 543	38 224	24 543
- fair value adjustment on investment properties	163	-	-	-
- amortisation of lease premiums and improvements to leasehold premises	-	5	-	5
- repairs and maintenance not deductible	-	7	-	7
- impairment on related party loans	30 467	-	30 467	-
- movement on day 1 gain on IDC loan	15 990	15 290	15 990	15 290
- Interest, penalties paid in respect of taxes	-	(7 558)	-	(7 558)
- other	90	-	-	-
- Non-taxable income	(219 315)	(121 479)	(161 825)	(88 142)
- fair value adjustment on investment properties	-	(93)	-	-
- exempt grant income	(158 652)	(88 142)	(158 652)	(88 142)
- exempt dividend income	-	-	(3 173)	-
- other(2)	(60 663)	(33 244)	-	-
Tax effect of deferred tax asset not recognised	191 372	99 535	153 087	86 624
Prior year deferred tax adjustment	(55)	-	(55)	-
Tax loss recognised	3 325	1 664	-	-
Tax effect of rate change adjustment	-	36 279	-	32 907
Taxation - Relating to prior year under/(over) provision	-	(270 011)	-	(270 011)
Taxation (credit)/ charge to the statement of comprehensive income	**-**	**(269 732)**	**-**	**(270 011)**
Taxation expense relating to current year	-	279	-	-
Effective tax rate	**0%**	**-0.16%**	**0.00%**	**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.

(2) The other amounts in the tax rate reconciliation are reconciling items from externally managed related entities. The individual amounts making up this item are not considered to be significant.

3.3 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.

	Group		Company	
	2023 R’000	2022 R’000	2023 R’000	2022 R’000
3.3.1 Net deferred tax				
Deferred taxation assets	233 830	154 406	213 845	136 976
Deferred taxation liabilities	(233 827)	(154 403)	(213 845)	(136 976)
Net deferred taxation asset	3	3	-	-
3.3.2 Deferred taxation assets				
Movement on the deferred taxation asset is as follows:				
At beginning of the year	154 406	121 771	136 976	107 876
Temporary differences recognised in profit or loss				
- Current year	79 424	74 881	76 869	67 080
- Previous year	-	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

3.3 Deferred tax assets and liabilities (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
- Rate change adjustment	-	(42 246)	-	(37 980)
At end of the year	**233 830**	**154 406**	**213 845**	**136 976**
Deferred taxation assets recognised:				
Income received in advance	2	2	-	-
Tax loss	233 827	154 403	213 845	136 976
Other provisions	1	1	-	-
Total deferred tax assets recognised	**233 830**	**154 406**	**213 845**	**136 976**
Unused deferred tax assets:				
Fair value adjustments	1 539	888	-	-
Provision for doubtful debts	467 421	306 981	545 485	357 827
Provision for leave pay	1 796	1 729	1 796	1 729
Provision for bonuses	6 364	6 584	6 364	6 584
Other provisions	208	153	208	153
Fixed assets (owned)	213	130	109	26
Revenue received in advance	118 506	-	118 506	-
IFRS 16	1 147	1 395	1 147	1 395
Prepayments	-	(127)	-	(127)
Doubtful debt allowance	(213 496)	(136 976)	(213 496)	(136 976)
Impairment of investments	4 993	84 533	54 699	123 505
Tax losses (Revenue in nature	541 080	591 598	448 671	534 381
Total	**929 771**	**856 888**	**963 489**	**888 497**
3.3.3 Deferred taxation liability				
Movement on the deferred taxation liability is as follows:				
At beginning of the year	(154 403)	(121 489)	(136 976)	(107 876)
Temporary differences recognised in profit or loss				
- Current year	(79 424)	(38 881)	(76 869)	(34 173)
- Rate change adjustment	-	5 967	-	5 073
At end of the year	**(233 827)**	**(154 403)**	**(213 845)**	**(136 976)**
Deferred taxation liabilities:				
Prepaid expenses	350	127	350	127
Debtor allowances	233 477	154 276	213 495	136 849
Total deferred tax liabilities recognised	**233 827**	**154 403**	**213 845**	**136 976**

The corporate tax rate was amended from 28% to 27% for all years of assessment ending on or after 1 March 2023. Deferred tax has been calculated at a rate of 27% (2022 : 27%).

4. WORKING CAPITAL

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash managed by the shareholder, deposits held on call with financial institutions, and investments in money market instruments, all of which are available for use by the Group unless otherwise stated. Cash and cash equivalents are available within three months from the date of acquisition (or from initial recognition).

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

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Cash in bank and on hand	3 755 161	3 228 594	3 145 943	2 646 734
Cash managed by shareholder	311 812	40 135	300 626	17 726
Cash managed on behalf of 3rd parties (note 4.3.3)	58 810	51 983	58 810	51 983
Gross carrying amount	**4 125 783**	**3 320 712**	**3 505 379**	**2 716 443**
Expected credit loss on cash	(25)	(24)	(21)	(18)
Total cash and cash equivalents	**4 125 758**	**3 320 688**	**3 505 358**	**2 716 425**

Funds held on behalf of Managed Funds are included in cash and cash equivalents. Refer to note 4.3.3 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. The carrying amount of trade and other receivables is deemed to approximate fair value due to the short-term nature of the assets.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Trade receivables	29 433	21 794	11 541	3 821
Prepayments	2 818	471	2 818	471
Rental debtors	27 592	23 445	-	-
Related party loans (refer to note 10.1)	9 450	8 594	586 621	495 831
Study loans	1 230	1 034	1 230	1 034
Trade and other receivables before credit allowances	**70 523**	**55 338**	**602 210**	**501 157**
Credit allowances on rental debtors	(26 418)	(22 263)	-	-
Credit allowances on trade and other receivables	(12 694)	(12 296)	(1 709)	(1 312)
Credit allowance on related party loan (refer to note 10.1) (1)	-	-	(396 933)	(284 791)
Closing carrying value	**31 411**	**20 779**	**203 568**	**215 054**

Trade and other receivables are current assets and not pledged as security.

(1) All related parties, including Khula Land Reform (not required to be consolidated) were assessed for impairment and no impairment was required, other than for Khula Business Premises (a subsidiary) where a credit loss allowance was raised in the **sefa** company financial statements which is then eliminated in the consolidated group financial statements. At a company level the related party loans are assessed for impairment with reference to the net asset value of the subsidiary. If the net asset value is negative the related party loan is impaired up to the total negative net asset value attributable to the company (**sefa**).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

4.3 Trade and other payables

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Trade payables	65 652	47 534	23 300	26 823
Provision for bonus (Refer to 4.3.1)	23 569	24 383	23 569	24 383
Provision for leave pay (Refer to 4.3.2)	6 651	6 405	6 651	6 405
Managed funds (Refer to 4.3.3)	58 810	51 983	58 810	51 983
Total trade and other payables	**154 682**	**130 305**	**112 330**	**109 594**
4.3.1 Provision for Bonuses				
Opening balance	24 383	18 474	24 383	18 474
Utilised during the year	(26 303)	-	(26 303)	-
Prior year under provision	1 920	-	1 920	-
Unutilised portion released during the year	-	(18 474)	-	(18 474)
Accruals raised during the year	23 569	24 383	23 569	24 383
Closing balance	**23 569**	**24 383**	**23 569**	**24 383**
4.3.2 Provision for leave pay				
Opening balance	6 405	3 848	6 405	3 848
Utilised during the year	(5 063)	(4 513)	(5 063)	(4 513)
Prior year (under provision)/over provision	-	-	-	-
Accruals raised during the year	5 309	7 070	5 309	7 070
Closing balance	**6 651**	**6 405**	**6 651**	**6 405**
4.3.3 Managed funds				
The group is managing funds and holding cash balances on behalf of the following parties:				
Unops	43 536	37 286	43 536	37 286
European Union	15 274	14 697	15 274	14 697
Total managed funds	**58 810**	**51 983**	**58 810**	**51 983**

All trade and other payables are current liabilities. Carrying amount is deemed to approximate fair value due to the short term nature of the assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

4.4 Deferred grants receivable and payable

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Deferred grant receivable - gross carrying amount	310 872	317 145	382 957	373 395
Credit allowances on deferred grant receivables	(3 830)	(3 785)	(3 830)	(3 785)
Total deferred grant receivable - net carrying value	**307 042**	**313 360**	**379 127**	**369 610**
Deferred grants payable	4 937 177	4 169 622	4 937 177	4 169 622
Total deferred grant payable	**4 937 177**	**4 169 622**	**4 937 177**	**4 169 622**

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

a) 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.

b) 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 de-recognised. All other costs are recognised in profit or loss as an expense as they are incurred.

5.1 Equipment, furniture and other tangible assets (continued)

c) 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.

d) Impairment losses

An impairment loss is recognised immediately in profit or loss. Impairment losses recognised in the prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

e) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis, based on the estimated useful lives of the underlying assets. Depreciation is calculated on the cost of the asset (or carrying amount, if asset is previously impaired) less residual value. The estimated useful lives for the current and comparative periods are as follows:

Computer equipment	3 - 5 years
Office equipment	2 - 6 years
Furniture and fittings	5 - 6 years
Motor vehicles	4 - 5 years
Leasehold improvements	Expected lease period

The residual values, useful lives and depreciation method are re-assessed at each financial year-end and adjusted if appropriate.

f) De-recognition

The carrying amount of items of equipment, furniture and other tangible assets are de-recognised on disposal or when no future economic benefits are expected from their use or disposal.

5.1 Equipment, furniture and other tangible assets (continued)

	GROUP			COMPANY		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
2023						
Motor vehicles	799	(533)	266	799	(533)	266
Computer equipment	25 228	(18 103)	7 125	24 833	(17 708)	7 125
Office and other equipment	5 880	(4 967)	913	5 022	(4 701)	321
Furniture and fittings	10 439	(9 979)	460	7 414	(6 953)	461
Lease improvements	12 572	(11 782)	790	12 572	(11 782)	790
	54 918	**(45 364)**	**9 554**	**50 640**	**(41 677)**	**8 963**

2022						
Motor vehicles	1 210	(838)	372	1 210	(838)	372
Computer equipment	21 838	(16 192)	5 646	21 442	(15 797)	5 645
Office and other equipment	5 052	(4 858)	194	4 786	(4 592)	194
Furniture and fittings	10 429	(9 675)	754	7 404	(6 650)	754
Lease improvements	12 433	(11 311)	1 122	12 433	(11 311)	1 122
	50 962	**(42 874)**	**8 088**	**47 275**	**(39 188)**	**8 087**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

5.1 Equipment, furniture and other tangible assets (continued)

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

	GROUP					
	Motor vehicles	Computer Equipment	Office and other equipment	Furniture and fittings	Lease improve-ments	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2023						
Opening carrying value	372	5 646	194	754	1 122	8 088
Additions	-	3 409	827	10	140	4 386
Disposals	-	(17)	-	-	-	(17)
Depreciation charges	(106)	(1 913)	(108)	(304)	(472)	(2 903)
Closing carrying value	**266**	**7 125**	**913**	**460**	**790**	**9 554**
2022						
Opening carrying value	478	2 113	311	1 098	1 787	5 787
Additions	-	5 171	-	-	26	5 197
Disposals	-	-	-	-	-	-
Depreciation charges	(106)	(1 638)	(117)	(344)	(691)	(2 896)
Closing carrying value	**372**	**5 646**	**194**	**754**	**1 122**	**8 088**

5.1 Equipment, furniture and other tangible assets (continued)

	COMPANY					
	Motor vehicles	Computer Equipment	Office and other equipment	Furniture and fittings	Lease improvements	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2023						
Opening carrying value	372	5 645	194	754	1 122	8 087
Additions	-	3 409	236	10	140	3 795
Disposals	-	(17)	-	-	-	(17)
Depreciation charges	(106)	(1 912)	(109)	(303)	(472)	(2 902)
Closing carrying value	**266**	**7 125**	**321**	**461**	**790**	**8 963**
2022						
Opening carrying value	478	2 113	311	1 098	1 787	5 787
Additions	-	5 171	-	-	26	5 197
Disposals	-	-	-	-	-	-
Depreciation charges	(106)	(1 639)	(117)	(344)	(691)	(2 897)
Closing carrying value	**372**	**5 645**	**194**	**754**	**1 122**	**8 087**

No equipment, furniture or other tangible assets are pledged as security for liabilities (2022: R nil) and all assets are non-current assets.

5.2 Intangible assets

a) 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.

b) 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.

5.2 Intangible assets (continued)

c) 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.

d) De-recognition

The carrying amount of intangible assets are de-recognised 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 de-recognised.

	Group			Company		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying Value
	R'000	R'000	R'000	R'000	R'000	R'000
2023						
Software	9 886	(9 226)	660	9 861	(9 201)	660
	9 886	**(9 226)**	**660**	**9 861**	**(9 201)**	**660**
2022						
Software	9 066	(8 864)	202	9 042	(8 840)	202
	9 066	**(8 864)**	**202**	**9 042**	**(8 840)**	**202**

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

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening carrying value	202	1 243	202	1 243
Additions	820	-	820	-
Amortisation	(362)	(1 041)	(362)	(1 041)
Reclassification	-	-	-	-
Closing carrying value	**660**	**202**	**660**	**202**

No intangible assets are pledged as security for liabilities (2022: Rnil). All intangible assets are non-current assets.

5.3 Investment properties

Investment property is property held to earn rental income, or for capital appreciation or for both.

a) 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.

b) Valuation

Valuation takes place annually, based on the aggregate of the net annual rental receivable from the properties, considering and analysing rentals received on similar properties in a close vicinity, less associated costs (insurance, maintenance, repairs, and management fees). A capitalisation rate which reflects the specific risks inherent in the net cash flows is applied to the net annual rentals to arrive at the property valuations. The fair value of undeveloped land held as investment property is based on comparative market prices after market surveys. Gains or losses arising from a change in fair value are recognised in profit or loss. External, independent valuators having appropriate, recognised professional qualifications and recent experience in the location and category of the property being valued, perform valuations on the portfolio every three years.

c) Gain or loss on the disposal of investment property

Gain or loss on the disposal of investment property is (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 2023 and prior year (2022). Inputs included market related rental income and market capitalisation rates.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening carrying amount	185 133	183 480	-	-
Fair value adjustments	(3 015)	1 653	-	-
Total investment properties	**182 118**	**185 133**	**-**	**-**
Amounts recognised in profit and loss from investment properties				
Interest on overdue rental debtors(1)	346	841	-	-
Investment property rental income(1)	11 779	15 372	-	-
Investment property rental recoveries(1)	13 960	7 488	-	-
Investment property expenses(2)	(97 477)	(57 821)	-	-
Total Amounts recognised in profit and loss	**(71 392)**	**(34 120)**	**-**	**-**

(1) As presented in note 2.3 - Other interest and revenue earned.

(2) As presented in the statement of comprehensive income.

The investment property portfolio comprises of retail and industrial properties and portions of vacant land. The retail and industrial properties are leased out to tenants on a fixed term basis with an option to renew. The lease term and renewal options are negotiated on individual basis with the portfolio having an average lease term of 3 years.

The risks related to the Company's rights on the leased property is managed through lease agreements with tenants on a lease-by-lease basis. No risk and rewards incidental to the leased property are transferred to the tenants either during the lease or at the end of lease term.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

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.

a) Measurement

Investment properties held-for-sale are measured at the lower of fair value less cost to sell.

b) Reclassification

The investment property will be reclassified immediately when there is a change in intention to sell.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening carrying amount	-	-	-	-
Reclassification to Investment Properties	-	-	-	-
Closing carrying value	**-**	**-**	**-**	**-**

Investment properties held-for-sale are valued on the same basis as the investment properties.

There is an intention to sell properties that are not financially viable, however these sales take a considerable amount of time to conclude, and therefore due to the fact that management cannot reliably conclude that sale of these properties will be finalised within 12 months, they have been reclassified in the current year back to investment property.

5.5 Net fair value gain or loss on investment properties

Refer to 1.4.6 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:

a) 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 on the estimated rentals such a property would fetch, for instance: 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.

5.5 Net fair value gain or loss on investment properties(continued)

b) 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: this is how they trade in the open market. The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject property. Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

	Group		Company	
Net fair value gain/loss on investment properties	**2023 R'000**	**2022 R'000**	**2023 R'000**	**2022 R'000**
Fair value gain/(loss) on investment properties	(3 015)	1 653	-	-
Net fair value gain and impairments	**(3 015)**	**1 653**	**-**	**-**

Investment properties are valued externally by independent valuators every three years. For the financial year ended 31 March 2023 a desk top valuation was performed. In the 2021 financial year an external independent valuation 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 at 31 March 2023 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:

c) 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 10% to 16.5% (2022: 11.5% - 17.5%).

	HIGHEST	LOWEST	AVERAGE
Capitalisation percentage	16.5%	10%	13.09%

Sensitivity analysis for inputs to determine fair value

A change in 1% (2022: 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.

5.5 Net fair value gain or loss on investment properties(continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Market related annual income 1% increase	1 677	2 019	-	-
Market related annual income 1% decrease	(1 677)	(2 019)	-	-
Capitalisation rate 1% increase	(12 870)	(14 148)	-	-
Capitalisation rate 1% decrease	12 870	14 148	-	-
Market related expenses 1% increase	(2 276)	(2 151)	-	-
Market related expenses 1% decrease	2 276	2 151	-	-

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.

a) 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.

b) 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.

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

c) As a lessor:

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and, is included in revenue in the statement of profit or loss due to its operating nature.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the underlying asset and recognised over the lease term on the same basis as rental income.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening carrying amount	21 922	28 208	21 922	28 208
Depreciation charge for the year	(11 182)	(9 987)	(11 182)	(9 987)
Additions	664	-	664	-
Disposals	-	-	-	-
Modifications to lease terms	2 845	3 701	2 845	3 701
Closing carrying value	**14 249**	**21 922**	**14 249**	**21 922**

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 carrying amount of lease liabilities and the movements during the period:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening carrying amount	27 090	34 025	27 090	34 025
Additions	3 508	3 701	3 508	3 701
Disposals	-	-	-	-
Accretion on interest	2 473	2 921	2 473	2 921
Payments	(14 573)	(13 557)	(14 573)	(13 557)
Closing carrying value	**18 498**	**27 090**	**18 498**	**27 090**

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.

sefa has entered into a new two-year lease agreement for the KwaZulu-Natal regional office with a commencement date of 1 April 2023. A right of use asset and corresponding lease liability will be recognised on this date for R767 842.68.

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

d) 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.

	2023 R'000	2022 R'000
The expense relating to payments not included in the measurement of the lease liability is as follows:		
Short term leases	-	-
Leases of low value assets	257	233
	257	**233**

Low value assets consist of nine printers that are leased. Remaining term on the lease at year end was 13 months (2022: 25 months).

The Group applies the election by class of underlying asset to which the right of use relates.

e) Maturity analysis for lease liability

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Due within one year	13 453	12 430	13 453	12 430
Due after one year but within two years	5 045	10 950	5 045	10 950
Due within two to three years	-	3 710	-	3 710
Due within three to four years	-	-	-	-
Due within four to five years	-	-	-	-
Due after five years	-	-	-	-
Carrying value of lease liability	18 498	27 090	18 498	27 090

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

Contractual lease payments maturity analysis

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Due within one year	14 953	14 478	14 953	14 478
Due after one year but within two years	5 185	11 863	5 185	11 863
Due within two to three years	-	3 783	-	3 783
Due within three to four years	-	-	-	-
Due within four to five years	-	-	-	-
Due after five years	-	-	-	-
Carrying value of lease liability	20 138	30 124	20 138	30 124

6. FINANCE STRUCTURE AND COMMITMENTS

6.1 Shareholder's Loan

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening balance	734 043	679 436	734 043	679 436
Finance charges(1)	59 224	54 607	59 224	54 607
Total shareholder's loans	**793 267**	**734 043**	**793 267**	**734 043**

(1) At initial recognition, a day one gain was recognised. The effective interest rate used in determining the fair value of the shareholder's loan to discount the interest-free shareholder's loans from the IDC is based on the average rate at which the IDC borrows external funds. **sefa** has never applied for external finance and, therefore, the average borrowing rate of the IDC is considered a market related rate. The interest recognised during the year relates to the unwinding of the day one gain. An assessment has been conducted, as at reporting date, to test for possible changes in the effective interest rate and no material changes in the rate has been noted since initial recognition of the loan. At reporting date the carrying value is considered to approximate the fair value.

The closing balance consists of two loans:

	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Loan terms				
Subordinated and non-interest bearing. Repayable after 10 years, commencing 11 June 2024	709 680	660 521	709 680	660 521
Subordinated and non-interest bearing. Repayable biannually in equal instalments over 10 years, commencing 31 July 2023	83 587	73 522	83 587	73 522
Total shareholder's loans	**793 267**	**734 043**	**793 267**	**734 043**

6.2 Unearned risk reserve and outstanding claims provision

a) Indemnity contract classification

Contracts under which the Group accepts significant indemnity risk (insurance risk) from another party (the indemnity holder) by agreeing to compensate the indemnity holder or other beneficiary if a specified uncertain future event (the indemnified event) adversely affects the indemnity holder, are classified as indemnity contracts. Indemnity risk is a risk other than financial risk. Indemnity contracts may also transfer some financial risk.

Unearned risk reserve consists of:
Provision for unearned premiums: unearned fees, which represents the proportion of fees written in the current year, which relate to risks that have not expired by the end of the financial year, are calculated on the 365th basis.

Provision for unexpired risk: Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date, exceeds the unearned premium provision in relation to such policies. The provision for unexpired risks is calculated separately by reference to class of business that are managed together, after taking into account the relevant investment returns.

b) Outstanding claims provision

Provision is made for the estimated final cost of all claims that had not been settled on the reporting date, less amounts already paid based on calculations performed by independent actuaries. Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to indemnity holders, as follows:

- 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.

c) 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.

d) Salvage reimbursement

Indemnity contracts require the indemnified party to make all reasonable efforts to recover as much of the loss as possible and, to refund the Group its proportionate share of the claim recovered. Estimates of these salvage recoveries are included as an allowance in the measurement of the indemnity liability for claims.

The allowance is the assessment of the Group's share of the amount that can be recovered from the action against the liable third party.

6.2 Unearned risk reserve and outstanding claims provision (continued)

e) 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).

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

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

6.2.1 Unearned risk reserve

	GROUP		
	2023		
	R'000	R'000	R'000
	Unearned premium reserve	Additional unexpired risk reserve	Total unearned risk reserve
As at 31 March 2021	778	20 769	21 547
Movement recorded in profit or loss	666	(3 156)	(2 490)
As at 31 March 2022	**1 444**	**17 613**	**19 057**
Movement recorded in profit or loss	2 485	22 093	24 578
As at 31 March 2023	**3 929**	**39 706**	**43 635**

6.2 Unearned risk reserve and outstanding claims provision (continued)

6.2.2 Outstanding Claims Reserve

	GROUP		
	2023		
	R'000	R'000	R'000
	Notified outstanding Claims reserve	Incurred but not Reported reserve	Total outstanding Claims reserve
As at 31 March 2021	4 657	5 242	9 899
Movement recorded in profit or loss	(1 379)	(732)	(2 111)
As at 31 March 2022	**3 278**	**4 510**	**7 788**
Movement recorded in profit or loss	9 291	6 895	16 186
As at 31 March 2023	**12 569**	**11 405**	**23 974**

6.2.3 Total exposure

	GROUP	
	2023	2022
	R'000	R'000
Credit indemnities issued to financial institutions	325 707	148 906
Less technical reserves already provided	(67 609)	(26 845)
Exposure after technical reserves	258 098	122 061

The calculation of the reserves was performed by an independent actuarial consulting firm, QED South Africa (Pty) Ltd.

The summary of the valuation method is as follows:

The Uneared Premium Reserve (''UPR'') for the credit guarantee portfolio has been determined through the use of the 365ths method for all policies in the "Taken-up" status. For the supplier credit portfolio, this has been estimated as one month of premiums.

The Additional Unexpired Risk Reserve (''AURR'') for the credit guarantee portfolio has been determined as the expected premium and UPR minus expected claims and expenses. This has been adjusted for claim probabilities, recovery ratios, inflation and discounting. For the supplier credit portfolio, the AURR has been determined as the amount required in excess of the UPR in respect of premiums already received to service future claims and expenses without adjustments without further adjustment.

For the credit guarantee portfolio, the OCR and IBNR reserves have been determined using an expected claim methodology, which is based on the indemnity amount, on the condition that the claims are in specific claim-related statuses. The OCR for the supplier credit portfolio is calculated as the outstanding claims' indemnity balance multiplied by a claim severity factor, the IBNR is calculated as the ultimate claims ratio, multiplied by premium, minus paid and outstanding claims.

Margins have been calculated as 11% of OCR and IBNR for the outstanding claims reserves and 11% of AURR. The ratio of 11% is based on the risk margin ratio provided by the Prudential Authority.

This is the first annual valuation performed by our actuarial service provider, QED South Africa (Pty) Ltd. The assumptions from 2022 are based on results provided by the previous actuarial service provider. The differences are therefore difficult to determine due to the lack of their parameterisation models.

6.2 Unearned risk reserve and outstanding claims provision (continued)

The principal valuation assumptions are as follows:

	2023	2022
Average ultimate probability of claim	11%	15%
Claim severity	77%	81%
Claim expense rate	2 216	1 217
Recovery rate	12%	10%
Discount rates (per government bond yield curve)	8.0% - 13.6%	5.60% - 11.75%

The increases in reserves illustrated in the sensitivity analysis above will result in an equal decrease in profit and total equity of the Group.

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

	2023	2022	2023	2022
	R'000	R'000	%	%
Probability of claim (+10%)	5 877	1 577	9.00%	5.79%
Claim severity (+10%)	6 868	2 524	10.00%	9.26%
Claim expense rate (+10%)	1 113	521	2.00%	1.91%
Discount rates (-1%)	685	109	1.00%	0.40%

Claims development:

	2023	2022	2021	2020	2019
	R'000	R'000	R'000	R'000	R'000
Total Claims Provision	23 974	7 788	9 899	8 122	3 689
Claims paid(1)	7 694	2 491	2 173	2 173	597
% of provision paid out in claims	32%	32%	22%	27%	16%

(1) Claims paid consists of actual claims paid during the financial year plus salvages.

6.3 Post-retirement medical liability

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Post-retirement medical liability	**769**	**567**	**769**	**567**

sefa provides a subsidy towards medical aid contributions payable to selected employees who retire in the employment of **sefa**.

Twenty one in-service employees who on average are 49 years old, 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 QED South Africa Proprietary Limited, an independent actuarial consulting firm and is dependent on amongst others the demographic profile of employees, mortality, consumer price inflation and bond yields.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Analysis of the defined post-retirement medical liability:				
Present value of unfunded obligations	769	567	769	567
	769	**567**	**769**	**567**

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

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening post-retirement medical aid obligation	567	536	567	536
Current service cost	28	22	28	22
Interest cost	35	26	35	26
Actuarial gain	139	124	139	124
Employer benefit payments	-	(141)	-	(141)
Closing defined benefit obligation	**769**	**567**	**769**	**567**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

6.3 Post-retirement medical liability (continued)

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

	2023	2022
Discount rate at 31 March	7.8% - 13.0% naca	4.1% - 12.0% 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

The table below shows the sensitivity of **sefa's** obligations, as at 31 March 2023, with respect to post-retirement medical aid benefits to key assumptions:

Assumption	Variation	% change in provision	Change in value of provision
Long-term interest rates	1%	-10%	(75)
	1%	12%	89
Post-Retirement mortality[1]	+1 year	-1%	(4)
	-1 year	1%	4

([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	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Equipment	**278**	**529**	**278**	**529**
Within 1 year	257	254	257	254
From 2 to 5 years	21	275	21	275
More than 5 years	-	-	-	-
Total lease commitments	**278**	**529**	**278**	**529**

Per the signed agreements there are no annual escalations.

6.4 Commitments (continued)

6.4.2 Loan and indemnity commitments

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Off-balance sheet items				
Undrawn financing facilities approved	347 891	186 433	347 891	186 433
Undrawn credit guarantee facilities approved	1 128 993	1 040 714	-	-
Total off-balance sheet commitments	**1 476 884**	**1 227 147**	**347 891**	**186 433**

Commitments will be financed by loans and internally generated funds.

7. FINANCIAL RISK

7.1 Financial instruments

a) Amortised cost – Financial liabilities

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost.

b) 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.

c) Accounting for financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments. All financial assets and liabilities are initially measured: (1) at fair value, plus (or minus) transaction costs that are directly attributable to the acquisition or (2) issue of the financial asset or financial liability in the case of financial asset (or financial liability) not at fair value through profit or loss, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Fair value adjustments on initial recognition relating to financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss. If **sefa** determines that the fair value on initial recognition differs from the transaction price, the difference is recognised as a gain or loss only if the fair value is based on a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. Otherwise, the difference is deferred and recognised as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

d) 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.

7.1 Financial instruments (continued)

e) Financial instrument classification

The Group classifies its financial instruments into the following categories:
- At fair value through profit or loss;
- Amortised cost.

The classification is dependent on the purpose for which the financial instruments were acquired.
Management determines the classification of financial instruments at initial recognition. Financial instruments comprise investments in equity and debt, loans receivable, trade and other receivables, cash and cash equivalents, other non-current liabilities and trade and other payables. Financial assets measured at amortised cost are initially recognised at the fair value received or receivable.

f) Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below:

g) 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.

h) 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.

i) De-recognition

Financial assets are de-recognised 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 de-recognised when the obligations specified in the contracts are discharged, cancelled or expire.

j) Credit allowances on financial assets carried at amortised cost

Loans and advances (General approach per IFRS 9 par 5.5.1)
All loans and advances meet the requirements of solely payments of principal and interest and are measured at amortised cost. The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes based on the relevant stage and internal credit rating of a loan;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

7.1 Financial instruments (continued)

Trade receivables (Simplified approach per IFRS 9 par 5.5.15)

Credit losses for rental debtors are based on the portfolio's collection rates and the number of outstanding payments from a debtor, as this is the best indicator for the future collectability of rental income. Credit losses on related party loans were based on historical payment trends to predict the ability of the related party to settle the loan in the future. Trade receivables are initially recognised at the transaction price.

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

Cash and cash equivalents (General approach per IFRS 9 par 5.5.1)
The expected credit loss is calculated by referencing each banks published credit rating to the probability of default based on the mapping tables published by the three major international credit rating agencies. The loss given default used is in line with guidance provided by the Basel foundation approach on banks.

7.2 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (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.

	Amortised cost	FVTPL	Total
GROUP - 2023	**R'000**	**R'000**	**R'000**
Assets			
Loans and advances	1 614 793	-	1 614 793
Investments	-	47 402	47 402
Trade receivables	28 593	-	28 593
Cash and cash equivalents	4 125 758	-	4 125 758
Total financial assets	5 769 144	47 402	5 816 546
Liabilities			
Shareholder loans	(793 267)	-	(793 267)
Trade and other payables	(124 462)	-	(124 462)
Lease liability	(18 498)	-	(18 498)
Non-current liability	(4 629)	-	(4 629)
Total financial liabilities	(940 856)	-	(940 856)
Net financial assets and liabilities	**4 828 288**	**47 402**	**4 875 690**

7.3 Categories of financial instruments (continued)

	Amortised cost	FVTPL	Total
GROUP - 2022	**R'000**	**R'000**	**R'000**
Assets			
Loans and advances	1 527 626	-	1 527 626
Investments	-	33 337	33 337
Trade receivables	20 308	-	20 308
Cash and cash equivalents	3 320 688	-	3 320 688
Total financial assets	4 868 622	33 337	4 901 959
Liabilities			
Shareholder loans	(734 043)	-	(734 043)
Trade and other payables	(99 517)	-	(99 517)
Lease liability	(27 090)	-	(27 090)
Non-current liability	(4 629)	-	(4 629)
Total financial liabilities	(865 279)	-	(865 279)
Net financial assets and liabilities	**4 003 343**	**33 337**	**4 036 680**

	Amortised cost	FVTPL	Total
COMPANY - 2023	**R'000**	**R'000**	**R'000**
Assets			
Loans and advances	1 614 793	-	1 614 793
Investments	-	47 402	47 402
Trade receivables	200 750	-	200 750
Cash and cash equivalents	3 505 358	-	3 505 358
Total financial assets	5 320 901	47 402	5 368 303
Liabilities			
Shareholder loans	(793 267)	-	(793 267)
Trade and other payables	(82 110)	-	(82 110)
Lease liability	(18 498)	-	(18 498)
Non-current liability	(4 629)	-	(4 629)
Total financial liabilities	(898 504)	-	(898 504)
Net financial assets and liabilities	**4 422 397**	**47 402**	**4 469 799**

7.3 Categories of financial instruments (continued)

	Amortised cost	FVTPL	Total
COMPANY - 2022	**R'000**	**R'000**	**R'000**
Assets			
Loans and advances	1 526 608	-	1 526 608
Investments	-	33 337	33 337
Trade receivables	214 583	-	214 583
Cash and cash equivalents	2 716 425	-	2 716 425
Total financial assets	4 457 616	33 337	4 490 953
Liabilities			
Shareholder loans	(734 043)	-	(734 043)
Trade and other payables	(78 806)	-	(78 806)
Lease liability	(27 090)	-	(27 090)
Non-current liability	(4 629)	-	(4 629)
Total financial liabilities	(844 568)	-	(844 568)
Net financial assets and liabilities	**3 613 048**	**33 337**	**3 646 385**

7.4 Credit risk exposure

Credit risk is the risk of financial loss, should any of the Group's counterparties fail to fulfil their contractual obligations to the Group. Credit risk mainly arises from commercial loans and advances, and loan commitments arising from such lending activities.

The Group is also exposed to other credit risks arising from investments and rental debtors.

Credit risk is the single largest risk for the Group's business; management, therefore, carefully manages its exposure to credit risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of the group.

The Group and Company considers its maximum exposure to credit risk per class to be as follows:

	Group		Company	
	2023 R'000	**2022 R'000**	**2023 R'000**	**2022 R'000**
Cash and cash equivalents	4 125 783	3 320 712	3 505 379	2 716 443
Trade receivables	70 523	55 338	602 210	501 157
Loans and advances	3 298 814	2 622 124	3 290 769	2 609 376
Investments	47 402	33 337	47 402	33 337
Total exposure at gross carrying amount	**7 542 522**	**6 031 511**	**7 445 760**	**5 860 313**

7.4 Credit risk exposure (continued)

a) 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 of R0.027 million (2022: R0.024 million).

b) Trade receivables

Trade receivables include related party loans receivable, rental debtors and other trade and receivables. The nature of other trade receivables, other than rental debtors, is of such a nature that low probabilities of default is anticipated and possible credit losses have been assessed as being insignificant. No credit loss has been provided for on trade and receivables other than rental debtors and related party loans. Refer to note 7.5.1 for credit risk measurement under rental debtors and note 7.5.2 for related party loans.

c) 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.

7.5 Credit risk measurement

7.5.1 Trade receivables

a) Trade receivables and pre-payments

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross carrying amount	32 251	22 265	14 359	4 292
Lifetime expected credit loss	(12 694)	(12 296)	(1 709)	(1 312)
Net carrying amount	**19 557**	**9 969**	**12 650**	**2 980**

7.5.1 Trade receivables (continued)

b) Deferred grants receivable

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross carrying amount	310 872	317 145	382 957	373 395
Lifetime expected credit loss	(3 830)	(3 785)	(3 830)	(3 785)
Net carrying amount	**307 042**	**313 360**	**379 127**	**369 610**

c) Rental debtors

The following table sets out information using a provision matrix, based on actual collection rates, on the credit quality of rental debtors measured at amortised cost where the loss allowance is measured at an amount equal to lifetime expected credit losses (simplified approach). Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	Group			Group		
	2023			2022		
Rental debtors	0 - 30 Days	30 Days+	Total	0 - 30 Days	30 Days+	Total
Expected loss rate	36%	100%		53%	100%	
	R'000	R'000	R'000	R'000	R'000	R'000
Gross carrying amount	1 822	25 770	27 592	2 520	20 925	23 445
Lifetime expected credit loss	(648)	(25 770)	(26 418)	(1 338)	(20 925)	(22 263)
Net carrying amount	**1 174**	**-**	**1 174**	**1 182**	**-**	**1 182**

d) 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	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Gross carrying amount	9 450	8 594	586 621	495 831
Lifetime expected credit loss	-	-	(396 933)	(284 791)
Net carrying amount	**9 450**	**8 594**	**189 688**	**211 040**

7.5.2 Investments

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Standard monitoring	47 402	33 337	47 402	33 337
Special monitoring	-	-	-	-
Total exposure at carrying amount	47 402	33 337	47 402	33 337

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.

a) Credit risk grading

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group, additionally, 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.

b) Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage	Change in credit risk since initial recognition	Recognition of interest	12 month or lifetime ECL
Stage 1 – Initial recognition	No significant increase in risk since initial recognition.	Interest is based on the loan balance gross of impairments.	12-month ECL is used, which is the expected credit losses that result from default events that are likely within 12 months after the reporting date.
Stage 2 – Significant increase in credit risk	Significant increase in credit risk (SICR) but not objective evidence of impairment.	Interest is based on the loan balance gross of impairments.	Lifetime ECL is used, which is the expected credit losses that result from all default events that are likely over the expected life of the financial instrument.
Stage 3 – Credit-impaired asset	Objective evidence of impairment.	Interest is based on the loan balance net of impairments.	Lifetime ECL is used, which is the expected credit losses that result from all default events that are likely over the expected life of the financial instrument.

7.5.3 Loans and advances (including commitments) (continued)

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

c) 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.

d) 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.

e) 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.

7.5 Credit risk measurement (continued)

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.

f) 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.

g) Forward-looking information incorporated in the ECL models

Changes in macroeconomic conditions are expected to influence the rate at which accounts default on the portfolios. The macroeconomic module of the IFRS 9 impairment model includes such an allowance through adjusting expected default probabilities based on forecast macroeconomic information, using the historical relationship between these macroeconomic variables and default rates in order to inform the quantum of the expected impact.

Using Principal Component Analysis, a historic index was constructed and subsequently used to produce the forecasted indices under three scenarios (optimistic, best-estimate and downturn), with the final result of the Expected Credit Loss model subsequently calculated as a probability weighted average of the results under each of the scenarios.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and, therefore, the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. The analysis outlined above yielded the following variables for use in the macroeconomic model:

- Percentage year on year growth in Gross Domestic Product ("%GDP");
- Percentage year on year growth in Formal Sector Employment ("%Employment");
- Percentage year on year growth in Consumer Price Inflation ("%CPI"); and
- Percentage year on year growth in Household Consumption Expenditure ("%HouseCE")

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

7.5.3 Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate at 31 March 2023 are set out below:

		2024	2025	2026	2027
% GDP	Base	(0,03)	0,37	0,68	0,62
	Downturn	(0,10)	0,32	2,94	3,32
	Optimistic	3,28	0,84	0,77	0,75
% Employment	Base	0,10	2,26	2,21	1,99
	Downturn	0,36	1,69	1,96	1,51
	Optimistic	2,10	1,74	1,25	1,15
% CPI	Base	4,76	4,73	4,42	4,31
	Downturn	4,68	4,37	4,30	4,11
	Optimistic	4,53	3,98	3,85	3,82
% HouseCE	Base	0,22	0,27	0,71	0,73
	Downturn	(0,07)	0,48	3,26	3,59
	Optimistic	2,92	1,96	1,86	1,84

- The base scenario represents the best estimate view of expected future macroeconomic conditions;
- The downturn scenario represents a view of expected future macroeconomic conditions during a downturn period; and
- The optimistic scenario represents a view of expected future macroeconomic conditions during a period of good economic conditions.

The final Expected Credit Loss to be raised as an impairment provision under the IFRS 9 standard is calculated as an average of the ECL calculated by the model under each of the three scenarios, weighted by the probability of each of these scenarios occurring.

Probabilities assigned to the likelihood of each scenario:

SCENARIO	PROBABILITY
Base	65%
Downturn	25%
Optimistic	10%

The probabilities assigned to each likelihood are unchanged from prior year.

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/ external supplementary data to use for modelling purposes.

7.5.4 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 2023 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Standard monitoring	937 026	-	-	937 026
Special monitoring	-	844 541	-	844 541
Default	-	-	1 517 247	1 517 247
Gross carrying amount	**937 026**	**844 541**	**1 517 247**	**3 298 814**
Loss allowance	(112 015)	(367 856)	(1 204 150)	(1 684 021)
Carrying amount	**825 011**	**476 685**	**313 097**	**1 614 793**

	Group 2022 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Standard monitoring	1 100 904	-	-	1 100 904
Special monitoring	-	627 850	-	627 850
Default	-	-	893 370	893 370
Gross carrying amount	**1 100 904**	**627 850**	**893 370**	**2 622 124**
Loss allowance	(143 450)	(234 494)	(716 554)	(1 094 498)
Carrying amount	**957 454**	**393 356**	**176 816**	**1 527 626**

7.5.4 Expected credit losses emanating from credit risk exposure (continued)

	Company			
	2023 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Standard monitoring	937 026	-	-	937 026
Special monitoring	-	844 541	-	844 541
Default	-	-	1 509 202	1 509 202
Gross carrying amount	**937 026**	**844 541**	**1 509 202**	**3 290 769**
Loss allowance	(112 016)	(367 856)	(1 196 104)	(1 675 976)
Carrying amount	**825 010**	**476 685**	**313 098**	**1 614 793**

	Company			
	2022 R'000			
	Stage 1 - Gross amount Stage 1 - ECL	Stage 2 - Gross amount Stage 2 - ECL	Stage 3 - Gross amount Stage 3 - ECL	
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Standard monitoring	1 100 904	-	-	1 100 904
Special monitoring	-	627 850	-	627 850
Default	-	-	880 623	880 623
Gross carrying amount	**1 100 904**	**627 850**	**880 623**	**2 609 377**
Loss allowance	(143 450)	(234 494)	(704 825)	(1 082 769)
Carrying amount	**957 454**	**393 356**	**175 798**	**1 526 608**

7.5.5 Collateral

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

	Group			
	2023			
	Gross Exposure	Credit Loss Allowance	Carrying Amount	Fair Value Of Collateral Held
Stage 1	937 026	(112 015)	825 011	2 098
Stage 2	844 541	(367 856)	476 685	995
Stage 3	1 517 247	(1 204 150)	313 097	7 217
	3 298 814	**(1 684 021)**	**1 614 793**	**10 310**

	Company			
	2023			
	Gross exposure	Credit loss allowance	Carrying amount	Fair value of collateral held
Stage 1	937 026	(112 016)	825 010	2 098
Stage 2	844 541	(367 856)	476 685	995
Stage 3	1 509 202	(1 196 104)	313 098	7 217
	3 290 769	**(1 675 976)**	**1 614 793**	**10 310**

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Nature of collateral held:				
Vehicles under instalment sale agreement	2 238	54 940	2 238	54 940
Equipment under instalment sale agreement	8 072	104 415	8 072	104 415
Special notarial bonds over moveable assets	-	13 639	-	13 639
Mortgage bonds over fixed property	-	2 632	-	2 632
Cession over loan portfolio	-	-	-	-
Total collateral held	**10 310**	**175 626**	**10 310**	**175 626**

The net proceeds for collateral repossessed amounted to R1.8mil during the 2023 financial year for both Group and Company. (2022: The net proceeds for collateral repossessed amounted to R308 000 during the 2022 financial year for both Group and Company.)

The impact of collateral included in the Expected Credit Loss amounts to R5.9 million (2022: R46.8 million). The impact was limited to the value of the Expected Credit Loss per facility.
Collateral was valued externally by independent team of valuers as at 31 March 2022.

7.5.6 Credit loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during this period, as well as releases for financial instruments de-recognised in the period;
- Impact of the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Group - 2023			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 April 2022	143 450	234 494	716 554	1 094 498
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(31 488)	143 463	-	111 975
Transfer from Stage 1 to Stage 3	(57 890)	-	222 932	165 042
Transfer from Stage 2 to Stage 3	-	(115 134)	200 677	85 543
Decrease in credit risk				-
Transfer from Stage 2 to Stage 1	15 138	(58 231)	-	(43 093)
Transfer from Stage 3 to Stage 2	-	12 061	(25 165)	(13 104)
Transfer from Stage 3 to Stage 1	232	-	(2 807)	(2 575)
Changes in PDs/ LGDs/ EADs	(9 676)	45 322	32 182	67 828
New financial instruments issued	56 492	109 079	69 837	235 408
Financial assets settled during the year	(4 243)	(3 183)	(10 060)	(17 486)
Financial assets written off	-	(15)	-	(15)
Total net profit or loss charge during the year	(31 435)	133 362	487 596	589 523
Loss allowance as at 31 March 2023	**112 015**	**367 856**	**1 204 150**	**1 684 021**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

7.5.6 Credit loss allowance (continued)

	Group - 2022			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 April 2021	91 514	121 789	587 666	800 969
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(31 299)	122 893	-	91 594
Transfer from Stage 1 to Stage 3	(19 947)	-	73 094	53 147
Transfer from Stage 2 to Stage 3	-	(76 164)	122 266	46 102
Decrease in credit risk				
Transfer from Stage 2 to Stage 1	5 267	(15 607)	-	(10 340)
Transfer from Stage 3 to Stage 2	-	3 436	(6 782)	(3 346)
Transfer from Stage 3 to Stage 1	708	-	(2 745)	(2 037)
Changes in PDs/ LGDs/ EADs	(472)	(3 748)	(8 433)	(12 653)
New financial instruments issued	98 810	87 023	15 808	201 641
Financial assets settled during the year	(1 131)	(4 921)	(22 602)	(28 654)
Financial assets written off	-	(207)	(41 718)	(41 925)
Total net profit or loss charge during the year	51 936	112 705	128 888	293 529
Loss allowance as at 31 March 2022	**143 450**	**234 494**	**716 554**	**1 094 498**

	Company - 2023			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Loss allowance as at 1 April 2022	143 450	234 494	704 825	1 082 769
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(31 487)	143 463	-	111 976
Transfer from Stage 1 to Stage 3	(57 890)	-	222 932	165 042
Transfer from Stage 2 to Stage 3	-	(115 135)	200 675	85 540
Decrease in credit risk				-
Transfer from Stage 2 to Stage 1	15 138	(58 231)	-	(43 093)
Transfer from Stage 3 to Stage 2	-	12 061	(25 165)	(13 104)
Transfer from Stage 3 to Stage 1	232	-	(2 807)	(2 575)
Changes in PDs/ LGDs/ EADs	(9 676)	45 322	32 182	67 828
New financial instruments issued	56 492	109 079	69 837	235 408
Financial assets settled during the year	(4 243)	(3 182)	(6 375)	(13 800)
Financial assets written off	-	(15)	-	(15)
Total net profit or loss charge during the year	(31 434)	133 362	491 279	593 207
Loss allowance as at 31 March 2023	**112 016**	**367 856**	**1 196 104**	**1 675 976**

7.5.6 Credit loss allowance (continued)

	Company - 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance as at 1 April 2021	91 381	121 748	563 567	776 696
Increase in credit risk				
Transfer from Stage 1 to Stage 2	(31 299)	122 893	-	91 594
Transfer from Stage 1 to Stage 3	(19 814)	-	72 961	53 147
Transfer from Stage 2 to Stage 3	-	(76 123)	122 225	46 102
Decrease in credit risk				-
Transfer from Stage 2 to Stage 1	5 267	(15 607)	-	(10 340)
Transfer from Stage 3 to Stage 2	-	3 436	(6 782)	(3 346)
Transfer from Stage 3 to Stage 1	708	-	(2 745)	(2 037)
Changes in PDs/ LGDs/ EADs	(472)	(3 748)	(9 415)	(13 635)
New financial instruments issued	98 810	87 023	15 808	201 641
Financial assets settled during the year	(1 131)	(4 921)	(10 534)	(16 586)
Financial assets written off	-	(207)	(40 260)	(40 467)
Total net profit or loss charge during the year	52 069	112 746	141 258	306 073
Loss allowance as at 31 March 2022	**143 450**	**234 494**	**704 825**	**1 082 769**

7.5.7 Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts that is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery. All amounts written off in the current and prior year are still subject to enforcement activity. Loans to the value of R480,000 were written off during the year in the Group (Company: R3000).

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 gross carrying amount of R15 million at the end of the financial year have been modified in the current year at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the current year to an amount equal to 12-month expected credit losses.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

7.5.9 Loans and advances: Sectoral analysis

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Carrying value per sector - loans and advances				
Administrative and support activities	23 038	-	23 038	-
Agriculture, forestry and fishing	51 325	47 480	51 325	46 883
Arts, entertainment and recreation	1 165	-	1 165	-
Beverages	2 327	4 413	2 327	4 413
Basic chemicals	1 228	3 173	1 228	3 173
Basic iron and steel	17 687	16 114	17 687	16 114
Building construction	57 478	51 636	57 478	51 636
Business services	38 370	33 227	38 370	33 227
Finance and insurance	308 739	256 087	308 739	256 087
Food	87 436	161 879	87 436	161 879
Footwear	1 913	4 097	1 913	4 097
Catering and accommodation services	35 186	1 963	35 186	1 963
Education	1 226	-	1 226	-
Electricity, gas and steam	28 812	31 229	28 812	31 229
Furniture	2 394	3 573	2 394	3 573
Glass and glass products	445	783	445	783
Information and communication	27 563	-	27 563	-
Non-metallic minerals	37 648	39 936	37 648	39 936
Other community, social and personal services	46 111	76 367	46 111	76 367
Machinery and equipment	12 640	26 357	12 640	26 357
Manufacturing	153 588	-	153 588	-
Medical, dental and other health and verterinary services	20 169	26 053	20 169	26 053
Metal products excluding machinery	26 910	50 250	26 910	50 250
Motor vehicles, parts and accessories	40 356	72 868	40 356	72 868
Other chemicals and man-made fibres	6 074	9 558	6 074	9 558
Other industries	28 255	32 720	28 255	32 720
Other mining	38 339	47 879	38 339	47 879
Other services	60 376	127 179	60 376	127 179
Other transport equipment	-	421	-	-
Paper and paper products	122	185	122	185
Wearing apparel	11 875	26 395	11 875	26 395
Plastic products	11 895	8 443	11 895	8 443
Printing, publishing and recorded media	144	176	144	176

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

7.5.9 Loans and advances: Sectoral analysis (continued)

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Professional, scientific and technical activities	669	-	669	-
Human health and social work activities	20 131	-	20 131	-
Real estate activities	15 120	-	15 120	-
Television, radio and communication equipment	1 226	2 652	1 226	2 652
Textiles	41 809	79 134	41 809	79 134
Transport and storage	112 251	90 643	112 251	90 643
Water supply; sewerage, waste management and remediation activities	12 920	-	12 920	-
Wholesale and retail trade	210 195	162 193	210 195	162 193
Wood and wooden products	19 638	32 563	19 638	32 563
Loans and advances net of impairments	**1 614 793**	**1 527 626**	**1 614 793**	**1 526 608**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

7.6 Liquidity risk

Liquidity risk is the risk that the Group or Company will not be able to meet its financial obligations as they fall due. The Group and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group or Company's reputation. Due to the nature of the business, the Group and Company's cash management process aims to maintain flexibility in funding by keeping committed credit lines available. Cash requirements and inflows are monitored by management to ensure that sufficient cash is available to meet all financial commitments including operational expenditure. Typically, the Group and Company ensure that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted; such as natural disasters.

The following are the remaining contractual maturities at the end of the reporting period of recognised and unrecognised financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Group				
	Carrying value	Total	Within 1 year	2 - 5 years	More than 5 years
Group - 2023	R'000	R'000	R'000	R'000	R'000
Trade payables (excluding non-financial liabilities)	65 652	65 652	65 652	-	-
Managed funds	58 810	58 810	58 810	-	-
Credit guarantees/indemnities issued to financial institutions(1)	67 609	67 609	67 609	-	-
Shareholder loans	793 267	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**985 338**	**1 115 282**	**192 071**	**15 000**	**908 211**
Undrawn financing facilities approved	-	347 891	347 891	-	-
Operating lease commitments	-	278	257	21	-
Liabilities for lease obligations	18 498	20 138	14 953	5 185	-
Undrawn guarantees/indemnities approved(2)	-	1 129	1 129	-	-
Total off-balance sheet items	**18 498**	**369 436**	**364 230**	**5 206**	**-**
Total contractual maturities	**1 003 836**	**1 484 718**	**556 301**	**20 206**	**908 211**

Credit indemnities issued	R325.7 million	Actuarial reserves	R67.6 million
Undrawn indemnities approved	R1 129 million	Possible future claims	R234.4 million

(1) Total credit guarantees/indemnities issued to financial institutions amount to R325.7 million. The full balance will, however, not result in future outflows of cash. The reserve calculations by external actuaries amounting to R67.6 million was used for liquidity risk exposure purposes.

(2) Undrawn guarantees/indemnities approved at year end amounts to R1 129 million. It is estimated that R234.4 million of undrawn facilities may result in future claims. Due to the timing of these claims being uncertain, the full balance is allocated to the 1 year period.

7.6 Liquidity risk (continued)

	Group				
	Carrying value	Total	Within 1 year	2 - 5 years	More than 5 years
Group - 2022	R'000	R'000	R'000	R'000	R'000
Trade payables (excluding non-financial liabilities)	47 534	47 534	47 534	-	-
Managed funds	51 983	51 983	51 983	-	-
Credit guarantees/indemnities issued to financial institutions(1)	26 845	26 845	26 845	-	-
Shareholder loans	734 043	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**860 405**	**1 049 573**	**126 362**	**15 000**	**908 211**
Undrawn financing facilities approved	-	186 433	186 433	-	-
Operating lease commitments	-	529	254	275	-
Liabilities for lease obligations	27 090	30 124	14 478	11 863	3 783
Undrawn guarantees/indemnities approved(2)	-	1 041	1 041	-	-
Total off-balance sheet items	**27 090**	**218 126**	**202 205**	**12 138**	**3 783**
Total contractual maturities	**887 495**	**1 267 699**	**328 567**	**27 138**	**911 994**

Credit indemnities issued	R148.9 million	Actuarial reserves	R26.8 million
Undrawn indemnities approved	R1040.7 million	Possible future claims	R187.6 million

(1) Total credit guarantees/indemnities issued to financial institutions amount to R113.6 million. The full balance will, however, not result in future outflows of cash. The reserve calculations by external actuaries amounting to R31.4 million was used for liquidity risk exposure purposes.

(2) Undrawn guarantees/indemnities approved at year end amounts to R682.4 million. It is estimated that R138.4 million of undrawn facilities may result in future claims. Due to the timing of these claims being uncertain, the full balance is allocated to the 1 year period.

7.6 Liquidity risk (continued)

	Company				
Company - 2023	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 (excluding non-financial liabilities)	23 300	23 300	23 300	-	-
Managed funds	58 810	58 810	58 810	-	-
Shareholder loans	793 267	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**875 377**	**1 005 321**	**82 110**	**15 000**	**908 211**
Operating lease commitments	-	278	257	21	-
Liabilities for lease obligations	18 498	20 138	14 953	5 185	-
Undrawn financing facilities approved	-	347 891	347 891	-	-
Total off-balance sheet items	**18 498**	**368 307**	**363 101**	**5 206**	**-**
Total contractual maturities	**893 875**	**1 373 628**	**445 211**	**20 206**	**908 211**

	Company				
Company - 2022	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 (excluding non-financial liabilities)	26 823	26 823	26 823	-	-
Managed funds	51 983	51 983	51 983	-	-
Shareholder loans	734 043	923 211	-	15 000	908 211
Total recognised financial and non-financial liabilities	**812 849**	**1 002 017**	**78 806**	**15 000**	**908 211**
Operating lease commitments	-	529	254	275	-
Liabilities for lease obligations	27 090	30 124	14 478	11 863	3 783
Undrawn financing facilities approved	-	186 433	186 433	-	-
Total off-balance sheet items	**27 090**	**217 086**	**201 165**	**12 138**	**3 783**
Total contractual maturities	**839 939**	**1 219 103**	**279 971**	**27 138**	**911 994**

7.7 Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group and Company do not deal in derivatives and does not have exposure to price risk nor exchange rate risk.

a) Interest rate risk

Interest rate risk is the risk that arises on an interest-bearing asset or liability, due to variability of interest rates. The Group and Company's income and operating cash flows are substantially dependent on changes in market interest rates and the Group and Company have significant interest-bearing assets. The Group and Company's policy is to maintain most of its investments in the form of money market instruments. Interest rate risk is limited to the Group and Company's investment in floating-rate instruments such as deposits, negotiable certificates of deposits and banker's acceptances as well as loans which are normally issued at rates linked to the prime interest rate. The investment management function has been outsourced to the IDC. Regular management and Board sub-committee meetings are held in order to review **sefa's** interest rate view, which would affect the level of interest rate risk taken in respect of surplus funds.

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

	Group		Company	
Variable rate instruments	**2023 R'000**	**2022 R'000**	**2023 R'000**	**2022 R'000**
Financial assets	7 393 354	5 914 274	6 737 317	5 273 818
Financial liabilities	-	-	-	-
Total variable rate instruments	7 393 354	5 914 274	6 737 317	5 273 818

Cash flow sensitivity analysis for variable rate instruments

A change in 250 basis points (2022: 250 basis points) in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Group		Company	
Variable rate instruments	**2023 R'000**	**2022 R'000**	**2023 R'000**	**2022 R'000**
250 basis points increase (2022: 250 basis points)	184 834	147 857	168 433	131 845
250 basis points decrease (2022: 250 basis points)	(184 834)	(147 857)	(168 433)	(131 845)

7.8 Capital Risk Management

The Board's policy is to achieve a capital base that will ensure the long term sustainability of **sefa** and it monitors progress towards this goal so as to maintain shareholder, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between sustainable returns and its developmental mandate. There were no changes in the Group or Company's approach to capital management during the year. A subsidiary, KCG is subject to capital requirements imposed on it by the Prudential Authority in terms of The Insurance Act 18 of 2017. Neither the company nor any of its other subsidiaries are subject to externally imposed capital requirements.

The Group and Company's objectives when managing capital are:

- To comply with capital requirements required for insurers as determined by the 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, as follows:

- 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 claim expectations. The Group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years on an annual basis. The underwriting strategy is updated for changes in the underwriting results of the Group and the industry, the Group's available risk capital, its developmental mandate as well as existing concentrations of insurance risk.

Risk assessment

The Group relies on a rigorous process followed by the indemnified parties before they propose and accept a specific insurance risk. Some of the factors considered during the underwriting stage include:

- Past loss experience associated with the proposed risk
- Indemnifiable interest
- Probability of success
- Level of mitigation procedures adopted
- Location of the proposed risk
- Past and proposed rating terms of the risk
- Scope and terms of cover considered
- Results of surveys completed, where applicable
- Possible variations that may be applied to the risks indemnified.

Concentration of insurance risk

The concentration of insurance risk is managed by different levels of diversification, mainly through the financial institutions that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country.

7.10 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 make 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 (expected credit losses).

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Loans and advances to clients	3 298 814	2 622 124	3 290 769	2 609 376
Less: Credit loss allowance	(1 684 021)	(1 094 498)	(1 675 976)	(1 082 768)
Loans and advances net of credit losses	**1 614 793**	**1 527 626**	**1 614 793**	**1 526 608**

Reconciliation credit loss allowances of loans and advances

Credit loss allowance for loans and advances - opening balance	1 094 498	800 969	1 082 768	776 696
Credit loss for the year	590 008	338 089	593 211	349 174
Bad debts written off during the year	(485)	(44 560)	(3)	(43 102)
Credit loss allowance for loans and advances - closing balance	**1 684 021**	**1 094 498**	**1 675 976**	**1 082 768**
Maturity of loans and advances				
Gross loans due within one year	1 505 957	1 034 422	1 497 912	1 021 675
Unearned finance charges	(209 708)	(140 019)	(209 708)	(140 019)
Net loans due within one year	1 296 249	894 403	1 288 204	881 656
Gross loans due after one year but within two years	797 050	631 799	797 050	631 799
Unearned finance charges	(119 557)	(72 551)	(119 557)	(72 551)
Net loans due after one year but within two years	677 493	559 248	677 493	559 248
Gross loans due within two to three years	507 099	418 840	507 099	418 840
Unearned finance charges	(65 923)	(41 051)	(65 923)	(41 051)
Net loans due within two to three years	441 176	377 789	441 176	377 789
Gross loans due within three to four years	307 193	286 151	307 193	286 151
Unearned finance charges	(30 719)	(22 451)	(30 719)	(22 451)
Net loans due within three to four years	276 474	263 700	276 474	263 700
Gross loans due within four to five years	110 577	119 412	110 577	119 412
Unearned finance charges	(8 846)	(8 274)	(8 846)	(8 274)
Net loans due within four to five years	101 731	111 138	101 731	111 138
Gross loans due after five years	70 938	131 500	70 938	131 499
Unearned finance charges	(12 059)	(14 303)	(12 059)	(14 303)
Net loans due after five years	58 879	117 197	58 879	117 196
Total gross loans	3 298 814	2 622 124	3 290 769	2 609 376
Total net loans	2 852 002	2 323 475	2 843 957	2 310 727
Total unearned finance charges	446 812	298 649	446 812	298 649
Credit loss allowances on loans and advances	(1 684 021)	(1 094 498)	(1 675 976)	(1 082 768)
Loans and advances net of credit loss allowances	1 614 793	1 527 626	1 614 793	1 526 608

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 the 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 due to the following: the loans and advances are to non-related parties; the loans and advances are on terms that are within **sefa's** normal mandate; and **sefa's** principal market is determined with reference to its developmental mandate.

Refer to note 7.1 and 7.4 for further detail.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

7.11 Investments

Investments are non-derivative financial assets consisting of equity investments where the Group does not control the entity to such an extent where consolidation is required and excludes investments where the group has significant influence or joint control.The terms of these investments do not solely represent the payment of principal and interest and is therefore measured at FVTPL. These assets are not held within a business model whose objective is to hold assets to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI') neither are these assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI'). These assets accordingly are carried at FVTPL.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening carrying value	33 337	29 790	33 337	29 790
Movement on fair value adjustments	7 897	(9 339)	7 897	(9 339)
(Disposal)/ Acquisition of investments	6 168	12 886	6 168	12 886
Closing carrying value	**47 402**	**33 337**	**47 402**	**33 337**

The fair value of the investment in equity instruments was determined by reference to the net asset value (NAV) of the underlying entity. NAV is an appropriate valuation model as the assets and liabilities of the underlying investments are held at market value in the investee companies. The fair value movement in the current financial year was R7.9million (2022: R9.4 million downward), 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	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Authorised				
500 000 000 ordinary shares at R1 each	500 000	500 000	500 000	500 000
Issued and paid				
308 300 000 ordinary shares at R1 each	308 300	308 300	308 300	308 300

Share Capital is fully paid.

8.2 Shareholder Reserves

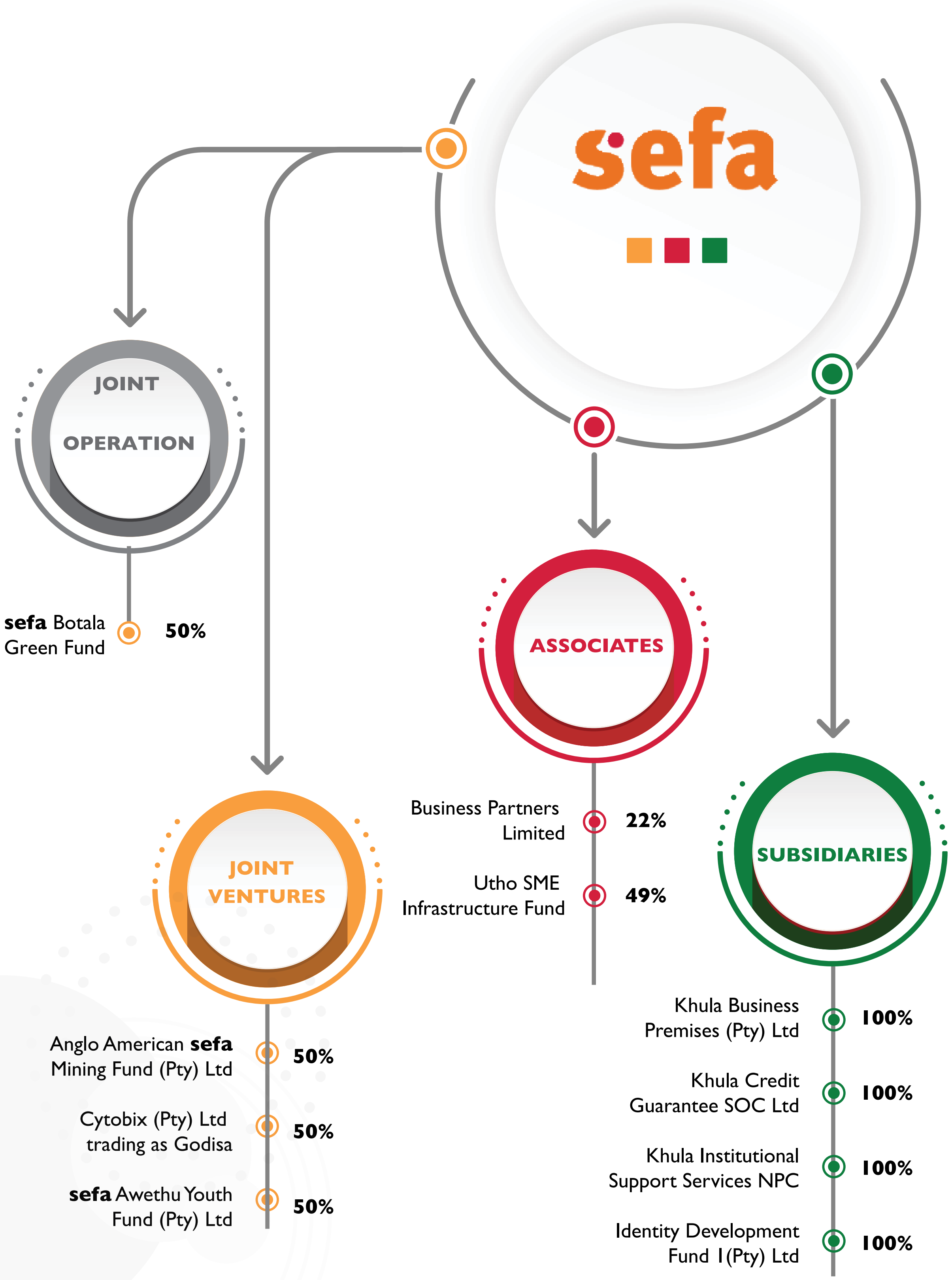
Shareholder reserves consist of a subordinated loan to **sefa** from the IDC that is interest-free and not repayable.

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Opening shareholder reserves	2 552 488	2 300 782	2 552 488	2 300 782
Government allocations advanced by the shareholder (1)	258 658	251 706	258 658	251 706
Closing shareholder reserves	**2 811 146**	**2 552 488**	**2 811 146**	**2 552 488**

(1) All government allocations (MTEF) received from the shareholder are allocated to a subordinated, non-repayable and interest-free loan that is classified as shareholder's reserves.

9. GROUP COMPOSITION

9.1 Interest in Other Entities and Operations



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.

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

	Company	
	2023 R'000	2022 R'000
Investments in subsidiaries		
Unlisted shares in subsidiaries	479 214	479 214
Loans receivable	24 950	30 562
Total exposure to subsidiaries before impairments	504 164	509 776
Impairments on investments in subsidiaries	(54 949)	(30 142)
Total exposure to subsidiaries net of impairments	449 215	479 634

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

9.2 Investments in subsidiaries

Companies	2023	2022		2023	2022
	% interest	% interest	Nature of activities	Exposure before impairments R'000	Exposure before impairments R000
Identity Development Fund Partnership	100%	100%	SME Financing	24 950	24 950
Khula Akwandze Fund (Pty) Ltd[(1)]	75%	75%	SME Financing	-	5 612
Khula Business Premises (Pty) Ltd	100%	100%	Property rental	-	-
Khula Credit Guarantee (SOC) Ltd	100%	100%	Credit indemnities	479 214	479 214
Khula Institutional Support Services NPC	100%	100%	Capacity building	-	-
Exposure to subsidiaries before impairments				**504 164**	**509 776**

(1) Khula Akwandze Fund (Pty) Ltd is in the process of being wound up. This has however not been concluded by year end.

All subsidiaries are incorporated in the Republic of South Africa and have the same reporting date as the holding company. The entities classified as subsidiaries are all under the control of **sefa**, which has rights to the variable returns and has the ability to use its control to affect the amount of returns.

The investments in subsidiaries are all non-current assets.

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

	Group	
	2023 R'000	2022 R'000
Profits	-	16 961
Losses	(148 943)	(64 340)
Aggregate net loss from subsidiaries	**(148 943)**	**(47 379)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (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 2 for information regarding the Group and Company's accounting policies.

	Company	
Investments in joint operations	**2023 R'000**	**2022 R'000**
Investments in joint operations		
Loans receivable	19 084	19 084
Impairments of investments in joint operations	(19 084)	(19 084)
Total exposure to joint operations net of impairments	-	-

Companies	2023 % interest	2022 % interest	Nature of activities	2023 Total company exposure before impairments R'000	2022 Total company exposure before impairments R000
sefa Botala Green Fund	50%	50%	SME Financing	19 084	19 084

All joint operations are incorporated in the Republic of South Africa and have the same reporting date as the holding company. The investments in joint operations are all non-current assets. **sefa** Botala Green Fund is dormant.

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

	Group	
Loss from joint operations	**2023 R'000**	**2022 R'000**
Profits	-	9 916
Losses	-	-
	-	9 916

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

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	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Investments in associates				
Unlisted shares in associates	98 622	98 622	98 622	98 622
Accumulated equity-accounted income, losses and impairments	755 897	708 835	-	-
Loans receivable	29 366	29 366	29 366	29 366
Impairment of loans	-	-	(29 054)	(29 033)
Total exposure to associates	**883 885**	**836 823**	**98 934**	**98 955**

				Company	
	2023	2022		2023	2022
Associate	% interest	% interest	Nature of activities	Total company exposure before impairments R'000	Total company exposure before impairments R'000
Business Partners Limited	22%	22%	SME Financing	98 622	98 622
The Utho SME Infrastructure Fund (1)	49%	49%	SME Financing	29 366	29 366
Total exposure to associates before impairments				**127 988**	**127 988**

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

The following information summarises the financial information of the associates as included in its own financial statements adjusted for differences in accounting policies. The table also reconciles the summarised information to the carrying amount of the Group's interest:

9.4 Investments in Associates (continued)

	Group	
	2023 R'000	2022 R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	5 594 632	5 836 665
Current assets	739	778
Non-current liabilities	(1 556 111)	(2 016 558)
Current liabilities	(102)	(97)
Net assets at 100%	**4 039 158**	**3 820 788**
Group's share of net assets	854 519	807 457
Loan to associate	29 366	29 366
Costs capitalised on shares acquired	-	-
Total exposure to associates	**883 885**	**836 823**
Statement of comprehensive income		
Revenue	722 221	601 541
Expenses	(376 245)	(341 631)
Other comprehensive income	(73 876)	(2 679)
Profit and total other comprehensive income at 100%	**272 100**	**257 231**
Group's share of loss and total comprehensive income	58 251	55 458

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.

9.5 Investments in Joint Ventures

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Investments in joint ventures				
Loans receivable	123 131	163 340	123 130	163 340
Accumulated equity-accounted income, losses and impairments	(67 511)	(61 693)	-	-
Impairment of loans	-	-	(74 432)	(60 926)
Total exposure to joint ventures	55 620	101 647	48 698	102 414

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

9.5 Investments in Joint Ventures (continued)

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	2023	2022		2023	2022
	% interest	% interest	Nature of activities	Total exposure R'000	Total exposure R'000
Anglo **sefa** Mining Fund (Pty) Ltd[1]	50%	50%	Financing mining activities	40 582	84 582
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	50%	50%	SME Financing	39 850	36 059
sefa Awethu Youth Fund (Pty) Ltd	50%	50%	SME Financing	42 698	42 699
Total exposure to joint ventures before impairments				**123 130**	**163 340**

(1) The decrease in exposure in 2023 for **sefa** company is due to capital repayments of R44 million (2022: Rnil) from Anglo **sefa** Mining Fund (Pty) Ltd

	Group	
	2023 R'000	2022 R'000
The aggregate amounts attributable to **sefa** were as follows:		
Statement of financial position		
Non-current assets	61 087	69 307
Current assets	107 238	192 717
Non-current liabilities	-	-
Current liabilities	(186 419)	(349 633)
Net assets at 100%	**(18 094)**	**(87 609)**
Group's share of net assets	(67 511)	(61 693)
Loans to joint ventures	123 131	163 340
Total exposure to joint ventures	**55 620**	**101 647**
Statement of comprehensive income		
Revenue	4 695	8 035
Expenses	(16 331)	(35 625)
Total other comprehensive income/(loss) at 100%	**(11 636)**	**(27 590)**
Group's share of total comprehensive income/(loss)	(2 368)	(10 968)

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.

9.6 Profit from equity accounted investees

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Profit/ (loss) from Equity Accounted Investees				
Anglo **sefa** Mining Fund (Pty) Ltd	(2 337)	(14 021)	-	-
Cytobix (Pty) Ltd trading as Godisa Supplier Development Fund	(31)	3 053	-	-
sefa Awethu Youth Fund (Pty) Ltd	-	-	-	-
Income from joint ventures	(2 368)	(10 968)	-	-
Loss and other comprehensive income from associates				
Business Partners Limited[(1)]	58 272	55 497	-	-
The Utho SME Infrastructure Fund	(21)	(39)	-	-
Income from associates	58 251	55 458	-	-
Profit from equity accounted investees	71 808	45 069		
Other comprehensive (loss)/income from equity accounted investees	(15 925)	(579)	-	-
Total profit and other comprehensive income from equity investees	**55 883**	**44 490**	**-**	**-**

(1) The income from Business Partners consists of R57m profit (2022: R55.5m)

10. RELATED PARTIES AND DIRECTORS EMOLUMENTS

10.1 Related party transactions

Related party transactions constitute the transfer of resources, services or obligations between the Group and a party related to the Group, regardless of whether a price is charged. For the purposes of defining related party transactions with key management, key management has been defined as directors and the Group's executive committee and includes close members of their families and entities controlled or jointly controlled by these individuals.

Related parties	
Description	**Relationship**
The Department of Trade, Industry and Competition (DTIC, previously EDD)	Shareholder of the IDC
Business Partners Limited	An associate of **sefa**
The Utho SME Infrastructure Fund	An associate of **sefa**
Godisa Supplier Development Fund (Pty) Ltd	A joint venture of **sefa**
Anglo **sefa** Mining Fund (Pty) Ltd	A joint venture of **sefa**
sefa Awethu Youth Fund (Pty) Ltd	A joint venture of **sefa**
Industrial Development Corporation (IDC)	Parent and controlling party of **sefa**
Khula Business Premises (Pty) Ltd	Wholly owned subsidiary of **sefa**
Khula Credit Guarantee (SOC) Ltd	Wholly owned subsidiary of **sefa**
Khula Institutional Support Services NPC	Wholly owned subsidiary of **sefa**
Khula Land Reform Empowerment Facility	Wholly owned subsidiary of **sefa** (1)

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated in the Group financial statements, these are however not eliminated in the individual Company financial statements. The following transactions were entered into with related parties:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Rental income received from related parties:				
DTIC	-	1 592	-	1 592
Total rental income from related parties	**-**	**1 592**	**-**	**1 592**
Rental income paid to related parties:				
Khula Business Premises (Pty) Ltd	-	-	(297)	(315)
Total rental income from related parties	**-**	**-**	**(297)**	**(315)**
Investment income received from related parties				
Interest on cash balances managed by IDC	7 793	4 421	7 159	3 651
Management fees paid to related parties for travel management				
IDC	176	428	176	428
Management fees charged to related parties				
Khula Land Reform Empowerment Facility(1)	9 736	11 198	9 736	11 198
Khula Credit Guarantee (SOC) Ltd	-	-	7 874	8 042
Khula Institutional Support Services NPC(2)	(628)	(16)	4 189	3 857
Khula Business Premises (Pty) Ltd	(1 039)	-	18 922	13 417
Godisa Supplier Development Fund (Pty) Ltd	-	-	3 000	3 000
Total management fees charged to related parties	8 069	11 182	43 721	39 514
Transfer of grant funding to related party				
Khula Credit Guarantee (SOC) Ltd	-	-	(89 215)	(15 677)
Related party balances receivable/(payable)				
Khula Credit Guarantee (SOC) Ltd(3)	-	-	9 637	9 494
Khula Land Reform Empowerment Facility(1)	9 450	8 594	9 450	8 594
Khula Institutional Support Services NPC(3)	-	-	4 277	5 038
Khula Business Premises (Pty) Ltd(4)	-	-	563 257	472 705
Khula Business Premises (Pty) Ltd - impairment(4)	-	-	(396 933)	(284 791)
IDC - Cash managed	311 812	40 135	300 626	17 726
IDC - Shareholder's loan (liability)(5)	(793 267)	(734 043)	(793 267)	(734 043)
IDC - Shareholder's loan (equity)(5)	(2 811 146)	(2 552 488)	(2 811 146)	(2 552 488)
Aggregated related party balances payable	**(3 283 151)**	**(3 237 802)**	**(3 114 099)**	**(3 057 765)**

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

(2) The management fee charged to Khula Institutional Support NPC reflects a negative amount on consolidated level due to the subsidiary not being able to claim the VAT charged on the management fee. The subsidiary company is not a registered VAT vendor.

(3) Any outstanding related party balances are unsecured and will be settled in cash. No guarantees have been given or received.

(4) The loan issued to Khula Business Premises (Pty) Ltd is subordinated and bears interest at 70% of the prime lending rate. An impairment of R394 million has been raised on the loan in the sefa Company.

(5) Refer to note 6.1 for specific terms.

Investments in related entities

Refer to notes 9.1 to 9.5 for investments held in related entities.

Transactions with key management personnel

No material contracts were entered into involving the interest of any director or executive management member. All compensation paid to key management is disclosed under note 10.2.

10.2 Directors' and Prescribed Officers' Remuneration

Prescribed officers as prescribed by the Companies Act, are individuals who, despite not being a director of the Company:

- Exercise general executive control over and management of the whole, or a significant portion, of the business and activities of the Company; or
- Regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Company.

The Company considers all individuals at the level of executive management as the prescribed officers.

Key management, as defined in IAS 24 Related Party Disclosure, are individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of executive management up to the Board of Directors are regarded as key management. The remuneration of the directors and prescribed officers is disclosed below as per the Companies Act requirements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

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	
			2023	2022	2023	2022
Current Board members	Appointment date	Retirement date	R'000	R'000	R'000	R'000
Mr M Mahosi (3)	2019/08/01	2022/04/30	69	996	37	602
Ms D Mabuza	2019/08/01	2022/04/30	15	343	15	343
Ms M Makara	2019/08/01	2021/05/31	-	76	-	56
Mr J Kganyago	2019/08/01	-	604	524	545	502
Mr M Radebe	2019/08/01	2022/03/31	-	249	-	249
LFV Mosupye (2)	2014/12/04	2023/08/08	125	113	-	-
Ms S Mudau	2020/10/01	2022/04/30	28	470	28	416
Ms Z Ngcobo	2020/10/01	-	378	419	335	354
Ms H Tsoadi (1)	2020/10/01	-	255	431	239	312
Dr GS Moseneke (4)	2021/07/02	-	127	145	-	-
Mr MJ Pitjeng (4)	2021/07/02	-	91	110	-	-
Ms S Siwisa	2022/05/01	-	756	-	756	-
Dr M Qobo	2022/05/02	-	407	-	407	-
Adv NG Khumalo	2022/05/03	-	635	-	569	-
Ms CN Motale	2022/05/02	-	408	-	350	-
Ms TV Tobias-Pokolo	2022/05/02	-	345	-	345	-
Ms N Makanda	2022/05/02	-	718	-	718	-
Mr M Mfuleni	2022/05/02	-	312	-	312	-
Mr SP Simelane	2023/08/15	-	-	-	-	-
Total directors' fees paid			**5 273**	**3 876**	**4 656**	**2 834**

(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 2023 (R10 800) and 2022 (R238 000) includes remuneration paid to the director by Business Partners Limited (an associate of the **sefa** Group).
(4) These directors only serve on the Board of the subsidiary company, KBP.

10.2.2 Executive management:

	Group		Company	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Executive management remuneration				
Employment benefits	15 617	11 167	15 617	11 167
Post-employment benefits	-	-	-	-
Total executive management remuneration	**15 617**	**11 167**	**15 617**	**11 167**

10.2 Directors' and Prescribed Officers' Remuneration (continued)

	2023				
	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
Executive					
M Matshamba	2 940	979	-	517	4 436
RV Ralebepa (1)	-	-	-	-	-
B Sefolo(2)	561	-	-	96	657
N Shwala	2 372	589	-	289	3 250
NS Mbatha (3)	-	-	-	-	-
C Williams (4)	1 513	319	-	302	2 134
E Kwadjo (5)	1 731	340	-	288	2 359
X Meva (6)	1 179	314	-	201	1 694
L Makupula (7)	324	-	-	64	388
J Mthembu (8)	697	-	-	2	699
Total executive management remuneration	**11 317**	**2 541**	**-**	**1 759**	**15 617**

	2022				
	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	2 789	-	-	494	3 283
RV Ralebepa (1)	933	-	-	179	1 112
B Sefolo (2)	2 166	-	-	361	2 527
N Shwala	2 253	-	-	278	2 531
NS Mbatha (3)	155	-	-	28	183
C Williams (4)	862	-	-	170	1 032
E Kwadjo (5)	429	-	-	70	499
Total executive management remuneration	**9 587**	**-**	**-**	**1 580**	**11 167**

(1) Resigned 31 August 2021

(2) Resigned 30 June 2022

(3) Seconded to the Small Enterprise Development Agency ("Seda") since 01 May 2021 up to date. All remuneration since 01 May 2021 for this executive has been on-charged by **sefa** to Seda and is therefore not included in this table.

(4) Acting as CFO since 01 August 2021.

(5) Acting as Post Investment Executive since 01 January 2022.

(6) Acting as Lending Executive since 01 July 2022.

(7) Appointed 01 February 2023

(8) Acting as General Legal Council since 01 December 2022.

No member of executive management earned any income from any other company within the Group.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

11. PFMA DISCLOSURE

UNAUTHORISED, FRUITLESS AND WASTEFUL AND IRREGULAR EXPENDITURE

Fruitless and wasteful expenditure	2023 R'000	2022 R'000
Irregular expenditure	151	12
	151	**12**

Refer to the other matters annexure that follows the annual financial statements for more information on these items

12. FAIR VALUE MEASUREMENT

12.1 Fair value measurement of financial instruments

Financial assets and financial liabilities are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

	Level 1	Level 2	Level 3	Total
Group - 2023	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investments	-	-	47 402	47 402
	-	**-**	**47 402**	**47 402**

	Level 1	Level 2	Level 3	Total
Group - 2022	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investments	-	-	33 337	33 337
	-	**-**	**33 337**	**33 337**

	Level 1	Level 2	Level 3	Total
Company - 2023	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investments	-	-	47 402	47 402
	-	**-**	**47 402**	**47 402**

	Level 1	Level 2	Level 3	Total
Company - 2022	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investments	-	-	33 337	33 337
	-	**-**	**33 337**	**33 337**

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 R7.9 million (2022: R9.4 million downward), and it was recognised in profit or loss. There was no realised gain or loss in the financial statements.

Refer to note 7.11 for the reconciliation of the carrying amounts of financial instruments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023 (Continued)

12.2 Fair value measurement of non-financial assets

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

	Level 1	Level 2	Level 3	Total
Group - 2023	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investment properties	-	-	182 118	182 118
	-	**-**	**182 118**	**182 118**

	Level 1	Level 2	Level 3	Total
Group - 2022	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investment properties	-	-	185 133	185 133
	-	**-**	**185 133**	**185 133**

	Level 1	Level 2	Level 3	Total
Company - 2023	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investment properties	-	-	-	-
	-	**-**	**-**	**-**

	Level 1	Level 2	Level 3	Total
Company - 2022	**R'000**	**R'000**	**R'000**	**R'000**
Assets measured at fair value				
Investment properties	-	-	-	-
	-	**-**	**-**	**-**

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

The assumptions used in the valuations conducted at were assessed to be appropriate for the current financial year.

The following summarises the valuation technique used in measuring the fair value of Investment Properties, as well as the significant unobservable inputs used:

Valuation technique

sefa's property portfolio consists mainly of income producing properties and this is the fundamental basis on which the valuation of investment properties is determined. Investment properties produce a perpetual income stream and the capitalisation of such net revenue flow is an accurate means of determining the value. Included in the portfolio, are two properties which are sectional title in nature and one comprises of vacant land. These properties have been valued on the direct comparison basis. The capitalisation rates used range from 11.5% to 17.5% (2022: 11.5% - 17.5%).

In the current financial year a desktop valuation on the investment property was performed. The investment properties were valued by independent valuators in the previous financial year (2021) using market related rentals and market related capitalisation rates. The significant inputs and assumptions are developed in close consultation with management. The prior year valuation was used as the starting point for the desktop valuation, minor adjustments were made for inflation on costs and capiatlisation rates were compared to the lates Rodes Report.

Refer to note 5.4 and note 5.5 for the reconciliation of the carrying amounts of non-financial assets classified within Level 3.

13. EVENTS AFTER THE REPORTING PERIOD

13.1 Events after the reporting period

There are no other matters or circumstances arising since the end of the financial year and 28 August 2023, not otherwise dealt with in the annual financial statements that would affect the operations of the Group or Company significantly.

SUPPLEMENTARY INFORMATION

The supplementary information presented does not form part of the annual financial statements and is unaudited.

1. Unauthorised

Unauthorised expenditure
No expenditure was classified as unauthorised during the financial year (2022: Rnil).

Fruitless and wasteful expenditure
No expenditure was classified as unauthorised during the financial year (2022: Rnil).

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 as any other relevant procurement regulations.

Reconciliation of Irregular Expenditure	2022 R'000	2021 R'000
Opening balance	12	7 529
Prior period errors	-	-
Add: Irregular Expenditure confirmed [(2)]	151	12
Less: Condoned by Accounting Authority	-	-
Less: Amounts not condoned and removed [(1)]	-	(7 529)
Less: Amounts recoverable	-	-
Closing balance	**163**	**12**

[(1)] This amount was not condoned by National Treasury but the Board had resolved to the removal thereof in terms of the National Treasury Regulations.
[(2)] this amount has been confirmed as irregular however internal audit is in the process of finalising the investigation so that irregular expenditure may be submitted to the relevant committees in line with the irregular expenditure framework.

NOTES

Small Enterprise Finance Agency

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