Ref No: 2/5/1/1

sefa

Corporate Plan

Financial Year 2018/19

Official sign-off

It is hereby certified that this Corporate Plan:

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

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

3. Accurately reflects the strategic outcome oriented goals and objectives which **sefa** will endeavour to achieve over the period 2019 – 2023.

Alroy Dirks
Head of Strategy, Planning & Reporting

Date: 27 Feb 2018

Shoki Ralebepa
Chief Financial Officer

Date: 27 February 2018

Thakhani Makhuvha
Chief Executive Officer

Date: 27 FEBRUARY 2018

Hlonela Lupowana - Pemba
Chairperson of the Board of Directors

Date: 27 February 2018

GLOSARY OF TERMS

DFIs	Development Finance Institutions
DSBD	Department of Small Business Development
SBD	Small Business Development
ECSP	Economic Competitiveness Support Programme
EU	European Union
ERM	Enterprise Risk Management
FICA	Finance Intelligence Centre Act
GEM	Global Entrepreneurship Monitor
IDC	Industrial Development Corporation of South Africa Limited
IFC	International Finance Corporation
IMF	International Monetary Fund
IGR	Intergovernmental Review
IPAP	Industrial Policy Action Plan
JVs	Joint Ventures
MTEF	Medium Expenditure Framework
MTSF	Medium Terms Strategic Framework
NDP	National Development Plan
NGP	National Growth Path
PFMA	Public Finance Management Act
SA	South Africa
sefa	Small Enterprise Finance Agency
Seda	Small Enterprise Development Agency
SMMEs	Small, Medium and Micro Enterprises
SOE/SOC	State Owned Enterprises/Companies

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Executive Summary

The *Small Enterprise Finance Agency* (**sefa**) was incorporated on 1 April 2012 in terms of Section 3(d) of the Industrial Development Act as a development finance institution with a mandate to provide financial support to SMMEs and Co-operatives. The institution was formed through a merger of *Khula Enterprise Finance* and the *South African Micro Apex Fund*. **sefa** is a wholly-owned subsidiary of the Industrial Development Corporation of South Africa Limited (IDC) and reports to the Small Business Development Department (DSBD), its Executive Authority.

As a development finance institution, **sefa** addresses a market failure in the SMME and Co-operative sector and targets high-risk market segments that are not served by commercial banks. **sefa**'s operational model has been designed to address this **market failure** by providing finance directly and indirectly. To be responsive to the needs of its diverse and complex target market, **sefa** provides funding and post investment support to SMMEs and Co-operatives in most sectors of the economy that are at different stages of the development cycle.

Achievements

sefa celebrated its 5th year of existence on 1 April 2017.

Over these five years **sefa** disbursed funding to the value of R4.3 billion to 241 537 SMMEs and Co-operatives and also facilitated the creation and maintenance of 258 091 job opportunities. A large portion of disbursed funds were targeted at the most vulnerable in society, with R2 billion disbursed to businesses in rural provinces, R943 million to youth-owned businesses and R1,7 billion to women-owned entities.

sefa delivered the above mentioned development impact through three business portfolios, Wholesale Lending (inclusive of Credit Guarantee Scheme), Direct Lending and Properties Management. Each of these portfolios have different business models, with different maturity levels, face different set of challenges and to a large extent, require different sets of skills and capabilities. It is worth noting that all of the above, were achieved whilst sefa was, at the same time, addressing complexities arising from the merger such as human capital challenges, most of which took longer than anticipated to bed down. Despite this, **sefa** managed to create a stable work environment with an engaged workforce.

During the same period, **sefa** also developed and embedded its own internal systems and procedures whilst playing an innovative and catalytic role in the market. It should be noted that **sefa** operations were extremely constrained in the early years as *Khula Enterprise Finance* and the *South African Micro Apex Fund* had limited direct lending infrastructure, expertise and experience. To address this, **sefa** consequently strengthened the newly formed Direct Lending portfolio with requisite processes, capabilities and also, increased its distribution footprint. Equally, Wholesale Lending embarked on product innovation in informal sector funding, enterprise development and structured finance solutions to complement **sefa**'s total offering.

sefa facilitated donor funding to the value of €35 million of which €5 million will be directed towards technical assistance to **sefa**. The International Finance Corporation (IFC) is also providing technical assistance through diagnostic analyses of **sefa**'s activities.

All **sefa** activities were performed within the limits of the fiscal funding allocation without experiencing any funding shortfalls. Its good governance practices were also rewarded with unqualified clean audits over the period.

Key challenges

sefa is faced with significant strategic challenges that principally relate to:

1. **Potential stagnation in its development impact**
   sefa is expected to contribute materially to the job creation drive set-out in the National Development Plan (NDP) by addressing the funding gap to SMMEs and Co-operatives, currently estimated to be 10% of Gross Domestic Product. Although **sefa** disbursed billions of rands and facilitated the creation and maintenance of thousands of jobs in the first 5 years of existence, **sefa**'s continued ability to make a material contribution to the job creation drive is now being threatened by limited capitalisation, high operating costs and high levels of impairments.

2. **The long-term sustainability struggle of sefa's client base**
   The stressed macro-economic conditions and sensitivity of small businesses to these conditions have placed strain on **sefa**'s client-base, thus impacting on their projected growth trajectory and ability to repay. This creates a need to reschedule loans and to provide business support interventions, thus adding further cost pressures on **sefa**.

3. **Leakages created by under-performing portfolios**
   The Direct Lending Portfolio is characterized by high-risk exposures with historically low levels of collections, high levels of impairments and operational costs. This is compounded by the need to develop further, skills, client orientation and system efficiencies.

   The inherited "non-core" Property Portfolio on the other hand, is plagued by deteriorating infrastructure, limited maintenance and non-paying tenants that contribute to a significant annual cash leakage.

4. **The challenge to achieve organisational financial sustainability**
   sefa's financial sustainability is impacted by; the leakages discussed above, limited scale and negative growth in interest and fee income driven by pricing constraints. **sefa**'s liquidity position is constrained by the impact of cash contingency reserves and other longer term commitments. This is exacerbated by a sharp reduction in the fiscal allocation experienced since 2016/17, thus heightening the need for urgent re-capitalisation.

5. **Sub-optimal operational efficiencies and effectiveness**
   sefa has several areas where operational efficiencies require further improvements. These include: internal human capital capacity, client orientation, information technology systems automation and product effectiveness. These challenges do not only constrain client satisfaction but also constrain optimal risk management and post-investment monitoring. To address these efficiency challenges, **sefa** requires cultural improvements across the whole organization that are accompanied by commensurate leadership and people development interventions.

2018/19 Strategy

The 2018/19 Corporate Plan lays out the strategic posture, key deliverables and outcomes that the institution plans to pursue in 2018/19. The plan was developed through a comprehensive consultative process that takes into account, all the legislative requirements as well as policy prescripts governing **sefa**, the key challenges, as well as material constraints that **sefa** faces, including, but not limited to:

- **<u>Unfunded Mandate</u>**: The mismatch between the funding-needs of the SMME and Co-operatives sector (10% of GDP) and the capitalisation level of **sefa** indicates the existence of an **unfunded mandate**.

  <u>Socio-economic development costs</u>: As a development finance institution with economic development responsibilities, **sefa** cannot fully employ measures that are at the disposal of commercial financiers, like pricing. Pricing is one of the levers that management can use to steer **sefa** towards financial sustainability. This lever is not fully available to sefa as a development finance institution. As an example, if sefa were to use its cost-plus pricing approach fully, sefa would be charging interest rates that range from 24% to 27% and not the 13% to16% that sefa is currently charging

This corporate plan assumes a strategic posture that seeks to strike a balance between delivery of its mandate and the pressing need to be financially sustainable. To this end, the 2018/19 corporate plan focuses on the following deliverables and outcomes: -

- Scale up the much needed development impact amongst SME's and Co-operatives, using innovation and leverage, whilst at the same time making a contribution to the sustainability of funded clients.
- Turn-around under-performing portfolios; Direct Lending and Property portfolios.
- Reduce operating costs, improve efficiencies, build skills and capabilities.
- Reduce impairments and improve collections.

Focus Area	Description	Financial Implications	Development outcomes
A. Upscale and deepen the development impact	1. Intensify leverage (financial & non-financial) through eco-system partnerships 2. Extend our geographic reach and impact in under-served provinces 3. New innovative product development 4. Roll out of pilot projects 5. Strategic market outreach	Over next five years • Loan Book Approval - R4.9 bn up from R4.4 bn over the past 5 years • Maintain an average cost to income ratio of 100% • Interest and dividend income of R964 mn expected • Operating loss – R49 mn • Loan Impairment – 36% • Operating Expenditure – R107 mn p.a • Personnel Expenditure – R 229 mn p.a • Increase collections to 75% on average • Cost savings of R134 mn • Reduction of property expenses R42.6 mn (offset by loss on properties sale amounting to R28mn) • Expand fund management services and improve fee income and extend development reach • Crowd in donor & other government grant funding to improve sustainability of sefa, intermediaries and small businesses • Maintain the current headcount and enhance key competencies	Over next five years • Disbursement of R5.3 bn to SMMEs and Co-operatives through all channels • Disbursement to Black owned Enterprises of R3.26bn • Disbursement to women owned Enterprises of R2.10bn • Disbursement to youth owned Enterprises of R1.4bn • Disbursement to township owned Enterprises of R2.26 bn • Disbursement to enterprises owned by Entrepreneurs with disabilities of R116.6mn • Disbursement to enterprises located in priority provinces of R2.1bn
B. Support client sustainability	1. Implement integrated service delivery model with Seda & IDC 2. Intensify post loan mentorship support 3. Improve intermediary sustainability through capitalization and business support		
C. Turnaround of under-performing portfolios	1. Improved Direct Lending investment quality through risk-based portfolio construction 2. Enhanced collections & pro-active monitoring of Direct Lending clients 3. Phased sale of the property portfolio 4. Redevelopment of properties with potential		
D. Move towards financial sustainability	1. Work towards attaining a 100% cost-to-income ratio 2. Income enhancement through review of pricing model, new income generating products & fund management 3. Cost containment measures (staff, shared services, new regional delivery model and reduced lease costs)		
E. Improved efficiency & effectiveness	1. Programme reviews & improved product design through EU technical assistance & IFC support 2. IT system automation 3. Human capital development		

Taking into account **sefa**'s strategies to deal with external and internal environmental factors, **sefa** plans to invest R5.3 billion over the next five years. This will result in 237,195 jobs being created or saved.

The funding for the Corporate Plan will be derived from the MTEF allocation. To complement the funding shortfall, **sefa** will draw down the interest free loan facility from its shareholder, the IDC. The loan facility will be utilised to finance viable SMEs in the Direct Lending and Wholesale portfolios. The following business model adjustments will be effected to enable **sefa** to repay the loan.

- Recalibrate Direct Lending investment model to make provision for a balanced portfolio comprising of start-up financing, contract-based financing (Public and Private sector procurement) and more franchise-based system of financing;

- Dispose non-strategic and loss-making properties;

- Implement an Integrated Service Delivery model with Seda and the IDC to provide seamless pre- and post-investment developmental support to SMMEs and Co-operatives;

- Contain costs by optimising the national distribution access points, implementing back-office initiatives and reducing other operational costs;

- Introduce low-risk, high volume products such as the Invoice Discounting and the proposed Township Financing Solution;

- Accelerate automation of key business processes;

- Complement state funding with the International Donor support;

1. STRATEGY OVERVIEW

1.1 Background

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

sefa is a wholly owned subsidiary of the Industrial Development Corporation (IDC) and derives its legislative mandate from the IDC Act No. 22 of 1940 (as amended 2001). **sefa** reports to the Department of Small Business Development and has done so since the reorganisation of some national departments announced by the President in May 2014.

1.2 Legislative and Policy Mandates

sefa's operations are governed and guided by a wide range of legislative requirements and government policies. The following are the key legislative instruments and government policies that inform **sefa**'s strategy and operational plans:

National Legislation	Government Policy / Strategies
Industrial Development Corporation Act	White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995)
National Small Business Act (1996) as amended in 2004	Integrated Small Enterprise Development Strategy (2004)
National Credit Act	2011 State Owned Enterprise (SOE) Presidential Review
Financial Intelligence Centre Act (FICA)	New Growth Path (NGP)
Public Finance Management Act (1999, as amended)	Industrial Policy Action Plan (IPAP)
Treasury Regulation 29.1.3 requirements	National Development Plan (NDP)
Companies Act of 2011	Government's Medium Term Strategic Framework (MTSF) - Outcome 4: Create Decent Employment Through Inclusive Growth
Co-operatives Amended Act	
Short Term Insurance Act	
Consumer Protection Act, 2008	
Promotion of Access to Information Act, 2000	

1.3 sefa's Vision, Mission and Values

sefa's mission statements, core objectives and intended outcomes of its interventions are depicted in the figure below.

Vision

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

Mission

To provide simple access to finance in an efficient and sustainable manner to SMMEs and Co-operatives throughout South Africa by:

- providing loan and credit facilities to SMMEs and Co-operative enterprises;
- providing credit guarantees to SMMEs and Co-operative Enterprises;
- creating strategic partnerships with a range of institutions for sustainable SMME and Co-operative enterprise development and support;
- developing, through partnerships, innovative finance products, tools and channels to catalyse increased market participation in the provision of affordable finance.

Objective

- Increase access and provision of finance to SMMEs & Co-operatives and contribute towards job creation
- Build an effective and efficient sefa that is sustainable and performance driven

Values

Kuyasheshwa! | Passion for development | Integrity | Transparency | Innovation

1.4 Strategic Objectives

sefa's strategic objectives are driven by the need to maximise developmental impact through provision of finance to SMMEs and Co-operatives and at the same time ensure long-term sustainability of the organisation. **sefa**'s strategy pillars are provided in the figure below. This structure forms the basis for the balance scorecard and key performance indicators, discussed later.

Focus Area	MAXIMISE DEVELOPMENT IMPACT	TOWARDS A SUSTAINABLE ORGANISATION		
	CUSTOMER & STAKEHOLDER	FINANCIAL	INTERNAL BUSINESS PROCESSES	ORGANISATIONAL LEARNING & GROWTH
Strategic Objective	• Increase access to credit and finance • Build strategic partnerships • Increase the use of the Credit Guarantee Programme • Grow the sefa customer base • Consolidate the direct lending loan book	• Build a financial sustainable sefa • Improve the financial ratios	• Efficient and Effective process and systems • Adopt best practice governance systems and procedures	• Build a high performance organisation • Build one sefa culture
Measure	• Approvals and Disbursements • Customer Satisfaction • Increase development impact on targeted groups	• Revenue Growth • Financial Sustainability	• Improved application turnaround times • Quality reporting • Quality decision making • Unqualified audit	• Increased employee satisfaction and engagement • Entrepreneurial organisational culture

1.5 sefa's main business and funding activities

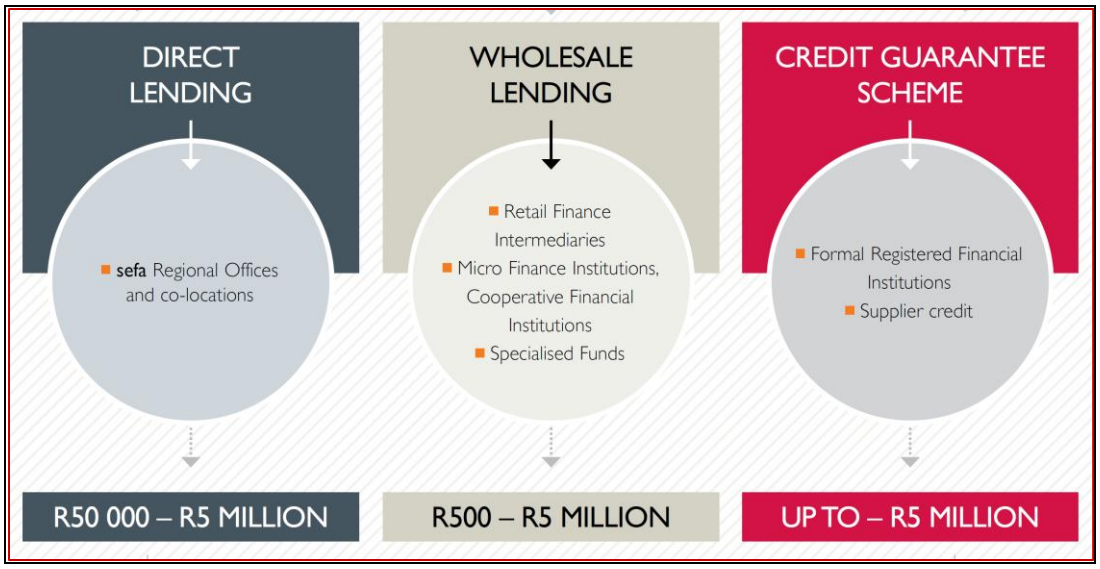
sefa's main business and funding activities, listed below, are aligned to the key activities of a development financing institution, namely: playing a catalytic role to attract other industry players; closing funding gaps in the market and risk funding aimed at the development of entrepreneurs.

Products	Targeted ownership groups	Sectoral involvement
• **Direct Loans** (asset finance, Term Loans, Revolving loans & Bridging loans, Purchase Order Product & Amavulandlela Scheme for entrepreneurs with disabilities) • **Wholesale Loans and Equity** (on-lending facilities, Funds & joint ventures, Micro-finance, Structured Finance Solutions) • **Business Support** (Institutional strengthening, technical support & mentorship) • **Credit Guarantees** (Credit Indemnity guarantees & Supplier guarantees) • **Rental Property**	• SMMEs & co-operatives that are unserved and underserved by commercial lenders – women, – black people, – youth, – Township enterprises, – rural communities and – people with disabilities.	• **Services** (including retail, wholesale, IT and tourism, transport logistics); • **Manufacturing** (including agro-processing); • **Agriculture** (specifically land reform beneficiaries and small-farming activities). • **Construction** (small construction contractors); • **Mining** (specifically small miners) and • **Green industries** (renewable energy, waste and recycling management).

sefa's operating model makes provision for financing and business support **directly** to SMMEs and Co-operatives through its regional office network and **indirectly** through intermediary financial institutions such as Retail Finance Intermediaries (RFIs), Microfinance Finance Institutions (MFIs), Funds, Joint Ventures (JVs) and Co-operative Financial Institutions (CFIs).

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

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



1.6 Alignment with the Department of Small Business Development

During the 2015/16 planning cycle, DSBD, **sefa** and Seda embarked on a planning process that culminated in the development of a Portfolio Strategic Framework 2015/16 – 2019/20 that fits into the overall Strategic Framework for the Small Business Development Portfolio. Based on this

framework, DSBD, **sefa** and Seda have agreed on five high level strategic outcome oriented goals for the period 2015/16 – 2019/20. The five high level strategic outcome oriented goals, goal statements, national policy alignment and **sefa**'s contribution and goals are detailed below.

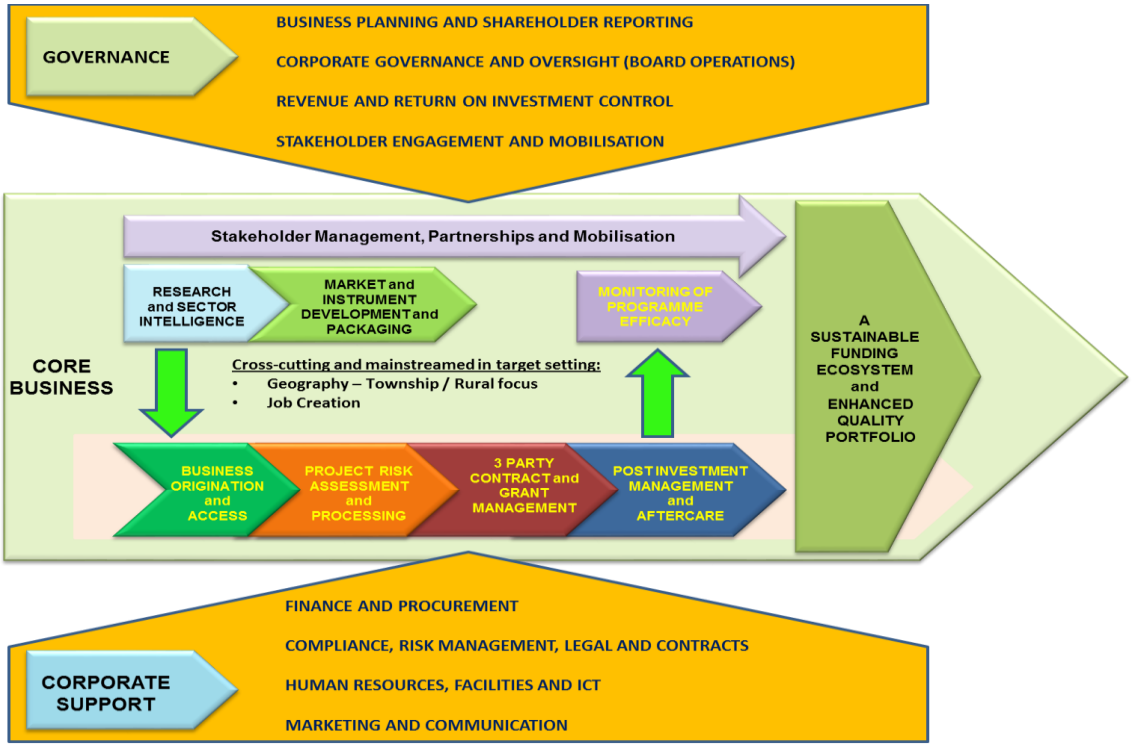
Portfolio Strategic Outcome-Orientated Goals –sefa's contribution

Portfolio Strategic Outcome-Orientated Goal	Goal Statement	National Policy Alignment	sefa Contribution and Role
1. Policy and planning coherence in the sector, that promotes an enabling ecosystem for SMMEs and Co-operatives.	The Portfolio will drive policy and planning coherence, and an enabling ecosystem in the sector, by: ▪ Providing direction and leadership to the sector broadly and across all 3 spheres of government. ▪ Leading evidence based legislative, regulatory and policy review and refinement. ▪ Leading and strengthening IGR mechanisms and fora to improve coordination with national departments, agencies, provinces and municipalities.	**NDP and MTSF Sub-Outcomes:** 4.3.2: Measure and reduce delays and unnecessary red tape around authorisations needed for provincial investments. 7.6.1: Promote sustainable rural enterprises and industries in areas with economic development potential.	• **sefa** will implement streamlined business processes to reduce application turnaround times and customer complaints**.** • 45% of **sefa** funding will be channelled to priority rural provinces (Limpopo, Mpumulanga, Northern Cape, Eastern Cape, Free State and North West)
2. Equitable access to responsive and targeted products and services that enables the growth and development of SMMEs and Co-operatives.	The Portfolio will ensure equitable access to responsive and targeted products and services by: ▪ Coordinating and integrating support services to small businesses and Co-operatives, in particular those in townships and rural areas.	**NDP and MTSF Sub-Outcomes:** 4.5.2: Township and rural economies supported and report on the impact in terms of the number of business supported, value of the grant approved and geographic location of the supported businesses.	**sefa**'s loan programmes are targeted at the following groups – youth, women, rural communities, township owned businesses and business owned by entrepreneurs with disabilities.
3. An enhanced contribution to socio-economic development outcomes by the sector.	The Portfolio will enhance the sector's socio-economic contribution by: ▪ Monitoring and evaluating the impact of investments made in small business development and the sector's contribution to economic growth and job creation, to inform evidence-based decision-making. ▪ Strengthening support to ensure the mainstreaming of the sector into the formal economy.	**NDP and MTSF Sub-Outcomes:** Outcome 4: Decent employment through inclusive growth. Outcome 7: Vibrant, equitable, sustainable rural communities contributing towards food security for all.	**sefa** contributes to socio economic development by: In the 2018/19 FY sefa will fund 72 200 SMMEs and Co-operatives and in the process facilitate 74 443 jobs.
4. Sound governance and the optimal utilisation of available resources.	The Portfolio will ensure sound governance, effectiveness and efficiency in its operations	**NDP and MTSF Sub-Outcomes:** Secondary to Outcome 12: An efficient, effective and development-oriented public service.	**sefa's** Governance, Risks and Compliance programme is focussed at ensuring effective institutional management aimed at pro-actively identifying and mitigating institutional risks, compliance and the effective utilisation of resources.

Portfolio Strategic Outcome-Orientated Goal	Goal Statement	National Policy Alignment	sefa Contribution and Role
5. A professional and capacitated SBD Sector.	The Portfolio will build a cadre of capable and skilled professionals in the sector, and among its own staff ▪ Building human resource capacity and promoting a culture of high performance. ▪ Supporting efforts to promote an entrepreneurial culture across society.	**NDP and MTSF Sub-Outcomes:** Secondary to Outcome 5: A skilled and capable workforce to support an inclusive growth path.	**sefa** will invest in a National Mentorship Programme to support its funded clients during the investment phase.

Furthermore, to provide integrated support to SMMEs and Co-operatives, the Small Business Development Portfolio has developed the following service delivery model, which articulates the role that **sefa** must play to ensure attainment of the strategic outcomes alluded to above.

sefa Value Chain



sefa plays a crucial role in the provision of finance to small businesses, particularly start-up businesses. As an agency of the DSBD, **sefa**'s programmes are responsive to the Department's policy initiatives such as those aimed at addressing imbalances of the past.

To offer a holistic approach to small business development, some of these programmes are carried out in collaboration with Seda, which is instrumental in providing non-financial support. **sefa**'s role in DSBD portfolio strategy is to enhance the financial inclusion of the small business sector and to build a sustainable funding ecosystem that responds with speed, to small enterprises' needs.

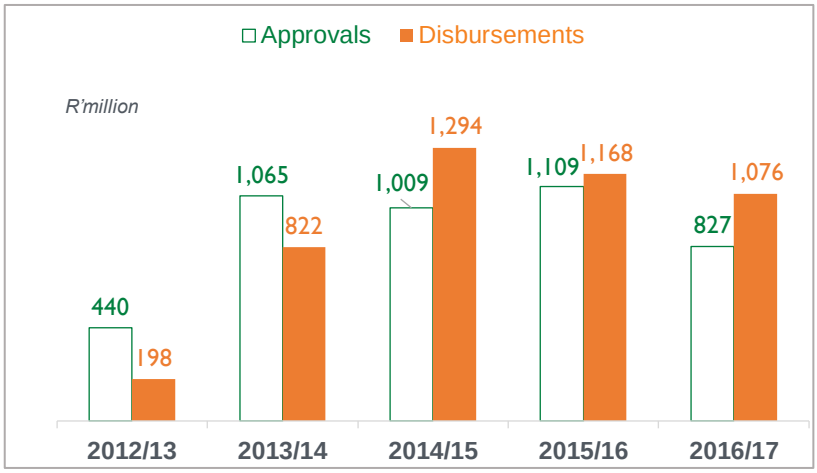
2 PERFORMANCE REVIEW

2.1 Development Impact

sefa celebrated its 5th year of existence on 1 April 2017 and has made substantial progress in its drive to establish a robust organisation with capacity to execute its mandate. **sefa** designed and implemented support programmes to respond to the funding needs of the marginalised and excluded SMMEs and Co-operative Enterprises.

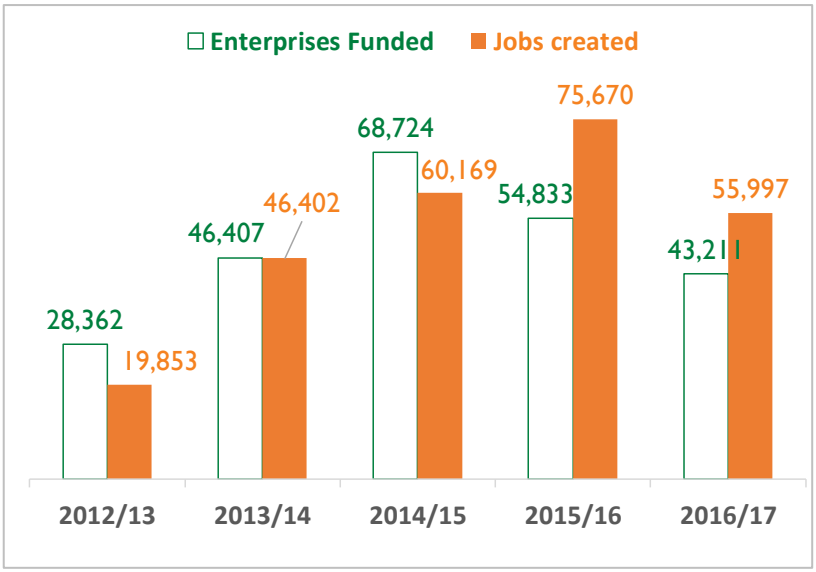
In pursuit of its mandate **sefa** has facilitated access to finance for SMMEs and Co-operatives to create jobs and reduce unemployment. **sefa** made approvals to the South African economy to the value of about R4, 4 billion and disbursed R4, 3 billion during the period 2012/13-2016/17. Through its funding, **sefa** has unlocked the latent potential in small businesses, thus enabling them to participate effectively in key sector value chains.

sefa's investment Activity



During the same period, 241 537 businesses were financed, thus, facilitating the maintenance and creation of 258 091 jobs. This is a significant contribution relative to comparable institutions in South Africa.

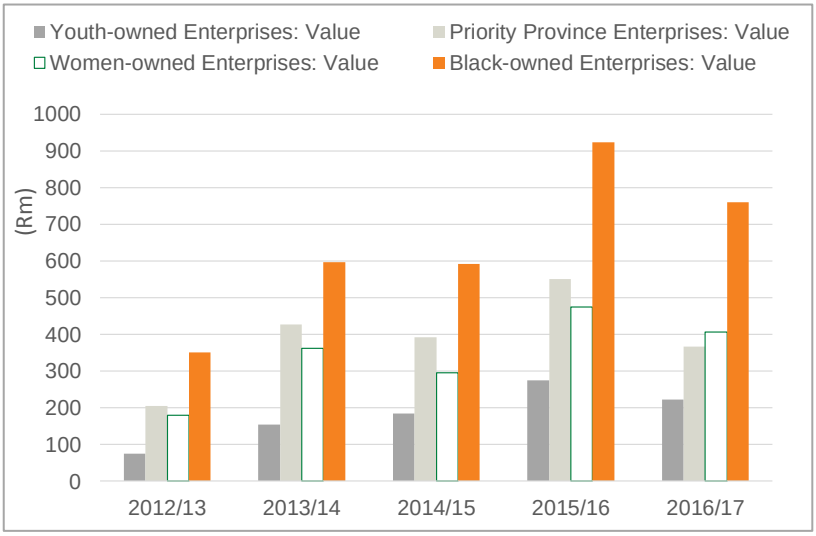
Impact of sefa funding



The utilisation of **sefa** funds in these 241 537 businesses, had a significant impact on income generated for entrepreneurs, employees, suppliers and increased spending in the economy. This ultimately contributed to the generation of income for the State through payment of direct and indirect taxes.

Women-owned businesses received disbursements of R1,7 billion while youth-owned businesses received R943 million and R2 billion was disbursed to priority rural provinces.

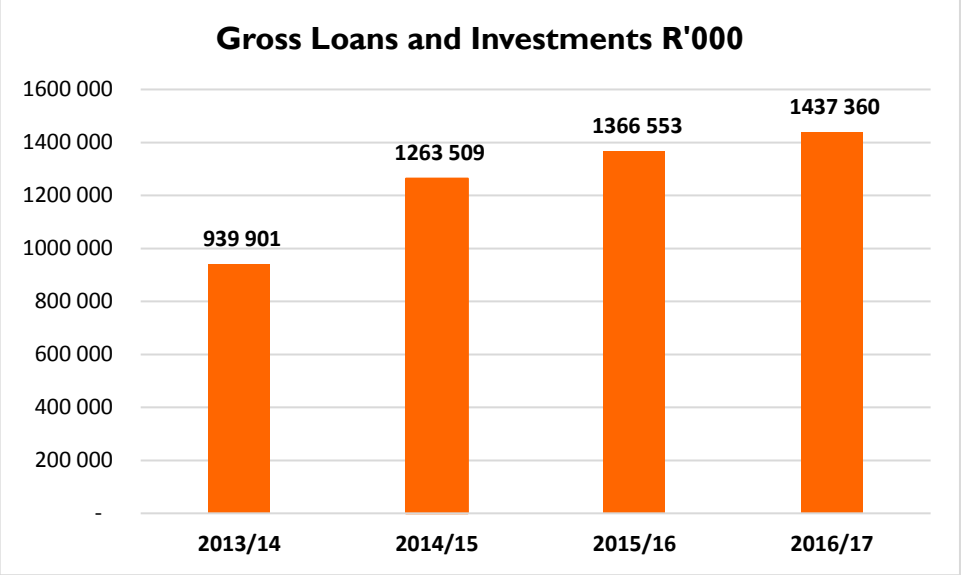
Funding to targeted groups



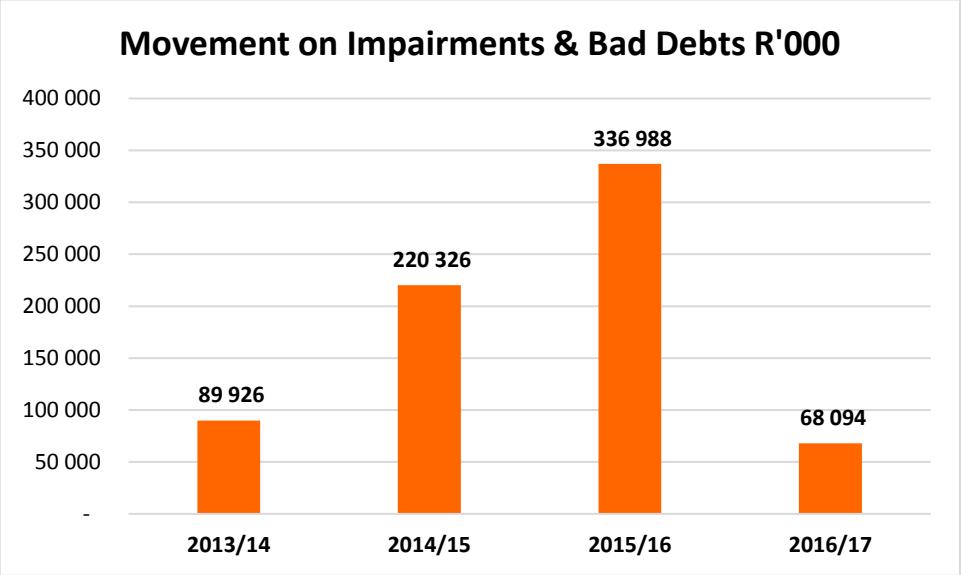
The relatively high developmental impact of **sefa** is illustrative of the need for **sefa**-type funding and the gap that **sefa** currently fills. The aggressive drive by **sefa** through its marketing activities, pro-active partnership selection and innovative structuring of investments stimulated the impact of its activities. These outcomes were also supported by the funding provided to micro and informal enterprises, which dominate **sefa**'s impact in number terms.

2.2 Loan Book and Impairments

Over the past four years, **sefa** gross loan book grew by over 50% in nominal terms from R939 million to R1.4 billion in 2017. This growth was stimulated by an acceleration in the Direct Lending book and revolving loan facilities in the Micro Finance Loan programme.



The growth in impairments and bad debts was driven by the Direct Lending loan book and clients' inability to honor their loan repayments. **sefa** is a lender of last resort to majority of clients, thus exposing the loan to high risk clients (with low or no collateral) and businesses in start-up phase. The improvement in impairment and bad debts was driven by the decline in disbursements on the Direct Lending and the strengthening of the Post Investment function, which boosted loan collections.



2.3 Other Achievements

Apart from maintaining high development impact in the market, **sefa** also had to address with most of the complexities associated with a merger process internally. Priority was given to acquisition and development of skills and competences, organisational culture, staff commitment as well as embedding of **sefa** values. The institution has created a stable work environment with an employee engagement survey outcome indicating a positive perception of 77%.

sefa also developed and embedded its own internal systems and procedures whilst at the same time, playing an innovative and catalytic role in the market. **sefa**'s robust internal audit function provides guidance to ensure compliance with systems and procedures and to ensure self-correction and improvement. The institution's governance practices were also rewarded by unqualified clean audits over the five-year period.

sefa created the new direct lending funding platform with the necessary decentralised footprint to provide accessibility to those previously neglected. Currently **sefa** has 82 access points throughout South Africa, 24 of which are specialised access points through our wholesale partners. Moreover, the **sefa** brand has been positioned to emphasize the accessibility of its products and service to SMMEs and Co-operation Enterprises.

The drive to reduce impairments in the direct lending portfolio has resulted in improved investment quality, collection rates as well as a lower portfolio-at-risk for investments made after 1 April 2016. To note, Direct Lending average monthly collection rates increased from 68% in 2015/16 to 73% in 2016/17 to 97% in 2017/18 (*All in collections rate*). Workout and restructuring capacity has been established and in 2016/17 forty loan accounts amounting to R98 million were rescheduled. **sefa**'s mentorship panel has also been enhanced through accreditation of 128 consulting companies.

The dynamic wholesale lending activities were characterised by product innovation in informal sector funding, enterprise development platforms and new structured finance solutions. The Division facilitated donor funding to the value of €35 million of which €5 million will be directed towards technical assistance to **sefa**. The *Khula Credit Guarantee* (KCG) product has been converted into a compliant insurance product with a new focus an approach to market.

sefa embedded a customer centricity as evidenced by 77.3% positive outcome of an independent customer satisfaction survey. Due to systems improvements, turnaround times also started to fall within the corporate target range.

All the institutions' activities were done within the limits of the fiscal funding allocation without experiencing any funding shortfalls.

2.4 Lessons Learnt

sefa has been adaptive and made significant adjustments to its lending model from lessons learnt from its target market, stakeholders as well as internal experiences. These include the following:

Lessons' learnt	Sefa adaptability
Focused, relationship-based and pro-active post investment monitoring approach is required to address challenges posed by lack of adequate collateral.	**sefa** has adjusted its approach away from "cradle-to-grave" and implemented a dedicated focus on impairment reduction interventions, which are now starting to yield positive results. Additionally, capacity building programmes in PIM are being implemented. Productivity measures will be implemented to drive towards High Performance Organisation.
High levels of impairments in the Direct Lending Portfolio.	Besides the creation of a dedicated focus on post investment support and collections, the Direct Lending activities entered a period of deliberate consolidation to allow for improvement in the process in preparation for scaling up. Systems and procedures have been developed, skills have been enhanced through training from Business Partners, whilst templates and checklists have been designed to assist Investment Officers.
New focused models are required to support the informal sector	The Wholesale Lending Division started to play a pro-active role in the micro-finance market by supporting innovative pilot projects that typically reduce the cost of lending to the informal sector.
The Direct Lending portfolio is relatively more successful in smaller and shorter-term contract-based loans.	The Direct Lending Division has therefore made the strategic choice to adjust its focus to less complex contract-based finance transactions, whilst pursuing building its human capital capacity toward more complex transaction skill levels through its partnership with Business Partners Limited.
sefa needs to be responsive to the needs of its target market.	**Sefa** initiated an innovative approach to product development, which includes, amongst others, the piloting of untested models, the development and implementation of new products such as structured finance solutions, **sefa** Micro-direct, supplier credit, portfolio guarantees, a purchase order loan product, a scheme focusing on the funding requirements of entrepreneurs with disabilities and guarantees aimed at the non-banking sector.
Partnership selection monitoring is key to the successful implementation of wholesale facilities, pilot projects and structured finance solutions.	The Wholesale Lending Division has therefore improved its verification methodologies of the capabilities of strategic partners to deliver on their respective mandates. Periodic review sessions involving all key stakeholders are being implemented to obtain congruency in learnings and understanding of the different stages in the planning and implementation.
Non-financial support is of critical importance to assist new entrepreneurs to deal with internal and external challenges experienced.	**sefa** has therefore appointed a pool of mentors to assist in supporting its portfolio clients.
Lack of adequately skilled staff for Direct Lending complex due diligence	Human Capital interventions range from (a) refocusing of the business to adjust to skills levels; (b) Re-allocation of staff to positions more appropriate; (c) role clarity and focus; (d) detailed performance management; (e) learning interventions; (f) recruitment; (g) leadership coaching; (h) consequence management; (i) staff engagement; (j) Internal capacity support; (k) value and culture initiatives.

Low uptake of Khula Credit guarantee from Commercial Banks	**sefa** responses include: (a) Extending the Credit Indemnity Scheme to non-bank financial institutions; (b) Introduction of portfolio guarantees; (c) Roll-out of guarantee to facilitate supplier credit; (d) Active training and marketing of Indemnity Scheme to financial institutions to stimulate current products; (e) Supporting a National Treasury led study on Partial Credit Guarantees; (f) FSB compliance; (g) Efficient processing for approvals and claims.

3 KEY STRATEGIC CHALLENGES

sefa, however, is faced with significant strategic challenges that principally relate to:

Potential stagnation in its development impact **- sefa** is expected to contribute meaningfully to the creation of 90% of the 11 million job opportunities by 2030 envisioned in the National Development Plan (NDP) and to address the SMMEs and Co-operative funding gap estimated at 10% of Gross Domestic Product. **sefa**'s ability to deliver on these expectations is now being threatened by limited capitalisation as well as internal factors, such as, high operating costs and high levels of impairments.

The long-term sustainability struggle of sefa's client base **-** The current stressed macro-economic conditions and the sensitivity of SMMEs and Co-operatives to these conditions, place strain on **sefa**'s target market and client-base. These conditions do not only affect clients' ability to repay **sefa**'s loans, but also change their projected growth trajectory, thus leading to an increased need to reschedule loans and to provide business support.

Leakages created by under-performing portfolios **-** The Direct Lending Portfolio is characterized by high-risk exposures with historically low levels of collections and unsustainable high levels of impairments. Contributing to the high level of impairments were external factors such as an environment of low economic growth and a lack of payments by clients (some driven by factors such as moral hazards). Also, internal factors such as low levels of skills in due diligence and post investment/collections management, a sub-optimal mentorship programme and limited post investment management capacity.

sefa, inherited a property portfolio. The management of the portfolio is experiencing challenges that include; ownership disputes, rental boycotts and lack of maintenance. These challenges are putting severe strain on **sefa's** financial resources.

The challenge to achieve financial sustainability **-** The institution's financial sustainability is directly challenged by high costs associated with the abovementioned portfolios. **sefa** is not operating at the required scale for its current cost structure and is also experiencing negative growth in interest and fee income as its pricing does not reflect the true risks and costs associated with these investments. Its liquidity position is constrained by impact of cash contingency reserves and other longer term commitments. This is exacerbated by the sharply reduced fiscal allocation experienced since 2016/17.

Sub-optimal operational efficiencies and effectiveness **- sefa** has several areas where operational efficiencies can be improved. These relate to internal human capital capacity, client orientation, information systems automation and products. These challenges do not only constrain client service/satisfaction/turnaround but also optimal risk management and post-

investment monitoring and require people and leadership development as well as cultural improvements across the organization.

4 CURRENT OPERATING ENVIRONMENT

sefa is mandated to address a market failure. As a result, **sefa** operates in a high-risk market segment where funding is directed to businesses that will not be able to obtain funding from the private sector. In addition, **sefa** is a highly complex and diverse business that is currently constrained by external and internal challenges.

4.2 Situational Analysis

General Economy

South Africa's economic performance has remained subdued for most of **sefa**'s existence, characterised by low consumer and business confidence. This has not only impacted negatively on SMMEs and Co-operatives - who are usually highly sensitive to economic conditions - but also the ability of government to capitalise **sefa**.

Distressed economic conditions have a twofold effect on SMMEs and Co-operatives:

- On the one hand, the high unemployment rate, which is currently at 26.7%, results in people venturing into business out of necessity and not necessarily due to identified business opportunities.
- On the other hand, low consumer and business confidence weighs heavily on household consumption expenditure, production activity and fixed investment. SMMEs and Co-operatives consequently experience strain through a reduction of orders, none or late payment of creditors as well as general uncertainty.

Government finances have been constrained by increasing and competing demands on a shrinking tax base. **sefa** has directly experienced this through a reduction in the standard MTEF and the ECSP allocation. It is foreseen that the fiscus will remain constrained due to consolidation efforts in a very modest growth environment. With revenue collection subdued, government's purse and its ability to spend will remain largely constrained. The importance of SMME development is, however, clearly indicated by the development of new funds such as the planned *SME Innovation Fund*.

Consensus estimates project an improved global economic outlook, with synchronised strength in the US, Eurozone and emerging markets. World Gross Domestic Product (GDP) is projected to grow at an annual average of 3.8% during 2018-2022 (IMF), compared to 3.6% over the past 3 years. Despite low export propensity of South African SMMEs and Co-operatives, improving global conditions could lead to improved export opportunities for such entities.

Export opportunities might be more prevalent in the rest of the African continent, which is expecting a Regional GDP growth of 3.6% p.a. for 2018-2022, compared to the 2.7% estimated for 2017 (IMF).

The South African economy is also expected to experience increased economic activity in light of optimistic global economic outlook. This augurs well for trade activities, business and consumer confidence levels. To note, the SA economy is expected to expand at 2.6% p.a. on average, for the period 2018-2022 (IDC projections). Whilst this is an improvement compared to the previous year's performance, this growth rate still falls short of the 5.4% NDP's average annual growth target.

In addition, the projected growth trajectory is not sufficient to have a significant impact on income inequality, poverty, unemployment particularly on vulnerable areas and segments of society. In this environment, the need for the role of development finance institutions such as **sefa** becomes heightened and critical.

A more concerted effort to enforce public sector procurement of locally produced goods, whether via product designation or improved localisation initiatives, should enhance, sustain or open up market opportunities for SMME and Co-operative players in the relevant industries.

Monetary-policy easing could reinforce the growth pattern, if the disinflationary trend, evident in 2017, gathers pace. A lower interest rate environment is likely to reduce **sefa**'s margins as its lending rates are prime-based, but its cost of capital is non-interest bearing.

Key risks in the macro environment for the months ahead include: the political election cycle, Moody's review of South Africa's sovereign credit rating and the response by consumers, business enterprises and the investment community to these developments.

SMMEs & Co-operatives

The latest *Real State of Entrepreneurship Survey 2017* published by the *Seed Academy* indicated the following insightful findings that are relevant for **sefa**'s strategic orientation:

- Female entrepreneurs are still in the minority, but the gap between male and female entrepreneurs is narrowing.
- There is room to further stimulate youth entrepreneurship. There has been a decrease from 63% to 57% of youth-owned business representation in this survey from 2015 to 2016.
- A significant number of entrepreneurs fail and try again. 45% of entrepreneurs surveyed reported that they had previously failed in business, demonstrating their commitment to the entrepreneurial journey.
- Most entrepreneurs are still going solo. 68% of businesses surveyed were founded by one person, 37% have no employees and 64% of them operate from home. This might be due to the size of the businesses that responded, but building capacity should be encouraged for sustainability.

- Sectors strongly represented in the findings are weakly aligned to Government's priority sectors. IT, Business Services, Construction, Marketing and Public Relations and Creative sectors are the top five sectors represented. Priority sectors for Government include Manufacturing, Construction, Utilities and Telecoms.

- Most businesses cannot sustain livelihood of owners. 52% of businesses surveyed are pre-revenue with 73% generating revenues of less than R100,000 per annum.
- Strong personal networks and access to business support emerge as main reasons for success in businesses 2.5 years and older. 33% of entrepreneurs surveyed indicated that their success could be attributed to strong personal networks, 19% cited access to business support and 17% said proper planning were main factors.
- Access to markets and financing are seen as top challenges where support is required. These are cited by entrepreneurs as follows: access to markets (67%); and financing issues (37%).
- Most businesses are funded by their owners, friends and family. 95% of businesses are funded by a combination of owner's funds and funds from owners' friends and family. However, only 18% had tried to apply for funding from banks and DFIs with the others having different reasons for not applying, one of which is that they don't know where to go.
- The majority of entrepreneurs have not yet tried to apply for funding from banks and DFIs. Main themes from reasons stated for why entrepreneurs have not yet tried to apply for funding include the following: business not yet funding ready, cost of capital is too high and business and/or entrepreneur do not qualify for funding.

The *Global Entrepreneurship Monitor* (GEM) report on South African Entrepreneurship (2016/17) highlighted three aspects as critical for effective entrepreneurship development in South Africa: (a) Access to finance; (b) Government policies relating to the regulatory environment and labour laws; and (c) Education and training. Some of the findings and recommendations in terms of access to finance are:

- Insufficient support is provided to entrepreneurs at the very early stages of development.
- The turn-around time for financial support approval needs to be improved - small business owners who have to wait six months or more for approval lose opportunities.
- To reduce the perceived high risk of seed capital investment, alternative finance vehicles may be needed, possibly backed by government to enable entrepreneurs to obtain seed capital without the stringent requirements required by commercial banks.
- Collaborative efforts between development finance institutions and private investors may reduce the risk borne solely by an individual institution and potentially increase the risk appetite of investors.
- Attention should be given to micro-funding models coupled with training/mentoring, especially during the first year of operation.
- The lack of transparency in how decisions to finance small business ventures are made in state-owned development institutions has led to cynicism. More transparency and monitoring of grants and subsidies would help to eradicate this perception.
- Tax breaks should be offered for those investing in new companies below a certain size, to encourage angel investment in new ventures.

The abovementioned aspects provide context of **sefa**'s operational environment.

4.3 Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

Management conducted a strategic assessment of the **sefa** operating environment. The table below provides a high-level view of the strengths, weaknesses, opportunities and threats.

Strengths	Weaknesses

• Uniqueness and relevance of **sefa**'s mandate
• National presence – Regional office network and its partner institutions
• Capacity to mobilize strategic partners and alliances
• Ability to facilitate innovation (new product development)
• Good governance (unqualified audits with no findings)
• In-house loan administration system (**sefa**LAS).
• Business development support through Khula Institutional Support
• Complementary relationship with Seda.
• IDC institutional and financial support
	• Legacy issues resulting from merger
	  ○ human capital
	  ○ properties
	  ○ certain old partnerships
	• High cost of lending to SMMEs & Co-operatives
	• Quality of the Loan Book resulting in high impairments
	• Organisational capabilities & culture
	• Non-integrated product offering, processes and accessibility
	• Low uptake of the Credit Indemnity Scheme
	• Socio-economic responsibility that create a cost structure that requires subsidisation.

Opportunities	**Threats**
• Political support to grow **sefa**'s loan book • Huge demand for SMME & Co-operative finance • Public sector 30% procurement set aside • Private sector enterprise development (ED) activities and BEE code alignment • Leveraging of R15,5 billion allocation to SMMEs & Co-operatives across government departments • Grant funding opportunities & Fund Management • Relationship with public sector and DFIs • Local Economic Development opportunities through relationships with municipalities & traditional authorities.	• Low levels of capitalisation resulting in an unfunded mandate • High risk target market • Lacklustre recovery in macro-economic conditions • Sub-optimal entrepreneurial eco-system • Fiscal constraints and reduced fiscal grant allocation • Unwillingness of certain entities to provide cessions • **sefa** sustainability

5 SEFA'S KEY FOCUS AREAS - 2018/19

The 2018/19 Corporate Plan was compiled through a consultative process that includes: Ongoing engagements and quarterly reporting to the Portfolio Committee on Small Business Development; Regular engagements with the Executive Authority and the shareholder; Internal engagements with staff and management and; a strategic planning session with the Board of Directors. The 2018/19 Corporate Plan is informed by Governments' economic policy (NDP, IPAP, NGP, MTSF); the DSBD Strategy Framework and the IDC objectives.

In developing this strategic roadmap, **sefa** took cognisance of the following material constraints:

- **<u>sefa's Unfunded Mandate</u>**: The mismatch between the funding-needed by SMME's and Co-operatives (10% of GDP) and the capitalisation level of **sefa** indicates the existence of an **unfunded mandate**.

- **<u>sefa's socio-economic development costs</u>**: As a development finance institution, **sefa** cannot fully employ measures that are at the disposal of commercial financiers. **sefa**'s socio-economic development responsibility impacts directly on its costs and financial sustainability. These responsibilities include geographic accessibility throughout the Republic, affordable pricing of its products, funding to a high-risk and vulnerable market segment (such as start-ups), un-collateralised lending, provision of non-financial services (business support/mentorship), a patient/developmental approach to non-paying clients/tenants, management of the non-core property portfolio and the protection of jobs within **sefa**.

Given the above, **sefa** will for the first time draw down on the shareholder loan to capitalise the business to maintain its lending activities. These funds will be directed towards more commercially viable finance opportunities in the SMME and Co-operatives sector. In addition, **sefa** will make the following key changes to the business model:

- Recalibrate Direct Lending investment model to make provision for a balanced portfolio comprising of start-up financing, contract-based financing (Public and Private sector procurement) and more franchise-based system of financing;

- Dispose non-strategic and loss-making properties;

- Implement an Integrated Service Delivery model with Seda and the IDC to provide seamless pre- and post-investment developmental support to SMMEs and Co-operatives;

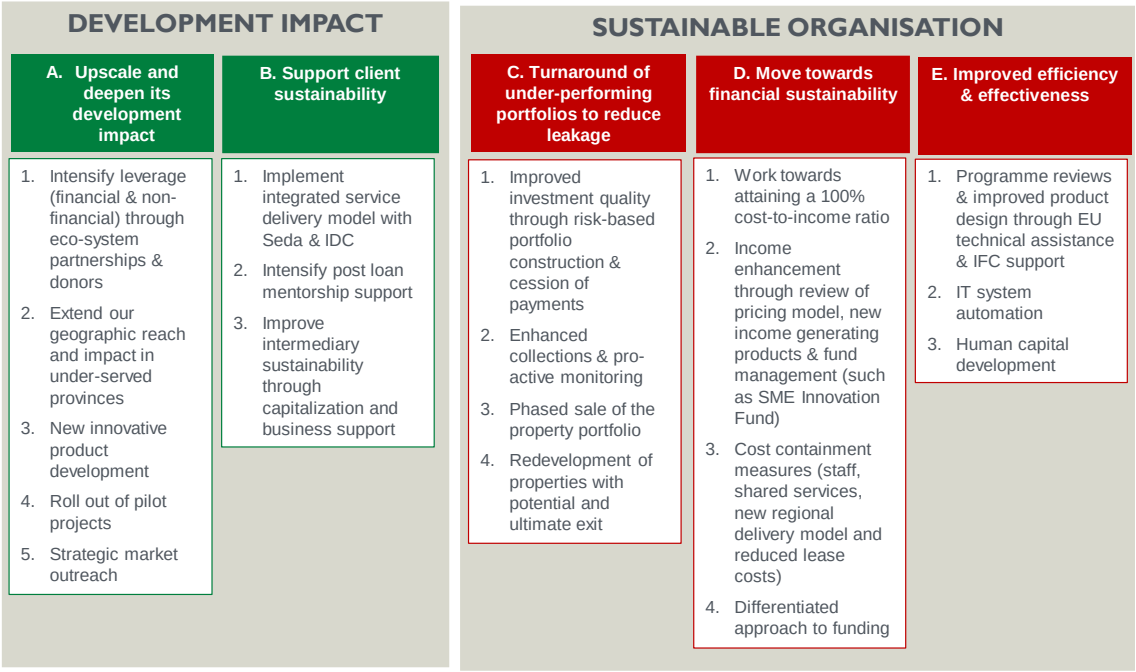
- Contain costs by optimising the national distribution access points, implementing back-office initiatives and reducing other operational costs;

- Introduce low-risk, high volume products such as the Invoice Discounting and the proposed Township Financing Solution;

- Accelerate automation of key business processes;

- Complement state funding with the International Donor support;

Based on the assessment of strategic operating environment and operational performance, the following key focus areas have been identified.



It should be noted that all the sefa programmes are discussed in detail in Annexure 2.

5.2 Scale up innovatively and deepen sefa's development impact

- **Leverage and build new innovative partnerships within the eco-system.** To increase organisational outreach, deepen impact and complement its financial and programme implementation capacity, **sefa** will invest in strategic partnerships with multi-lateral and donor organisations. In addition, **sefa** will pursue partnerships with Corporate South Africa on enterprise development, broaden the Khula Credit Guarantee Facility to non-banking institutions and implement a new approach to Co-operative lending. In Direct Lending partnerships are intended to assist in fast-tracking the bankability of SMEs and Co-operatives, to reduce the risk profile of the portfolio - especially through non-financial support as well as financial syndication - and to assist in the sectoral diversification of the portfolio.

- **Extend geographic reach and impact in under-served provinces innovatively** via **sefa**'s Informal and Micro Enterprise Finance Programme. To expand access to its SME finance facilities **sefa** will introduce an electronic front-end to improve customer processes (such as turnaround times and customer communication). A new innovative Direct Lending regional delivery model will also be introduced, consisting of the following:
    - The creation of Regional Hubs that are well capacitated with adequate skills (inclusive of Credit Analysts) from where all investment assessments will be coordinated.
    - **sefa** application centers will be established at associated agencies such as Seda and LED Offices where officials at these institutions will be empowered to receive and screen applications. The front-end application will be fully automated through the web-based **sefa** system and will be used by all application centers.
    - Provincial relationships and pro-active support for provincial and local projects will be maintained through dedicated Provincial Business Development Managers but co-located with partner institutions

- **sefa**'s corporate marketing effort will also focus on these under-served areas and the prioritised targeted groups.
- **Introduce new and innovative products** such as Direct Lending Invoice Discounting and the Township Financing Solution. Invoice discounting will address a market failure, which is currently prevalent in the funding of government sector invoices. The product has been designed to be a high volume, high revenue and a low-cost offering and will be instrumental in moving the Direct Lending Portfolio towards financial sustainability. The Township Financing Solution is geared to support enterprises that operate in the peri-urban townships with cheaper input goods, credit, business management support and logistics.
- **Roll-out of pilot projects** such as Micro-Direct and Supplier Credit. These pilot projects were aimed at increasing access and reducing the cost of credit to Micro Enterprises by partnering with Municipal fresh produce markets and other input suppliers. Both pilot projects have been successfully completed and are now ready for full scale implementation.

5.3 Support long-term client sustainability

- **Implement integrated service delivery model with Seda and the IDC. sefa** will focus on the alignment and co-operation with Seda and the IDC as key players in the eco-system. The model aims to provide seamless support to its client base with an objective to provide development support (financial and non-financial) and to contribute to the long-term sustainability of SMMEs and Co-operatives. It will mainly be based on improved integration of Seda/IDC and **sefa** activities such as (a) Seda and IDC to refer funding applications to **sefa**; (b) Un-bankable applications to be referred to Seda for further support; (c) Seda support to SMMEs and Co-operatives with certain aspects such as the provision of information, the clearance of conditions precedent and/or confirmation of contracts; (d) coordinated and synchronized mentorship support; (e) the development of market access opportunities through IDC projects; (f) Seda assistance with restructuring of business plans, when the business strategy requires adjustments; and (g) at loan repayment **sefa** and Seda to determine further assistance for further growth.
- **Intensify "end to end" post loan mentorship support to sefa funded clients.** In 2017/18, **sefa** accredited a diverse and competent post loan mentorship panel. The aim of the initiative is to provide customized and decentralized mentorship support to **sefa** funded clients. **sefa** also designed an automated tool and system for the matching of mentors and clients and to manage this business support initiative. During the first phase, focus was placed on the diagnostic analysis of **sefa**'s Direct Lending clients. The exercise found certain common challenges such as inadequate understanding of business management, lack of financial systems, poor record keeping, low skills level of staff and limited operational systems. The second phase is intended to intensify direct and customized support interventions based on the development needs of each of its clients.
- **Invest in intermediary sustainability. sefa** will evaluate its current base of intermediaries to assess the feasibility of developing enhanced strategic partnerships with them. Interventions will also be designed to improve the sustainability of intermediaries through capacity building projects and improved capitalisation. To this end, **sefa** will consider taking up equity stakes to strategically enable the agency to deliver its mandate cost effectively, ensure that targeted intermediaries are sustainable, have more resilient capital structures and ability to leverage capital market funding.

5.4 Reduce cash leakages by turning around under-performing portfolios

- **Improved Direct Lending investment quality.** Reduced impairments in the Direct Lending portfolio will be based on:

  Risk-based portfolio construction – (a) Improved utilisation of risk scoring for credit decision making (and the development of back test scoring models); (b) frequent adjustment of credit criteria based on portfolio/data analysis, lessons learnt, industry analysis and sub-segment profiles; and (c) the establishment of concentration risk limits.

  Lower the risk profile of the portfolio – (a) focus on areas of relative strength (contract-based finance)[1]; (b) limited support to start-up finance (c) insist on cession of payments; (d) risk mitigated structuring through third-party syndication and mitigation (such as franchisors, cessions by off-takers and other forms of business support) – new integrated service delivery model will also mitigate portfolio risk; and (e) 2nd round funding to existing portfolio clients.

  Portfolio diversification – (a) limited portfolio exposures to start-up finance; (b) the introduction of lower risk products with high impact such as invoice discounting; (c) the sectoral diversification of the portfolio away from the construction and the road logistics sectors.

- **Enhanced pre-emptive monitoring and collections of problematic debtors.** As SMMEs and Co-operatives are disproportionally sensitive to changes in internal and external environments, timeous interventions (such as business support and rescheduling of debt facilities) are critical to ensure loan repayments. In an uncollateralized environment, monitoring of a portfolio must be relationship and systems-based. Such pre-emptive monitoring will be enhanced and properly capacitated to ensure regular client engagements/visits and through automating the detection of pre-emptive signals. The Post-Investment Monitoring Division will further differentiate its collection methodologies to be developmental in approach towards truly distressed clients but will act decisively on delinquent clients motivated by moral hazard.

- **Turnaround of Property Portfolio. sefa** will explore ways of enabling tenants or third parties to purchase a large portion of its non-strategic properties to: (a) reduce losses sustained on the property portfolio; (b) resolve the ownership disputes and (c) to fulfil the historical agreements with certain tenants. It also intends to utilize some of the suitable **sefa**-owned properties to house the **sefa** head office and, where appropriate, some regional

[1] **sefa** has defined contract-based finance broadly and it does not only include the funding of contracts, but also businesses that have secured off-take arrangements and have reduced market access risk.

Contract-based finance has been selected as focus area on the following basis: (a) the high demand for such finance due to the 30% set aside by government as well as supplier initiatives by the private sector; (b) the importance of off-take contracts as risk-mitigant for relatively new entrepreneurs; (c) the relative less complex nature of assessing contract-based loan applications; (d) the current skills levels of investment officers in **sefa**; (e) and the relative success sefa achieved in this type of funding if compared to others.

It is envisaged that 75% of the Direct lending portfolio will be allocated to contract-based finance (inclusive of invoice discounting).

offices/hubs. To grow income, **sefa** will also build partnerships with property developers to investigate the redevelopment properties with income potential.

5.5 Move towards financial sustainability

- **Work towards attaining a 100% cost-to-income ratio**. Financial sustainability for **sefa** is measured against its ability to increasingly serve SMME's and Co-operatives in the long term. Over the MTEF period, the focus is on; **sefa**'s ability to operate within the available sources of funding, maintaining positive cash balances and to protect the **sefa** equity position. In the longer-term (post-MTEF), however, **sefa** must move to a situation where it grows its equity and reserves by consistently making a surplus after the government grant. With the current focus on a cost-to-income ratio of 100%, **sefa** will implement stringent income enhancement and cost containment measures.
- **Income enhancement** will be obtained through (a) the review of pricing model to realistically reflect the risk and cost of **sefa**; (b) the introduction of new, high-volume and low cost income-generating products such as income discounting and the proposed new Township Financing Solution; (c) increased management fees earned by increasing **sefa**'s fund management activities. Specific emphasis will be placed on the potential management of government's planned SME Innovation Fund.
- **Cost containment measures** will be introduced by; (a) reducing the leakage created by the Direct Lending and Properties portfolios; (b) containing staff costs; (c) introducing the new more cost-effective regional service delivery model (described above); (d) reducing lease costs by utilising **sefa**'s own properties for its own operations; and (e) exploring sharing services with parent and sister institutions.
- **A differentiated approach to funding –** During the planning period, the normal MTEF funding will be complemented by the utilisation of IDC debt. Off-balance sheet funding, through donor organisations such as the European Union, will also be utilised to extend the developmental reach of the agency. This will require a segmentation of its business activities into subsidized and non-subsidized components with differentiated funding mechanisms. The IDC debt will be applied to non-subsidised income-generating investment funding, whilst the MTEF grant funding be used for activities that required subsidization.

5.6 Improved efficiency and effectiveness

- **Programme reviews & improved product design through EU technical assistance & IFC support**

  As part of the technical assistance provided by the European Union and the International Finance Corporation (IFC), **sefa** will review and benchmark its business activities and products. This review will not only assess **sefa**'s operational efficiencies, but also make proposals in terms of its effectiveness. As part of this analysis, proposals relating to international best practise will be considered to augment **sefa**'s operations.

- **ICT system automation**

The utilisation of appropriate information and communication technology (ICT) and data analytics has globally become key to efficient and effective lending practises to SMMEs and Co-operatives. System solutions create value for business and improve analytics to enable management to measure and direct operations. Service automation and continuous improvement of processes is a key component for the ICT environment to reduce costs and efficiency of the environment. An ICT automation plan will be developed and its implementation will be accelerated during 2018/19. This will address all aspects of business operations. A new focus area will be on data analytics that will focus on customer analytics and risk analytics to develop an improved understanding of clients' needs, more efficient allocation of front office resources, deepening of the relationship high potential customers, increased profitability, better risk assessment and higher recovery rates.

- **Human capital development**

  sefa recognises the need for an appropriate skills-set that is driven by a high performance culture. This is critical to support the delivery of the strategic mandate. Currently, **sefa** is in the second phase of its journey towards a High Performance Organisation (HPO) which is aimed at strengthening performance culture through talent optimisation and improved work efficiencies. During the year ahead, strategic workforce planning and human capital focused cost saving interventions will be implemented. Measures will also be introduced to increase productivity and to address any barriers to employee productivity. This will be done through an organisational design review, targeted employee development and right skilling and productivity measurement.

6 PROJECTED DEVELOPMENT IMPACT

During the 2018/19 financial year, **sefa** plans to approve loans to the value of R727 million. In respect of injection into the economy, **sefa** plans to disburse R841 million over the same period. This annual injection is expected to support just over 72,000 SMMEs and Co-operatives, who will in turn help create and sustain close to 39,000 jobs.

The table below further outlines the expected developmental impact in terms of targeted groups, particularly women, youth, businesses operating in townships and those run by entrepreneurs with disabilities. In an endeavor to promote rural development, the disbursements to priority provinces (namely, all provinces except Gauteng, KwaZulu Natal and Western Cape) will increase by almost 10 percent relative to the previous financial year's performance.

In addition, **sefa** plans to increase its financial support to smaller loans of less than R500 000, since this market segment struggles to obtain loans elsewhere given the administrative burden associated with loans of this magnitude.

Loan Approvals (R'000)	727 608
Disbursement to loan beneficiaries via all product channels (R'000)	841 602
Number of enterprises financed	72 293
Number of jobs facilitated (created and sustain)	74 443

Disbursements to black-owned enterprises (R'000)	517 861
Disbursements to women-owned enterprises (R'000)	332 911
Disbursements to youth-owned enterprises (R'000)	221 941
Disbursements to township-based enterprises (R'000)	200 391
Disbursements to enterprises to entrepreneurs with disabilities (R'000)	18 291
Disbursements to enterprises located in priority provinces (R'000)	332 911
Disbursements to enterprises - value less than R500k (Number of enterprise)	71 899

7 FINANCIAL IMPLICATIONS

Budgets have been prepared for the abovementioned activities and are presented and discussed as follows:

Income and sources of funding

sefa operations are funded by the following revenue streams: (a) interest and dividends from loans and advances, bank deposits and cash; (b) fee income; (c) property rental income: and (d) an annual government subsidy (the MTEF allocation).

Total income over the planning period of 5 years amounts to R2.7 billion.

The main source of income for **sefa** remains the MTEF allocation of R725 million over the MTEF period with an average annual increase 3% over the period. The government subsidy, to be applied as an interest subsidy on **sefa**'s loan programmes, credit guarantee programme, mentorship support and other non-recoverable cost items amounts to R1,2 billion over the planning period. To note, the above figure takes into account a reduction of R24 million over the same period.

The second largest source of income is interest income generated from loans and advances, including interest from bank deposits and cash. Interest income has been flat in the last 3 years and is projected to decline by 3% from 2017/18 FY to the 2018/19FY due to declining bank balances, cash reserves, high impairments posted and suspended interest raised due to non-recoverability of loans, and high property losses. Fees earned from the proposed new Invoice Discounting product are expected to counter the decline in interest earned. Total net interest and dividend income over the same period amounts to R785 million, representing an 8% average annual increase.

Note that the above statements assume a projected drawdown on the IDC loan facility of R921 million. This loan facility forms part of **sefa**'s initial funding structure as per the signed loan agreement between **sefa** and IDC.

The Board approved budget cycle over the years 2018/19 to 2022/23. This budget incorporates the drawdown from the IDC facility with the projections demonstrating **sefa**'s ability to repay the IDC loan. The loan facility amounts to R921 million, at zero percent (0%) interest rate and no raising fees. The loan is subject to 60 (sixty) month capital moratorium thereafter the loan shall be paid over a 120 month period. First instalment shall be on the 61st month following the first drawdown. This loan will be used for on-lending purposed only. Even though the facility amount

to R921 million, **sefa** anticipates withdrawing only R640 million during the 5 year period ending 2022/23.

The withdrawals for the year 2018/19 will be done as follows:

May 2018 – R150 million

June 2018– R60 million

September 2018– R90 million

March 2019- R30 million

Borrowing Plan				
2018/19	2019/20	2020/21	2021/22	2022/23
R330 mn	R130 mn	R100 mn	R30 mn	R50 mn

The IDC loan draw down is necessitated by the worsening cash status of **sefa** with the depletion of cash resources over the 5-year period as a result of high staff costs, high impairments rates and a worsened properties portfolio. **sefa** previously received the Economic Competitiveness Support Programme (ECSP) funds which was designed to amongst other things, lessen the effects of the global financial crisis, and has now been discontinued, thus heightening the need to draw down the IDC loan facility.

Expenditure

Total operating expenditure over the planning period amounts to R2.7 billion, comprising of personnel expenditure, movement in impairments, investment property expenditure and other operating expenditure (office rental, travel, marketing and advertising, management fees paid to fund managers and legal fees).

sefa intends to make a strategic investment in process automation to decrease its cost of doing business. **sefa** will also apply a headcount freeze in non-critical positions, relocate the Head Office to a sefa owned property, merge certain regional offices and implement shared services with fraternal sister organisations. To contain property expenses, loss making and non-strategic properties will be disposed. All cost savings initiatives will result in reduction in losses of approximately R134 million over the coming 5 years.

Total operating expenditure over the planning will increase in line with inflation of 5% on average annually.

Cash and reserves

The cash status of **sefa** has worsened with the depletion of cash resources over the 5-year period because of high staff costs, high impairment rates and a worsened properties portfolio**.** The decreased MTEF allocation of R24 million over MTEF period has exacerbated the cash situation. **sefa** has put short term interventions during late 2017/18 which included the delaying of non-

urgent approved commitments, applying human capital freezes and the daily monitoring of cash flow forecasts and balances. **sefa** will need to proceed with immediate commencement of the draw-down request, for the IDC loan.

In terms of the presented budget **sefa** will maintain a positive cash balance over the 5 year period.

sefa will also draw down on its the approved European Union (EU) donor facility of €35 million over the MTEF period for co-funding of approved commitments. The EU donor facility is a matching grant facility to be applied in the wholesale loan portfolio.

7.2 Statement of Comprehensive Income

STATEMENTS OF COMPREHENSIVE INCOME R'000	GROUP R'000							
	2016 AUDITED	2017 AUDITED	2018 FORECAST	2019 FORECAST	2020 FORECAST	2021 FORECAST	2022 FORECAST	2023 FORECAST
Interest and dividend income	137 476	134 328	136 942	131 465	153 406	160 287	169 868	172 736
Fee income from loans and indemnities	12 927	7 212	7 130	23 435	34 503	36 868	39 547	42 642
Interest expense on shareholder's loan	(29 751)	(31 956)	(33 971)	(5 735)	(16 282)	(17 956)	(20 704)	(22 467)
Net interest and dividend income	**120 652**	**109 584**	**110 101**	**149 165**	**171 627**	**179 199**	**188 711**	**192 911**
Movement on impairments and bad debt provisions	(379 868)	(68 094)	(63 604)	(97 831)	(106 587)	(104 374)	(115 351)	(106 626)
Net interest and dividend income after impairmer	**(259 216)**	**41 490**	**46 497**	**51 334**	**65 040**	**74 825**	**73 360**	**86 285**
Investment property rental income	29 580	29 391	38 526	39 036	37 537	38 600	40 916	43 371
Investment property expenses	(43 151)	(85 733)	(88 534)	(86 344)	(85 542)	(85 411)	(89 014)	(83 996)
Net fair value (loss)/gain on investment properties	39 842	(17 362)	3 621	-	-	-	-	-
	(232 945)	**(32 214)**	**110**	**4 026**	**17 035**	**28 014**	**25 262**	**45 660**
Other income	15 446	17 043	15 604	13 012	14 404	15 850	17 352	17 367
Personnel expenses	(155 802)	(168 321)	(187 526)	(213 309)	(207 830)	(221 354)	(244 318)	(261 395)
Other operating expenses	(95 185)	(78 627)	(85 647)	(108 799)	(115 162)	(109 461)	(101 502)	(104 182)
Operating loss	**(468 486)**	**(262 119)**	**(257 459)**	**(305 070)**	**(291 553)**	**(286 951)**	**(303 206)**	**(302 550)**
Profit from equity accounted investments, net of tax	39 417	15 411	35 000	36 750	38 588	40 517	42 543	44 670
Other comprehensive income	42 880	13 890	-	-	-	-	-	-
Loss before tax	**(386 189)**	**(232 818)**	**(222 459)**	**(268 320)**	**(252 965)**	**(246 434)**	**(260 663)**	**(257 880)**
Income tax credit/(charge)	7 756	23 932	(7 792)	2 855	(126)	(17)	(54)	(29)
Net loss for the year	**(378 433)**	**(208 886)**	**(230 251)**	**(265 465)**	**(253 091)**	**(246 453)**	**(260 717)**	**(257 908)**
Grant received - MTEF	406 397	213 124	223 780	228 837	241 453	254 733	254 733	254 733
Net loss for the year after Grant MTEF	**27 964**	**4 238**	**(6 471)**	**(36 628)**	**(11 638)**	**8 280**	**(5 984)**	**(3 175)**

7.3 Statement of Financial Position

STATEMENTS OF FINANCIAL POSITION R'000	GROUP R'000							
	2016 AUDITED	2017 AUDITED	2018 FORECAST	2019 FORECAST	2020 FORECAST	2021 FORECAST	2022 FORECAST	2023 FORECAST
ASSETS								
Cash and cash equivalents (Group)	488 941	390 726	232 579	255 819	236 465	258 130	248 244	283 394
Cash and cash equivalents (Managed Funds)	62 726	65 833	70 649	-	-	-	-	-
Trade and other receivables	36 657	22 308	9 584	13 898	15 429	15 989	16 502	16 978
Loans and advances	562 349	689 293	708 876	865 303	959 721	1 022 781	1 057 340	1 051 155
Investment properties	207 807	190 444	203 174	242 123	247 330	246 489	219 719	215 363
Equipment, furniture and other tangible assets	9 012	9 995	6 559	38 790	35 807	32 801	30 770	28 739
Intangible assets	1 090	1 097	1 202	25 254	14 261	3 075	3 557	4 038
Equity investments	932 528	964 079	1 041 233	1 053 530	1 099 723	1 134 442	1 166 521	1 188 832
TOTAL ASSETS	**2 301 110**	**2 333 775**	**2 273 856**	**2 494 717**	**2 608 736**	**2 713 707**	**2 742 653**	**2 788 499**
EQUITY AND LIABILITIES								
Share capital	308 300	308 300	308 300	308 300	308 300	308 300	308 300	308 300
Shareholder reserves	1 092 551	1 305 675	1 529 455	2 401 619	2 699 374	2 987 743	3 233 008	3 484 906
Retained earnings	308 125	99 238	(220 388)	(485 852)	(738 938)	(985 393)	(1 246 109)	(1 504 017)
Equity attributable to owners of the parent	**1 708 976**	**1 713 213**	**1 617 367**	**2 224 067**	**2 268 736**	**2 310 650**	**2 295 199**	**2 289 189**
Non-controlling interest	-		-	-	-	-	-	-
Total equity	**1 708 976**	**1 713 213**	**1 617 367**	**2 224 067**	**2 268 736**	**2 310 650**	**2 295 199**	**2 289 189**
Liabilities								
Trade and other payables	131 174	150 441	137 616	66 038	60 948	58 323	64 545	64 882
Tax payable	188	9	-	-	-	-	-	-
Deferred tax liability	21 427	-	7 036	4 179	4 303	4 320	4 373	4 402
Outstanding claims reserve	6 686	3 862	10 379	11 464	11 802	11 390	10 608	9 826
Unearned risk reserve	2 865	4 426	5 651	6 470	6 725	6 414	5 825	5 235
Post-retirement medical liability	415	489	512	532	555	578	606	632
Shareholder's loans - Existing facility	429 379	461 335	495 304					
Shareholder's loans - R921m facility	-	-	-	181 979	255 675	322 040	361 506	414 344
Total liabilities	**592 134**	**620 562**	**656 498**	**270 662**	**340 008**	**403 065**	**447 463**	**499 320**
TOTAL EQUITY AND LIABILITIES	**2 301 110**	**2 333 775**	**2 273 865**	**2 494 729**	**2 608 744**	**2 713 715**	**2 742 662**	**2 788 509**

7.4 Statement Cash flow

STATEMENTS OF CASH FLOWS R'000	GROUP R'000							
	2016 AUDITED	2017 AUDITED	2018 FORECAST	2019 FORECAST	2020 FORECAST	2021 FORECAST	2022 FORECAST	2023 FORECAST
Cash flows from operating activities								
Cash utilised by operations	(116 260)	(142 341)	(166 644)	(271 243)	(167 841)	(152 921)	(154 462)	(174 624)
Loans and advances awarded to customers or invest	(300 102)	(192 266)	(174 336)	(241 259)	(198 004)	(165 434)	(147 909)	(99 441)
Grant income received			-	-	-	-	-	-
Tax paid	29	(421)	-	-	-	-	-	-
Net cash utilised by operating activities	**(416 333)**	**(335 028)**	**(340 980)**	**(512 502)**	**(365 845)**	**(318 355)**	**(302 371)**	**(274 065)**
Cash flows from investing activities								
Purchase of equipment, furniture and other tangible	(2 480)	(2 526)	(3 845)	(36 150)	(650)	(650)	(1 150)	(1 150)
Purchase of intangible assets	(1 259)	(427)	(955)	(36 284)	(1 470)	(1 573)	(1 573)	(1 573)
Improvements on investment properties			(10 567)	(46 287)	-	-	26 770	4 357
Payments from/(to) En Commandite partnership	12 721	(21 006)	-	-	-	-	-	-
Investment income	38 093	40 630	26 001	20 329	18 972	13 370	14 215	13 333
Acquisition of investments	(21 671)	9 981	(25 819)	5 452	(16 604)	(2 202)	2 463	15 360
Acquisition of subsidiary (net of cash acquired)			-	-	-	-	-	-
Net cash inflow on disposal of subsidiary			-	-	-	-	-	-
Proceeds from sale of property and equipment		144	1	-	-	-	-	-
Proceeds from sale of investment properties	2 000	-	1 460	4 932	(8 932)	(5 697)	(12 270)	(3 377)
Net cash generated by investing activities	**27 404**	**26 796**	**(13 724)**	**(88 008)**	**(8 684)**	**3 248**	**28 455**	**26 950**
Cash flows from financing activities								
Dividends paid			-	-	-	-	-	-
Capital funding received from shareholders	406 397	213 124	223 780	553 102	355 171	336 777	264 029	282 266
Net cash from financing activities	**406 397**	**213 124**	**223 780**	**553 102**	**355 171**	**336 777**	**264 029**	**282 266**
Net increase/(decrease) in cash and cash equivalents	17 468	(95 108)	(130 867)	(47 405)	(19 356)	21 668	(9 887)	35 150
Cash and cash equivalents at beginning of year	539 675	557 675	434 104	303 225	255 819	236 465	258 130	248 244
Cash and cash equivalents at end of year	**557 143**	**462 567**	**303 237**	**255 820**	**236 463**	**258 133**	**248 243**	**283 394**
Cash held on behalf of managed funds	(62 726)	(65 833)	(70 649)	-	-	-	-	-
Cash attributable to the Group	**494 416**	**396 733**	**232 588**	**255 820**	**236 463**	**258 130**	**248 243**	**283 394**

8 PERFORMANCE INDICATORS

In its pursuit of contributing to the triple challenge of unemployment, poverty and inequality, **sefa** has identified several strategic objectives. It thus uses the balanced scorecard to measure the impact derived from implementing these strategic objectives against the desired outcomes. The accompanying table outlines both the current year and the subsequent year's targets.

The sefa Balanced Scorecard for 2018/19

Perspective	Objective	Measure	Actual Indicator 2016/17	Target/ Indicator 2017/18	Target/ Indicator 2018/19	Weight
Customer Perspective	Access to finance by SMMEs and development Impact	Total disbursements to SMMEs and Co-operatives (R'000)	1 075 967	645 000	841 602	13%
		Approvals in terms of productive sectors of the economy	43.46%	60% of loan book approvals	60% of loan book approvals	3%
		Number of SMMEs and Co-operatives financed	43 211	38 000	72 293	4%
		Number of jobs facilitated	55 997	59 000	74 443	5%
		Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	220 000	R 202 000	R 221 941	4%
		Facilities disbursed to enterprises in priority rural provinces (R'000)	366 000	R 302 000	R 332 911	4%
		Facilities disbursed to women-owned businesses (R'000)	407 000	R 302 000	R 332 911	4%
		Facilities disbursed to black-owned businesses (R'000)	76 000	R 471 000	R 517 861	4%
		Disbursements to township-based enterprises (R'000)	80 000	R 168 000	R 200 391	4%
		Facilities less than R500K disbursed to end-users - number of enterprises (20116/17= R451m)	n/a	37 000	71 899	3%
		Facilities to people with disabilities (R'000)	3 000	R 17 000	R 18 261	3%

		Level of customer satisfaction	75%	75%	80%	3%
Sub-Total						**54%**
Financial Perspective	**Building sefa financial sustainability**	Cost-to-income ratio (2016/17 = Measure excluded impairments, finance charges & grant)	161%	100%	100%	10%
		Accumulated Impairment provision as a percentage of total loans and advances	47%	26%	26%	14%
		Personnel expenses as a percentage of total loan book (loans and equities)	n/a	29%	29%	5%
Sub-Total						**29%**
INTERNAL BUSINESS PROCESSES	**Improve turnaround times for application approvals**	Number of days bridging loans	20.4	20 days	20 days	3%
		Number of days for terms loans	34	30 days	30 days	3%
		Number of days for wholesale application	40	45 days	40 days	3%
Sub-Total						**9%**
PEOPLE LEARNING AND GROWTH		Labour turnover rate of critical strategic positions	4.8%	7%	7%	4%
		Percentage of staff (P – Band and above) that scores 3.1 or more in the annual performance assessment.	n/a	80%	80%	4%
Sub-Total						**8%**
Total						**100%**

Annexure 1 – Longer term development impact projections

Approvals and Disbursements

Loan Programme Approvals and Disbursements	2018/19	2019/20	2020/21	2021/2022	2022/23	Over the 5 Year Planning Cycle
Value of loan programmes approvals (R'000)	727 608	827 428	954 893	1 108 512	1 286 701	4 905 142
Value of loan programmes disbursements (R'000)	841 602	936 840	1 044 060	1 159 234	1 289 932	5 271 669

Enterprise Financed and Jobs

Enterprises Finance and Jobs Facilitated	2018/19	2019/20	2020/21	2021/2022	2022/23	Over the 5 Year Planning Cycle
No of enterprises finance	72 293	79 651	87 689	96 532	101 506	437 670
Number of Jobs facilitated (created and sustain)	74 443	82 334	90 746	100 031	105 519	453 074

Development Impact

Development Impact (Support to Targeted Groups)	2018/19	2019/20	2020/21	2021/2022	2022/23	Over the 5 Year Planning Cycle
Disbursements to black-owned Enterprises (R'000)	517 861	579 388	646 801	719 020	801 263	3 264 333
Disbursements to women-owned Enterprises (R'000)	332 911	372 464	415 801	462 227	515 097	2 098 499
Disbursements to youth-owned Enterprises (R'000)	221 941	248 308	277 200	308 151	343 398	1 398 998
Disbursements to township-owned Enterprises (R'000)	200 391	223 199	248 903	276 485	308 493	1 257 471
Disbursements to enterprises owned by entrepreneurs with Disability (R'000)	18 261	20 539	23 062	25 813	28 953	116 628
Disbursements to enterprises located in priority provinces (R'000)	332 911	372 464	415 801	462 227	515 097	2 098 499
Disbursements to enterprises - number less than R500k	71 899	79 153	87 105	95 853	100 719	434 729

Annexure 2 – Detailed Programmes Strategies

In order to ensure effective implementation of the Corporate Plan, the following programmes have been formulated:

- Programme 1: Increase access and provision of finance to SMMEs and Co-operatives:
  - **Sub-programme: Informal Sector and Micro-Enterprises Finance.**
  - **Sub-programme: Direct Lending.**
  - **Sub-programme: Wholesale SME Lending.**
  - **Sub-programme: Co-operative Enterprise Lending.**
  - **Sub-programme: Credit Indemnity Scheme**
- Programme 2: Post Investment/ Workout and Restructuring Management.
- Programme 3: Build an efficient and effective **sefa** that is performance driven and sustainable.
- Programme 4: Build a strong and effective **sefa** brand emphasizing accessibility to SMMEs and Co-operatives.
- Programme 5: Governance, Risk and Compliance.
- Programme 6: Property Management

PROGRAMME 1: ACCESS TO FINANCE FOR SMMES AND CO-OPERATIVES

Sub-programme: Informal Sector and Micro-Enterprises Finance

Strategic Initiative 1: Roll out Fresh Produce Market Project to two additional geographical areas:

The Fresh Produce Markets have significant job creation potential and economic impact. Now that the two pilot projects in Durban and Mangaung are fully functional, **sefa** intends to roll out two additional Fresh Produce Markets in 2018/19.

Strategic Initiatives 2: Consolidate and strengthen strategic partnerships in under-served provinces & roll out approved projects.

In 2018/19, **sefa** intends to strengthen its strategic partnership with DSBD and extend its coverage of informal and micro-enterprises to three additional "under-served" provinces, thus bringing the total number of provinces covered to five and covering an additional 3000 micro enterprises.

On the private sector front, **sefa**'s micro-finance unit intends to extend its partnership with Co-Cola Beverages South Africa which initially provided financial support to youth entrepreneurs in Free State and North West provinces, to cover additional provinces, namely, Eastern Cape and Limpopo provinces.

In addition to the above, **sefa** will pursue strategic partnerships to provide affordable credit to under-served informal and microenterprises. To this end, **sefa** will explore a possible collaboration to design technology based informal sector lending platforms and also explore the possibility of extending the **sefa**Credit system utilized at the Fresh Produce Markets, to support SFSs.

Strategic Initiative 3: Support MFI growth and development, new product development and new partnerships

sefa currently partners with seven Microfinance Intermediaries (MFIs). These MFIs provide credit and other informal sector business support services.

In the current planning period, **sefa** will reach informal sector businesses through such MFIs. However, MFIs will need to meet the stringent criteria designed to ensure that end users have ease of access to affordable finance. In addition, MFIs should demonstrate the potential to be self-sustainable in future. It is most probable that **sefa** will only be able to increase its investment in only four of the seven MFIs, given the operational and funding challenges that the smaller MFIs generally face.

In provinces where there are no MFIs, **sefa** will; 1) invite existing and strong MFIs to consider extending their services to these provinces and; 2) support creative initiatives through public-public and/or public-private partnerships aimed at supporting informal sector businesses and microenterprises. Support will also be provided to those MFI's experiencing operating and sustainability difficulties.

Strategic Initiatives 4: Partner with private and public institutions to offer crucial business development services needed by informal business that sefa cannot provide directly.

sefa will also enter into partnerships with institutions that offer non-financial services such as training to support **sefa** funded microenterprises. To this end, **sefa** will strengthen its collaboration with Seda and also aim to develop additional partnerships with incubators.

Strategic Initiatives 5: Raise funds from external sources (Corporates and International Donors) and use those funds as equity/quasi equity in niche intermediaries with mandates closely aligned to sefa and donor funding partners to improve the sustainability of end users.

sefa will explore external funding sources in order to strengthen partner Intermediaries serving end users in deep rural areas. **A research to identify Corporates with social responsibility budgets will be conducted early in 2018/19.** Upon completion of the study, corporates will be approached to provide funding that can be put into niche intermediaries to improve the sustainability of end users.

sefa will also approach **international donors** to provide funding for a variety of aspects in the implementation of expensive pilots such as the Fresh Produce Markets and other rural based future initiatives. Specifically, funding will be sought to develop appropriate lending and monitoring technologies; conduct evaluations of pilots; document findings and lessons learnt and design rollout plans to the rest of the country.

Informal Sector and Micro-Enterprises Finance Strategic Outputs

Strategic Indicator	Projected 2017/18	Estimated Performance	Targets				Total over the Strat Plan
		2018/19	2019/20	2020/21	2021/22	2022/23	
Value of Approvals to informal sector and micro enterprise intermediary on-lending institutions (R'000)	97 000	96 096	105 706	116 276	127 904	134 299	580 281
Value of Disbursements to informal sector and micro enterprise intermediary on-lending institutions (R'000)	36 000	80 080	88 088	96 897	106 586	111 916	483 567
Value of disbursements: End Users in the Informal and Micro-Enterprise sectors (R'000)	144 000	200 200	220 220	242 242	266 466	279 790	1 208 918
No of informal and micro enterprises financed	42 000	71 500	78 650	86 515	95 166	99 925	431 756
No of Jobs Facilitated (created and sustained)	63 000	71 500	78 650	86 515	95 166	99 925	431 756

Sub-programme: Direct Lending

The Direct Lending product offering has been specifically introduced to address the market failure in the SME funding market and to facilitate closer, direct relationships between **sefa** and its target market as opposed to traditional reliance on wholesale intermediaries. Since its inception (up to 30 September 2017), the Direct lending Programme provided R1,4 billion through 1,238 loan facilities to 967 SMEs business entities.

The key strategic Initiatives of the Direct Lending Programme for 2018/19 are as follows:

Strategic initiative 1: Increased Development Impact

Pro-active leveraging partnerships within the SMME and Co-operative eco-system - The Programme intends to leverage partnerships with players in the SME & Co-operative eco-system to assist in fast-tracking the bankability of SMEs and Co-operatives and to reduce their risk profile, especially through non-financial support as well as financial syndication. In addition, the Programme will focus specifically Government Procurement Initiatives, Enterprise Development Initiatives, the National Gazelle Initiative and others.

Currently, Direct Lending Programme's impact is predominantly felt in construction, business services, and franchise sectors of the economy. To diversify its impact and to align the Programme's portfolio with national priority sectors, **sefa** will engage with Industry Associations and also leverage IDC's value chain expertise to develop initiatives or products that are more aligned to the needs of those specific sectors.

A focused "go-to-market" strategy with an emphasis on contract-based finance - The Direct Lending Programme will have a focused approach towards portfolio construction. This is required due to: (a) the need for such funding from entrepreneurs; (b) the relative limited amount of funding available for investment; (c) the skills constraints within **sefa** as well as (d) the relative high levels of impairments. The focus has been determined on the back of relative good performance of contract-based finance investments.

It is envisaged that over half of the portfolio will be allocated to contract-based finance to respond to the quantum of loan requests by clients participating in the 30% government set aside programme. Note that **sefa** has defined contract-based finance broadly and it does not only include the funding of contracts, but also businesses that have secured off-take arrangements and have reduced market access risk.

Direct Lending is also mandated to provide financial support to start-up businesses (without off-take contracts) and franchise businesses (where some of the risks are mitigated by the franchisor). The risks within these investments will be mitigated through relationships with industry associations as well as the IDC.

Strategic initiative 2: Improved Financial Sustainability

Optimise revenues through the introduction of new products - Increased revenues streams will mainly be obtained through the introduction of an invoice-discounting product. The product will address a market failure, which is currently prevalent in the funding of government sector invoices. Often new SMEs and Co-operatives encounter severe cash flow constraints whilst waiting for payment by public entities. The commercial invoice discounting sector mainly excludes government contracts. The product has been designed to be a high volume, high revenue and low-cost offering.

Improved revenues will also be obtained through a reconsideration of the lending rates of the Programme.

Manage costs and efficiencies through the adjustment of the Regional Delivery Model –

The Programme will reduce costs and improve efficiencies by reconfiguring the Regional Delivery Model over the MTEF period. This model is based on the following main changes:

a. The creation of Regional Hubs that are well capacitated with adequate skills (inclusive of Credit Analysts) from where all investment assessments will be coordinated.

b. **sefa** application centers will be established at associated agencies such as Seda and LED Offices where officials at these institutions will be empowered to receive and screen applications. The front-end application will be fully automated through the web-based **sefa** system and will be used by all application centers.

c. Provincial relationships and pro-active support for provincial and local projects will be maintained through dedicated Provincial Business Development Managers but co-located with partner institutions

The envisaged changes will make the delivery model cost-effective, reduce the rental costs, create focus, capacity and scale, as a result, lead to efficiency improvements.

- **Reduce impairments through a shift to lower risk investments and portfolio construction** Reduced impairments in the Direct Lending portfolio will be based on
- **Risk-based portfolio construction** – (a) Improved utilisation of risk scoring for credit decision making (and the development of back test scoring models); (b) frequent adjustment of credit criteria based on portfolio/data analysis, lessons learnt, industry analysis and sub-segment profiles; and (c) Establish concentration risk limits.
- **Lower the risk profile of the portfolio** – (a) the focus areas of relative historic portfolio strength (contract-based finance); (b) the insistence on cession of payments; (c) risk mitigated structuring through third-party syndication and mitigation (such as franchisors, cessions by off-takers and other forms of business support) – new integrated service delivery model will also mitigate portfolio risk;; and (d) 2nd round funding to existing portfolio clients.
- **Portfolio diversification** – (a) limited portfolio exposures to start-up finance; (b) the introduction of lower risk products with high impact such as invoice discounting; (c) the sectoral diversification of the portfolio away from the construction and the road logistics sectors.

Strategic initiative 3: Client-Centricity Towards Client-Sustainability

Integrated service delivery model through integration of sefa and Seda/IDC **activities - sefa** will focus on the alignment and co-operation with Seda and the IDC as key players in the eco-system. The model is aimed to provide seamless support to its client base with an objective to provide development support (financial and non-financial) and to contribute to the long-term sustainability of SMMEs and Co-operatives. It will mainly be based on improved integration of Seda/IDC and **sefa** activities such as (a) Seda and IDC to refer funding applications to **sefa**; (b) Un-bankable applications will be referred to Seda for further support; (c) Seda support to SMMEs and Co-operatives with certain aspects such as the provision of information, the clearance of conditions precedent and/or confirmation of contracts; (d) coordinated and synchronized mentorship support; (e) the development of market access opportunities through IDC projects; (f) Seda assistance with restructuring of business plans, when the business strategy requires adjustments; (g) At loan repayment **sefa** and Seda to

determine further assistance for further growth. **Improved Client Experience -** A Client Development Support Unit within the Programme has been established to (a) manage and co-ordinate responses to client escalations; (b) pro-actively create a client-orientated culture; (c) oversee turnaround times; (d) make improvements in terms of the Direct Lending client experience; and (e) provide value added services to our client base through partnerships.

During the planning period the online client portal will be fully implemented. A new system will also be developed to track outstanding information required from clients. This system will manage communication between **sefa** and its clients, information flow as well as status updates.

Strategic initiative 4: Enhancing Operational Efficiencies and Effectiveness

Automation of front-end processes - The automation of processes is a critical component to improve efficiencies. This will be mainly facilitated through a USAID-funded partnership with FindFind and is key in the effective functioning of: (a) the Integrated Service Delivery Model; and (b) the new Regional Delivery Model.

An IT system will be developed to include the following: (a) Receiving funding applications; (b) Application screening and basic assessment tests (such as entrepreneurial testing); (c) Document depository; (d) Referrals between **sefa** and Seda as well as other institutions.

The focus will also be on data analytics that will focus on customer analytics and risk analytics in order to have a better understanding of clients' needs, more efficient allocation of front office resources, deepening of the relationship high potential customers, increased profitability, better risk assessment and higher recovery rates.

Full integration of Wholesale Lending disbursement activities into Direct Lending disbursement process – Previously, Direct Lending and Wholesale Lending disbursement processes were different. The Direct Lending Programme implemented an Operations Hub that independently facilitates the disbursement process to ensure full compliance with all conditions contained in **sefa** loan agreements. It was decided to utilise the same methodology and infrastructure for Wholesale Lending disbursements. This consolidation will be implemented during the 2018/19 financial year.

Indicator	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Value of Approvals: small & medium enterprises (R'000)	**302,538**	**348,918**	**400,756**	**458,869**	**524,200**	**2,035,281**
Value of disbursements: small & medium enterprises (R'000)	**230,988**	**265,636**	**305,482**	**351,304**	**404,000**	**1,557,411**
No of SMMEs and Co-operatives Financed - non-invoice discounting	190	217	251	290	338	
No of Jobs Facilitated (created and sustained)	1,700	2,087	2,503	2,952	3,439	13,865
Disbursements to black-owned Enterprises (R'000)	161,692	185,946	213,837	245,913	282,800	1,090,187
Disbursements to women-owned Enterprises (R'000)	103,945	119,536	137,467	158,087	181,800	700,835
Disbursements to youth-owned Enterprises (R'000)	69,296	79,691	91,645	105,391	121,200	467,223
Disbursements to township-owned Enterprises (R'000)	57,747	66,409	76,370	87,826	101,000	389,353
Disbursements to enterprises owned by entrepreneurs with Disability (R'000)	8,085	9,297	10,692	12,296	14,140	54,509
Disbursements to enterprises located in priority provinces (R'000)	55,437	63,753	73,316	84,313	96,960	373,779
Disbursements to enterprises - number less than R500k	170	209	250	295	344	1,268

Sub-programme: Wholesale SME Lending

The Wholesale SME Lending programme is underpinned by a partnership model which allows **sefa** to "crowd-in" financial and business support as well as technical resources from strategic partners that share **sefa**'s objective of increasing access to finance for small businesses. Over the previous financial years several wholesale products were introduced. These are:

- Structured Finance Solutions – partnership with technical partners through which **sefa** is the preferred funder
- Enterprise and Supplier Development – partnership with Intermediaries and Corporates to promote the participation of SMMEs and Co-operatives in supply chains of Corporates
- Fund Management Services – Management of third party funds to fund SMEs to leverage and pool existing financial and non-financial resources.

Strategic Initiatives

Initiative 1: Improve the sustainability of end users through the use of equity/quasi equity to fund niche intermediaries with mandates closely aligned to sefa and donor funding partners.

sefa will evaluate its current base of intermediaries to assess the feasibility of developing strategic partnerships with them, including taking up equity stakes. This will enable **sefa** to deliver its mandate cost effectively, ensure that targeted intermediaries are sustainable, have more resilient capital structures and are able to attract capital market funding. The focus will be on intermediaries that are closely aligned to **sefa**'s mandate and that have niche and innovative offerings.

Initiative 2: Expand the Structured Finance Solution (SFS) offering, in partnership with Direct Lending

The SFS offering was introduced by Wholesale Lending in 2013 with limited success due to a lack of capacity within Wholesale Lending. Improved partnership with Direct Lending in the implementation of the initiative will improve the throughput of number of SMEs supported, promote utilisation of available key skills within the organisation and build a strong pipeline of de-risked transactions of SMEs for direct lending. In order to enhance operational efficiencies and cross functional partnership with Direct Lending, Wholesale Lending processes will, to the extent possible, be aligned with those of direct lending.

Initiative 3: Build value adding partnerships to expand outreach to under-served Provinces

Targeted interventions in provinces that were previously underserved in order to promote access to funding for SMEs will be explored. The interventions include partnerships with provincial DFIs, particularly in supporting SMEs in sectors with a high potential for job creation (e.g. manufacturing).

Initiative 4: Increase revenues through leveraging government, DFI, Donor, and ESD Resources

Market access and corporate supply chain participation is key to building sustainable SMMEs and Co-operatives. **sefa** provides funding to SMEs participating within the supplier value chains of corporates and State Owned Entities. **sefa** will position itself as a preferred strategic partner for corporates, Government and SOEs who require enterprise development points but do not wish to set up in-house ESD functionality.

The **sefa** ESD Fund will partner with and raise funding from public and private sector institutions for ESD initiatives and provide funding and business support to SMME's and Co-operatives that participate in supplier value chains of corporates and State Owned Entities.

sefa has taken over the role of 'Fund Manager' of the Godisa fund which provides funding to SMEs in Transnet's value chain. SME Wholesale lending aims to grow this fund in the next financial year by attracting at least one other State Owned Entity to participate in the fund.

In order to attract private sector funding, **sefa** has applied to the DTI for BEE facilitator status, which is currently being processed for final approval. This will attract corporates to invest into the ESD fund and be able to earn B-BBEE points immediately. The first part of the initiative has been achieved and **sefa** has been awarded a level two (2) BEE contributor status.

Initiative 5: Managing costs by maintaining a lean Wholesale Lending structure

The partnership model has enabled the provision of finance to SMEs through a relatively lean structure which has a positive impact on the Cost-to-Income ratio. Wholesale Lending will maintain the lean structure by tapping into existing capacity and partnership with other departments and stakeholders (e.g. SEDA, Direct Lending, mentorship database).

Initiative 6: Preserve capital in Wholesale Lending business

Over the years, a number of intermediaries in the SME Wholesale Lending portfolio have demonstrated their ability to improve access to finance for SMEs in an efficient manner, with risks sufficiently mitigated. The risk of impairment in these intermediaries is very low. The unit will identity intermediaries that have lower risk profiles and explore opportunities to increase investments through them. This will expand the reach to SMEs while at the same time preserving the capital allocated.

Strategic Indicator	Projected 2017/18	Estimated Performance	Targets				Total over the Strat Plan
		2018/19	2019/20	2020/21	2021/22	2022/23	
Value of approvals: RFIs, funds and JVs (R'000)	245 816	254 500	272 860	253 314	272 205	296 160	1 349 039
Value of disbursements: RFIs, funds and JVs (R'000)	200 000	203 600	218 288	202 651	217 764	236 928	1 079 231
Value of disbursements: small enterprises/ value less than R500k (R'000)	40 969	79 531	85 269	79 161	85 064	92 550	421 575

Value of disbursements: medium enterprises/ value greater than R500k (R'000)	122 908	238 594	255 806	237 482	255 192	277 650	1 264 724
No. of SMEs financed	214	271	291	270	290	316	1 439
No. of jobs facilitated (created and sustained)	1 072	1 357	1 455	1 351	1 452	1 580	7 195

Sub-programme: Co-operatives' Lending

The programme facilitates growth and development of Co-operatives Financial Institutions (CFIs) and Enterprising Co-operatives.

Strategic initiatives

Strategic Initiative 1: Leverage financial and non-financial resources of other role players into a holistic framework

Enterprising Co-operatives have been funded by **sefa** in partnership with Municipalities and other technical partners. Several challenges have been experienced during the implementation of projects. These challenges highlight the importance of a coordinated multi-disciplinary and holistic framework in providing support to Co-operatives, with more clarity of the roles and responsibilities of all role player and joint accountability by stakeholders. Such projects often require additional patient capital (equity or grants) over and above loan funding provided by **sefa** in order to enhance the sustainability of the projects.

Furthermore, extensive training on entrepreneurship, governance and management is required to ensure project success. It is on this basis that **sefa** will proactively partner with other relevant stakeholders in order to provide various interventions to Co-operatives. Leveraging of various Government incentives (e.g. CIS), non-financial support from SEDA, and services of institutions such as Local Government Sector Education and Training Authority (LGSETA), to provide training on Co-operatives governance and management therefore becomes imperative.

Strategic Initiative 2: Develop a "Co-operative Growth Eco-system Plan"

sefa will develop a "Co-operative Growth Ecosystem Plan" which will be used as a tool to encourage "community economic development" stakeholders to co-invest in inclusive economic development. This will enable **sefa** to engage diverse role-players across the private, public, nonprofit and financial sectors to explore how to work together to develop and grow the Co-operative sector.

Co-Operatives Development Agency (CDA)

Chapter 12A of The Co-operatives Amendment Act, Act No.6 of 2013 established the Co-operatives Development Agency (CDA) and provides for its legal status. Furthermore, it provides for the oversight and executive authority of the Agency. The Agency is not yet operational although it has been established in terms of the Amended Act. The operationalisation of the Agency is the role of the Department of Small Business Development (DSBD) and has delegated SEDA to incubate it.

In view of the fact that deposit-taking Co-operatives are excluded from obtaining financial support from the CDA, **sefa** will continue to provide deposit-taking Co-operatives with business loans to on-lend to their enterprising members. To this end**, sefa** will establish working relationship with the CDA in terms of which funded enterprising co-operatives will be provided with non-financial support (education and training, market development and evaluation etc). Such support will contribute towards sustainability of the CFIs and enterprising co-operatives

Co-operative Financial Institutions and Enterprising Co-operatives Lending Strategic Outputs

Strategic Indicator	Projected 2017/18	Estimated Performance	Targets				Total over the Strat Plan
		2018/19	2019/20	2020/21	2021/22	2022/23	
Value of Approvals to Co-operatives (R'000)	40 500	24 024	26 426	29 069	31 976	33 575	145 070
Value of Disbursements to Co-operatives (R'000)	27 000	20 020	22 022	24 224	26 647	27 979	120 892
No of Co-operatives financed	18	13	15	16	18	19	81
No of Jobs Facilitated (created and sustained)	90	67	73	81	89	93	403

Sub-programme: Khula Credit Guarantee

The Credit Indemnity Scheme assists SMMEs to obtain financing from commercial banks and other 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 institution's SME lending criteria. The programme operates under licensing from the Financial Service Board (FSB) and compliance with such regulation.

Strategic Initiative 1: Extend coverage to include a wider range of financial institutions and commercial suppliers of inputs to SMEs

Historically, the four large banks utilized the scheme, however their participation declined significantly since the 2008 global financial crisis. New niche players in the SME markets have emerged, creating new opportunities for extending the scope of the scheme. These will include registered financial institutions, non-banking financial institutions and other suppliers of credit to SMMEs.

Strategic Initiative 2: Introduce flexibility of terms and conditions to increase attractiveness of products and services to targeted SME financiers. The aim is to re-engineer the scheme to facilitate the attractiveness and ease of use by participating institutions (new agreements, enhanced business processes and systems).

Strategic Initiative 3: Develop, pilot and market new products and services to facilitate increased uptake of the indemnity facility. The following products and services will be developed and implemented:

Direct guarantees (Credit guarantee schemes provide guarantees on loans to borrowers (SMEs) by covering a share of the default risk of the loan. In case of default by the borrower (SME), the lender

(financial institution) recovers the value of the guarantee from the guarantor (KCG)). Examples of direct guarantees include portfolio and SPV guarantees as well as Co-guarantees.

- Portfolio guarantees.
- SPV guarantees.
- Co-guaranteeing.

Indirect guarantees (Indirect or multiple guarantees occur when a beneficiary needs a guarantee from a bank. The SME's bank arranges the issue of the guarantee (which KCG backs up) to the bank nominated by the beneficiary, and the bank in turn will issue a counter guarantee to the beneficiary. These guarantees include performance guarantees, multiple guarantees).

New Initiatives on products and services

- Hybrid (combination of portfolio and individual)
- Performance Guarantees (Performance bond and advanced payment guarantees)
- Wholesale Guarantees (This is to guarantee an already existing banking book for capital relief)

Strategic Initiative 4: Introduce risk-based pricing – develop and use a risk based premium pricing model

Develop and implement scientific pricing methodology to appropriately price for the different KCG products and services, to ensure compliance with the solvency capital requirements and provision for outstanding KCG liabilities. This will be guided by the FSB regulations and the outcome of the partial credit guarantee study.

KCG's Strategic Outputs

Strategic Indicator	Projected 2017/18	Estimated Performance	Targets				Total over the Strat Plan
		2018/19	2019/20	2020/21	2021/22	2022/23	
Value of approvals through registered financial institutions (R'000)	100 000	140 000	168 000	201 600	241 920	290 304	1 041 824
Value of approvals through participating suppliers (R'000)	30 000	42 000	58 800	82 320	115 248	161 347	459 715
Value of guarantees taken up by registered financial institutions (R'000)	64 448	51 394	61 210	63 552	60 565	72 678	309 399
Value of guarantees taken up by participating suppliers (R'000)	21 483	33 600	40 320	48 384	58 061	69 673	250 038
No. of SMMEs and Co-operatives financed through the guarantee scheme	279	34	112	134	161	194	635
No. of SMMEs and Co-operatives financed through the participating suppliers	53	134	161	194	232	279	1 000
No. of jobs facilitated (created and sustained)	1 659	575	1 044	1 253	1 503	1 804	6 178

Programme 2: Post Investment/ Workout and Restructuring Management

The primary objectives of the unit are to manage the loan portfolio by reducing the current high levels of impairments from 45% in 2017/2018 to 36% in the 2018/2019 financial year and reduce it further by 100 basis points over the MTEF period. This objective is being pursued in the context of inherent risks associated with the market that **sefa** serves and the constrained skills fit in the division. This will be coupled with increasing portfolio collections from the projected 63% to 75% in the MTEF period.

The above objectives will be pursued by implementing the following strategic initiatives:

Initiative 1 - Implement a pro-active monitoring approach in the identification of early warning signals for portfolio investments.

This approach ensures that early signs of business distress are identified and properly managed. To this end, the following aspects of the monitoring process will continue to be pursued.

- Conducting regular site visits
- Proactive monitoring of cession of payments
- A periodic review of the specific loan accounts in the portfolio
- Proactive monitoring of the loan accounts by cross-sectional portfolio analysis.

The Investment Monitoring committee (IMC) is an important mechanism through which **sefa** monitors the loan portfolio. This is in addition to the regular site visits that are conducted. The IMC will continue to sit monthly to monitor and provide guidance and direction on the management of specific loan accounts in both portfolios.

Initiative 2: Workout and Restructuring

Restructuring of loan accounts in distress which are characterised by payment arrears caused by cash flow challenges will continue. The purpose of this intervention is to prevent the deterioration of the portfolio at risk and to ensure clients are provided with sufficient cash flow relief by means of deferments and revised repayments based on the state of operational activities in the enterprise. This is done by rescheduling loans in arrears based on their potential for rehabilitation. It is on this backdrop that efforts will be pursued to:

- Address the underlying causes of distress rather than symptoms.
- Prioritise relatively larger and salvageable investments without losing sight of smaller loans.
- Utilise turnaround specialists on **sefa**'s mentorship and business support panel.

Initiative 3: Mentorship and business support programme to develop client sustainability

In an unsecured lending environment, mentorship plays a pivotal role to ensure the development of small businesses over time. To this end, **sefa**'s mentorship panel has been enhanced by the accreditation of 128 consulting companies. These companies will assist **sefa**'s investee companies in the functional areas of small business management.

This panel of accredited mentors specialise in different sectors and industries. Services are being utilised to maintain and sustain **sefa**'s clients. By sustaining small businesses, **sefa** will be contributing to the SA economy through job creation and maintenance. This is done by providing:

- A basket offering to prospective and **sefa**'s approved clients.
- Specialised assistance during the pre-due diligence phase.
- A channel of networking and business development and other opportunities (quality deal flow).
- Technical assistance to **sefa** clients such as turnaround and sector specialists and the compilation of management and financial accounts.
- Mentoring and coaching sessions to management and staff of **sefa** clients.
- An aggressive follow up on all accounts per region through Investment Monitoring Committee (IMC)

The panel consists of experts with experience in various functional areas of business management and sectors of the economy.

It has to be noted that Phase 1 of the mentorship programme in form of a diagnostic analysis of the performing and some of the non-performing clients has been completed. The outcomes of which indicate that the clients have an inadequate understanding of business management, lack of financial systems, poor record keeping, low skills level of staff, no operational systems, amongst others. The second phase in full swing where the various interventions are being implemented. These will be followed by additional interventions in addressing other functional areas that are in need.

Addressing these inadequacies is central to the post investment strategy in order to achieve the divisional objectives of developing sustainable small businesses that are able to honour its loan obligations.

Initiative 4: Collections

The formation of the collection hub has contributed much to the performance of the loan book especially as it relates to the management of the outstanding balances in arrears. The Wholesale Lending portfolio continues to achieve good collection rates whilst Direct Lending collections have improved drastically. In order to enhance this function additional permanent collections specialists will be employed in addition to the integration of the Direct and Wholesale Lending collections aspects. Furthermore, collections systems and procedures have been reviewed and these will be implemented in the ensuing financial year.

Initiative 5: Delinquent Loan accounts

The management of delinquent accounts will continue by following a structured approach to delinquency which among others include timeous sending of letters of default from the first day of delinquency followed by letters of demand to clients that are not cooperative. It has to be noted that a firm approach will continue to be pursed where clients have the ability to repay the loans but are demonstrating unwillingness to do so. This approach will take into account a developmental view especially in instances where clients were adversely affected by the external factors.

It has to be noted that since the establishment of the PIM and Workout Unit in 2016, the following has been achieved:

- The PIM and Workout model was optimised
- The collection function was centralised
- The Investment Monitoring Committee has been enhanced
- The mentorship panel has been implemented
- A diagnostic analysis has been performed on about 109 **sefa** clients

PIM Output Table

Strategic Indicator	**Projected 2017/18**	**Estimated Performance**	**Targets**			
		2018/2019	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**
Impairments	45%	36%	32%	27%	27%	26%
Collections Rates*	63%	66%	70%	75%	75%	75%

*Collection Rate - Amounts received on time (less prepayments and past due amounts) / total amount due for the month (excluding past due amounts)

Programme 3: Build an efficient and effective sefa that is performance driven and sustainable

Sub-programme - Financial Management, Supply chain and Compliance

The focus over the medium term will be on driving financial sustainability of **sefa**, whilst maintaining the developmental impact through creation of new jobs and sustaining existing ones.

Achievements – Through various interventions, **sefa** managed to decrease the cost to income ratio from 121% in 2014/15 financial year to almost 100% over MTEF period, driven mainly by decreased impairment charge. There has been an improvement overall Impairments have improved overall from 51% in 2015/16 to a projected 45% in 2017/18, and projected to improve further over MTEF period to 27%. There are remarkable improvements in the impairments on Direct Lending book with the new book disbursements post April 2016 showing accumulated impairments of 28%.

Challenges - sefa has worrisome cash flow challenges with cash balances depleting at a fast pace. Commitments to date stand at R1.5 billion with R1 billion of that undrawn. Challenges on the property portfolio, high cost structure combined with high levels of impairments over the past few years has put a strain **sefa's** resources thus impacting on **sefa's** sustainability. The old book (loans disbursed prior to 31 March 2016) remains uncollectable and sits at a 77% impairment rate which is projected to increase to 95% by 2021.

Key strategic initiatives

Based on the financial sustainability challenges faced by **sefa**, finance and supply chain management will focus on the following: (a) Cost management and operational efficiencies; (b) Cash preservation & cash management; (c) Raise additional funding through external donors; and (d) Improved financial integrity and automation.

Strategic Initiative 1: Cost Management

sefa will continue to work towards increasing operational efficiencies and containing costs through cost containment measures that include: (a) relocation of **sefa's** head office from leased property to **sefa**-owned property, resulting in proposed savings of R6.5 million per annum; (b) relocation of regional offices to **sefa-**owned-properties and thus saving rental payments; (c) merging of 5 regional offices; (d) savings of telephony and printing costs and; (e) continuation of head count freeze over 5 year period with an allowance for annual cost of living adjustments. The 4-pronged strategy on properties will also reduce the strain on **sefa's** resources and result in approximately R42 million savings on property expenses over the same period.

Strategic Initiative 2: Cash Preservation & Cash Management

It is expected that a reduction in moratoriums given on loans will result in increased repayments, and thus increased cash preservation. The 4-pronged strategy on properties mentioned above will result in major savings and higher cash reserves over the MTEF period. New innovative products such as Invoice Discounting, which have a short term output will result in concerted effort on cash preservation and cash management.

Strategic Initiative 3: Raise Additional Funding Through External Donors

The Agency is thus targeting to disburse R5.2 billion over 5 years including co-funding by external funders, and R592 million and R822 million for Direct and Wholesale Lending approvals respectively over MTEF period. The current European Union facility will co-fund these approvals up to R505 million. Over the MTEF period.

Strategic Initiative 4: Improved Financial Integrity and Automation

The Agency further intends to streamline processes through increased automation. **sefa** has also introduced Activity Based Cost model in the financial year 2016/17 which will be implemented fully for the year 2018, and will be used to identify cost deficiencies, and put in operational interventions. The automation of the purchase order and supply chain management system is underway and has been tested in the marketing department. Preparation for IFRS 9 is in progress and should result in informed and timeous calculation of impairments in the 2018/19 financial year. Other automations include; automated travel, disbursements and creditors payments, petty cash submissions, internal General Ledger reconciliation process which will enhance operational efficiency, electronic audit trails and paperless systems. Bringing the accounting of properties in-house will result in correction of financial Integrity on properties portfolio and sound business decisions will be made on reliable data.

Strategic Indicator	**Projected 2017/18**	**Estimated Performance**	**Targets**			
		2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Cost: income after impairments and after MTEF allocation*	107%	101%	96%	93%	99%	98%
MTEF income/ total income (Treating MTEF as income)	48%	48%	46%	46%	44%	44%
Personnel costs/ loans and advances	26%	24%	21%	21%	22%	24%

Sub Programme: Human Resource Management

The key role of Human Capital Management (HCM) is to strengthen and build **sefa's** human resource capacity. The HCM strategic work plan execution for the fiscal year 2018/19 is centred on interventions geared towards: (a) creating impact; (b) enabling sustainability; (c) enhancing productivity and; (d) workforce efficiency in the achievement of the growth phase of the High Performance Organisation (HPO).

sefa is currently in phase two of the HPO journey: *Growth (2016-2018)* which is aimed at strengthening performance culture through talent optimisation and improved work efficiencies. As part of the organisational cost optimisation process, the HCM Division will contribute to **sefa's** sustainability through reduction of employee and other related costs.

Strategic Initiative 1: Impact

The HCM Division will embark on the following interventions to inculcate a high performance culture:

- Values and Culture Alignment
- Enhanced Performance Management
- Targeted Employee Development

Strategic Initiative 2: Sustainability

The sustainability of **sefa** is critical to the organisation's continuous ability to effectively deliver on its mandate. The HCM Division therefore plans to implement the following interventions to drive cost management and to positively contribute to the achievement of the cost-to-income ratio target:

- Strategic Workforce Planning
- Human Capital focused Cost Saving Interventions

Strategic Initiative 3: Productivity

The delivery of **sefa**'s mandate and strategic goals are also dependent on the productivity and engagement of its key resources - the employees. The following initiatives will be implemented to increase productivity and to address any barriers to employee productivity:

- Organisational design review
- Targeted employee development and right skilling
- Productivity measurement

Strategic Initiative 4: Effectiveness

The HCM Division seeks to become the strategic business partner in driving individual and team performance towards HPO through the design and delivery of the following initiatives:

- Automation of the performance management process and adoption of new HR technologies to drive the increase in workforce effectiveness
- Enhancement of the Human Capital Business Partnership model
- Implementation of employee wellness, occupational health and safety including employee relations initiatives to create and enable a conducive work environment

Human Capital Management Programme Outputs

The HCM Division seeks to achieve the following key outputs within the next MTEF period

HCM Output Table - 2019 -2023

Programme Target Indicators	Estimated Performance	Targets				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Percentage of staff (P – Band and above) that scores 3.1 or more in the annual performance assessment.	80%	80%	80%	80%	80%	80%
Labour turnover rate of critical strategic positions	7%	7%	7%	7%	7%	7%

Sub-programme: Information and communication technology (ICT)

Provide reliable ICT support to **sefa** business through application development, network/infrastructure management, security management and end-user computing support.

Strategic Initiatives

Initiative 1: Improved ICT governance

Good ICT governance ensures that all resources are utilised to provide technology solutions aligned to **sefa**'s business focus. This should be done in a transparent and well organised manner with continuous evaluation and improvement. Controls to manage and review risks, services, user-accounts and assets will ensure reliable technology support to **sefa** staff.

Initiative 2: Network/Infrastructure management

For improved reliability and availability of **sefa** ICT services and to provide excellent service delivery to business, continuous monitoring and maintenance is needed to the server environment. Network security must be reviewed and improved regularly to prevent damage from malware. Business Continuity improvements will ensure fast and reliable recovery from disasters.

Initiative 3: Application development

System solutions to create value for business and improved analytics to enable management to measure and direct operations. Service automation and continuous improvement is a key component for the ICT environment.

Sub-programme: Corporate Strategy and Reporting

Provide strategic support services to the business through the implementation of the following functions:

Corporate planning and reporting

- Facilitation of **sefa** annual corporate planning and development of strategic and annual plans.
- Corporate reporting – quarterly reports to the Shareholder (IDC), Executive Authority (DSBD) and the Board of Directors on implementation of strategic and annual plans.

Research Management and Information Dissemination

- **Monitoring and Evaluation of sefa loan programmes implementation -** An annual impact survey will be carried out to understand the impact of the organisation's programmes on its funded clients and provide recommendations for improved or new product design.
- **Commissioning of ad-hoc research studies –** Facilitation of and commissioning of ad-hoc research on behalf of divisions to support strategic decision-making, programme formulation and management.
- **Knowledge Management Implementation –** Maintenance and enhancement of knowledge management to support loan application due-diligence, information dissemination for increased knowledge and understanding of small business and economic policy.

Project Management Office (PMO)

- Automated corporate performance reporting process
- Implement electronic records management to support **sefa** Committee management processes

New Product Development

- Development of a Township Financing Solution to support entrepreneurs located in Townships.

Programme 4: Build a strong and effective sefa brand emphasizing accessibility to SMMEs

The role of Marketing and Communication is to position and market **sefa**, its products and services to SMMEs and Co-operatives and to facilitate strategic engagements with key stakeholders.

For the past 5 years, **sefa** marketing and communications focused on building awareness of the organisations' role within the Development Finance Institutional framework and marketing **sefa** products and services to its target market.

Marketing and Communications' strategic intent is anchored on institutionalizing customer relationship management processes within the institution, facilitating strategic outreach and investing in stakeholder management.

KEY STRATEGY STRATEGIC INITIATIVES

Strategic Initiative1: Enhance the sefa brand emphasizing accessibility of its products and service to SMMEs and Co-operation Enterprises.

a) The production of promotional material and marketing paraphernalia
b) Strategic communication via community radio, print media, outdoor media and sponsorship
c) Strategic outreach to targeted groups via road shows, exhibitions, etc.

Strategic Initiative 2: Customer Relationship Management
Sefa's Customer Relationship Management Policy was approved by the Board in the previous financial year. In the 2018/19FY, marketing will develop the operating procedure and systems for the implementation of the CRM policy.

Strategic Initiative 3: Stakeholder Engagement
Strategic engagement with stakeholder to develop a business pipeline and proactive engagement with policy makers, regulators and parliament on the implementation of **sefa** mandate.

Strategic Initiative 4: Build an effective Internal Communication Platform
To complement the Human Capital Management High Performance Programme and enhance organizational culture, a comprehensive internal communications programme will be introduced.

Marketing and Communications Output Table

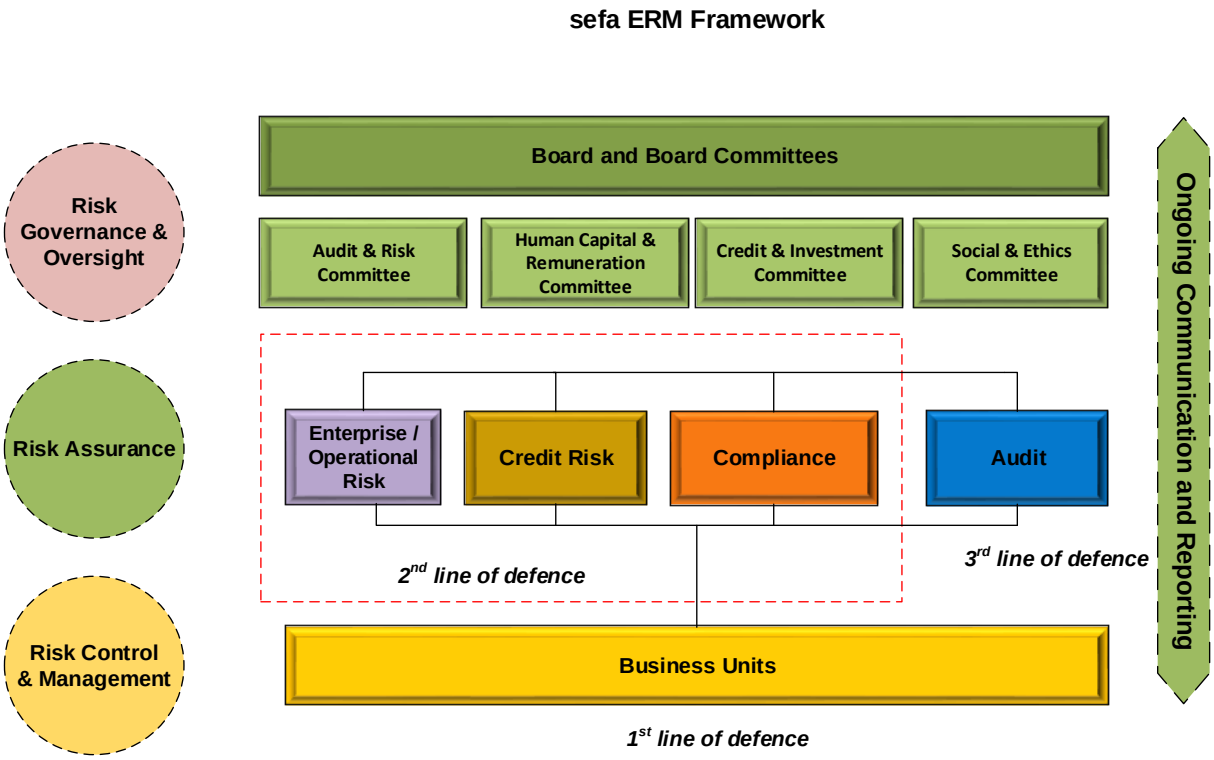
Strategic Initiative	2018/19	2019/20	2020/21	2021/22	2022/23
sefa Brand Building	Annual Report Marketing paraphernalia Community Media **sefa** Digital Platforms Outdoor Media	Annual Report Marketing paraphernalia Community Media **sefa** Digital Platforms	Annual Report Annual Report Marketing paraphernalia Community Media **sefa** Digital Platforms	Annual Report Annual Report Marketing paraphernalia Community Media **sefa** Digital Platforms	Annual Report Annual Report Marketing paraphernalia Community Media **sefa** Digital Platforms
CRM	CRM Operating Manual Customer Annual Satisfaction Survey System to measure customer interaction	Create Awareness of the CRM Process Enhance the CRM processes Customer Satisfaction Survey	Enhance CRM processes based on Customer Satisfaction Survey feedback Annual Satisfaction Survey	Enhance CRM processes based on Customer Survey Feedback Annual Satisfaction Survey	Enhance CRM processes based on Customer Feedback Annual Satisfaction Survey
Stakeholder Engagement	Development of **sefa** Stakeholder Engagement framework Building strategic engagement with the 2 stakeholder groups	Operationalise the engagement framework Ongoing engagement with strategic stakeholders	Ongoing engagement with strategic stakeholders	Ongoing engagement with strategic stakeholders	Ongoing engagement with strategic stakeholders
Internal Communications	Development of Internal Communication framework Employee Monthly Newsletter Quarterly Employee Engagement **sefa** Year-end engagement Monthly online communication for **sefa** executive	Employee Monthly Newsletter Quarterly Employee Engagement **sefa** Year-end engagement Monthly online communication for **sefa** executive	Employee Monthly Newsletter Quarterly Employee Engagement **sefa** Year-end engagement Monthly online communication for **sefa** executive	Employee Monthly Newsletter Quarterly Employee Engagement **sefa** Year-end engagement Monthly online communication for **sefa** executive	Employee Monthly Newsletter Quarterly Employee Engagement **sefa** Year-end engagement Monthly online communication for **sefa** executive

Programme 5: Compliance, Governance, Enterprise Risk Management and Internal Audit

Sub-programme: Enterprise Risk and Compliance Management

In 2016 **sefa** adopted an Enterprise Risk Management Framework. This sought to provide a holistic approach to risk management. The framework is also aligned to best practice standards such as the Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework, the Public Sector Risk Management Framework and ISO 31000 standard.

The framework is based on the three lines of defence modality. Risk exposures are managed as close to source as possible. The business units have the primary responsibility to implementing controls to manage the risks that they take on. The business units are therefore deemed as the first line of defence. Enterprise Risk Management, Credit Risk and Compliance are the second line of defence. These are responsible for providing assurance and facilitating the risk management process. Internal and external audit provide independent assurance to management and the board on the effectives risk management process. The Board provides the overall risk oversight. On-going communication is fundamental within the **sefa** ERM framework and takes places within the relevant structures. The diagram below reflects the **sefa** ERM Framework.



sefa ERM Framework

Enterprise Risk Management

The ERM functions annually conducts control-risk assessments for the entire organisation. In line with best practice, strategic risks will be assessed annually. The strategic risks for **sefa** are indicated in the table below:

Strategic Risks

Risk	Key Controls
Risk of collections and high impairments	Daily monitoring of collections; IMC meetings; Target setting per PIM staff; Project team between **sefa** & IDC; Credit Bureau listings;
Inadequate skills and competencies	Performance Management Workshops; Ongoing training and development for Investment Officers
Inadequate performance management	Continuous performance reviews (mid-year review and year-end review);
Poor customer service	Customer satisfaction survey; Customer Relationship management policy; Customer complaints management mechanism
High business failure (SMME and co-operatives difficult operating environment)	Portfolio monitoring; Adjustment of products and services to market conditions; Market assessment during due diligence; Business support and mentorship
Lack of a clearly defined Risk Appetite and Risk Tolerance in a high risk target market	Credit Policy; Credit systems and procedure; Corporate Plan and budgeting; Delegation of Authority
Inability to achieve strategic objectives	BSC/Corporate Plan; Performance contracting; Performance reviews
Inadequate brand management and accessibility	Marketing and communication policies; Stakeholder engagements; Roadshows and advertising campaigns
Inability to scale up development impact and leverage funding aggressively	Creating new partnership; Use of technology; Utilize other partner's infrastructures; Co- locations with partners; Co-funding; Leveraging of the off-balance sheet funding

Risk	Key Controls
	Motivation from increased MTEF
Inadequate financial strength to meet **sefa**'s mandate and strategic objectives	Grant funding, Interest Income and fees, Write off policies, Investment Management Committee (IMC) IDC Funding
Breach of IT security, inability to recover data and unavailability of IT systems	Sufficient backups done daily, Offsite duplication of data, Warranty and maintenance of hardware Installation of the Redundancy of internet line
Non-compliance to applicable regulatory requirements	Compliance Quarterly Report containing potential risk/exposures and emerging legislation Ongoing compliance training Regulatory reporting
Inability to fulfil the stakeholder mandate Diverse stakeholder expectations	Monitor mandate related requirements eg. Jobs created, Corporate plan/APP, Shareholders compact/agreement, Quarterly entities meeting with DSBD, Ongoing engagement with Portfolio Committee,
Prevalence of fraudulent activities(Internal and External Fraud)	Fraud and corruption prevention and response plan, Training and awareness session, **sefa** fraud hotline, Anti-fraud and corruption policy.
Inadequate documents and records management	DRM Policy, process & procedures in place. DRM Champions in each department. File plan (NARS Approved) & procedures implemented. Standing disposal authority received from NARS.

Two emerging risks have been identified, namely, inadequate water supply in certain regional offices and the economic down-grade.

A quarterly review of the risk exposures is conducted and these are accordingly reported to the Audit and Risk Management Committee. A risk management plan which articulates the annual deliverables for **sefa** ERM are presented and approved by the Audit and Risk Committee

Operational Risks

Operational risks are identified on an annual basis. These are reviewed and updated quarterly. The operational risk exposures focus mainly on risks associated with people, processes, systems and external events. These are captured in operational risk registers and on-going consultation and communication takes place with business units to ensure that these are adequately mitigated.

Strategic Initiatives

Initiative 1: Promote sustainability of sefa operations

The norms and standards implemented within an organisation have a significant impact on the risk management process. Though intangible in nature, governance, compliance and risk management norms have a bearing on the sustainability and reputation of an entity. The risk management unit seeks to capacitate operational units by creating and embedding a sound culture of risk management and compliance.

Initiative 2: Continued compliance with new regulations and legislation

Developments within the regulatory landscape require an effective and agile response to new laws and regulations. **sefa** will continue to maintain compliance with regulatory requirements. Ongoing regulatory analysis will take place. The development of compliance risk management plans will continue. Compliance training initiatives will also be continued.

Initiative 3: Effective Reporting

The implementation of a new risk management system, i.e. Barnowl requires that certain functionality be customised to fit **sefa**'s operating dynamics and requirements. The risk management function will focus on refinement of reporting tools to address the needs of stakeholders. Training to business unit risk champions on the new system will also take place.

Strategic Indicator	Projected 2017/18	Estimated Performance	Targets			
		2018/19	2019/20	2020/21	2021/22	2022/23
Risk Assessments	80% coverage	80% coverage	80% coverage	80% coverage	80% coverage	80% coverage
Embedding of risk culture	2	1	1	1	1	1
Embedding of ORSA process	1	1	1	1	1	1
Develop Compliance Policy						
Develop CRMPs for FSR	0	1	0	0	0	0

Credit Risk Management

The primary objective of the Unit is to ensure that **sefa**'s risk is in line with the Institution's risk appetite and threshold and ensure that all risks inherent in **sefa**'s lending decisions are mitigated and managed. The Unit performs an independent credit risk assessment of all transactions and indicates "support or no support" and the basis thereof. The risk assessment critically identifies and assesses the risks and proposes appropriate additional mitigation plans. Since its formation, the unit has been able to embed foundational policies, processes and systems.

Strategic Initiative 1: Credit risk Appetite: Develop a quantifiable **sefa** risk appetite statement and create awareness at all levels of the organisation of the risks faced by **sefa.**

Strategic Initiative 2: Greater Alignment between credit and business: Continue to improve deeper involvement of Credit Analysts in deal making for both Wholesale and Direct Lending. Harmonise and enhance the consistency of credit risk assessment and speedy resolution of client applications. Create a dashboard of Credit Committee requirements for priority sectors.

Strategic Initiative 3: Optimise credit portfolio reporting to improve credit risk decision making, the unit will: (a) Continuously enhance the credit portfolio dashboard; (b) Improve Credit

portfolio reporting by consolidating the quarterly portfolio report with PIM and; (c) Include the quantification and measurement of **sefa**'s loans to determine asset quality.

Strategic Initiative 4: Better segmentation or diversification of portfolio: Inclusion of portfolio analysis in credit submission to demonstrate the impact of new project/exposure on portfolio.

Strategic Initiative 5: Revise Pricing Framework for Direct and Wholesale Lending: Introduce different pricing methodologies and calculations for Wholesale and Direct Lending.

Strategic Initiative 6: Risk Quantification Develop and maintain credit risk models.

Enhance the efficiency and effectiveness of Credit risk Management: (a) Review and continuously update the credit risk policy; (b) Facilitate workshops for all relevant **sefa** employees to ensure full understanding of the credit policy and; (c) Continuous improvement of Credit Risk Management Internal Control systems and Procedures.

Sub-programme: Internal Audit

sefa's Internal Audit function is an independent, objective assurance and consulting activity. It will evaluate and improve the effectiveness of risk management, control and governance processes. Internal Audit activity provides audit coverage, in conjunction with independent Auditors, of significant operational and financial reporting risk activities in **sefa** and assists management in ensuring that proper controls are in place. Internal Audit monitors and follows up on the implementation of agreed action plans to ensure an improved control environment. It performs Forensic investigations, special assignments as well as consulting activities as requested by Management and the Board as part of Fraud Risk Management.

Key Initiatives for 2018/19:

a) **Assurance on core sefa business processes:** Provide assurance on adequacy and effectiveness of core **sefa** investment processes. Interdepartmental SLA's will be documented and signed to improve efficacies and turnaround times.

b) **Create a sound Control Environment and assist Management to achieve organisational goals:** (a) Provide assurance to Management and the Board on the adequacy; (b) effectiveness and efficiency of core **sefa** business processes and; (c) Secure required resources to ensure comprehensive coverage of the control environment and combatting fraud within the business.

c) **Improve Internal Audit Productivity/Effectiveness:** (a) Establish a high-performance Audit Team to provide increased value-add through effective and efficient execution of Internal Audit activities and; (b) Use automated integrated audit and risk tools to improve Internal Audit efficiency.

d) **Improve Risk Management and Governance processes:** Provide assurance on the effectiveness of risk management processes, Governance, and Compliance with relevant legislation and establishing an effective Combined Assurance Framework and structure.

Sub-programme: Company Secretariat and DRM

Company Secretariat is a statutory function that provides guidance to the Board on its duties and responsibilities. It provides secretarial and administrative support to the Board and its committees. It also fulfils **sefa**'s documents & records management functions to ensure that the organisation complies with the National Archives and Records Act and related laws, codes and standards.

Key strategic initiatives 2018/19

Strategic Initiative 1: Enhanced governance practices

- Benchmarking of **sefa** governance practices with other SOCs
- Facilitation of Board annual development and evaluations
- Strengthening **sefa** governance standards by collaborating with DSBD and Seda governance units

Strategic Initiative 2: Enhanced guidance and secretarial support to Board and Committees

- Facilitation of Board and executive management engagements
- Ensure proper recording and safekeeping of minutes of meetings
- Monitoring the implementation of Board decisions

Strategic Initiative 3: Compliance with applicable laws, policies and procedures

- Ensure compliance with statutory and regulatory requirements
- Ensure that high risk audit findings are promptly addressed

Strategic Initiative 4: Automation

- Reduced printing thereby reducing associated costs

Strategic Initiative 5: Strengthen DRM to effectively Support business decisions

- Maintenance and monitoring of compliance with DRM processes, practices and standards

Sub-programme: Legal Services

Legal Services provide contract drafting, legal representation and legal advice to core and supporting divisions in **sefa**.

Strategic Initiative 1 – Contracting – Facilitate the drafting of loan agreement and amendments based on committee decisions

Strategic Initiative 2 – Represent and facilitate the resolution of all **sefa** legal disputes

Strategic Initiative 3 – Institute and facilitate the process of legal collection where funded clients has reneged on the contract agreements.

Programme 6: Property Management

sefa owns a sizeable amount of properties in seven provinces to grow and nurture small businesses and contribute towards business growth and sustainability.

The current 2016 Fair Value of Investment Properties is R190 million, made up of 53 properties in 7 provinces and comprising of 30 industrial properties and 22 retail commercial properties and 1 vacant land.

The White Paper on Small Business Development identifies affordable premises as a key constraint to the development and promotion of small businesses in South Africa. **sefa** inherited a property portfolio through the merger process and uses these premises to provide affordable business premises to SMMEs and Co-operatives.

Achievements - In an effort to preserve the property values and mitigate compliance (health and safety) and insurance risk, **sefa,** has been in collaboration with Gauteng Provincial Government to redevelop industrial hubs in Orlando West, Attredgiville and Pennyville. R30 million has been set aside by the Gauteng Provincial Government to redevelop Pennyville Industrial Parks and to setup incubation hubs in the area. In addition, plans are underway to repair Victoria Street Market. The Port Elizabeth retail centre has been re-instated successfully and a black owned anchor tenant is operating in the re-instated property.

Challenges & interventions

Properties are in a state of disrepair: The properties have not had major refurbishments in over 40 years and are in a condition of severe physical deterioration. This has resulted in increased levels of repairs and maintenance costs.

Ownership disputes: Ownership disputes currently exist between Gauteng Province Industrial Parks Association (GAPIPA) and OWIPA (Orlando West Industrial Parks Association). GAPIPA and OWIPA claims that undertakings were made more than 30 years ago that properties would be sold to tenants. It appears that the transfer of properties to tenants were never concluded due to lack of consensus in terms of purchase price and other related matters.

An expectation of ownership by tenants represented by GAPIPA continued and remained unresolved resulting in: (a) Non-payment of rentals; (b) Tenants not signing leases and; (c) Prevention of the Managing Agent from fulfilling its mandate of managing the properties.

GAPIPA tenanted properties have high levels of arrears of R 44 million which represent 42% of total arrears.

Losses and arrears: The factors that have contributed to the losses and arrears have mainly been:

a) The properties have not have a major refurbishment in over 40 years and are in a condition of severe physical deterioration, which has resulted in increased levels of repairs and maintenance costs.
b) SMMEs inability to pay rentals due to the fact that properties are situated in areas that have low economic activities.
c) Large arrears by GAPIPA tenanted properties (Gauteng Province Industrial Parks Association) due to historical agreements with the DTI, this resulting in rental boycotts.
d) High Management Fees paid to Managing Agents (of more than R21 million) over 5 years.
e) Compliance issues such as fire & Insurance risk have resulted in 5 burnt properties and loss of income.

f) The property division does not have enough capacity with only one permanent staff member as at 28 February 2017

Key strategic initiatives

Based on the financial sustainability challenges faced by Properties management programme, the focus for 2018/19 will be: (a) Sale and transfer of Properties; (b) Effective and efficient administration of the property portfolio and; (c) Ensure that the **sefa** property portfolio is preserved

Sale and transfer of Properties

In an effort to reduce heavy losses sustained on the property portfolio, to resolve the ownership disputes and fulfil the historical agreements with certain tenants, **sefa** will explore ways to enable tenants and 3rd parties to purchase properties that are earmarked for sale. Sale processes will commence in the 2018/19FY and major negotiations are expected to be finalized in the 2019/20FY with the resultant transfer of properties taking place over the MTEF. It is expected major losses will be reduced by 2019/20.

Strategic Indicator	Projected 2017/18	Estimated Performance	Targets			
		2018/19	2019/20	2020/21	2021/22	2022/23
Cost to income-Properties	-292%	-208%	-179%	-182%	-174%	-174%
Occupancy rate	39%	44%	50%	52%	53%	55%
Collection rate	70% of billed	72% of billed	77% of billed	79% of billed	79% of billed	80% of billed

Annexure 3 – Material and Significance Framework

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

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

Materiality levels for significant and material transactions:

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

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

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

Total group assets as per 2016/17 audited annual financial statements: R2,346,022,000 (2015/16: R2, 301,110, 000)

2% of total assets: R46,920,440 (2016: R46, 022, 000)

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

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

- The Accounting Authority will develop and agree on a framework of acceptable levels of materiality and significance with the Shareholder and the Executive Authority.
- The Accounting Authority will promptly and in writing request approval from the Shareholder and the Executive Authority for each funding transaction where its total exposure to the company being funded will increase to above R150 million or where **sefa** equity stake in the company will exceed 50%.

Section 54(2) of the PFMA considers the following transactions to be significant and an entity must inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction prior to concluding the transaction:

- The establishment or participation in establishing a company (this type of transaction is significant by nature);
- Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement (significance is determined by the value of the transaction);
- Acquisition or disposal of a significant shareholding in a company (this will be significant where ownership control is affected or where the entity's control over a special resolution is affected or the change in shareholding exceeds 20% or any transaction that will result in an ultimate shareholding exceeding 20%);
- Acquisition or disposal of a significant asset (significance is determined by the value of the transaction);

- Commencement or cessation of a significant business activity (This applies to activities that are non-core in nature and the amount thereof must be significant);
- A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement (this will be significant based on the amount or where the nature of the relationship changes or where the cumulative interest exceeds 20% or any transaction that results in a cumulative interest of 10%).

Materiality levels for irregular expenditure:

Materiality levels for reporting irregular expenditure are set at 0.5% of materiality levels for significant and material transactions, hence amounting to R234,602 (2016: R230,110) on a transactional level.

Borrowing Limitations

sefa has the following borrowing limitations imposed:

- Funds may only be borrowed or guarantees issued through the Accounting Authority.
- The Memorandum of Incorporation prescribes that Shareholder's approval is required prior to concluding a transaction where the entity borrows funds or issue guarantees.
- **sefa** may not borrow money in a foreign currency above a prescribed limit.
- A borrowing programme must be submitted to the Minister on an annual basis.

Annexure 4 – Fraud Prevention Plan

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

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

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