ECRDA

Eastern Cape Rural Development Agency

ANNUAL REPORT

2014/15

ABBREVIATIONS/ACRONYMS

AFS	Audited Financial Statements
APP	Annual Performance Plan
ARDA	Agrarian Research and Development Agency
ASGISA	Accelerated Shared Growth Initiative of South Africa
BRP	Business Rescue Process
CEO	Chief Executive Officer
DAFF	Department of Agriculture, Forestry and Fisheries
DRDAR	Department of Rural Development and Agrarian Reform
DRDLR	Department of Rural Development and Land Reform
EC	Eastern Cape
ECDC	Eastern Cape Development Corporation
ECRDA	Eastern Cape Rural Development Agency
ECRFC	Eastern Cape Rural Finance Corporation
EIA	Environmental Impact Assessment
GRAP	Generally Recognised Accounting Practice
GDP	Gross Domestic Product
HA	Hectare
HIPPs	High Impact Priority Programmes
HOD	Head of Department
HR	Human Resources
IDC	Industrial Development Corporation
IOD	Institute of Directors
IT	Information Technology
MEC	Member of the Executive Council
MoU	Memorandum of Understanding
NDP	National Development Plan
PDP	Provincial Development Plan
PFMA	Public Finance Management Act
PSC	Project Steering Committee
PWC	PricewaterhouseCoopers
RED	Rural Enterprise Development
SALGA	South African Local Government Association
SCM	Supply Chain Management
UFH	University of Fort Hare
UJ	University of Johannesburg
UNISA	University of South Africa

HONOURABLE MLIBO QOBOSHIYANE

Member of the Executive Council Department of Rural Development and Agrarian Reform.
The board has the honour of submitting the Annual Report of the Eastern Cape Rural Development Agency for the period 01 April 2014 to 31 March 2015

Dr Vanguard Mkhosana
Chairperson

ANNUAL REPORT

20 14/15

A GENERAL INFORMATION

THIS ECRDA VISION SERVES TO INSPIRE THE ORGANISATION TO WORK TIRELESSLY TOWARDS TRANSFORMED RURAL AREAS THAT ARE SOCIALLY AND ECONOMICALLY DEVELOPED, AS WELL AS ESTABLISHING AN INSTITUTIONAL ENVIRONMENT THAT IS CONDUCIVE TO RURAL DEVELOPMENT.

1 ABOUT ECRDA

THE EASTERN CAPE RURAL DEVELOPMENT AGENCY (ECRDA) IS A SCHEDULE 3C ENTITY IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT (PFMA). IT WAS ESTABLISHED AS A RESULT OF THE AMALGAMATION OF TWO PUBLIC ENTITIES, NAMELY, THE EASTERN CAPE RURAL FINANCE CORPORATION (ECRFC) AND ASGISA-EASTERN CAPE (PTY) LTD. ECRDA HAS A DEDICATED FOCUS ON FORMULATING, PROMOTING AND ENSURING THE IMPLEMENTATION OF A COMPREHENSIVE AND INTEGRATED RURAL DEVELOPMENT STRATEGY FOR THE EASTERN CAPE PROVINCE.

LEGISLATIVE MANDATE

The White Paper for Agrarian Transformation in the Eastern Cape confirms the vision for rural development that is articulated in the national Integrated Sustainable Rural Development Strategy (ISRDS) namely: "sustainable growth and development for improved quality of life". This vision is elaborated as follows, "to attain socially-cohesive and stable communities with viable institutions, sustainable economies and universal access to social amenities, able to attract skilled and knowledgeable people, equipped to contribute to their own and the nation's growth and development."

In practice, this means rural communities having access to quality physical, social and economic infrastructure; that land and other natural resources becoming viable assets in the hands of the rural poor; that indigenous knowledge and cultural value systems being harnessed for human and social development; a vibrant arts and cultural life; and rural communities having access to information communication and technologies. In essence rural communities must be involved in a process of regeneration and there should be no obstacles to the full development of human potential.

This vision serves to inspire ECRDA to work tirelessly towards transformed rural areas that are socially and economically developed, as well as establishing an institutional environment conducive to rural development.

ECRDA OBJECTIVES

The objectives of the agency are to promote, support and facilitate rural development in the province by:

(a) Mobilising financial resources and providing financial and supportive services to persons domiciled, ordinarily resident or carrying on business within the province;

(b) Promoting and encouraging private sector investment in the province and the participation of the private sector in contributing to economic growth;

(c) Acting as the government's agent for performing any development-related tasks and responsibilities that the government considers may be more efficiently or effectively performed by a corporate entity;
(d) Driving and coordinating integrated programmes of rural development, land reform and agrarian transformation in the province;
(e) Project managing rural development interventions in the province;
(f) Promoting applied research and innovative technologies for rural development in the province;
(g) Planning, monitoring and evaluating rural development in the province; and
(h) Facilitating the participation of the private sector and community organisations in rural development programmes.

OTHER LEGISLATIVE MANDATES

The agency is impacted upon by legislation with which there has to be alignment, compliance and consistency. These include, but are not limited to, the following:
(a) Eastern Cape Rural Finance Corporation Amendment, Act No.1 of 2012
(b) Public Finance Management Act, 1999, Act No.1 of 1999
(c) Basic Conditions of Employment Act, 1997, Act No. 75 of 1997
(d) Preferential Procurement Policy Framework Act, 2000 Act No. 5 of 2000
(e) Skills Development Act, 1998, Act No. 97 of 1998
(f) Labour Relations Act, 66 of 1995
(g) Intergovernmental Relations Framework, Act No.13 of 2005
(h) National Credit Act and Regulations Framework, Act 34 of 2005
(i) King III Report on Governance for SA-2009
(j) New Companies Act, 2011
(k) Protection of Personal Information, Act No.4 of 2013
(l) Occupational Health and Safety Act, 1993, Act No. 85 of 1993
(m) Employment Equity Act, 1998, Act No. 55 of 1998
(n) Promotion of Access to Information Act, 2000, Act No. 2 of 2000
(o) Promotion of Administrative Justice Act, 2000, Act No. 2 of 2000.

The agency has adopted the balanced scorecard as a basis for strategic and performance management. Consistent with this approach, the strategic goals are aligned with business activities and performance monitoring.

STRATEGIC PILLARS

The agency's energy is directed towards the following strategic pillars:

PILLAR 1: Effective coordination and implementation of agrarian driven High Impact Priority Programmes (HIPPs)

PILLAR 2: Promote entrepreneurship through rural finance and support programme

PILLAR 3: Develop, institutionalise and sustain an effective, capable and fit-for-purpose organisation including best-in-class project management, targeted research and innovation-driven agency

PILLAR 4: Leverage strategic partnerships towards implementation and funding of rural development initiatives

PILLAR 5: Develop sustainable, localised institutionalised rural framework

VISION

A VIBRANT AND SUSTAINABLE RURAL ECONOMY THAT IMPROVES THE LIVELIHOODS OF RURAL COMMUNITIES WITHIN THE EASTERN CAPE.

MISSION

ECRDA AIMS TO DRIVE, COORDINATE & FACILITATE IMPLEMENTATION OF INTEGRATED HIGH IMPACT PROGRAMMES OF RURAL DEVELOPMENT AND AGRARIAN REFORM IN THE EASTERN CAPE BY FORMING PARTNERSHIPS WITH RURAL COMMUNITIES, THE PRIVATE SECTOR AND OTHER PUBLIC SECTOR ORGANISATIONS AND DEPARTMENTS WITH THE MAIN OBJECTIVE OF BUILDING A VIBRANT AND SUSTAINABLE RURAL ECONOMY.

VALUES AND GUIDING PRINCIPLES

ECRDA will strive to act professionally at all times. To this end, we will adhere to the following guiding principles:

TRANSPARENCY We will be transparent in all our dealings and promote inclusive and accountable participation by all stakeholders.

EXCELLENCE We will strive for the highest organisational achievement in all aspects of service delivery in our mandate of rural development.

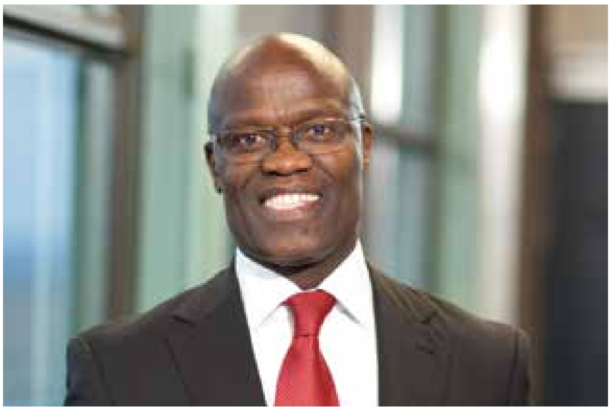
HONESTY & INTEGRITY we will strive to remain consistent, trustworthy and demonstrate respect and commitment in our intentions by setting an example of true professionalism and ethical propriety in all our dealings.

INNOVATION We will strive for creativity and innovation. Through innovation we enhance our ability to mainstream appropriate technologies that benefit the poor and rural communities.

COMMITMENT TO EMPOWERMENT We will demonstrate loyalty to our developmental goals in uplifting the plight of the rural poor. We will work towards the promotion of the interest of the communities we serve and of the organisation.

UBUNTU We will demonstrate our commitment to the value of Ubuntu through our interaction with the community and adopting a mind-set of shared humanity.

2 **BOARD** OF DIRECTORS



DR VANGUARD MKOSANA

CHAIRMAN *Appointed November 2012*

COMMITTEE: Governance

QUALIFICATIONS: Senior executive programme for SA (Wits Business School, Harvard Business School), Diploma HR management (Damelin Management School), Certificate in Public Management & Development (Fort Hare Institute of Government), Master of Arts (Charles University), Phdr (Charles University)

CURRENT POSITION: Zizi Consulting Chairman

BOARD EXPERIENCE: Aspire (Amathole Economic Development Agency), South African Rail Commuter Corporation, Algoa Bus Services, Mayibuye Bus Transport, Compensation Fund, Occupational Health & Safety, National Economic Development and Labour Council, Proudly South African, African Regional Labour, African Union Labour (Chairman & Social Affairs Commision Technical Committee) and Africa Group-ILO (Convenor)

PRINCE ZOLILE BURNS-NCAMASHE

DEPUTY CHAIRPERSON *Appointed November 2012*

COMMITTEE: Governance

QUALIFICATIONS: Bachelor of Arts & Higher Diploma in Education (UFH), Honours in Philosophy (UFH)

CURRENT POSITION: Political Office Bearer: House of Traditional Leaders

BOARD EXPERIENCE: Member of Southern African Development Community Council of Traditional Leaders, ECRFC (Chairman of the Board of Directors), Eyethu Fishing (Board member), King Sandile Development Trust (Trustee)

THOZAMILE GWANYA (EX-OFFICIO)

CHIEF EXECUTIVE OFFICER *Appointed June 2013*

QUALIFICATIONS: BCom in Development Economics, Diploma in Adult Education, Postgraduate Diploma in Training and Human Resource Management (University of Leicester)

CORNELIUS PIETERSEN

Appointed November 2012

COMMITTEES: Governance, Credit, finance and capital investment, Programmes and projects (Chairperson)

QUALIFICATIONS: Agricultural Development Programme (University of Pretoria), Directors Training (Institute of Directors - IOD)

CURRENT POSITION: Farmer

SABATHA MBALEKWA

Appointed Nov2012

COMMITTEES: Audit and Risk (Chairperson), Governance, Credit, finance and capital investment

QUALIFICATIONS: Masters in Business Leadership (University of South Africa - UNISA), Bachelor of Commerce (BCom) Honours (UNISA), BComm (Rhodes University)

CURRENT POSITION: Mustard Seed Management Consulting CC CEO

BOARD EXPERIENCE: Agricultural Advisory Board, Tracor Board Secretary Audit committee member (Department of Local Government and Traditional Affairs, Nyandeni, Mbashe and Ndlambe local municipalities), Premier's Project of Hope Trust

FEZEKA FAITH MKILE

Appointed November 2012

COMMITTEES: Governance, Credit, finance and capital investment (Chairperson), Programmes and projects

QUALIFICATIONS: Introduction to Corporate Governance (IOD), Diploma in Office Management (Information Technology & Computer Training Centre), Bachelor of Administration (University of Durban-Westville)

CURRENT POSITION: Mthatha Airport Agricultural Services CEO

DIRECTORSHIP: Khangela Citrus Farm, Golden Pond Trading 640, Khanyisa Children's Home, MSN Networking Services, Fezzz Business Enterprise

BONGIWE KALI

Appointed November 2012

COMMITTEES: Audit and risk, Programmes and projects

QUALIFICATIONS: Business Management (Leadership Development Institution), Information Technology and Microsoft Certified System Engineering (IT Training Centre)

CURRENT POSITION: Kali Poultry Services CEO

DIRECTORSHIPS: Notefull 1190 CC, Lelam Consultants, Agrarian Research & Development Agency (ARDA), Sizanani Sport Skills Development

VUYANI JARANA

Appointed November 2012

COMMITTEES: Credit, finance and investment, Human capital and remuneration

QUALIFICATIONS: Advanced Executive Programme (UNISA), MBA (Stellenbosch), BCom (former University of Transkei -Unitra- now part of Walter Sisulu University), Diploma in Telecommunications (Olifantsfontein)

CURRENT POSITION: Executive director, Vodacom Business

DIRECTORSHIPS: Vodacom Nigeria (Chairman) & Vodacom South Africa (Executive Director)

ABRAHAM LE ROUX
Appointed November 2012

COMMITTES: Audit and risk, Human capital and remuneration

QUALIFICATIONS: BA Law (Stellenbosch), Bachelor of Laws (LLB) (Stellenbosch)

CURRENT POSITION: Le Roux Inc Managing Director

DIRECTORSHIPS: Le Roux Inc, Woodlands Safaris (Pty) Ltd, GVRM Investments (Pty) Ltd, Taiz Risk Management (Pty) Ltd, Pascal Management Company (Pty) Ltd, Orkhon Investments (Pty) Ltd, Kelly Risk Management (Pty) Ltd, Nechako Capital (Pty) Ltd, Sharbot Treasury (Pty) Ltd, Southern Palace Investments 209 (Pty) Ltd, Southern Palace Investments 205 (Pty) Ltd, Quick Leap Investments 315 (Pty) Ltd, Quick Lead Investments 307 (Pty) Ltd, Sizanani Sport Skills Development

XOLILE GEORGE
Appointed November 2012

COMMITTEES: Human capital and remuneration (Chairperson), Governance, Audit and risk

QUALIFICATIONS: Masters in Business Administration (MBA - Graduate School of Business, Netherlands), Honours in Development Economics (University of Pretoria), Bachelor of Economics (UFH), Post Graduate Diploma in Company Direction (Graduate Institute of Management and Technology), Executive Management Programme (Wits Graduate School of Business), Certificate in Conflict Resolution (UCT Graduate School of Business), Certificate in Innovation Management and Productivity (Da Vinci Institute of Innovation and Technology), Diploma in General Management (International Management Centres, UK)

CURRENT POSITION: South African Local Government Association (SALGA) CEO

BOARD EXPERIENCE: Passenger Rail Agency of South Africa, Electricity Distribution Industry Holdings, Local Government Seta, Wits Centre for Software Engineering

ZANELE SEMANE
Appointed November 2012

COMMITTEES: Programme and projects, Human capital and remuneration

QUALIFICATIONS: Advanced Tourism Certificate (UNISA), BA Honours (UNISA), Bachelor of Home Economics (Zululand), Snr Home Economics Teachers Certificate (former LL Sebe Teachers College)

CURRENT POSITION: Border Rural Committee Programme Manager

DIRECTORSHIPS: Qulathisa Trading Enterprise CC, Border Rural Committee

3 CHAIRMAN'S FOREWORD

THE PERIOD UNDER REVIEW CONTINUED TO POSITION THE ORGANISATION TOWARD A SOUND AND SUSTAINED GROWTH TRAJECTORY UNDERPINNED BY ROBUST OPERATIONAL EFFICIENCIES FOR A MAXIMUM SOCIO-ECONOMIC DEVELOPMENT IMPACT FOR THE BENEFIT OF THOSE IN THE RURAL SECTOR.

We, as the Board of Directors, take delight at seeing that the year under review saw a number of achievements scored towards the realisation of the mandate of ECRDA. This positioning exercise is by no means a pedestrian or mundane affair. Holding the rudder at ECRDA is thus a formidable exercise that requires the application of innovative and inventive instruments and tools for meaningful socio-economic redress. This is a daunting yet rewarding exercise.

ECRDA is therefore tasked with an enormous challenge of growing the competitiveness of the rural sector by stimulating a largely subsistence sector toward commercialisation and global competitiveness. The significance of this task cannot be understated. Growing a pool of globally competitive entrepreneurs in the rural sector should form a central plank toward the realisation of a robust, energised, vibrant and innovative rural economy.

Coupled with this, ECRDA carries an even more compelling proposition to provide the requisite infrastructure for the execution of high impact and catalytic programmes to drive primary production and value addition through a myriad of beneficiation tools. While the province put 17,000 hectares (ha) under production in 2014/15, it intends to grow this number to 42,000ha in the new financial year. This in itself is no mean feat, as the province through its various vehicles will have to navigate various obstacle courses which include land tenure issues among others toward the attainment of this goal.

POLICY ENVIRONMENT

However, government through its special purpose vehicles such as ECRDA remains undeterred in its quest for a more just and equitable provincial economic arrangement that turns largely dormant and fallow rural real estate into productive assets for commercialisation and improved revenue and income generation. Through its plethora of permitting policy apparatus, government is obliged to effect this desired change. The board is thus pleased with the R210 million grant funding allocation from the Department of Rural Development

Growing a pool of globally competitive entrepreneurs in the rural sector should form a central plank toward the realisation of a robust, energised, vibrant and innovative rural economy.

R37m

INCREASE IN FUNDING SECURED

and Agrarian Reform (DRDAR). This is a R37 million increase from the previous year's R173 million funding allocation. This has allowed ECRDA to extend its provincial footprint and to respond to the demands of its customers in the rural hinterland. In this regard, I am also pleased to note that ECRDA's programmes and activities continue to solicit greater alignment to national and provincial planning and policy priorities.

17 000ha

CROPS UNDER PRODUCTION 2014/15

There is increased congruency with national policy instrument such as the National Development Plan (NDP), the comprehensive rural development strategy as well as the Provincial Development Plan (PDP).

As such, the shareholder representative on behalf of the Eastern Cape government, the Honourable MEC for Rural Development and Agrarian Reform Mlibo Qoboshiyane impressed on the Board that its oversight role should include a sharpened focus on helping strengthen ECRDA into an increasingly fit-for-purpose and capable organisation that boasts the required skills, technical acumen, human talent and impetus to deliver on the demands of a complex mandate.

STRATEGIC REVIEW

During the period under review, the Board led a strategy review process that sought to examine and reassess the organisation's strategic posture to determine its efficacy for effective and efficient delivery.

This strategy review exercise identified a need to strengthen and consolidate ECRDA's available human capital and talent pool to ensure that it is well-equipped to deliver on corporate objectives.

Furthermore, the review process identified the instruments necessary to deal with challenges confronting the rural finance unit. Currently, the ECRDA loan book is characterised by low loan repayments and disbursement figures. This weakness curtails ECRDA's ability to utilise its loan finance instruments to unlock the potential inherent in the rural small business sector.

This situation is further exacerbated by serious budgetary constraints which limit funds available for disbursement in this sector. In this regard, the Board is leading an advocacy exercise that calls for the establishment of a rural development fund that would invest in high impact agro-industrialisation projects. The fund should pull together public and private sector funds for investment into projects that bear the potential for long-term financial returns. Similarly, it should promote private sector partnerships in community projects to capacitate rural farmers while accruing the desired investment returns.

ARDA INTEGRATION

ECRDA commenced with the integration of its subsidiary the Agrarian Research and Development Agency (ARDA), into the overall operations of ECRDA. This is a notable highlight which has led to the establishment of a renewable energy wing within ECRDA.

The establishment of the unit extends ARDAs previous focus on the Cradock bioethanol project to other forms of alternative energy such as wind, solar and biogas digestors. This is a crucial milestone that seeks to exploit the Eastern Cape's potential to generate about 5,000 megawatts of alternative energy from these sources. ECRDA is already investigating public private partnerships in this regard.

RED HUB MODEL EXECUTION

The finalisation of the strategy process provided ECRDA management under the leadership of chief executive officer Thozamile Gwanya, with the impetus to discharge the organisation's empowering mandate. As such, the board is delighted that it has been able to extend the footprint of its Rural Enterprise Development (RED) Hub model to more areas in the province.

The RED Hubs are designed to support primary production with value addition tools through a series of beneficiation mechanisms. Whilst the shareholder is the driver of primary production, ECRDA has taken a considered decision to place its energies on the value addition industries as a stimulant for increased rural economic activity. In essence, the RED Hub links three market elements of production, processing and marketing.

This value addition posture is informed by a need to prevent capital flight in rural communities and to rather keep the money "alive" within these rural communities for as long as possible. In practical terms this means that production happens within the community, it is stored in the community, milled and processed in the community and even sold back to the community and surrounding markets.

The concept supports individual subsistence landowners to organise and pull together their arable land parcels into viable and profitable economic units for improved economies of scale. They are organised around institutional arrangements which are in the form of co-operatives. In support of the model, ECRDA has pulled together public resources to provide the necessary infrastructure, production, processing and marketing support to bring these goals to fruition.

Already, the Mqanduli and Ncora RED Hubs are functional following a strong focus on the establishment phase in the 2013/14 financial year. Furthermore, two more RED Hubs were established in Mbizana and Lady Frere in the period under review. This is a notable milestone as it extends ECRDA's ability to impact on an increased number of rural economies.

R2 billion

MEGA AGRI PARK PROVIDES SUPPORT TO RURAL INITIATIVES

MEGA AGRI PARKS

Equally pleasing is the acknowledgement that ECRDA's RED Hub concept finds resonance with the national Department of Rural Development and Land Reform's Mega Agri Park concept. The R2 billion Mega Agri Parks are meant to provide support packages to rural development initiatives such as loan funding, primary production, training and abattoirs among other services.

The national department is also pleased that the RED Hubs are a fit to the demands of the Mega Parks. The Chris Hani District Municipality has already earmarked Ncora where ECRDA has established a RED Hub as its site for the Mega Agri Park. As such, the board has instructed management that the RED Hub business plans should be aligned to those of the Mega Agri Park.

STRATEGIC PARTNERSHIPS

The board would like to extend special appreciation to the variety of strategic partners who continue to lend their support in the execution of ECRDA's mandate. In this regard, the Jobs Fund committed R91 million towards the establishment of the RED Hubs over a three-year period. In addition the Jobs Fund has also committed a further R113 million over a three-year period toward the forestry development programme.

These initiatives are conducted in partnership with the Eastern Cape Development

Corporation (ECDC). According to the agreement the Jobs Fund would provide 80% of the funding while 20% will be split equally between ECRDA and ECDC. Private and public sector partners such as SAPPI, PG Bison, Mondi and SAFCOL continue to lend invaluable support to the forestry development programme.

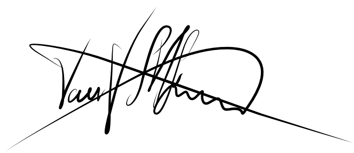
FUTURE FOCUS

{ Looking forward, the organisation has committed itself toward the vigorous pursuit of innovative and inventive instruments and tools that should accelerate the implementation of ECRDA's mandate. In this regard, greater focus will be placed on ensuring the functionality of the new RED Hubs while ensuring that they operate at an optimal level and to exhaust their true potential.

Furthermore, increased energy will be placed on promoting strategic partnerships to assist rural communities to accumulate the required technical skills and operational acumen to manage the RED Hubs in the long-term.

GRATITUDE

Finally, I would like to thank the Honourable MEC for Rural Development and Agrarian Reform Mlibo Qoboshiyane for his ongoing support and policy guidance. I extend appreciation to other members of the board for their continued support in the execution of its oversight obligations. Further gratitude goes to the chief executive officer and his team for their dedication and diligent execution of the ECRDA mandate. Finally we thank all partners and third-party funders who continue to support ECRDA's mandate through various financial and non-financial mechanisms.



Vanguard Mkosana
Chairman

4 ORGANISATIONAL STRUCTURE

5 EXECUTIVE MANAGEMENT

THOZAMILE GWANYA
CHIEF EXECUTIVE OFFICER

JANINE BAXTER
CHIEF FINANCIAL OFFICER

NAVY SIMUKONDA
CHIEF OPERATIONS OFFICER

NCEDO WOBIYA
EXECUTIVE MANAGER: INTERNAL AUDIT

GCOBANI NTSHANGA
EXECUTIVE MANAGER: STRATEGIC MANAGEMENT

NWABISA MAVUSO
EXECUTIVE MANAGER: CORPORATE SERVICES

GWEN KOYANA
EXECUTIVE MANAGER: LEGAL & COMPANY SECRETARY

CHUMA VELANI
EXECUTIVE MANAGER: OFFICE OF THE CEO

6 CEO'S REPORT

THE 2014/15 FINANCIAL YEAR PROVIDED AN EXCITING YET DAUNTING ASSIGNMENT TO CONSOLIDATE THE OVERALL POSTURE OF THE EASTERN CAPE RURAL DEVELOPMENT AGENCY (ECRDA) AS AN ACTIVE, EFFICIENT AND INCREASINGLY TRUSTED STEWARD OF PUBLIC ASSETS FOR THE BENEFIT OF THOSE RESIDING IN THE RURAL EASTERN CAPE AND THE HINTERLAND.

These citizens often find themselves on the periphery and at the margins of the mainstream economy with no real and tangible prospects of full and meaningful participation. An honest and reflective assessment of the rural communities we serve illustrates the need for greater state intervention in providing the requisite infrastructure and environment to stimulate economic activity in this sector. In reverence of this task, ECRDA intends to use its broad, wieldy and well-defined developmental commission to discharge its stated mandate.

Such deliberate state interventions call for the development and application of public, economic and social policy instruments which layout the blueprint for a desirable rural socio-economic architecture. While the national government lays out the overall national vision through its various policy mechanisms and appraisals, the Eastern Cape government's policy posture seeks greater alignment and congruency with national priorities.

STRATEGIC POSTURE

However, the Board of Directors emphasised to management that effective mandate delivery requires an inspired and energised organisational strategic posture as well as robust operational efficiencies driven by capable and diligent human capital. In this regard, during the period under review, the organisation embarked on a strategy review exercise that reemphasised the need to build a fit-for-purpose organisation which is able to deliver to the demands of rural communities. It was agreed that there exists a need to further capacitate and empower existing human capital for enhanced mandate delivery. In addition, a decision was taken that the organisation should also place further emphasis on identifying new talent with the desired technical know-how to support existing human resources.

This strategy process also identified challenges in the performance of the organisation's loan book characterised by low repayments and low approval of new loans. The situation is made worse by serious budgetary constraints lessening the amount available for loan disbursements curtailing ECRDA's ability to use rural finance as a tool to stimulate economic activity in the rural small business sector.

R210m
FUNDING SECURED

The Eastern Cape's attitude toward rural development is firmly aligned to the broader national vision as laid out in the National Development Plan (NDP).

Furthermore, ECRDA interacted with the Department of Forestry and Fisheries (DAFF) to investigate the appetite to improve funds available on the MAFISA fund to increase the capacity to disburse more loans. ECRDA is already engaging interested partners to finance production loans for rural farmers. The ultimate aim is the establishment of a Rural Development Fund with a purpose of promoting investment in rural areas while driving an effective and functional processing industry to encourage investors to plough capital in these rural industries. This fund should provide an increased capacity to implement rural development projects.

RENEWABLE ENERGY
UNIT ESTABLISHED

During the review period ECRDA commenced with the integration of the Agrarian and Research Development Agency (ARDA) into its operations. Consequently followed the establishment of a renewable energy unit within the agency which aims to go beyond the bioethanol project which had been the major focus of ARDA. It will focus on the promotion of other alternative energy sources such as wind and solar energy as well as biogas digesters.

There has also been significant progress in the improvement of ECRDA's IT systems to link Regional Economic Development (RED) Hubs to the internet and to improve IT infrastructure at the Hubs.

RESPONSIVE DELIVERY INSTRUMENTS

As such, during the review period, the consolidation and further development of ECRDA's RED Hub model became a central pillar in the execution of public expectations and demands on the organisation. These RED Hubs are designed as the necessary instrument and vehicle to ensure that primary production is accompanied by value addition in the form of processing and marketing. Production, processing and marketing are thus the central cog and pillars in the effective and efficient execution of the RED Hub model. The model ensures that production receives increased value by taking it to the processing stage to accrue improved income generation returns.

In practice, this model organises individual landowners in rural communities around institutional arrangements and structures in the form of co-operatives to stitch together their pieces of arable land into viable economic units for improved economies of scale in the production process. In each village, the co-operatives are organised around secondary co-operatives with which they have off-take agreements. In this regard, the primary co-operatives benefit at two beneficiation levels. Firstly, co-operatives produce on their own land and sell their produce to the secondary co-operative. They are also shareholders in the secondary co-operative meaning they can reap dividends when the secondary co-operative is profitable.

At the level of the secondary co-operatives, ECRDA has introduced mechanisation units in the form of tractors, trailers, planters, combine harvesters etc. In broad terms, this mechanisation policy means that secondary co-operatives own the equipment. In the same vein primary co-operatives are also owners through the secondary co-operative in which they are shareholders. Primary co-operatives benefit from planting equipment as well as the maintenance and servicing of equipment in these mechanisation units.

MEGA AGRI PARKS

These RED Hubs are also linked to the development of the Mega Agri Parks being championed by the national Department of Rural Development and Land Reform (DRDLR). The Mega Agri Parks are meant to be a solid support structure to rural development by providing a basket of services to the rural economy and market such as rural finance, abattoirs, primary production services, workshops as well as infrastructure development support among other services. The national department has already acknowledged that ECRDA's RED Hub concept is agreeable to the core principles of the R2 billion Mega Agri Parks programme earmarked for roll-out in 2015/16. The Chris Hani District Municipality has already earmarked Ncora where ECRDA has established a RED Hub as its site for the Mega Agri Park. As such, ECRDA is aligning its RED Hubs business plan with that of the Mega Agri Park in the region.

OPERATIONAL PERFORMANCE

I am therefore pleased to report that the Mqanduli RED Hub is functional while the other three are nearing the end of the establishment phase. The first year of implementing the RED Hub model was spent on establishing structures in terms of co-operative membership and organisational structure. This process is now finalised and an increased focus will be placed on form and function. In the period under review focus was also placed on infrastructure development. The next step will see greater focus on financial management systems and on marketing of produce. Therefore, in 2015/16 greater impetus will be placed on the business of the RED Hubs and ensuring their viability and sustainability.

> In this regard, a total of R51 million was spent on the development of the Mqanduli and Ncora RED Hubs during the period under review. The funds were spent on primary production of white maize and on the development of mechanisation units.

These funds are part of a three-year R91 million Jobs Fund agro-processing initiative.

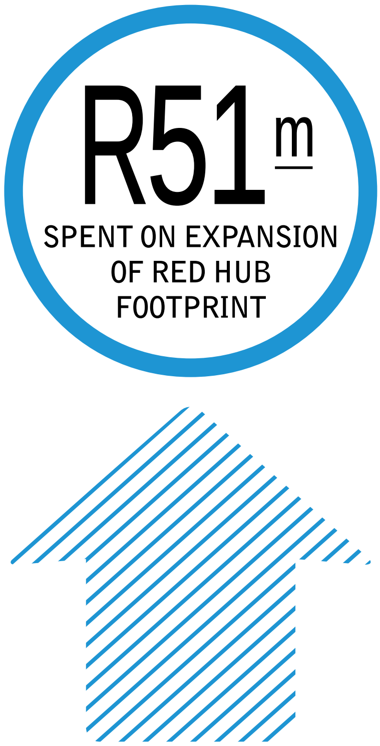
In terms of the tripartite agreement, 80% of the funds would be provided by the Jobs Fund and the balance would be split equally between ECRDA and the Eastern Cape Development Corporation (ECDC).

A total of 1,000ha of white maize were planted in Ncora and 936ha in Mqanduli. In this second year of planting, the Jobs Fund did not contribute to primary production. ECRDA contributed 75% and the balance of 25% of primary production costs was from farmer contributions. There was a total contribution of R12 million from ECRDA on both sites and R4 million from the farmers.

In Mqanduli the existing 500-ton silo was extended to 750 tons. In addition, a new 750-ton silo was built to complement the refurbished one bringing total storage capacity at the site to 1,500 tons. At Ncora, two silos with a storage capacity of 2,000 tons were constructed. In the second quarter of the review period, white maize planted in 2013/14 was harvested on the 911ha and 955ha planted in Mqanduli and Ncora respectively. The Ncora site had 706 beneficiaries who are the landowners as well as 256 in Mqanduli. In Mqanduli, the yield was 1 117,38 tons while in Ncora the yield was 2 867,09 tons.

ECRDA was able to expand its RED Hub footprint through a R70 million injection from the Eastern Cape Treasury over the year. The funds were directed towards the development of RED Hubs in Mbizana with 13 participating primary co-operatives and six in Lady Frere. In Lady Frere a total of 574 landowners are beneficiaries while 1,112 in Mbizana will benefit. In Mbizana 983ha of white maize were planted while 829ha of grain sorghum were planted in Lady Frere.

A total of R51 million was spent on both sites toward production, procurement of machinery and implements such as grain silos, milling, mechanisation and trading sheds.



In the livestock development unit, a R2,3 million budget during the review period went towards the implementation of programmes which respond to the challenges facing the small-scale and emerging livestock farmer. In this regard, the organisation embarked on a livestock marketing drive which led to the sale of 7,181 cattle, goats and sheep from eleven formal auctions and in the communities of Ngqushwa, King William's Town and Nkonkobe villages and the Makana Local Municipality.

In order to accelerate value addition in the emerging livestock farmer sector, ECRDA began a process of establishing a feedlot. The board has approved an appropriate model for the feedlot which is to guide partnerships with the private sector. Furthermore, the agency invested R300 000 in Mnceba village in Ntabankulu Municipality as part of a commercial sheep production drive. ECRDA handed over 80 sheep rams to 95 livestock farmers. The commercial drive is based on improving the poor genetic material of the local sheep, improving weaning rates, balancing the flock structure, changing the mating season and introducing vaccination programmes over a five-year period. The aim is to ensure that local livestock farmers can compete favourably with commercial farmers and to receive market-related income for their stock.

In addition, ECRDA in partnership with ECDC on behalf of communal land owners secured a R113 million Jobs Fund forestry development grant for project implementation over a three-year period. In terms of the agreement, the Jobs Fund would provide R83 million which is being matched equally by ECRDA, ECDC and communities using their land resettlement grants.

During the period under review, ECRDA implemented five forestry projects at Izinini and Sinawo in Mbizana, Mkambathi near Flagstaff, Sixhotyeni near Maclear and Gqukunqa near Qumbu. A total of R19 million was spent in the review period on the five areas on 840ha of new forestry plantations adding to the 340ha planted in 2013/14. ECDC and DAFF-funded Environmental Impact Assessment (EIA) consultants have been appointed in Mkambathi and Sinawo to accelerate the afforestation of 2,400ha. Already a total of 394 permanent jobs have been created on the implementation stage of the five projects.

Further focus was placed on the collection of overdue accounts. The repayment of loan accounts during the review period was R8,5 million. MAFISA loan repayments were R2,1 million, agency loans and repayments on old Uvimba capital amounted to R6,3 million.

During the period under review, a total of R11,6 million was approved for disbursement against a disbursement figure of R13,3 million. The majority of the loans (44%) went to the OR Tambo district, followed by the Chris Hani 27%, Amathole 13%, Alfred Nzo 11% Nelson Mandela Bay 1,1% and Joe Gqabi 0,7%.

SUBSIDIARIES AND SUPPORTED ENTITIES

ECRDA also continued to provide support to its subsidiaries and associated entities. A 51% shareholder, ECRDA allocated a R6,6 million budget to the Kangela Citrus Farm in the Sundays River Local Municipality in the period under review.

In addition, ECRDA supports three associated entities which include the Majola Tea Estate. In 2014/15, transfers to Majola totalled R901,340. In the review period ECRDA also transferred R4,96 million to Magwa Enterprise Tea. Funds were used for salaries and tax obligations. The process of transferring Magwa shares from

ECDC to ECRDA is still ongoing subject to the approval in Cabinet. A new Board of Directors was appointed consisting of two members from ECDC and two from ECRDA. These members are tasked with facilitating the business rescue process.

During the period under review, ECRDA transferred R7,5 million to Ncera Macadamia Farming for operations. Ncera has 300ha of macadamia nuts in a public-private partnership which has a 51% community ownership with the rest of the shares held by the private sector. The ECRDA provides operational infrastructure development support.

OUTLOOK

Moving forward, ECRDA intends to continue with its advocacy role for the establishment of a rural development fund to help finance high impact priority agricultural projects.

Furthermore, an increased focus will be placed on improving collections on loan funding while advocating for improved funding allocations to enable the institution to stimulate economic activity through increased loan funding support.

APPRECIATION

I would like to express gratitude to the Honourable MEC for Rural Development and Agrarian Reform Mlibo Qoboshiyane for his policy counsel and empowering funding allocations. Further appreciation is extended to the Board of Directors under the stewardship of Chairman Dr Vanguard Mkosana for its wise counsel and oversight role. I would also like to extend gratitude to the various public and private sector partners who continue to support ECRDA's developmental aspirations through funding and other support mechanisms. Finally, I would like to thank ECRDA's team for its continued support and resolve to discharge a challenging, bulky and yet rewarding mandate.

Thozamile Gwanya
Chief Executive Officer

7 FINANCIAL OVERVIEW

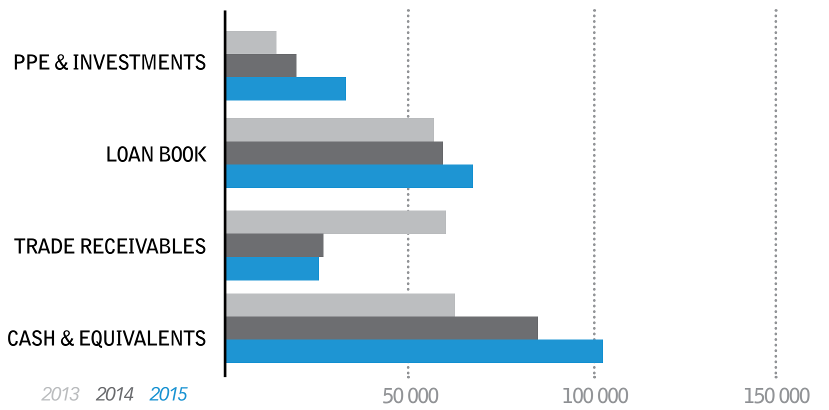
AS A SCHEDULE 3C ENTITY ECRDA IS DEPENDENT ON GOVERNMENT GRANTS TO FUND ITS PROJECTS AND OPERATIONS.

Whilst it aims to build sustainability within the flagship projects and its subsidiaries, ECRDA itself is required to surrender all unspent cash reserves in terms of its own budget to the Provincial Treasury at the end of each financial year. Long-term planning, projects and building up reserves to reduce the dependency on government funding are thus severely hampered by the surrender requirements.

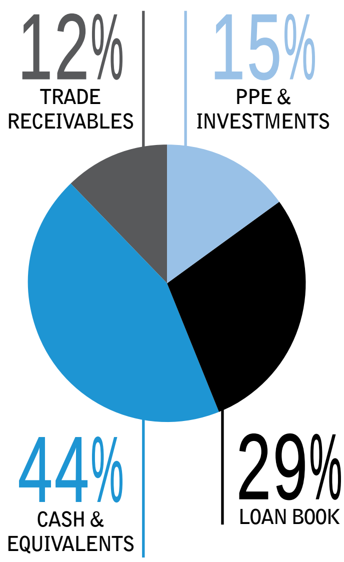
The funding allocated to the ECRDA Group for the 2014/15 financial year increased from R173m to R210m. The additional funding was earmarked for the establishment of an additional two Rural Enterprise Development (RED) Hubs in Mbizana and Lady Frere.

Linked to the establishment of the RED Hubs is the improvement of the asset base of the ECRDA Group by 10% year-on-year. During the year under review, ECRDA's asset base improved by 20%. The R39m increase in ECRDA's assets stems mainly from the increase in the loan book, cash holdings as well as property plant and equipment which were purchased for use in the RED Hubs. These included tractors, combine harvesters and other implements.

ASSET BASE GROWTH



2015 ASSET BASE COMPOSITION



Cash and cash equivalents increased by 20% year-on-year, mainly attributable to an increase in administered fund holdings that constituted 72% of the cash holdings at year end. The ability of ECRDA to pay its trade liabilities from own cash holdings improved slightly from the previous year and shows a marked improvement from the 2013 financial year.

KEY RATIOS	2015	2014	2013
Current ratio	2,6	2,8	2,5
Own cash vs current trade liabilities	1,1	1,0	0,8
Administered funds vs cash holdings	0,7	0,8	0,7
Total assets vs total liabilities	3,0	3,3	2,8

CASH & CASH EQUIVALENTS INCREASED BY

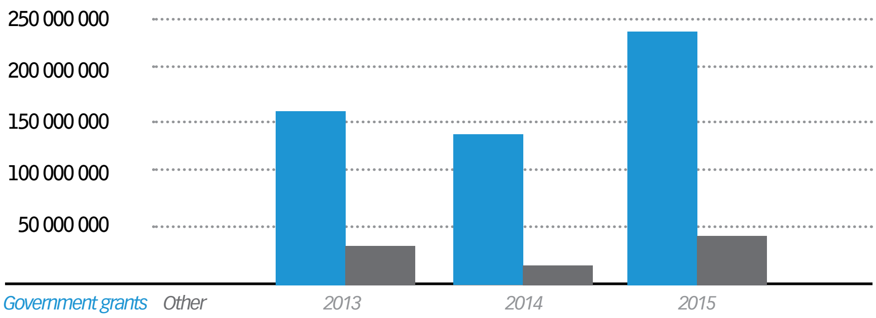
20%

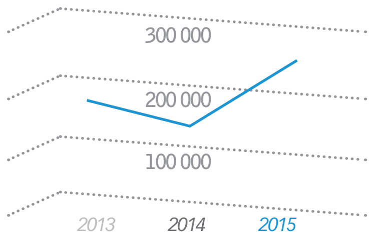
The funding allocated to the ECRDA group for the 2014/15 financial year increased from R173m to R210m. The additional funding was earmarked for the establishment of an additional two RED Hubs in Mbizana and Lady Frere.

Despite the limited budget available for rural finance and the annual surrender of reserves, ECRDA's loan book grew by R8m (14%) year-on-year post impairments. The impairment rate improved from 62% to 51% for the overall loan book due to the reversal of previous impairments linked to loans written-off of R17m. These loans have been outstanding for numerous years and were granted before the establishment of ECRDA and the adoption of a new credit policy in 2013.

ECRDA aims to improve collections through the provision of aftercare services by deploying rural development officers to assist clients with their agricultural and trading activities. In order to improve the repayment rate of the livestock loans, the conditions and terms of these loans have been renegotiated with the clients. As the loans are now attracting interest, it has been included in the ECRDA's loan book. The multi-year Jobs Fund agro-processing and forestry projects in excess of R213m are underway. ECRDA's funding partners for these projects are ECDC and National Treasury (previously Jobs Fund which resided with the Development Bank of South Africa. To date, expenditure on these projects amounted to R74m. The projects are expected to be completed during the 2015/16 financial year.

REVENUE SOURCES





R98m

TOTAL GENERATED REVENUE INCREASE

The total revenue generated increased by R98m year-on-year. It was earmarked for RED hub establishment (R70m) and onward transfers to the Magwa and Majola tea estates (R6m), Ncera Macadamia project (R7,5m) and funding for ECRDA's subsidiaries, Kangela Citrus and ARDA (R15m).

ARDA is in the process of being integrated with ECRDA which is expected to bring operational efficiencies and broader expertise within ECRDA. This should complement ECRDA's strategy and commitment to provide holistic rural development services.

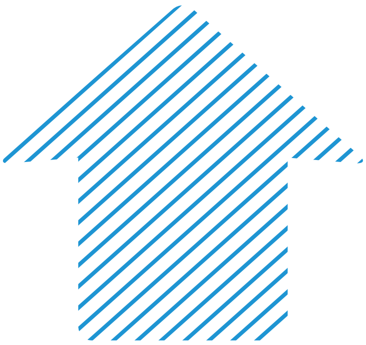
The performance of Kangela Citrus has significantly improved in the current year and the subsidiary made a profit of R10m. This assisted in the reduction of its working capital loan by R6m to R11m. With the ongoing recapitilisation project involving new orchards, the outlook for Kangela Citrus is positive in the coming years.

REVENUE COLLECTION

ECRDA's main sources of revenue are interest generated on its loan book, interest on cash holdings and property rentals. Whilst ECRDA strives to increase revenue charging fees when implementing projects on behalf of other departments and entities, the number of projects secured by ECRDA for implementation was below expectation.

Revenue generated from interest on cash holdings were below expectation as the quarterly government grants were received later than anticipated, resulting in lesser interest earnings. ECRDA strives to maintain a co-operative environment with the Department of Rural Development and Agrarian Reform (DRDAR) in order to receive grants at the beginning of each quarter.

Interest earned on the loan book, included in other non-tax revenue, generated far less income than expected due to the impairment of long outstanding loans without collateral. ECRDA has therefore commenced legal action against long outstanding debtors where economically feasible and is providing after care services to clients.



SOURCES OF REVENUE	2014/2015			2013/2014		
	ESTIMATE	ACTUAL AMOUNT COLLECTED	(OVER)/ UNDER COLLECTION	ESTIMATE	ACTUAL AMOUNT COLLECTED	(OVER)/ UNDER COLLECTION
	R	R	R	R	R	R
Government tranches	210 779	216 078	-5 299	176 137	176 137	-
Interest, dividends and rentals	3 728	2 849	879	3 737	3 715	22
Other non-tax revenue	12 609	2 403	10 206	9 433	3 902	5 531
TOTAL	**227 116**	**221 330**	**5 786**	**189 307**	**183 754**	**5 553**

The government tranche for the year exceeded expectation. The additional funding was earmarked for transfer payments to the Magwa and Majola Tea Estates and specific transfers stipulated by DRDAR.

CAPITAL INVESTMENT

ECRDA implemented projects with infrastructure and mechanisation assets at the four rural development hubs during the year under review. These hubs include investments in sheds, mills, storage facilities and mechanisation equipment. These assets are new and will be managed and maintained at each hub. However, the infrastructure projects at the hubs were delayed due to the steel industry strike.

From an operational point of view, ECRDA purchased office furniture and equipment and redistributed existing furniture and equipment to regional offices. ECRDA also maintains an asset register which is updated quarterly during which assets in need of repair and maintenance are identified. The internal controls over the fixed asset register, in lieu of the completed audits, are found to be sound. There has been no theft or loss of significant assets during the financial year.

Capital Assets Holdings	As at 31 MARCH 2015	As at 31 MARCH 2014
	R	R
Land and buildings	8 319	3 210
Property, plant and equipment (primarily for RED Hubs)	7 605	872
Vehicles	558	1 412
Office equipment, furniture and fittings and intangible assets	6 720	3 043
TOTAL	**23 203**	**8 537**

INFRASTRUCTURE PROJECTS	2014/2015			2013/2014		
	BUDGET	ACTUAL EXPENDITURE	(OVER)/UNDER EXPENDITURE	BUDGET	ACTUAL EXPENDITURE	(OVER)/UNDER EXPENDITURE
	R	R	R	R	R	R
RED Hubs	17 773	7 605	10 168	950	872	78
TOTAL	**17 773**	**7 605**	**10 168**	**950**	**872**	**78**

Finally, the ECRDA Group continues its proud legacy of unqualified audit opinions since its inception three years ago. Also, as part of our going and staying green initiatives, we have maintained our green status on the Auditor-General's Dashboard. As always, we are committed to the sourcing of funding and responsible management thereof in order to attract and implement projects that will result in impact-driven, sustainable rural development.

Janine Baxter
Chief Financial Officer

8 STATEMENT OF RESPONSIBILITY

AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

TO THE BEST OF OUR KNOWLEDGE AND BELIEF, WE CONFIRM THE FOLLOWING:

All information and amounts disclosed in the annual report is consistent with the annual financial statements audited by the Auditor-General.

The annual report is complete, accurate and is free from any omissions.

The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with the prescribed Generally Recognised Accounting Practice standards applicable to the public entity.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

The accounting authority is responsible for establishing, and implementing a system of internal control which has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2015.

Yours faithfully

Thozamile Gwanya
Eastern Cape Rural
Development Agency (ECRDA)
Chief Executive Officer

Vanguard Mkosana
Eastern Cape Rural
Development Agency (ECRDA)
Chairman of the Board

Beyond its role as an empowered agent designed to redraw the socio-economic architecture of the provincial rural landscape, ECRDA is equally poised to act as a trusted custodian and steward of government's share interest in other publicly-owned enterprises for the benefit of communities.

B PERFORMANCE INFORMATION

IN COMPLIANCE WITH TREASURY GUIDELINES, THE ECRDA BOARD APPROVED A FIVE-YEAR STRATEGIC PLAN THAT GUIDES STRATEGIC INTERVENTIONS AND KEY PROGRAMMES THAT ARE IMPLEMENTED OVER THE FINANCIAL YEARS.

HIPP 1: AGRICULTURE AND AGRO-PROCESSING

TOTAL SILO STORAGE CAPACITY AT MQANDULI INCREASED TO

1,500 tons

RED HUBS EXPANDED

LADY FRERE

574 BENEFICIARIES

SORGHUM PLANTED

820 ha

MBIZANA

1,112 BENEFICIARIES

WHITE MAIZE PLANTED

983 ha

2,14 TONS/ha

AVERAGE MAIZE ACHIEVED FOR THE SEASON

MQANDULI

MAIZE HARVESTED

911 ha

YIELD

1117,38 tons

VALUE

R1.1 m

NCORA

MAIZE HARVESTED

955 ha

YIELD

2867,09 tons

VALUE

R3.3 m

PERFORMANCE HIGHLIGHTS

REVITALISED RURAL ECONOMIES

In the last two years the Eastern Cape Rural Development Agency (ECRDA) has been at the forefront of utilising and giving effect to empowering rural development instruments and tools which should continue to revitalise the dormant potential of the province's agricultural sector. In this regard, the institution continues to position itself as an effective vehicle and agent of socio-economic change for those in the rural sector and the hinterland.

It is common cause that the Eastern Cape rural sector is beset by a myriad of socio-economic challenges which threaten the viability of rural communities and economies. One of these challenges is rapid urbanisation which has led to the neglect of prized rural assets and real estate such as arable land which has been lying fallow for generations. In effect, rural communities continue to become owners of unproductive assets which should be used as the primary source of wealth generation.

COMPREHENSIVE RURAL DEVELOPMENT STRATEGY

As such, as a special purpose vehicle and an empowering agent of government, ECRDA has a dedicated focus on formulating, promoting and ensuring the implementation of a comprehensive and empowering integrated rural development strategy for the Eastern Cape. At the centre of this strategic posture is the revitalisation of rural assets into productive clusters that have an inherent potential to change the nature and character of the rural landscape.

One of these assets is the identification and use of arable land for primary production and value addition for the benefit of participating rural communities. This is meant to create a viable and profitable commercial rural economy to stimulate long-term and sustainable economic activity. This should provide further impetus to stem the tide of increased migration to the urban economic centres of the province. In this regard, ECRDA identified agro-processing as a requisite value addition tool as a means to bolster the production value chain in the rural economy.

Thus, during the review period, ECRDA continued to consolidate its focus on accelerating the eradication of challenges which continue to impede the development and growth of the agro-processing sector and related industries in the rural hinterland. These challenges include high mechanisation costs, long distance to market, high transport and opportunity costs to market, lack of access to localised grain storage facilities and value addition services, low skills base and technical knowledge as well as access to inputs and support services.

RED HUB IMPLEMENTATION

As a direct, coordinated and spirited response to these challenges faced by small-scale farmers, the period under review became an ideal platform to sustain the development and implementation of ECRDA's Rural Enterprise Development (RED) Hubs. The RED Hubs have a special focus on primary production, processing and marketing with the view of keeping money circulating within the community for as long as is possible. The RED Hubs therefore prioritise the establishment of mechanisation units with machinery and implements such as tractors, harvesters for production.

In addition, it encourages the development of storage and processing facilities such as the installation of grain storage silos and the establishment of milling plants for value addition purposes. Furthermore, the hubs advocate for the establishment of marketing services in the form of trading centres which should be a one-stop shop for farmers to procure all production inputs. For example, currently, farmers grow produce and sell it to the manufacturing hubs for processing and value addition which is then sold back to rural communities at a higher price. The RED Hub model seeks to reverse this anomaly as it ensures that the community's produce is stored and processed and sold within the community.

Consequently, in the review period, ECRDA began the steady implementation of four RED Hubs with the establishment of storage and processing facilities, mechanisation units and trading centres in Mqanduli, Ncora, Lady Frere and Mbizana in the OR Tambo, Chris Hani and Alfred Nzo district municipalities respectively.

THE JOBS FUND AGRO-PROCESSING INITIATIVE

R91m

SECURED OVER A 3-YR PERIOD

Subsequently, the Jobs Fund agro-processing initiative set aside a total of R91 million over a three-year period for the establishment of RED Hubs in Ncora and Mqanduli. The Ncora RED Hub has 10 primary co-operatives who are the landowners and 21 primary co-operatives in Mqanduli but currently working with six primary co-operatives.

In terms of the agreement, 80% of the funds would be provided by the Jobs Fund and the balance would be split equally between ECRDA and the Eastern Cape Development Corporation (ECDC). During the review period, a total of R51 million was spent on the development of the two hubs. The funds were spent on both sites towards primary production of white maize and the development of mechanisation units in the form of machinery, implements and infrastructure.

A total of 1,000 ha of white maize were planted in Ncora and 936ha in Mqanduli. The target of 1,000 hectares on each site could not be reached because of delays caused by heavy rainfalls. In this second year of planting, the Jobs Fund did not contribute to primary production. ECRDA contributed 75% and the balance of 25% of primary production costs was from farmer contributions. There was a total contribution of R12 million from ECRDA on both sites and R4 million from the farmers.

The total production cost per hectare was R8,000 including harvesting. In Mqanduli there are now a total of six co-operatives participating in the programme up from the previous year's four. A total of 87 people were employed on a permanent basis on both sites since 2013/14 – 36 in Mqanduli and 51 in Ncora. A total of 300 temporary workers were employed during harvesting with 220 in Ncora and 80 in Mqanduli.

A total of 14 tractors and two bakkies were bought for both sites, a self-propelled combine harvester in Mqanduli, two-trailed harvesters in Ncora as well as implements such as disc, planters, cultivators, boom sprayers among other implements. Funds were also spent on the establishment of grain silos and the purchase of a new one-ton-per-hour processing capacity mill for Ncora which can be extended to three-tons-per-hour and the servicing of an existing 1,5 tons-per-hour mill in Mqanduli.

In Mqanduli the existing 500 ton silo was extended to 750 tons. In addition, a new 750 ton silo was built to complement the refurbished one bringing total storage capacity at the site to 1,500 tons. At Ncora, two silos with a storage capacity of 2,000 tons were constructed.

REAPING SOLID RETURNS

Furthermore, in the second quarter of the review period, white maize planted in 2013/14 was harvested on the 911ha and 955ha planted in Mqanduli and Ncora respectively. The Ncora site had 706 beneficiaries who are the landowners as well as 256 in Mqanduli. In Mqanduli, the yield was 1 117,38 tons while in Ncora the yield was 2 867,09 tons.

ECRDA is working hard to resolve challenges related to late planting which also led to late harvesting. In addition, crop damage by livestock and theft from surrounding villages has also been a challenge coupled with the outbreak of American Bollworm which severely affected the Mqanduli area.

In Ncora maize was sold at R2,000 per ton with total value of sales at R3,3 million versus Mqanduli's R1,1 million. In order to avoid crop damage, maize in Ncora was sold to the Ncora Dairy Trust because storage facilities were not yet completed. In Mqanduli maize was sold to the mill which is owned and operated by the secondary co-operative.

Products sold at the Mqanduli mill include super maize meal, samp and hominy chop as stock feed. Total sales of R194,000 by the end of March were recorded. The products are sold to the community via trading through informal stores as well as those in the community.

EXPANDING RED HUB FOOTPRINT

Furthermore, ECRDA was able to expand its RED Hub footprint through a R70 million injection from the Eastern Cape Treasury. The funds were directed toward the development of RED Hubs in Mbizana with 13 participating primary co-operatives and six in Lady Frere. In Lady Frere a total of 574 landowners are beneficiaries while 1,112 in Mbizana will benefit. In Mbizana 983 ha of white maize were planted while 829ha of grain sorghum were planted in Lady Frere.

A total of R59 million was spent on both sites toward primary production, procurement of machinery, implements grain silos, milling, mechanisation and trading sheds as well as the establishment of a milling plant. In Lady Frere there is an existing mill which was used to process sorghum and maize. However, a decision has since been taken to only mill maize. There is an existing off-take agreement with Border Seed to buy the grain sorghum. In Mbizana a new mill and milling shed were procured. The trading and mechanisation sheds should be completed in the new financial year.

In Mbizana eight tractors were bought, a combine harvester, a bakkie and implements. In Lady Frere six tractors, a combine harvester, bakkie and implements were also procured.

OUTLOOK In 2015/16 the target is to take the RED Hubs from establishment phase to operational phase. Plans are already underway to secure commercial partners to assist with the management and running of the hubs to make them profitable.

HIPP 2: LIVESTOCK DEVELOPMENT

7,181
CATTLE, GOATS & SHEEP SOLD FROM 11 FORMAL AUCTIONS

2 FEEDLOT SITES IDENTIFIED
NCORA & MQANDULI

3 PROGRAMMES ESTABLISHED
SHEEP TRAINING | VETERINARY & SHEEP SHEARING

R2.3m
INVESTED IN LIVESTOCK FARMING PROGRAMMES

NTABANKULU

80
SHEEP RAMS HANDED OVER

95
BENEFICIARIES

PERFORMANCE HIGHLIGHTS

PRODUCTIVE LIVESTOCK ASSET BASE

At the epicentre of ECRDA's livestock development strategy lies a persuasive commitment to ensuring that small-scale and emerging mainly black subsistence farmers are able to convert their livestock assets into productive units for enhanced economic activity and income generation. This is a significant development as it cultivates a new consciousness among subsistence farmers to take advantage of commercial opportunities presented by the livestock industry. The livestock development programme therefore seeks to turn subsistence livestock farmers from mere spectators in the market to active participants which are able to compete favourably with established commercial farmers.

Currently, subsistence farmers hold onto their livestock without ever realising any financial returns for the asset. The status quo deprives these farmers from taking advantage of commercial opportunities and turning their livestock assets into cash for reinvestment and wealth generation. This is a process that will require concerted and deliberate cultural change in the current livestock practices of the subsistence market. This means the culture of farming livestock among communal farmers until they die without selling it needs to be eradicated. Furthermore, when they do participate in the market they often do not receive the market value of their livestock while commercial farmers realise full value from their products. This is largely because these farmers are not exposed to market mechanisms and its accompanying nuances. Once these interventions are in place, communal livestock farmers will gain direct market exposure which should lead to the facilitation of commercialisation within the sector.

VALUE ADDITION CULTURE

In addition, ECRDA has placed considered focus on facilitating and growing a culture of value addition in the livestock sector particularly among the subsistence market. Value addition is widely accepted as a more effective tool in improving income generation in relation to the sale of the primary product. ECRDA therefore intends to use its agency to breed a new type of emerging livestock farmer who is astute at identifying compelling commercial and value addition opportunities in the market value chain for the purposes of improved income generation.

OPERATIONAL HIGHLIGHTS

As such, the livestock development unit committed its R 2,3 million budget during the review period toward the implementation of programmes which respond to the challenges facing the small-scale and emerging livestock farmer. In this regard, the organisation embarked on a livestock marketing drive with plans to take 5,000 livestock to the market by the end of the review period. Currently, in the former Transkei livestock marketing is almost non-existent and people continue to suffer the effects of poverty although they have cattle. ECRDA therefore embarked on a measured drive to encourage livestock owners to sell their livestock and make a living out of it. To encourage this culture change, ECRDA built an auction pen in Fort Malan and in Dudumashe in the Mbashe and Mnquma local municipalities.

ECRDA also secured the services of livestock marketing agents in the former Transkei area. However, the main challenge was the unrealistic price expectations of people in the region.

In the other areas of the province, such as Ngqushwa, King William's Town villages, Makana Local Municipality and Nkonkobe auctions took place with about 5,300 cattle, goats and sheep from formal auctions in these communities.

FEEDLOT MODEL

In order to accelerate value-addition in the emerging livestock farming sector, ECRDA began a process of establishing a feedlot. Two sites in Ncora and Mqanduli have been identified as ideal sites. The ECRDA board has approved an appropriate model for the feedlot which is to guide partnerships with the private sector in implementing the same.

The feedlot model requires the state to provide the infrastructure for the feedlot while the operational costs should be provided by a private investor. ECRDA will advertise for a private partner in the new financial year.

Currently, more than 80% of grade A and B red meat comes from the Free State, Gauteng and Mpumalanga because the Eastern Cape has very few value-addition enterprises. The province exports its weaner calves to these provinces and they return to the province as Grade A and B finished products. The plan is to ensure that this trend is reversed and money circulates within the provincial economy.

COMMERCIAL SHEEP PRODUCTION DRIVE

Furthermore, the agency invested R300,000 in Mnceba villages of the Ntabankulu municipal area as part of a commercial sheep production drive. ECRDA handed over 80 sheep rams to 95 livestock farmers. The commercial drive is based on improving the poor genetic material of the local sheep, improving weaning rates, balancing the flock structure, changing the mating season and introducing vaccination programmes over a five-year period. The aim is to ensure that local livestock farmers can compete favourably with commercial farmers and to receive market related income for their stock.

R300 000
INVESTED FOR COMMERCIAL SHEEP PRODUCTION DRIVE

After an assessment of the sheep flock in Mnceba, ECRDA realised that the sheep of local farmers is of poor quality with outdated farming methods. ECRDA was approached by subsistence farmers through the Mnceba Methodist Church for help. A situational analysis was conducted resulting in the introduction of sheep with better genetic material.

The sheep were of poor quality, weaning rates were low, the flock structure was not balanced which meant there were too many male sheep which compromised reproduction rates. There were no vaccination programmes, sheep were small-framed and therefore could not compete with commercial farmers.

ECRDA therefore introduced 80 sheep rams to mate with their existing 2,900 ewes to improve the genetic material and quality of their stock. The 80 rams are based on a ratio of 3% of the 2,900 female sheep in the area. This means each of the 80 rams will mate with 30-35 of the 2,900 ewes. In addition, ECRDA introduced a general sheep production training programme for the next five years to change the subsistence culture to a commercial one. ECRDA has also introduced a veterinary programme, sheep shearing and a new mating season.

In Ntabankulu, there exists an opportunity to instill a commercial culture to local farmers where theft is not prevalent. This calls for deliberate state intervention to improve infrastructure and production parameters. In order to encourage the growth of lambing rates of communal farmers from the current 30% to 60% and above. ECRDA plans to assist and facilitate the introduction of vaccination programmes to minimise livestock losses as it is crucial to cushion the vulnerable communal sector. In addition, there needs to be a concerted effort to improve the genetic material of communal livestock owned by communal farmers which the market regards as inferior. Furthermore, government interventions should be aimed at encouraging the commercialisation of this sector in order to increase rural outcomes, participation in the mainstream economy and ensuring food security.

The sheep shearing programme for wool is still a challenge because there is currently no shearing shed. The Ntabankulu Local Municipality has committed to building a shearing shed in the new financial year. The construction of the shed will provide a clean environment for shearing as well as enough space for sorting and baling of the wool.

In addition, the introduction of the shed will protect the local sheep farmers from speculators who buy their wool for below market value. They will now be able to sell directly to wool trader, BKB in Port Elizabeth. The BKB arrangement will provide access to international buyers and markets which should return better wool prices in line with what commercial farmers receive for their produce. This will expose local sheep farmers to a commercial mindset.

OUTLOOK Moving forward, ECRDA plans to reinforce livestock marketing while training farmers towards livestock marketing dynamics. In this regard, exposure visits to feedlots and auctions in commercial farming areas are planned for the benefit of emerging farmers. ECRDA also intends to secure private investors for the feedlot in next financial year. The agency is targeting to have about 6,000 livestock units sold to the market in 2015/16.

HIPP 3: FORESTRY DEVELOPMENT

840 ha
NEW FORESTY PLANTATIONS

5 PROJECTS IMPLEMENTED
IZININI | SINAWO | MKAMBATHI
SIXHOTYENI | GQUKUNQA

394
PERMANENT JOBS CREATED

R19 m
SPENT IN THE REVIEW PERIOD

PERFORMANCE HIGHLIGHTS

FORESTRY AS STRATEGIC LAND-USE

The period under review presented solid platforms, channels and resources necessary for the full exploitation and realisation of the Eastern Cape's abundant forestry potential. Forestry development as a strategic land-use, presents significant economic potential for rural communities to use their land assets for improved income and wealth generation. There exists a massive economic potential within South Africa to further exploit available land resources for high impact afforestation projects which should change the rural forestry architecture. This potential for vast afforestation is real and not imagined if it is taken into consideration that the country's commercial plantations of 1,27 million hectares cover only 1% of the total land area. By 2009, as a sub-sector in agriculture, forestry contributed 9,7% of agricultural Gross Domestic Product (GDP) valued at R6,7 billion. Furthermore, these plantations create a total of 170,000 permanent jobs.

EASTERN CAPE CONTEXT

Taken within a provincial lens and context, the Eastern Cape represents only 10% or 130,000ha of the country's forestry plantations. These plantations employ a total of 8,000 permanent people. The 130,000ha contributes about R1,1 billion in provincial GDP which is about 33,3%of the agriculture, forestry and fisheries contribution to Eastern Cape GDP. In the provincial stakes, the status quo places the Eastern Cape in third place after Mpumalanga and KwaZulu-Natal provinces when taking into account the total area under cultivation. Furthermore, the Eastern Cape has an additional, mostly state-owned, 100,000ha of land which is available for new afforestation projects. If you take into account jobs per hectare, it means the additional 100,000ha that is ready for afforestation holds a potential to create almost 6,200 additional permanent jobs. More than 50% of the potential plantations or 50,000ha, are in the OR Tambo and Alfred Nzo districts with significant areas in Mbizana, Ingquza Hill, Nyandeni and Mhlontlo local municipalities.

In essence, the province's dormant forestry potential places it in pole position to challenge Mpumalanga and KwaZulu-Natal's dominance of the sector. There is also an additional 30,000ha of existing plantations that require rehabilitation and improved management to achieve their yield potential.

However, it is also worth taking note of the wide and scattered distribution of forestry plantations within the province which presents unique logistical and managerial challenges which institutions such as ECRDA is committed to addressing. In addition to this, scale has emerged as an important factor in management efficiency, risk profile and the profitability of plantations.

RESPONSIVE FORESTRY ACTION PLAN

In this regard, ECRDA has become a central cog in helping the Department of Agriculture, Forestry and Fisheries (DAFF) craft a responsive and progressive provincial forestry action plan that places rural and subsistence landowners at the centre of the forestry development debate in the Eastern Cape. In practical terms, the strategy engages private forestry commercial partners to ensure the recognition of community land rights and a balancing act between the developmental and commercial opportunities that forestry concerns could offer.

FORESTRY DEVELOPMENT MODEL

ECRDA's forestry model recognises the communal tenure nature of rural land ownership and it aims to incorporate landowners into a forestry development ecosystem and value chain that presents viable economic spinoffs and financial returns for their land assets.

This model seeks to ensure that communal land owners become active participants in the formal forestry sector by turning their land into prime real estate for commercialisation purposes. Currently, the land asset on communal hands is not productive and therefore does not accrue any economic returns. ECRDA's model is dedicated to changing this status quo by facilitating and providing support mechanisms for further development of the sector.

In essence, the model advocates for community ownership and the management of forestry projects for their own benefit. It seeks to link up communities with competent private sector players to provide technical, operational and administrative support in exchange for preferential access to a portion of the timber produced at market rates. In this regard, ECRDA continues to facilitate funding and high-value partnerships as well as play an oversight role.

OPERATIONAL PERFORMANCE

As such, during the period under review, ECRDA engaged DAFF to integrate their Category B and C plantations with community forestry projects in order to increase economies of scale. Category B plantations are larger pine plantations while Category C plantations are smaller gum operations.

Currently, private sector companies partner with communities to use their land which has a potential for afforestation. In some instances, there is a direct investment from partners such as the Industrial Development Corporation (IDC). ECRDA is assisting communities in leveraging funding for new afforestation projects on behalf of communities from third-party funders.

The agency is currently assisting communities who own about 10,000ha of the 100,000ha available for new afforestation with plans to expand this number to 20,000ha.

Subsequently, ECRDA in partnership with ECDC on behalf of communal land owners secured a R113 million Jobs Fund grant for project implementation over a three-year period. In terms of the agreement, the Jobs Fund would provide R83 million which is being matched equally by ECRDA, ECDC and communities using their land resettlement grants. During the period under review, the funds were used for afforestation, improvement of infrastructure, buying of equipment and machinery used in the production process.

ECRDA has a commitment with the Jobs Fund to plant some 6,000ha in these community-owned forestry projects. There is an additional commitment to employ 565 permanent jobs by the third year of the programme. Implementation of the Jobs Fund-funded initiative started with five community-owned projects in the review period with a target of eight projects covering some 15,600ha.

These projects feature a mixture of pine and gum plantations. Of the five projects at implementation stage, four have been planted with only gum seedlings.

The five projects under implementation are Izinini and Sinawo in Mbizana, Mkambathi near Flagstaff, Sixhotyeni near Maclear and Gqukunqa near Qumbu. A total of R19 million was spent in the review period in the five areas to establish 841ha of new forestry plantations.

The 840ha is an addition to the 340ha planted in 2013/14. ECDC and DAFF-funded environmental impact assessment (EIA) consultants have been appointed in Mkambathi and Sinawo in order to accelerate the afforestation of 2,400ha. Already a total of 394 permanent jobs have been created on the implementation stage of the five projects.

The funds were utilised for planting operations, clearing of bush, procurement of fertiliser, stock-absorbers, herbicides, preparation of land, planting equipment, controlling weed competition, machinery and equipment such as tractors and trailers.

All these projects have strategic partners who have signed off-take agreements. This means that while trees take eight years to mature, there will already be a buyer available on harvesting. The proceeds of the sale of timber will be paid into community bank accounts.

The future plan is to ensure that communities add value addition activities in their value chain to improve income generation. ECRDA is actively investigating means to ensure that communities are able to secure equity in the operations of these strategic partners.

OUTLOOK

Moving forward, ECRDA is equally cognisant that community projects are not easy to manage. There is a concerted effort to grow a sense of ownership among communities in relation to state-support projects. The fact that they have put in their own funds into the establishment of the projects should create ownership. For example, in Sinawo, the community has ring-fenced funds generated from the sale of timber to help them continue planting even when the Jobs Fund is no longer available.

HIPP 4: ALTERNATIVE ENERGY

R500,000
INVESTED IN KEISKAMMAHOEK BIO-DIGESTER PROJECT

BIO-DIGESTER & ECO-GARDEN

BUILT AT KEISKAMMAHOEK

AGRARIAN RESEARCH & DEVELOPMENT AGENCY (ARDA)

INCORPORATED INTO ECRDA

25
HOUSEHOLDS BENEFITTING FROM KEISKAMMAHOEK BIO-DIGESTER PROJECT

R3 BILLION
VALUE OF RENEWABLE ENERGY PROGRAMME

PERFORMANCE HIGHLIGHTS

SUSTAINABLE ENERGY SOLUTIONS

While the Eastern Cape has made significant progress in providing real and increased access to electricity for rural households, there still remain challenges in bringing sustainable energy solutions to certain areas of the province. Some of these areas have approached ECRDA to assist in the exploitation of alternative energy sources for energy generation. This is a significant assignment in the face of a national grid which faces increased pressure from increased urbanisation and industrialisation.

Over the last decade, government has placed particular emphasis and focus on the exploration, exploitation and implementation of alternative energy sources to complement the increased demand on the national electricity grid.

Fortunately, the Eastern Cape possesses significant potential for alternative and renewable energy. However, this potential has not been exploited to the extent that it begins to produce tangible and substantial returns for the province and the nation as a whole. Encouragingly, government has led in the development of policy instruments which create the right climate and platforms for the growth of this infant sector.

As such, the Eastern Cape possesses the potential to produce about 5,000 megawatts of energy from available renewable energy sources such as wind, solar and biofuels. As an organisation which continues to play a central role in the roll-out of a comprehensive rural development strategy, ECRDA continues to investigate the viability of public-private partnerships to unlock and exploit the potential of the renewable energy sector.

OPERATIONAL HIGHLIGHTS

In response to this challenge, perhaps the most significant development in the period under review was the incorporation of the Agrarian Research and Development Agency (ARDA) into the overall operations of ECRDA. The integration process will be concluded in the first quarter of 2015/16.

This integration gave birth to a renewable energy unit with a broad intention to move beyond the focus on bioethanol production which had been the focus of ARDA. The unit has now expanded its focus to include all biofuels including investigating the efficacy of bio-digesters as an effective alternative energy source.

During the period under review, a fair amount of energy was spent on moving ARDA's Cradock Bioethanol project to ECRDA. The organisation has a serious role to play in helping overcome obstacles in the implementation of the high impact R3 billion project. The most critical of these challenges has been the finalisation of incentives by government for biofuels producers. From a national perspective, the bioethanol industry is not sustainable without a substantial subsidy plan.

National government is still in the process of taking a decision on the subsidy issue. In the expectation of a positive decision from government, the IDC as the main project funder engaged ECRDA with the intention of setting up a feedstock aggregator to source 261,000 tons of sorghum to be used as feedstock for the Cradock Bioethanol project. Plans are in place to ensure that an aggregator will be in place in the new financial year. To source the required feedstock, ECRDA will need to promote the cultivation of at least 80,000ha of sorghum.

It is expected that it will take two years to build the bioethanol plant with construction only expected to commence once the subsidy matters have been finalised. The cost of implementation for the entire project is R3 billion of which roughly R2 billion will go toward the construction of the factory.

At capacity, the plant will produce 100 million litres of bioethanol a year from 261,000 tons of grain sorghum. The by-products of this process will be fertiliser, animal feed and carbon dioxide gas. Bioethanol will be blended into the South African fuel pool.

It is expected that 170 jobs would be created in the factory. Some 3,500 jobs linked through downstream industries will also be created. During construction, a total of between 800 to 1,000 jobs will be created. The bulk of the sorghum will be sourced from black farmers. The factory will be owned by the IDC, ECRDA, the Central Energy Fund and a technical partner which is yet to be identified.

The IDC also intends to make part of its 50% shareholding available to black farmers and business. Already, between the Eastern Cape government and the IDC about R200 million has been spent on promoting the project. This covers agricultural trials and development, factory designs, engineering, acquisition of factory site, EIAs as well as construction on site for preparation work. Eskom has also been paid to supply electricity to the site.

In addition, ECRDA has built and commissioned a bio-digester and an eco-garden at Rabula in Keiskammahoek. There's a community that's wants to produce vegetables and the bio-digester is now being used to process agricultural waste. The waste provides fertiliser for the vegetable garden while also producing methane gas as energy for a training centre. It is also used for cooking and lighting. ECRDA invested R500 000 into this project. There are 25 households already benefitting from this project.

261,000 tons

SORGHUM TO BE SOURCED

80,000 ha

SORGHUM TO BE CULTIVATED

100 million ltr

BIOETHANOL PER YEAR

3,500

JOBS WILL BE CREATED THROUGH THE CRADOCK BIOETHANOL PLANT PROJECT WHICH IS EXPECTED TO TAKE 2 YEARS TO COMPLETE

OUTLOOK Moving forward, ECRDA intends to take the bioethanol project into implementation stage. The organisation will agitate for and drive the establishment of a feedstock aggregator and source grain sorghum for the project as well as for other biofuels initiatives within the province. ECRDA also intends to roll-out the bio-digester model to schools to provide gas for cooking for feeding schemes. ECRDA will also be engaging players in the mining industry to assist them with mine dump rehabilitation using the agricultural knowledge the agency has gained in producing sugar beet and grain sorghum into bio-digesters to produce energy. By growing it on the old mine ground, it will gradually improve soil quality.

HIPP 5: RURAL FINANCE

R10.9m
AGRICULTURAL LOANS

R8.5m
TOTAL REPAYMENT ON LOAN ACCOUNTS
2014/15

220
AGRICULTURAL ENTERPRISES BENEFITTED FROM LOANS

DISBURSEMENT OF LOANS

82% AGRICULTURAL

18% NON-AGRICULTURAL

11
NON-AGRICULTURAL ENTERPRISES BENEFITTED FROM LOANS

R1.3m

PERFORMANCE HIGHLIGHTS

RURAL FINANCE MANDATE

ECRDA carries on its shoulders, on behalf of government, a broad developmental mandate which uses various high impact applications to bring about the desired socio-economic returns in the rural sector. While the hegemonic discourse in the rural development arena is focused on agricultural development, ECRDA is acutely aware that the development and application of responsive and inspired rural finance tools is a central pillar to stimulate economic activity in this sector.

The extension of credit lines in the form of loan funding to rural entrepreneurs is an important element for the further growth and development of the rural economy. While government often provides the infrastructure and platforms necessary for development, ECRDA complements government's efforts to ensure that rural programmes and enterprises have the requisite working and operating capital to bring their ideas to life.

HIGHER RISK APPETITE

ECRDA provides these loan finance instruments fully-aware of the risks attached to this activity. The rural finance market is a challenging space to do business because of its high-risk nature. This is a market rarely serviced by private lenders because it has no assets or collateral as security for loan funding.

Therefore, informed by its developmental posture, ECRDA takes on a higher risk appetite and advances loan funding to rural enterprises cognisant of the potential recollection challenges it would have to confront. ECRDA's role in this space is significant if one considers that without this higher risk appetite, rural entrepreneurs would have no means to turn their ideas into a reality to promote economic activity in the rural sphere and thereby create job opportunities, income generation and self-sufficiency.

A lack of credit lines to rural economies undoubtedly further depresses the rural landscape and diminishes the ability to galvanise and revitalise economic activity in this sector.

As such, in the review period, and in line with its annual performance plan and key performance indicators, the rural finance unit paid particular focus on the quality of loans disbursed, number of beneficiary enterprises and on the recovery of disbursed loans. The organisation typically splits its loan portfolio between agricultural and non-agricultural loans for rural entrepreneurs.

However, while the organisation recognises its development finance role and risk appetite, its loan disbursements are guided by a credit and collection policy which falls in line with the requirements and expectations of the National Credit Regulator (NCR). A key criterion to loan funding is therefore measured according to the individual enterprise's ability to repay the loans. During the review period no enquiries were received from the National Credit Regulator, an indication that the organisation's credit policies and procedures are sound.

CREDIT POLICY REVIEW

At the end of the third quarter of 2014/15, ECRDA conducted a minor review of its credit policy. The review sought to limit the exposure of loans advanced to staff in order to limit any potential conflict of interest while ensuring that all business loans awarded to staff should not exceed 5% of the total annual loans budget.

AFTERCARE PHILOSOPHY

In addition, ECRDA ensures that its credit policy is complemented by an empowering aftercare philosophy which calls for diligent post-investment monitoring. This includes monitoring of loan funding through project visits, ensuring that money is used for its intended purpose and identifying shortcomings in the enterprise's ability to honour loan repayments. Once potential challenges are identified, loan officers are required to develop reports on the performance of the individual loans and provide recommendations for corrective action.

LOAN COLLECTIONS

In this regard, the collections process was reviewed and increased focus was placed on the collection of overdue accounts. The repayment of loan accounts during the review period was R8,5 million. MAFISA loan repayments were R2,1 million, agency loans and repayments on old Uvimba capital amounted to R6,3 million.

A concern remains the recovery of MAFISA loans which is granted in terms of the contract between MAFISA and ECRDA whereby the MAFISA credit policy has to be implemented. These are unsecured, high-risk agricultural loans and proved to be a challenge in collection. The operations, risk and credit units continue to work closely to drive an improved collection of loans.

LOAN PERFORMANCE

During the review period, the organisation continued to extend credit lines to deserving and qualifying entrepreneurs in the rural sector. In order to improve the uptake of loan funding, ECRDA continued to conduct marketing drives to promote awareness of available loan instruments. The organisation has thus partnered with DRDAR to link ECRDA loan officers to their regions due to the department's wider geographic spread.

As of the end of 2013/14, MAFISA loans were discontinued. However, as is the nature of the loan business, there were MAFISA loans approved in 2013/14 that were only disbursed during the review period. In 2014/15 R11,6 million was approved for disbursement for 92 loan applications from individuals, legal entities or informal groups.

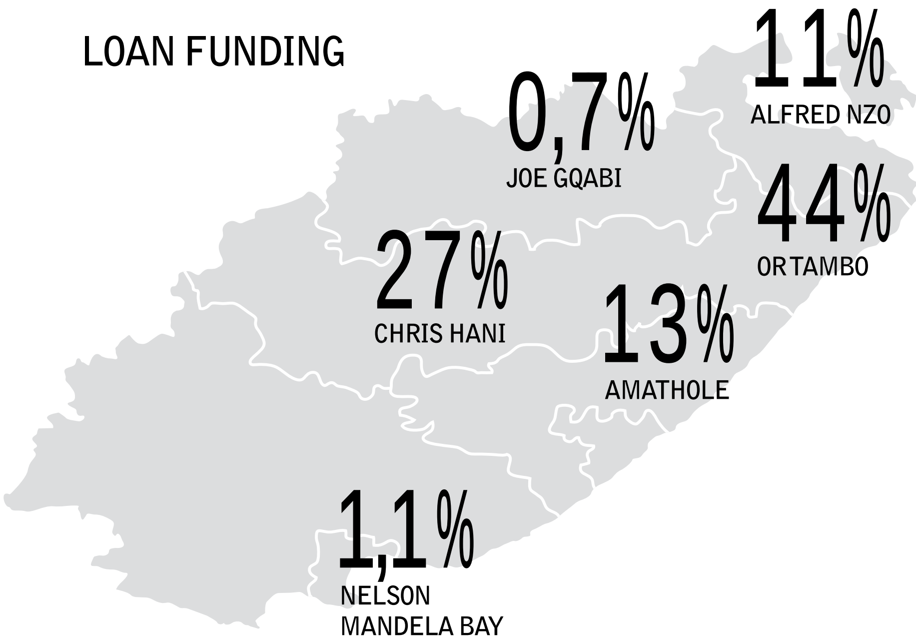
Actual disbursement amounted to R13,3 million which is higher than the approved figure. This is because of loans approved in the previous year which were only disbursed in the period under review. A total of R1,1 million went to 58 MAFISA loan beneficiaries.

A total of R10,9 million in ECRDA agricultural loans went to 220 enterprises whose activities vary from poultry, livestock or crop production among others. A total of R1,3 million ECRDA non-agricultural loans went to 11 qualifying enterprises. This means of the ECRDA loans, 82% went to those involved in agricultural activities and 18% to those in non-agricultural activities such as hawkers.

R13.3m
ACTUAL DISBURSEMENT OF LOANS 2014/15

The majority of the loans continue to go to self-help groups who require small agricultural loans. During the period under review greater synergy was achieved between the rural finance unit and the agro-processing unit. This is evidenced by the fact that the majority of these loans went to those participating in the ECRDA RED Hub programme in Ncora and Mqanduli in the Chris Hani and OR Tambo districts resspectively.

LOAN FUNDING



OUTLOOK Moving forward, ECRDA will continue to play an advocacy role for the recreation of a rural development fund. This fund should complement ECRDA and other rural finance tools and the activities aimed to improve the economies of scale towards the agro-industrialisation and implementation of other high impact priority programmes in the rural Eastern Cape. The fund is envisaged to pull together from public and private finance for investment into catalytic projects which promise long-term sustainable returns. Furthermore, ECRDA will continue to bolster its loan collection capacity to ensure that loan commitments are honoured in order to enhance and broaden loan finance support to other deserving entrepreneurs in this space.

SUBSIDIARIES REPORT

6,7%
INCREASE IN CARTON PRODUCTION (KANGELA)

MORE THAN
R80m
ALLOCATED TO SUBSIDIARIES

R6.64m
FUNDS ALLOCATED TO KANGELA TRUST

R901,340
FUNDS ALLOCATED TO MAJOLA TEA ESTATE

R4.96m
FUNDS ALLOCATED TO MAGWA ENTERPRISE TEA

R7.5m
FUNDS ALLOCATED TO NCERA MACADAMIA FARMING

PERFORMANCE HIGHLIGHTS

Beyond its role as an empowered agent designed to redraw the socio-economic architecture of the provincial rural landscape, ECRDA is equally poised to act as a trusted custodian and steward of government's share interest in other publicly-owned enterprises for the benefit of communities.

EMPOWERED AGENCY

Where synergies exist with ECRDA operations, government gives a directive to ECRDA to oversee these enterprises to ensure they perform effectively and efficiently in the execution of their stated mandate.

Broadly, this mandate is mainly concerned with ensuring that rural communities are able to realise their socio-economic development aspirations through the application of inspired and innovative solutions to the most pressing of their challenges.

In effect, government expects that ECRDA will guide these enterprises to a place where they themselves are able to become self-sufficient agents of economic change by galvanising, advocating and driving a sound rural economic revitalisation agenda. In this respect, ECRDA often presides over those enterprises which are wholly-owned by ECRDA on behalf of government or those where government through ECRDA has taken majority shareholding.

AGRARIAN RESEARCH AND DEVELOPMENT AGENCY

For example, toward the end of the 2013/14 financial year, the Eastern Cape Provincial Treasury instructed that all subsidiaries of entities needed to wind down their operations. This could be achieved by selling them, registering them as standalone entities or integrating them into the holding company such as ECRDA. As such, during the period under review, the integration of Agrarian Research and Development Agency (ARDA) into the overall operations of the agency was initiated.

In the review period significant progress has been achieved to ensure ARDA activities were conducted under the ECRDA banner with complete integration earmarked for the first quarter of 2015/16. The process to incorporate ARDA staff into ECRDA was also prioritised.

KANGELA CITRUS FARM

Government through ECRDA, owns 51% of the Kangela Citrus Farm. Kangela is a land reform programme aimed at empowering its 30 beneficiaries who own a citrus farm in Addo near the Sundays River Local Municipality. These beneficiaries are organised around the Kangela Empowerment Trust. ECRDA provides governance, operational and financial support to Kangela.

During the period under review, a total budget of R6,64 million was allocated to Kangela. Actual expenditure amounted to R5,5 million. These funds were used for planting 15ha of new citrus trees, farm and tractor implements and for the development of a security trench of 4,9km. Kangela currently has 115ha of matured citrus trees.

ECRDA is excited that during the 2014/15 financial year Kangela broke even. They improved the production of cartons by 6,7% to 219 614. Revenue from the sale of citrus increased from R20,6 million to R28,7 million in the review period. There is an additional 55ha of redundant orchards available for the redevelopment, thus rejuvenating the area called Oranjezicht. A further 31,6ha is available for redevelopment of the farms of Kangela and Silveroaks, the cost of this will be much lower as most of the infrastructure is in place. A total of 200 casual workers were employed during harvesting.

115ha

MATURED CITRUS TREES

15ha

NEW CITRUS TREES PLANTED

ASSOCIATED ENTITIES

In addition to its subsidiaries, ECRDA supports three associated entities namely: Ncera Macadamia Farming, Majola Tea Estate as well Magwa Tea Estate.

MAJOLA TEA ESTATE

Majola Tea Estate is located in Port St Johns and it is run by a workers trust on 452ha of land. When required, ECRDA provides financial support to the entity. A total of 395ha of green tea are under production. In 2014/15, transfers to Majola totaled R901,340 versus actual expenditure of R1,1 million. The discrepancy in expenditure is a result of funds set aside from the previous financial year. All the funds were used for salaries for the 330 employees at the estate.

MAGWA ENTERPRISE TEA

In 2014/15 ECRDA transferred R4,96 million to Magwa Enterprise Tea. Funds were used for salaries and tax obligations. Total expenditure amounted to R5,17 million. Funds were set aside from the previous financial year for the preparation of financial statements which accounts for the higher expenditure. Magwa has some 1,703ha of commercial tea plantations employing 720 people. The process of transferring Magwa shares from ECDC to ECRDA is still ongoing subject to the approval of cabinet.

A new Board of Directors was appointed consisting of two members from ECDC and two from ECRDA. These members are tasked with facilitating the business rescue process.

NCERA MACADAMIA FARMING

Ncera Macadamia Farming has 300ha of macadamia nuts in a public-private partnership which has a 51% community ownership with the rest of the shares held by the private sector. ECRDA provides operational infrastructure development support. In the review period, ECRDA transferred R7,5 million to the entity for operations. It employs 129 people.

2 AUDITOR'S REPORT

Refer to point 1.3 of the Auditor-General's report on page 103.

3 OVERVIEW OF PERFORMANCE

THE FIVE-YEAR STRATEGIC PLAN AND THE ANNUAL PERFORMANCE PLAN DOCUMENTS FOR THE 2014/15 FINANCIAL YEAR REMAIN THE SOURCE DOCUMENTS FOR THE COMPILATION OF THE ANNUAL REPORT ON PERFORMANCE INFORMATION OF ECRDA.

Performance monitoring and evaluation on the implementation of the ECRDA five- year strategy is done through a quarterly reporting system, wherein individual quarterly reports are generated by management and submitted to the audit and risk committee and further subject to board review. Consequently, a consolidated annual report on performance information was compiled and it reflects the performance indicators and targets as depicted in the annual performance plan. ECRDA's strategic plan contains five strategic pillars upon which all programmes are aligned as highlighted here under:

- **PILLAR 1:** Effective coordination and implementation of agrarian-driven High Impact Priority Programmes (HIPPs)
- **PILLAR 2:** Promote entrepreneurship through rural finance and support programmes
- **PILLAR 3:** Develop, institutionalise and sustain an effective, capable and fit-for-purpose organisation including best-in-class project management, targeted research and innovation-driven agency
- **PILLAR 4:** Leverage strategic partnerships towards implementation and funding of rural development initiatives
- **PILLAR 5:** Develop sustainable, localised institutionalised rural framework

The annual performance plan contained thirty five (35) performance targets against which ECRDA had to perform for the year under review. Eighty three percent (83 %) of the targets were achieved whilst seventeen (17%) could not be achieved.

Areas with challenges relate to the implementation of the MAFISA financing programme that was discontinued, the forestry Jobs Fund disbursements that were inadequate, rural market establishment that could not proceed due to unsecured private partnership as well as challenges towards the feedstock supply to the established RED Hubs.

STRATEGIC PROGRAMMES INTERVENTIONS

In compliance with Treasury guidelines, the ECRDA board approved a five-year strategic plan that guides strategic interventions and key programmes that are implemented over the financial years. The board-approved annual performance plan was submitted to the Department of Rural Development and Agrarian Reform (DRDAR) and subsequently presented to the legislature by the Honourable MEC Qoboshiyane in July 2014. Management also compiled the annual report reflecting the performance of the agency for the 2013/14 financial year. The annual report was approved by the board and further submitted to Auditor-General, Treasury and DRDAR in August 2014.

83%

PERFORMANCE TARGETS ACHIEVED

4 **SITUATIONAL** ANALYSIS

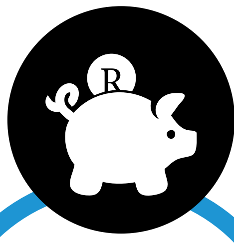
ECRDA IS CONTINUOUSLY BUILDING ON ITS SOLID FOUNDATION OF GOVERNANCE AND INTERNAL CONTROL AND STRIVES TO CONTINUE TO PROVIDE SERVICE DELIVERY IN A RESPONSIBLE AND EFFECTIVE MANNER.

4.1 SERVICE DELIVERY ENVIRONMENT

The absence of substantial policy shifts at a national and provincial level during the review period indicates government's sustained confidence on the existing policy interventions.

The Eastern Cape's attitude toward rural development is firmly aligned to the broader national vision as laid out in the National Development Plan (NDP) as well as in the comprehensive rural development strategy and programme. The Provincial Development Plan (PDP) is a well-crafted provincial perspective of the NDP. The PDP underlines the centrality of a robust and effective rural development programme underpinned by increased agricultural production, job creation, economic development as well as health and education. As ECRDA's shareholder department on behalf of government, the Department of Rural Development and Agrarian Reform (DRDAR) provides further impetus to these provincial priorities by exercising a significant oversight role in ensuring that ECRDA responds to these challenges as an effective agent of socio-economic change.

ECRDA has therefore sought alignment with DRDAR's rural development priorities. During the review period government reaffirmed the need for increased food security spurred by increased agricultural production. In 2014/15, the Eastern Cape had some 17,000 hectares (ha) under production with a view to growing this number to 42,000ha in the new financial year. In this regard, ECRDA's focus is on agricultural value-addition to complement government's strong primary production focus. As such, ECRDA is pleased with the R210 million funding allocation from the shareholder as a means to implement and drive the development agenda.



R210m

TOTAL FUNDS ALLOCATED IN 2014/15

GOVERNANCE, FINANCIAL AND INSTITUTIONAL MATTERS

ECRDA is continuously building on its solid foundation of governance and internal control and strives to continue to provide service delivery in a responsible and effective manner. Of ongoing concern is the reduction in the annual allocation from the provincial government from R210 million in 2014/15 to R152 million in 2015/16 and the trend is expected to continue over the MTEF.

From a governance perspective, the board provides the essential oversight and guidance to ECRDA through various committees, namely the governance, audit and risk; finance and investment; and the projects and programmes committees. Governance at the entity is further strengthened through internal controls implemented by management and the internal audit function.

ECRDA has consolidated and moved into its new head office in Beacon Bay, East London during the year under review. Moving to the new offices created a healthy working environment as all staff members are housed in one office establishment.

It must be noted that the five regional offices of the agency still exist, viz Amathole in King William's Town, OR Tambo in Mthatha, Alfred Nzo in Kokstad, Chris Hani in Queenstown and Sarah Baartman (former Cacadu) in Port Elizabeth.

The approved organisational structure has been populated and recruitment of senior executives in the following vacant portfolios was concluded: Corporate Services, Legal and Company Secretary, Office of the CEO and Forestry. A total of 90% of positions in the approved organogram have been filled.

All the transfers allocated to ECRDA were transferred on time and as such the agency has been able to operate optimally and timely in meeting its budgeted financial obligations.

A total of R210 million was allocated and received during 2014/15 financial year in order to allow the ECRDA to perform its operations and implement its planned programmes.

ECRDA made the following conduit transfer payments to subsidiaries and entities supported by the Department of Rural Development and Agrarian Reform (DRDAR):

ARDA	R11 206 552*
North Pondoland Sugar	R 23 951**
Ncera Macadamia	R 7 500 000
Kangela	R 6 640 000
Magwa Tea Estate	R 4 963 660
Majola Tea Estate	R 901 340

* *Expenditure incurred on behalf of ARDA*

** *Expenditure incurred on behalf of North Pondoland Sugar (NPS) which is in process of deregistration*

ECRDA has, in line with the Provincial Treasury instruction issued in 2013, commenced with the integration of its subsidiary, ARDA. However, due to the complexities associated with the integration, the process could not be finalised. It is expected that all outstanding matters will be concluded in the first quarter of the 2015/16 financial year.

PROGRAMME IMPLEMENTATION: KEY OUTPUT

The agency is implementing two multi-year rural development projects relating to agro-processing and forestry in partnership with the Jobs Fund and the Eastern Cape Development Corporation (ECDC).

Further funding was secured from the Provincial Treasury to support the rolling out of the agro-processing initiatives resulting into four sites being established. The two Rural Enterprise Development (RED) Hubs of Mbizana and Mqanduli were officially launched by the Honourable MEC Qoboshiyane in November and December 2014 respectively.

Total expenditure on goods and services and assets relating to RED Hubs funded by Provincial Treasury amounted to R62.9 million and R51.2 million relating to Jobs Fund RED Hubs.

AGRICULTURE AND AGRO-PROCESSING PROGRAMME

ECRDA introduced the concept of the RED Hubs linked to the following principles, commercialisation of agricultural enterprises, value chain addition, increased rural incomes and creation of job opportunities.

To date, four RED Hub sites have been established at Intsika Yethu Municipality (Ncora RED Hub), Emalahleni (Emalahleni RED Hub), KSD (Mqanduli RED hub) and Mbizana Municipality (Mbizana RED hub).

The RED Hubs aim to incorporate support throughout the value chain of grain (maize) produce for small scale farmers in one location: This includes access to finance, production inputs, technical support, mechanisation services, storage facilities (silos and sheds), milling and marketing operations.

The RED Hub strategy includes:
- Funding feedstock supply on 1,000 hectares in each of the four communities through co-operatives.
- Establishment of mechanisation units equipped with machinery and implements.
- Buying all of the produce back from the co-operatives into the processing site.
- Storing and processing produce through the constructed silos facilities and milling plants.
- Branding and marketing the final product through localised distribution channels.
- Establishing trading centres that will provide production inputs to farmers.
- Distribution of dividends from the sale of RED Hub products to the participating co-operatives.

FEEDSTOCK SUPPLY TO THE MILLING PLANTS

A total of 3 984,47 tons of maize were harvested and supplied to the milling plants and other markets in the last production season, whilst a total of 3 750ha of maize and sorghum have been re-planted in pursuit for the next seasons supply. In Ncora, Mqanduli and Mbizana a combined 2 992ha of white maize has been planted and in Lady Frere, 829ha has been planted with sorghum.

MECHANISATION UNITS

All the four RED Hub sites have been equipped with mechanisation equipment and machinery. Twenty eight (28) tractors with implements (tillage equipment), three self-propelled combine harvesters, two trailed harvesters and four bakkies have been delivered across the sites.

INFRASTRUCTURE DEVELOPMENT

Storage silos with the total capacity of 2 000 tons have been constructed in Ncora, whilst in Mqanduli the expansion of existing silo capacity has been increased to 1,500 tons. In other sites such as Mbizana and Lady Frere, construction of storage silos and related infrastructure (milling sheds and mechanisation sheds) is in progress and is due to be completed in July 2015.

4
RED HUBS ESTABLISHED
NCORA, EMALAHLENI, MQANDULI, MBIZANA

3 984,47 tons
MAIZE HARVESTED FOR MILLING

3,750 ha
MAIZE & SORGHUM REPLANTED

160
PERMANENT
JOBS CREATED

HUMAN CAPITAL AND RECRUITMENT

Across the project sites, employment opportunities have been created to benefit local communities through either primary production, operationalisation of milling plants and infrastructure development such as milling plant sheds and storage silos. A total of 160 permanent jobs have been created during the establishment phase of the sites.

Training of tractor drivers on tractor operation and maintenance and training of production workers and co-operative members on responsible use of chemicals has been undertaken.

INSTITUTIONAL AND MANAGEMENT STRUCTURES

Organised legal entities have been established towards creating sustainable community operated and managed enterprises. All RED Hubs are managed through primary and secondary co-operatives that have been established across the RED Hubs. Again, project steering committees have been established in order to allow participation of stakeholders in supporting the projects.

LIVESTOCK DEVELOPMENT AND IMPROVEMENT

ECRDA continued to support the livestock improvement programme driven by the Department of Rural Development and Agrarian Reform (DRDAR). The focus has been towards creating market opportunities for farmers owning livestock in rural areas. This includes facilitating the necessary infrastructure that enables local auctions to take place and community education on herd management.

Interventions have been made in support of the Mnceba community, where fencing material was delivered for putting up ram camps, training of farmers on sheep breeding and marketing and delivery of Dohne Merino rams during the project launch in November 2014. In the Idutywa and Ngqamakhwe communities, sites for construction of sale pens were identified. In Tshabo Village, fencing was completed and 22 local jobs created in the project.

Rehabilitation of the stock dams continued as three of the seven dams in Ngqushwa were cleaned during the period under review.

840ha
NEW FORESTRY
PLANTATION

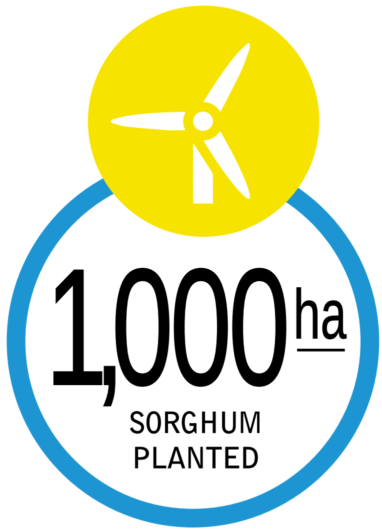
FORESTRY AND TIMBER DEVELOPMENT

The forestry development programme has been targeting mainly five projects sites of Sinawo, Mkhambathi, Sixhotyeni, Izinini and Gqukunqa forest plantations. ECRDA has appointed a forestry manager with the aim of building the necessary capability to drive forestry programmes in the Eastern Cape province. The programme resulted in 840ha of new plantation established in the year under review. In addition 386 permanent jobs and 137 temporary jobs have been created in these areas.

The partnership with private sector companies, SAPPI and Mondi, remains critical in ensuring sustainability of the community-owned forest enterprises. Social facilitation has been undertaken to strengthen institutional arrangements and empower local communities.

RURAL FINANCE AND INVESTMENT

Key to the implementation of the rural finance programme, ECRDA had to ensure that the micro finance policy is in place in order to guide internal loan procedures and also deal with consequences of non-adherence to the loans programme. A greater number of group loans have been issued in the year under review and can be attributed to roadshows done on borrower education. In addition, there has been a steady increase on the loan recoveries.



RENEWABLE ENERGY

The integration of ARDA into ECRDA, to be completed in the first quarter of 2015/16, saw the establishment of the Cradock Ethanol Project being assumed as a priority project in the renewable energy sector. A presentation has been made to the Economic Cluster towards unlocking some hindrances experienced by the project specifically and the bio-fuels industry in general. An agreement has been reached with Oos Vrystaat Kaap Bedryf Beperk (OVK) to form a strategic partnership towards a joint submission to the Industrial Development Corporation (IDC) to act as feedstock aggregator for the Cradock Ethanol Project. A total of 20ha of sorghum trials were planted at Lady Frere and the establishment of 1,000ha of sorghum as a precursor to the commercial production of sorghum for the bio-fuels industry commenced during the year under review.

A bio-digester pilot project has been initiated to support the Keiskammahoek communities. Upon learning lessons the project will be replicated at a larger scale in partnership with key role players in the sector.

SUPPORTED ENTITIES

ECRDA continued to provide support to its subsidiaries and entities. Through the support provided to the entities, some key deliverables have been realised, such as the creation of job opportunities for local communities, contribution to the economic growth of the province and the much needed skills development and community empowerment.

MAGWA TEA ESTATE AND MAJOLA TEA ENTERPRISE

At the start of the 2014/15 financial year, ECRDA developed an action plan to facilitate the path towards the rescue of the tea producing operations at both Magwa Tea Estate and Majola Tea Enterprise. The proposed Business Rescue Process (BRP) was submitted through the Department of Rural Development and Agrarian Reform (DRDAR) to Cabinet Exco for endorsement. A total of R66 million has been proposed for the resuscitation of the tea estates through the BRP. ECRDA will continue to mobilise provincial government and alternative sources of funding to support the estates. A project steering committee (PSC) has been established and has commenced with the implementation of the action plan.

ECRDA conducted a due diligence for Magwa and Majola tea estates. At Magwa there is a dormant dairy, hatchery, fallow agriculture land, forest opportunities and tourism potential. As such, the agency and partners in the BRP have commenced with the development of business plans for an integrated and commercially sustainable model to include the various enterprises.

Further, joint activities have been undertaken at Magwa by Productivity SA and South African Social Security Agency (SASSA) wherein ECRDA will act as a spring board for moving forward with the initiatives. The deliberate intention is to convert Magwa and Majola tea estates into High Impact Priority Projects (HIPPs) linked to the Mega Farm concept. The main objective shall be retained on tea production primarily because it has been the provider of many jobs in the impoverished Lusikisiki area.

CHALLENGES

The implementation of the RED Hub programme has not been without challenges.

Two main challenges faced by the programme in the review period has been the creation of reliable feedstock supply to support the operations of the milling plants, and very low yields harvested than originally anticipated in both Ncora and Mquanduli sites due to late planting on both sites.

In terms of developing and expanding forestry plantations, the slow pace of the transfers and the use of existing state plantations by DAFF affected the ability to achieve operational targets. The slow disbursement experienced by the ECRDA forestry programme has also affected implementation.

Working with livestock farmers in the province proves to be challenging. Lessons reveal that marketing agents are not encouraged to operate in communal areas owing to the lack of consistency in production as well as a poor understanding on how formal markets operate on the part of communal farmers. This therefore continues to discourage participation of communal famers in marketing of their livestock.

The discontinuation of the MAFISA financing programme significantly reduced the agency's funding capability and resulted in former clients losing hope in ECRDA's loan financing programme.

ORGANISATIONAL ENVIRONMENT

ECRDA came about as a result of a merger between two entities, ECRFC and ASGISA-EC, this immediately posed a challenge in respect of which senior management positions to retain and migrate to the new entity. However, critical senior management positions which included corporate service executive, company secretory and legal services executive and internal audit executive were filled during the year under review and additional capacity has been received through the appointment of the forestry manager to assist in creating a balance in the implementation of the HIPPs programmes.

ECRDA finds comfort in the current staff complement to drive the mandate of the agency and implement its priority programmes. Yet much focus will be on the continuous skilling of the existing human capital resource in order to ensure that service delivery is not compromised.

In support of the implementation of the current strategy and annual performance plan, a process to review the organisational structure will be undertaken and take into account significant changes that may be experienced

KEY POLICY DEVELOPMENTS AND LEGISLATIVE CHANGES

ECRDA has not experienced any new changes in its policies and further confirms that there has not been any changes in the current legislation. This therefore confirms business continuity going forward.

5 PROGRAMME PERFORMANCE INFORMATION

PILLAR 1: EFFECTIVE COORDINATION AND IMPLEMENTATION OF AGRARIAN-DRIVEN HIGH IMPACT PRIORITY PROGRAMMES (HIPPS)

PROGRAMME 1: RURAL DEVELOPMENT PROGRAMME

PURPOSE: ECRDA recognises that there are numerous rural development interventions therefore, in order to maximise the economic and social benefit to rural communities in the Eastern Cape, ECRDA will focus on HIPPs, effective coordination and implemention of rural development programmes, as well as monitoring and evaluating implementation.

Programme 1:	**Rural Development Programme: This includes feedstock supply for agro-processing (milling and bio-fuel) and forestry implementation projects**
Strategic Pillar 1:	**Effective coordination and implementation of agrarian-driven HIPPs**

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
1.1.Establish eleven (11) agro-processing and marketing infrastructure projects to enhance value addition over a period of three years	Number of milling plants & silos established by 2014/15	4	Four (4) milling plants and silos have been established in Ncora, Mqanduli, Mbizana and Emalahleni. All sites are fully-equipped with tractors, implements, harvesters and bakkies. Infrastructure development such as storage and milling sheds have been completed in two (2) sites while construction is underway in two (2) sites. Two (2) project sites have been officially launched in Mqanduli and Mbizana, whilst the remaining two projects will be launched in the next financial year.	No deviation	None
	Number of feedlots facilitated in 2014/15	Facilitation report	A feedlot facilitation report has been developed which identified potential sites for the establishment of feedlots in the Eastern Cape province.	No deviation	None
	Number of rural markets established	1	Target was not achieved	No rural market was established	Funding for implementation of the project could not be secured. ECRDA will embark on resource mobilisation to establish rural markets.

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
1.2. Increase the feedstock supply to support the milling plants to 13 200 tons with increased yield of 4.5 tons per ha over three years	Number of maize tons supplied to the milling plants in a production season (2014/15)	7 920 tons	A total of 3 984.47 tons of maize have been supplied. A total of 2 867.09 tons of maize has been supplied from Ncora RED Hub and 1 117.38 tons of maize have been supplied from Mqanduli RED Hub.	3 935.53 tons under-achieved	The projected number of maize tons could not be achieved due to: • Late planting • Outbreak of American Bollworm • Crop damages due to livestock • Theft by neighbouring villages and communities. Planting timeframes must be adhered to in the next season and social facilitation needs to be strengthened.
	Amount of maize tons per ha produced in a season (2014/15)	3 tons	A total of 3 tons/ha were achieved at Ncora RED Hub site while 1.23 tons/ha were achieved at Mqanduli site. The total harvested yield from both sites amounts to 3 984.47 tons and the planted area was 1 866 hectares. The average maize tons achieved is 2.14 tons per ha for the season.	0.86 tons/ha under-achieved	The projected number of maize tons could not be achieved due to the following factors: • Late planting • Outbreak of American Bollworm • Crop damages due to livestock • Theft by neighbouring villages and communities. Planting timeframes must be adhered to going forward and social facilitation need to be strengthened.
1.3. Increase number of livestock sold to the market to 14 000 animals over three years	Number of livestock sold to market by 2014/15 (facilitation)	5 000	The total livestock sales facilitated amounted to 7 181 animals. There were 3 850 cattle, 3 330 sheep and goats and one horse.	2 181 over-achieved	A lot of livestock sales were recorded during the last quarter of the year mainly due to good prices fetched from the market and the fact that farmers wanted to sell off their livestock before the predicted drought.
1.4. Facilitate the establishment of five new community-owned and operated projects, to reach a total of 20 000ha by 2016/17	Number of new hectares at implementation stage by 2014/15	10 000 (9 000 achieved in the previous year)	A total of 840.9ha have been planted with trees.	159.1ha could not be planted	Integration of DAFF plantations into communal land delayed. EIA procedures delay the releasing of land for plantations. ECDC has committed funding to conduct an EIA at Mkambati forest.
	Number of projects at implementation stage by 2015	6 (5 achieved in the previous year))	One (1) new project has been established and is under implementation stage in Flagstaff.	No deviation	None

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
1.5. Provide support and oversight to ten (10) projects that have reached implementation stage by 2016/17	Number of projects with formal and functional relationships with private sector companies that provide technical, managerial and administrative support.	5	Four (4) projects have formal and functional relationships with private sector companies. Agreements have been signed between Sappi, Mkambati Land Trust and Sinawo Community Property Association (CPA). Furthermore agreements between PG Bison and Sixhotyeni as well as PG Bison and Gqukunqa Trust continue to be relevant.	One (1) formal agreement remains at a draft stage between SAPPI and Izinini CPA.	Conclusion of a formal agreement between SAPPI and Izinini CPA experienced delays and ECRDA committed to facilitate negotiations towards conclusion of the agreement in 2015/16.
1.6. Identify, package and secure funding for 20 000ha by 2016/17	Value of start-up funding (first three years) secured for operations (R'mil)	R70m	A sum of R24 363 000 has been secured as startup funding towards the implementation of forestry projects.	R45 657 000 could not be secured.	Internal restructuring at the Jobs Fund resulted in delays in the disbursement of funds. A new year-end review tool was implemented. National Treasury agreed to disburse funds to the Forestry project according to the outcomes of the new projections in 2015/16.

PROGRAMME 2: RENEWABLE ENERGY

PURPOSE: ECRDA endeavours to build and empower community enterprises through the promotion and establishment of alternative energy sources and infrastructure.

Programme 2:	**Renewable Energy Programme: This includes strategies for off-grid electricity generation and production of alternative energy sources.**
Strategic Pillar 1:	**Effective coordination and implementation of agrarian-driven HIPPs**

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
1.7. Facilitate ten (10) strategic partnerships with the bio-fuels sector for the supply of hundred thousand (100 000) tons of feedstock over three years	Number of agreements signed with strategic partners in the bio-fuels sector	2	Two (2) agreements were signed with strategic partners. An agreement between ECRDA and OVK was reached relating for feedstock aggregation for the bio-fuels project. An Expression of Interest has been submitted to the Industrial Development Corporation (IDC) in December 2014. A partnership agreement was signed between ECRDA and the Chris Hani Development Agency towards mechanisation support to farmers on sorghum production.	No deviation.	None

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
1.8.Facilitate provision of different sources of alternative energy to one hundred (100) rural households by 2017	Number of rural household receiving alternative sources of energy (solar/ bio-gas)	17	Twenty-five (25) households are receiving alternative source of energy through a bio-digester and eco-garden that has been installed at Rabula near Keiskammahoek.	Eight (8) more households are receiving alternative source of energy.	More households participated in the bi-gas digester pilot project established in Rabula Village.

STRATEGIC PILLAR 1: BUDGET AND EXPENDITURE

PROGRAMME	2013/14			2014/15		
	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE
Programme 1: Rural Development Programme (excluding transfer payments, but including ARDA)	56 149 000	79 759 793	-23 610 793	90 958 000	74 867 897	16 090 103
Programme 2: Renewable Energy	500 000	-	500 000	800 000	499 677	300 323
Total	**56 649 000**	**79 759 793**	**-23 110 793**	**91 758 000**	**75 367 574**	**16 390 426**

PILLAR 2: PROMOTE ENTREPRENEURSHIP THROUGH RURAL FINANCE AND SUPPORT PROGRAMMES

PROGRAMME 3: RURAL FINANCE PROGRAMME

PURPOSE: A RED Hub creates a platform for economic activity, ultimately resulting in increased rural incomes through the facilitation of primary production, promoting rural savings and investment, processing of outputs, creating a communal and external market and linking the various types of primary production. ECRDA enables economic activity through micro-finance.

Programme 3:	**Rural Finance Programme: This includes disbursement of micro-finance**				
Strategic Pillar 2:	**Promote entrepreneurship through rural finance and support programmes**				
STRATEGIC OBJECTIVES	**PERFORMANCE INDICATOR**	**ANNUAL TARGET**	**ACTUAL ANNUAL ACHIEVMENT**	**DEVIATION**	**COMMENT ON DEVIATION**
2.1. Facilitate disbursements of loans to 2420 beneficiaries by 2016/17	% recovery of new ECRDA loans granted	50%	A total of 70.55% recovery of new loans has been achieved. The estimated recovery amount of ECRDA new loans for 2014/15 was R6 949 607.49 and the actual recovery amount of ECRDA new loans for 2014/15 was R4 581 623.27.	An over-achievement of 20.55%.	The percentage recovery was increased due to the continued workshops to educate borrowers on honouring their loans.
	Funds advanced in Rands (ECRDA)	R10.3m	A sum of R12.2m was advanced as loans to ECRDA beneficiaries.	An over-achievement of R1.9m.	The amounts distributed was more than estimated due to the significant amount of loans granted as a result of the RED Hub initiatives at Ncora and Mqanduli.
	Funds advanced in Rands (MAFISA loans)	R13m	A sum of R1.1m was advanced as loans to beneficiaries of the MAFISA programme.	An under-achievement of R11.9m.	The MAFISA programme was discontinued and the funds advanced was prior to the finalisation of the discontinuation of the programme.
	Number of ECRDA loan beneficiaries	190	A total of 1 743 beneficiaries received loans from the ECRDA loan finance.	An over-achievement of 1 533 beneficiaries.	More group loans were granted and thus raised the number of beneficiaries. The introduction of co-operatives participating in the RED Hub projects increased the number of loan beneficiaries.
	Number of MAFISA loans beneficiaries	620	A total of 230 beneficiaries received loans from MAFISA programme.	An under-achievement of 390 beneficiaries.	No more loans could be advanced to beneficiaries due to the discontinuation of the MAFISA programme within ECRDA.

PROGRAMME 4: RURAL DEVELOPMENT SUPPORT PROGRAMME

PURPOSE: The RED Hubs aim to stimulate entrepreneurship in rural areas by guiding and supporting communities through stages of entrepreneurship by providing these opportunities, resources and organisation thereof.

Programme 4:	**Rural Development Support Programme: This includes provision and coordination of business, technical and related support and the establishment of "fit-for-purpose" co-operatives for new and existing entities**				
Strategic Pillar 2:	**Promote entrepreneurship through rural finance and support programmes**				
STRATEGIC OBJECTIVES	**PERFORMANCE INDICATOR**	**ANNUAL TARGET**	**ACTUAL ANNUAL ACHIEVMENT**	**DEVIATION**	**COMMENT ON DEVIATION**
2.2. Facilitate establishment of 90 sustainable rural development entities over three years	Number of sustainable rural development legal entities (co-operatives, business enterprises, etc)	25	Twenty seven (27) legal entities have been established.	An over-achievement of two (2) additional legal entities established.	The variance was mainly due to the registration of additional primary co-operatives at the Mbizana Rural Enterprise Development Hub
	Turnaround strategies for subsidiaries or dependent entities	2	• Two (2) turnaround plans have been initiated • Business Rescue Plan with an Interim Business Plan has been developed for Magwa and Majola tea estates. • The plan was submitted to DRDAR and Provincial Treasury. • A due diligence was commissioned for Kangela Citrus farms and a report has been compiled.	No deviation	None

STRATEGIC PILLAR 2: BUDGET AND EXPENDITURE

PROGRAMME	2013/14			2014/15		
	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE
Programme 3: Provision of Rural Finance	10 790 000	3 244 725	7 545 275	10 794 000	12 220 018	-1 426 018
Programme 4: Rural Development Support Programmes	1 500 000	-	-	500 000	6 350	493 650
Total	**12 290 000**	**3 244 725**	**-**	**11 294 000**	**12 226 368**	**-932 368**

PILLAR 3: DEVELOP, INSTITUTIONALISE AND SUSTAIN AN EFFECTIVE, CAPABLE AND FIT-FOR-PURPOSE ORGANISATION INCLUDING BEST-IN-CLASS PROJECT MANAGEMENT, TARGETED RESEARCH AND INNOVATION-DRIVEN AGENCY

PROGRAMME 5 - 8: EFFECTIVE, CAPABLE AND FIT-FOR-PURPOSE ORGANISATION

PURPOSE: ECRDA recognises that in order to deliver on its mandate, the organisation needs to be institutionalised and be compliant with corporate governance at the highest level.

Programme 5 - 8:	**Effective, capable and fit-for-purpose organisation**
Strategic Pillar 3:	**Develop, institutionalise and sustain an effective, capable and fit-for-purpose organisation including best-in-class project management, targeted research and innovation-driven agency**

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
3.1 ECRDA compliance to corporate governance, risk management & fraud prevention measures	Approved and implemented risk management and fraud prevention plan	1	Risk management and fraud prevention plan was developed and approved by the Risk and Audit Committee.	No deviation	None
	Number of reviewed and approved ECRDA policies (based on the existing register of policies)	100%	Review and approval of all policies was successfully done – 100%.	No deviation	None
	Five-year strategic plan reviewed and approved	1	Five-year strategic plan was reviewed through a facilitated session and recommendations were presented to the board.	No deviation	None
	Three-year annual performance plan reviewed and approved	1	Three-year annual performance plan was reviewed through a facilitated session and subsequently approved by the board.	No deviation	None
	Annual report approved by the shareholder	1	Annual report was compiled after a facilitated session approved by the board.	No deviation	None
	Shareholders compact signed and concluded between the shareholder and the agency	1	Shareholders compact was drafted and signed by ECRDA Board Chairperson and DRDAR's Head of Department (HOD) and Member of the Executive Council (MEC)	DRDAR still needs to return the signed document to ECRDA	None

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
	Shareholders compact signed and concluded between ECRDA and the subsidiaries	2	Two (2) agreements were signed: • One shareholders agreement was signed between ECRDA and Kangela Citrus Farm • One integration agreement was signed between ECRDA and ARDA as a result of a Provincial Treasury notice.The integration agreement replaces the previous shareholders compact between ECRDA and ARDA.	No deviation	None
3.2. Establish and build a competent workforce within a conducive working environment over three years	% population of the organisational structure	90%	Ninety percent (90%) of the funded posts on the organisational structure have been filled.	No deviation	None
	% reduction of skills gaps as per the training plan	40%	Forty percent (40%) reduction of skills gaps as per the training plan was achieved.	No deviation	None
	Approved and implemented change management plan	1	Target was not achieved. Terms of Reference were developed and a Request for Quotation (RFQ) was issued to the market to assist with the development of a change management plan.	Change management plan not been developed, approved and implemented.	The response to the RFQ issued to the market was unsatisfactory and would need to be re-advertised to a wider recipient group in order to ensure a suitable candidate is award the contract. ECRDA will pursue the project in 2015/16.
3.3. To put in place and maintain functional communication systems by 2016/17	An approved communication strategy in place and implemented	1	Communication strategy has been developed, approved by the board and implemented.	No deviation	None
	An approved branding strategy implemented.	1	Branding, marketing and communications strategy been developed, approved by the board and implemented.	No deviation	None

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
3.4. To promote culture of knowledge sharing, research and innovation inside and outside of ECRDA	Number of feasibility studies	2	Two (2) feasibility reports in support of the establishment of the RED Hubs were developed. • A feasibility study (EIA) has been conducted for the implementation of the Mbizana RED Hub. • A land use plan was developed to establish potential diversification in the Mbizana RED Hubs in respect of Sinawo CPA initiatives.	No deviation	None

STRATEGIC PILLAR 3: BUDGET AND EXPENDITURE

PROGRAMMES 5 - 8	2013/14			2014/15		
	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE
Institutionalise ECRDA organogram (specified significant indicator: Centre of Excellence)	54 217 000	49 653 600	4 563 400	56 973 000	58 686 147	-1 713 147
Attract and retain quality staff (specified significant indicator: addressing skills gaps)	2 410 000	1 470 268	-109 935	1 800 000	1 721 638	-181 638
Total	**56 627 000**	**51 123 868**	**-4 453 465**	**58 773 000**	**60 407 785**	**-1 894 785**

PILLAR 4: LEVERAGE STRATEGIC PARTNERSHIPS TOWARDS IMPLEMENTATION AND FUNDING OF RURAL DEVELOPMENT INITIATIVES

PROGRAMME 9: DEVELOP STRATEGIC IMPLEMENTATION PARTNERSHIPS

PURPOSE: ECRDA recognises that in order to implement and galvanise support for projects appropriate partners must be attracted

Programme 9:	**Develop strategic implementation partnerships**
Strategic Pillar 4:	**Leverage strategic partnerships towards implementation and funding of rural development initiatives**

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
4.2. Establish 12 strategic partnerships for implementation of rural development programmes by 2016/17	Number of agreements signed with strategic partners for collaboration	3	Three (3) agreements have been signed with strategic partners for collaboration in rural development programmes.	No deviation	Not applicable

PROGRAMME 10: COORDINATE AND FACILITATE EXTERNAL FUNDING AND INVESTMENTS TO CO-FUND MEGA PROJECTS

PURPOSE: ECRDA target is to have functional partnerships at villages, farms and all nodes where ECRDA operates, with Centres of Excellence (COE) supported with the necessary infrastructure such as strategic partnerships with financial institutions and foreign governments.

Programme 10:	**Coordinate and facilitate external funding and investments to co-fund Mega Projects**
Strategic Pillar 4:	**Leverage strategic partnerships towards implementation and funding of rural development initiatives**

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
4.1. Coordinate and facilitate external funding and investments to co-fund 6 MEGA farm projects by 2016/17	Number of externally funded rural development projects	1	One (1) project funding was secured for the Buffalo City Organic Producers.	No deviation	Not applicable

STRATEGIC PILLAR 4: BUDGET AND EXPENDITURE

PROGRAMME	2013/14			2014/15		
	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE
Programme 9: Develop strategic implementation partnerships	300 000	-	300 000	600 000	-	600 000
Programme 10: Coordinate and facilitate external funding and investments to co-fund mega projects	1 045 000	-	1 045 000	1 090 000	-	1 090 000
Total	**1 345 000**	**-**	**1 345 000**	**1 690 000**	**-**	**1 690 000**

PILLAR 5: DEVELOP SUSTAINABLE, LOCALISED AND INSTITUTIONALISED FRAMEWORK

PROGRAMME 11: ESTABLISHMENT OF RURAL DEVELOPMENT CLUSTERS AND NODES TO SUPPORT BUSINESS PLANNING, ANIMAL HUSBANDRY, CROP PRODUCTION WITH EMBEDDED SOCIAL FACILITATION SKILLS

PURPOSE: ECRDA recognises that in order to impact the livelihood of the communities within a specific geographical space, nodes and clusters will have to be identified and developed.

Programme 11: **Establishment of rural development clusters and nodes to support business planning, animal husbandry, crop production with embedded social facilitation skills**

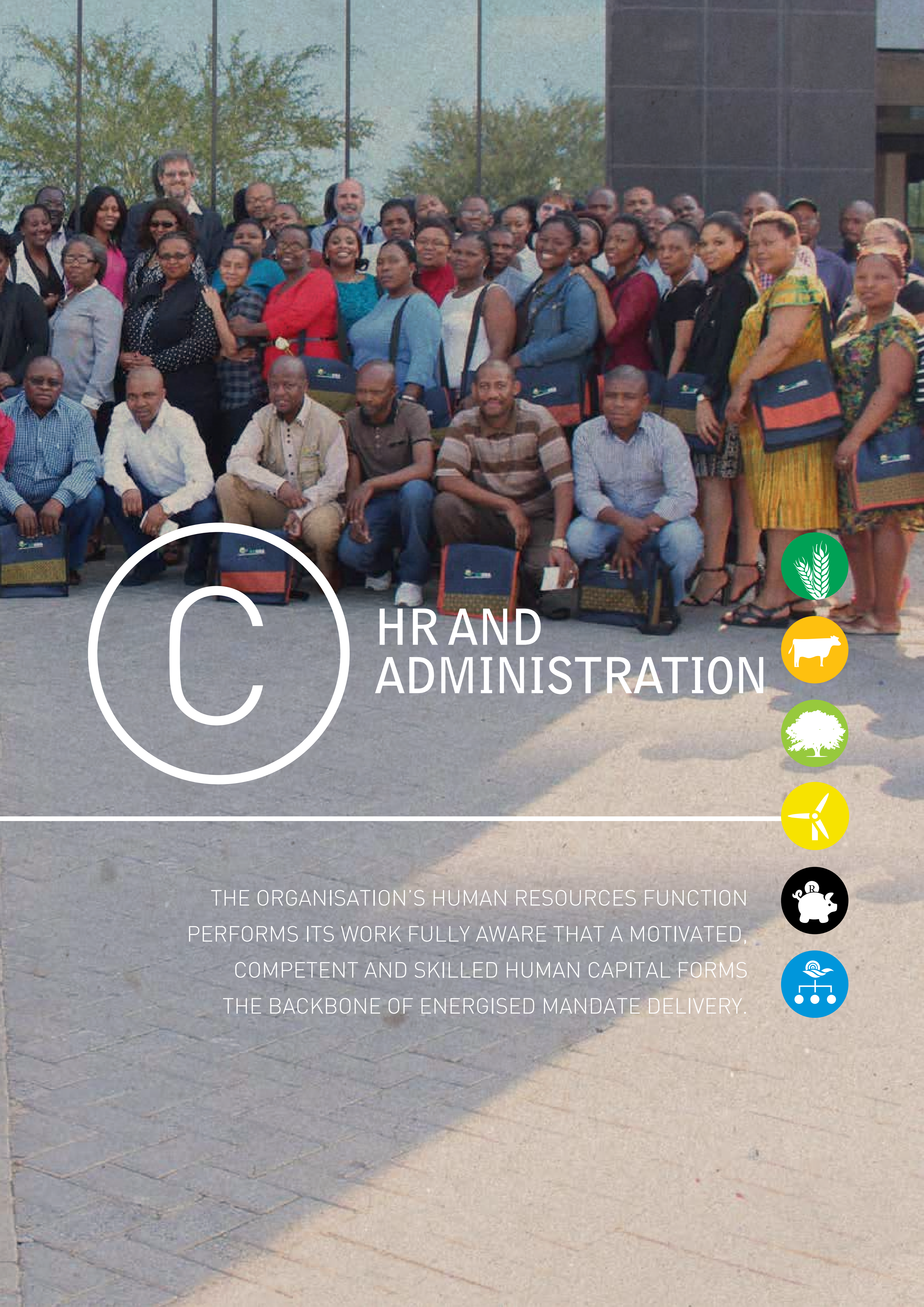
Strategic Pillar 5: **Develop sustainable, localised and institutionalised framework**

STRATEGIC OBJECTIVES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ANNUAL ACHIEVMENT	DEVIATION	COMMENT ON DEVIATION
5.1. Establish 14 rural development clusters across the six district municipalities in the Eastern Cape province by 2016/17	Number of rural development clusters (2 per district)	2	Two (2) rural development clusters have been established.	No deviation	None

STRATEGIC PILLAR 5: BUDGET AND EXPENDITURE

PROGRAMME	2013/14			2014/15		
	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE	BUDGET	ACTUAL EXPENDITURE	(OVER) UNDER EXPENDITURE
Programme 11	1 035 000	-	1 035 000	1 000 000	-	1 000 000
Total	**1 035 000**	**-**	**1 035 000**	**1 000 000**	**-**	**1 000 000**

A total of R210m was allocated and received during 2014/15 financial year in order to allow the ECRDA to perform its operations and implement its planned programmes.



C HR AND ADMINISTRATION

THE ORGANISATION'S HUMAN RESOURCES FUNCTION PERFORMS ITS WORK FULLY AWARE THAT A MOTIVATED, COMPETENT AND SKILLED HUMAN CAPITAL FORMS THE BACKBONE OF ENERGISED MANDATE DELIVERY.

1 OVERVIEW OF HR MATTERS

THE HUMAN RESOURCES (HR) DIVISION IS RESPONSIBLE FOR THE DAY-TO-DAY WELL-BEING OF THE AGENCY'S HUMAN CAPITAL. THIS ROLE IS TAKEN CARE OFF THROUGH THE APPLICATION OF ECRDA'S HUMAN RESOURCES POLICY WHICH ENCOMPASSES RECRUITMENT, LABOUR RELATIONS, EMPLOYEE WELLNESS, SKILLS DEVELOPMENT, TALENT MANAGEMENT AND CODE OF CONDUCT.

The HR Policy takes into consideration statutes such as the Basic Conditions of Employment Act (No. 75 of 1997), Employment Equity Act (No. 55 of 1998), Labour Relations Act (No. 66 of 1995), Occupational Health and Safety Act and Regulations (No. 85 of 1993), Skills Development Act (No. 97 of 1998) and Skills Development Levies Act (No. 9 of 1999).

2 HR PRIORITIES

The HR Division had set targets for the 2014/15 financial year most of which were achieved while others were partially achieved as a result of budgetary and time constraints. The agency's HR priorities in the review period are summarised below:

POPULATION OF THE ORGANISATIONAL STRUCTURE

The set target for the population of the organisational structure has been achieved.

REDUCTION OF SKILLS GAP

PWC was appointed to identify skills gap through competency assessments. The report was then used as the base to set the target to reduce the skills gap by 40%.

INTERNSHIP PROGRAMME

ECRDA has developed an Internship Policy to inform the internship programme. Under this programme, the HR intends recruiting a sizeable number of interns in both operations and administration. The programme will assist in identifying capable graduates who will strengthen the workforce with the main objective of them finding permanent employment within the agency and in the rural development space broadly.

PERFORMANCE MANAGEMENT FRAMEWORK

The Performance Management Policy which sets out the guidelines for the implementation of a Performance Management System is in place. The executive management team has signed the performance agreements and this paves way for to rollout the PMDS throughout the organisation.

EMPLOYEE WELLNESS PROGRAMMES

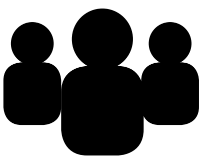
The employee wellness programmes are continuing well and all the problems with the employees are attended to. Service providers with expertise in different fields are constantly invited to present in the areas to facilitate employee wellbeing.

90%

VACANT POSTS FILLED

HIGHLIGHTS

- Ninety percent (90%) funded vacant posts filled
- Executive management team has signed performance agreements with the Chief Executive Officer.
- Competency gap analysis done by PWC has been aligned with the training plan for the organisation.
- ARDA staff is being integrated into ECRDA.
- A vehicle scheme policy was developed and approved.
- An internship policy was developed and approved.



ARDA STAFF

INTEGRATION IN PROGRESS

CHALLENGES

- There is a need to workshop staff about the Performance Management System and implementation thereof.
- There are no performance contracts in place for staff below executive management.
- The organisational culture is still a challenge as the ECRDA is still in a storming phase as a result of the merger.
- Access to information remains an issue for some employees.
- Issues of staff discipline, attitude and organisational alignment continue to plague the organisation.

3 HR **STATISTICS**

PERSONNEL COSTS BY PROGRAMME/ ACTIVITY/ OBJECTIVE

PROGRAMME/ACTIVITY/OBJECTIVE	NO. OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE (R)
Office of the CEO	7	5 839 318.87
Strategy	4	2 129 162.92
Legal	3	2 208 183.87
Internal Audit	2	1 109 558.50
Finance, SCM & Treasury	46	21 341 410.36
Corporate Services	14	10 257 449.57
Operations	83	24 380 227.98
TOTAL		**67 265 312.07**

PERSONNEL COSTS BY SALARY BAND

LEVEL	PERSONNEL EXPENDITURE (R)	% OF PERSONNEL EXP. TO TOTAL PERSONNEL COST	NO. OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE (R)
Top Management	6 094 572.43	10.4%	4	1 523 643.11
Senior Management	2 945 139.10	5%	3	981 713.03
Professional qualified	16 660 528.63	28.4%	20	833 026.43
Skilled	19 448 933.94	33.1%	43	452 300.79
Semi-skilled	10 756 804.66	18.3%	47	228 868.05
Very low skilled	2 780 195.19	5%	23	120 878.05
TOTAL	**58 686 173.95**	**100%**	**140**	**4 140 429.60**

PERFORMANCE REWARDS

No performance rewards were paid in 2014/15.

TRAINING COSTS

PROGRAMME/ACTIVITY/OBJECTIVE	PERSONNEL EXPENDITURE (R)	TRAINING EXPENDITURE (R)	TRAINING EXPENDITURE AS A % OF PERSONNEL COST	NO. OF EMPLOYEES TRAINED	AVG TRAINING COST PER EMPLOYEE
Pillar 3: Develop, institutionalise and sustain an effective, capable and fit-for-purpose organisation including best-in-class project management, targeted research and innovation-driven agency	58 686 173	1 721 638	3%	101	17 046

EMPLOYMENT AND VACANCIES

PROGRAMME/ACTIVITY/OBJECTIVE	2014/2015 NO. OF EMPLOYEES	2014/2015 APPROVED POSTS	2014/2015 NO. OF EMPLOYEES	2014/2015 VACANCIES	% OF VACANCIES
CEO Office	10	10	10	0	0%
Strategy Unit	2	3	2	1	33%
Corporate Services	29	32	29	2	9%
Finance, SCM & Treasury	19	22	19	3	14%
PMU	89	94	80	14	15%
Top Management	4	4	4	0	0%
Senior Management	3	3	3	0	0%
Middle Management	20	22	20	2	9%
Professional Qualified	43	54	43	11	20%
Semi-skilled	47	54	47	7	13%
Very low skilled	23	24	23	1	4%
TOTAL	**140**	**161**	**140**	**21**	**46%**

Filled vacancies:

- Financial Accountant
- Project Accountant
- Cropping Officer
- Forestry Manager

Cropping Officer: Successful candidate accepted the offer and later withdrawn.

Government's reduction in funding allocation has had a negative impact on filling vacancies. Though the executive management team had prioritised critical vacancies to be filled during 2014/15 and posts that could be deferred to 2015/16, the tight budgetary environment meant that some of these targeted posts would remain vacant until the financial situation of the agency improves.

The management team also prioritised the following critical positions to enable the achievement of the organisation's annual performance plan (APP).

- 1 x Project Administrator: Project Management Unit – Grade 7
- 1 x Branch Manager (Alfred Nzo) – Grade 13
- 1 x Network Controller – Grade 12
- 1 x General Administration Supervisor – Grade 10
- 1 x RDO (Queenstown) – Grade 7
- 1 x Sourcing Officer – Grade 11
- 1 x Vendor and Contract Officer – Grade 11
- 1 x Management Account – Grade 16
- 2 x Accountants – Grade 12

Although the entity had projected to grow by an additional three positions in the 2015/16 financial year, budget cuts imposed by Treasury has resulted in the entity holding off on its recruitment plan.

PERMANENT AND FULL-TIME CONTRACT EMPLOYEES

HEADCOUNT	2011/12	2012/13	2013/14	2014/15			2015/16	2016/17	2017/18
	AUDITED OUTCOME		PRELIMINARY OUTCOME	MAIN APPROPRIATION	ADJUSTED APPROPRIATION	REVISED ESTIMATE	MEDIUM-TERM RECEIPTS ESTIMATE		
Personnel cost *(R thousand)*	28 000	47 388	49 656	56 973	60 500	60 500	72 800	76 877	81 182
Personnel numbers *(headcount)*	142	135	133	141	141	141	159	163	164
Unit cost	197	351	373	404	429	429	458	472	495

In February 2015, the CEO indicated that Treasury would consider prioritising the entity for critical posts. The recruitment process however was delayed to coincide with the beginning of the 2015/16 financial year and the finalisation of placement of ARDA staff. The positions that were halted as a result of budget constraints are listed here:

VACANCY

- Senior Accounts Clerk
- Project Administrator
- Accountant: Management & Projects
- Strategic Officer
- Sen. Customer Consultants (x2)
  - Western District
  - Alfred Nzo District
- Customer Consultants (x2)
  - Western District
  - Alfred Nzo District
- Sen. Rural Development Officer (x1)
  - Western District
- Rural Development Officer (x1)
  - O.R. Tambo District

VACANCIES IN THE ORGANOGRAM (NOT YET ADVERTISED)

DIVISION	POST	GRADE	DATE TBA
Legal	Legal Administrator	7	
Specialist	SME: M & P Development	13	
District Network	District Manager: Alfred Nzo	13	
	Crop Officer (x1)	11	
PMO	PMO Administrator	7	
	Subsidiaries	12	
Business Support	Manager: Business Support & Social Facilitation	15	
	PIM Officer (x2)	12	
	Capacity Developer (x1)	10	
Management Accounts	Sen. Management Accountant	16	
Credit and Risk Control	Credit Controller (Western District)	10	
Supply Chain	Sourcing Officer (x1)	11	
	Vendor & Contract Management (x1)	11	
Corporate Services	General Support Supervisor	10	
	Network Controller (ICT)	12	
	Corporate Services Administrator	7	
	Scribe (x2)	5	

EMPLOYMENT CHANGES

SALARY BAND	EMPLOYMENT AT BEGINNING OF PERIOD	APPOINTMENTS	TERMINATIONS	EMPLOYMENT AT END OF THE PERIOD
Top Management	3	1	0	4
Senior Management	3	1	0	4
Middle Management	18	4	1	21
Professional qualified	43	1	1	43
Semi-skilled	47	0	2	45
Very low skilled	24	0	0	23
Total	**138**	**7**	**4**	**140**

REASONS FOR STAFF LEAVING

REASON	NUMBER	% OF TOTAL NO. OF STAFF LEAVING
Resignation	2	
Retirement	2	
Total	**4**	

LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION

There were no recorded cases of misconduct or disciplinary action in the reveiw period.

EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

LEVELS	MALE							
	AFRICAN		COLOURED		INDIAN		WHITE	
	CURRENT	TARGET	CURRENT	TARGET	CURRENT	TARGET	CURRENT	TARGET
Top Management	2	2	0	0	0	0		1
Senior Management	2	2	0	0	0	0		
Professional qualified	15	15	0	0	0	0	2	3
Skilled	19	20	0	0	0	0		2
Semi-skilled	18	18	0	0	0	0		
Unskilled	4	6	0	0	0	0		
TOTAL	**60**	**63**	**0**	**0**	**0**	**0**	**2**	**6**

LEVELS	FEMALE							
	AFRICAN		COLOURED		INDIAN		WHITE	
	CURRENT	TARGET	CURRENT	TARGET	CURRENT	TARGET	CURRENT	TARGET
Top Management	1	1	0	0	0	0	1	1
Senior Management	1	1	0	0	0	0	0	0
Professional qualified	4	4	0	0	0	0	1	3
Skilled	22	22	1	0	0	0	0	0
Semi-skilled	27	29	1	0	0	0	0	0
Unskilled	19	20	0	2	0	0	0	0
TOTAL	**74**	**77**	**2**	**2**	**0**	**0**	**2**	**4**

1

DISABLED

SEMI-SKILLED	1

62

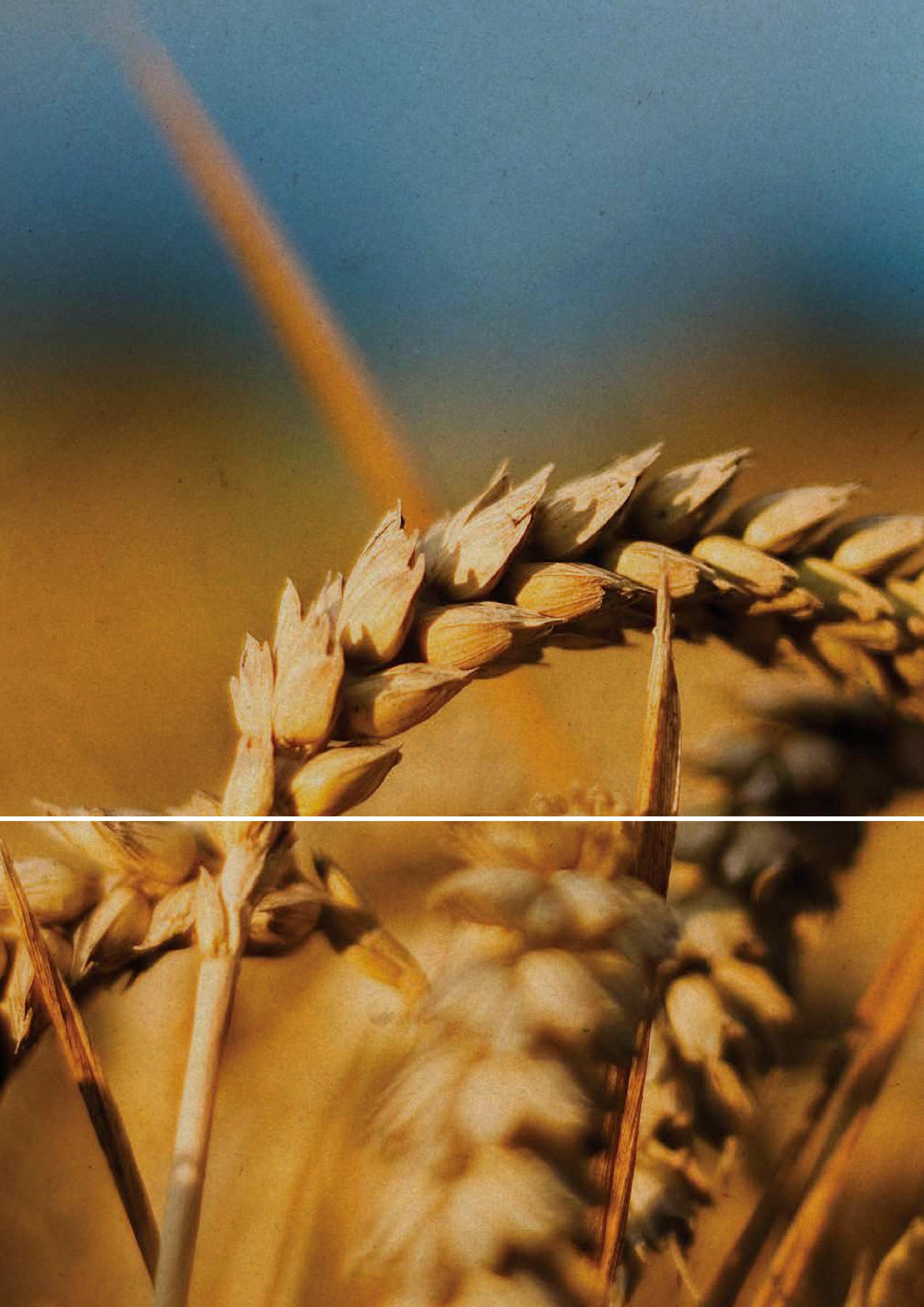
60 AFRICAN
2 WHITE

TOP MANAGEMENT	2
SENIOR MANAGEMENT	2
PROFESSIONAL QUALIFIED	17
SKILLED	19
SEMI-SKILLED	18
UNSKILLED	4

78

74 AFRICAN
2 COLOURED
2 WHITE

TOP MANAGEMENT	2
SENIOR MANAGEMENT	1
PROFESSIONAL QUALIFIED	5
SKILLED	23
SEMI-SKILLED	28
UNSKILLED	19



D CORPORATE GOVERNANCE

IN ADDITION TO LEGISLATIVE REQUIREMENTS, ECRDA ALSO ENDORSES THE CODE OF CORPORATE PRACTICES AND CONDUCT AS CONTAINED IN THE KING REPORTS ON CORPORATE GOVERNANCE.

1 INTRODUCTION

ECRDA IS COMMITTED TO GOOD CORPORATE CITIZENSHIP AND ORGANISATIONAL INTEGRITY IN THE RUNNING OF ITS AFFAIRS. THE AGENCY FURTHER SUBSCRIBES TO THE CORPORATE GOVERNANCE PRINCIPLES SET OUT IN THE PUBLIC FINANCE MANAGEMENT ACT (PFMA) AND THE COMPANIES ACT.

In addition to these legislative requirements, ECRDA also endorses the code of corporate practices and conduct as contained in the King Reports on Corporate Governance. The agency affirms its commitment to comply in all material respects with the principles incorporated in these reports, and as such embodies processes and systems by which it is directed, controlled and held to account.

The Eastern Cape Provincial Legislature together with the executive of the organisation and its Board of Directors are the key custodians of the agency's corporate governance responsibility.

2 PORTFOLIO COMMITTEES

The agency made four presentations to the Portfolio Committee as detailed below:

30 October 2014
06 November 2014
13 November 2014
18 November 2014

ECRDA appreciates the support and guidance it has received from the Portfolio Committee. The committee has a holistic understanding of the agency, including its background and the challenges it faces in fulfilling its legislative mandate. This is evidenced through the continuous and unwavering support and guidance received from the committee in shaping ECRDA's quest and vision of reaching out to the rural poor.

3 EXECUTIVE AUTHORITY

ECRDA is compliant with all laws and regulations relevant to its space of operation. Performance information and monitoring thereof has become one of the priority pillars in the entity's operations.

All reports due for submission to the shareholder and other authorities have been developed and submitted accordingly.

BOARD OF DIRECTORS

10 NON-EXECUTIVE MEMBERS

2 EX-OFFICIO REPRESENTATIVES

4 ACCOUNTING AUTHORITY

BOARD OF DIRECTORS AND COMPOSITION OF THE BOARD

ECRDA is governed by a Board of Directors which is appointed by the MEC for DRDAR. The board is comprised of ten (10) non–executive members and two ex officio representatives (CEO and company secretary). The current Board of Directors was appointed in November 2012 and was inaugurated accordingly.

The directors have the requisite skills, knowledge and experience to provide strategic leadership to the organisation.

The meetings of the Board of Directors are regulated in terms of an approved annual calendar of meetings. This calendar provides for quarterly board meetings to deliberate issues as per a formal agenda. Detailed minutes are recorded of such meetings. A register of attendance and disclosure of interest is kept and maintained at every board meeting. Besides the scheduled board meetings, provision has been made for additional special board meetings as well as ad hoc engagements with stakeholders that are pursuant to the mission and objectives of ECRDA.

BOARD COMMITTEES

The ECRDA Board of Directors has five functional board committees, namely the human capital and remuneration (HC & Remco), risk and audit, programmes and projects (P & P), finance and investment (Finvest) and governance committees respectively. These committees meet before board meetings to review matters and to take appropriate decisions to be tabled before the governance committee for oversight. Committees meetings are also regulated in terms of an approved calendar and deliberations are minuted and implemented once they have been deliberated upon by the governance committee and ratified by the board.

The governance committee is the penultimate governance structure of the Board of Directors to which all the board committees report for oversight and to get guidance on their respective deliberations.

MEETING ATTENDANCE OF THE BOARD

BOARD MEMBER	BOARD MEETINGS		TRAINING & WORKSHOPS	RISK & AUDIT COMMITTEE		FINVEST COMMITTEE	
	SCHEDULED	ATTENDED	ATTENDED	SCHEDULED	ATTENDED	SCHEDULED	ATTENDED
Dr V Mkosana	7	6	1				
Prince Z Burns-Ncamashe	7	7	2				
X George	7	5	2	5	2		
V Jarana	7	5	1			5	3
B Kali	7	4	1	5	4		
A Le Roux	7	5	2	5	5		
S Mbalekwa	7	7	2	5	5	5	4
F Mkile	7	6	2			5	5
CJ Pietersen	7	7	1			5	4
Z Semane	7	5	1				
TOTAL	**70**	**57**	**15**	**20**	**16**	**20**	**16**

BOARD COMMITTEES COMPOSITION

NON-EXECUTIVE DIRECTOR	HUMAN CAPITAL & REMUNERATION	RISK & AUDIT	PROGRAMMES & PROJECTS	FINANCE & INVESTMENT	GOVERNANCE
Dr V Mkosana					4
Prince Z Burns-Ncamashe					2
X George	9	2			1
A Le Roux	7	5			
Z Semane	7		4		
V Jarana	6			3	
B Kali		4	3		
F Mkile			4	5	4
CJ Pietersen			4	4	4
S Mbalekwa		5		4	4
T Gwanya (ex officio)					
G Koyana (ex officio)					

GOVERNANCE COMMITTEE		HC & REMCO COMMITTEE		P & P COMMITTEE		HC & REMCO COMMITTEE (WITH UNIONS)		AD HOC	TRIPS	TOTAL
SCHEDULED	ATTENDED	SCHEDULED	ATTENDED	SCHEDULED	ATTENDED	SCHEDULED	ATTENDED	ATTENDED	RSA	ATTENDED
4	4							11	2	24
4	2							4	0	15
4	1	9	9			3	3	0	0	22
		9	6			3	2	1	0	18
				4	3			8	0	20
		9	7			3	3	3	0	25
4	4							8	0	30
4	4			4	4			13	1	35
4	4			4	4			3	0	23
		9	7	4	3	3	3	1	0	20
24	**19**	**36**	**29**	**16**	**14**	**12**	**11**	**52**	**3**	**232**

FUNCTIONING OF BOARD COMMITTEES AND RISK MANAGEMENT

ECRDA endeavours to incorporate ethos of excellence in its corporate governance. As such, the terms of reference contained in the board charter and in the charters of the various board committees inform the functioning of all board activities when deliberating on matters, including policies approved during the year under review as detailed hereunder:

- Collection policy
- Supply chain policy
- Finance policy
- Human resources policy
- Board logistics support policy
- Credit policy
- Performance management policy
- Remuneration policy
- Performance information policy
- Governance committee charter

DELEGATION OF AUTHORITY

The development of the agency's plans for delegation of authority as well as risk management and fraud prevention commenced in the review period and completion is earmarked for the new financial year. A permanent Internal Auditor, Mr N Wobiya has been appointed who was assisted by Mazars until September 2014 in lieu of the appointment of a full staff complement.

REMUNERATION OF THE BOARD

The remuneration of the board members as approved by the Member of Executive Council is benchmarked against fees paid by other public entities in the Eastern Cape Province. The board members are remunerated at a flat rate per meeting and are reimbursed for kilometers travelled in terms of ECRDA's subsistence and travel policy. Board members do not claim for preparation fees and do not receive retention allowances.

BOARD MEMBER REMUNERATION	APPOINTED	AGENCY		DIRECTORS OF AGENCY PAID BY SUBSIDIARIES	
		2015	2014	2015	2014
BOARD COMMITTEE MEMBERS *					
Burn-Ncamashe Z, Prince	01 January 2010	297 000	662 500	-	-
Kali B, Ms	01 January 2010	283 500	479 673	76 844	59 090
Pietersen C.J, Mr	01 January 2010	289 980	216 422	-	-
Mkile FF, Ms	20 January 2010	338 580	576 000	55 396	35 873
Mkosana VM, Dr	15 November 2012	365 580	867 500	-	-
George ., Mr	15 November 2012	338 580	298 000	-	-
Jarana V, Mr	15 November 2012	282 420	150 000	37 774	41 348
Le Roux A, Mr	15 November 2012	283 500	217 500	-	-
Mbalekwa S, Mr	15 November 2012	338 580	350 500	-	-
Semane Z, Ms	15 November 2012	282 420	294 500	-	-
Fees for services rendered		3 100 140	4 120 095	170 014	136 311

5 RISK MANAGEMENT

- The organisation's board-approved Risk Management Policy was implemented throughout the financial year to ensure that risk management activities are being institutionalised.
- Risk assessments for all ECRDA business units were facilitated by the Internal Audit Unit and the results were submitted to Audit & Risk Committee for review and provide input with regards to effective implementation of the Risk Management Policy within the agency.
- The Audit & Risk Committee plays an independent oversight role which assists management with risk management systems and as such recommends suitable actions for mitigating unacceptable levels of risk identified.
- Risk registers are submitted by the Internal Audit Unit to the Audit & Risk Committee to ensure that there is independent monitoring of risk management practices within the agency.
- Risk management practices assist the agency to improve its performance and achieve its objectives, and ultimately ensure a positive audit outcome is received from the Auditor-General.

6 INTERNAL CONTROL UNIT

ECRDA does not have an internal control unit. Internal controls are implemented and managed by the chief executive officer with the support of the executive management team.

7 INTERNAL AUDIT AND AUDIT COMMITTEES

KEY ACTIVITIES AND OBJECTIVES OF THE INTERNAL AUDIT

The internal audit function of ECRDA is an Independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It assists the organisation in accomplishing its objectives by bringing a systematic, disciplined approach to the evaluation and effectiveness of risk management, control and governance processes. Such assurance is based on objective information, in the form of audit opinions, arising from internal audits performed.

The specific objectives of internal audit are to:
- Provide an independent appraisal function to examine and evaluate ECRDA's activities as a value added service.
- Review the adequacy and effectiveness of systems of risk management, control and governance.
- Assist ECRDA employees in the effective discharge of their duties and responsibilities via its reviews, reporting and recommendations.
- Provide analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.
- Promote effective control at reasonable cost.

SUMMARY OF AUDIT WORK DONE

The following audit areas were reviewed during the financial year:
- Information communication technology (ICT),
- Asset management,
- Compliance with laws and regulations,
- Audit of predetermined objectives (AOPO),
- Supply chain management,
- Cropping review,
- Human resources management, and
- Follow up on AGSA findings.

KEY ACTIVITIES AND OBJECTIVES OF THE AUDIT & RISK COMMITTEE

The objective of the Audit and Risk Committee is to provide an independent oversight of the agency which increases the assurance stakeholders can place on the governance of the agency. As such, the committee aims to:
- Assist management in their evaluation of the adequacy and efficiency of the financial reporting process, the system of internal control and management of financial risks, the audit process, and the agency's process for monitoring compliance with laws and regulations and its own code of business conduct.
- Initiate such measures as in its opinion may best serve to enhance the reliability, integrity and objectivity of internal and external reporting as well as the adequacy and efficiency of any other aspect of the agency's operations.
- Maintain effective working relations with the Board of Directors, management, and the internal and external auditors.

ATTENDANCE OF AUDIT & RISK COMMITTEE MEETINGS BY MEMBERS

NAME	QUALIFICATIONS	INTERNAL OR EXTERNAL	IF INTERNAL, POSITION IN THE PUBLIC ENTITY	DATE APPOINTED	DATE RESIGNED	NO. OF MEETINGS ATTENDED
Sabatha Mbalekwa	Masters in Business Leadership (UNISA) BCom Honours (UNISA) BCom (Rhodes University)	External	n/a	November 2012	Still a member	5
Xolile George	MBA (Graduate School of Business, Netherlands), Masters in Development Economics (UP), Bachelor of Economics (UFH), Post Graduate Diploma in Company Direction (Graduate Institute of Management and Technology), Executive Management Programme (Wits), Certificate in Conflict Resolution (UCT), Certificate in Innovation Management and Productivity (Da Vinci Institute of Innovation and Technology), Diploma in General Management (International Management Centres)	External	n/a	November 2012	Still a member	2
Abraham Le Roux	LLB, Stellenbosch BA Law, Stellenbosch	External	n/a	November 2012	Still a member	5
Bongiwe Kali	Business Management (Leadership Development Institution), Information Technology and Microsoft Certified System Engineering (IT Training Centre)	External	n/a	November 2012	Still a member	4

8 COMPLIANCE WITH LAWS AND REGULATIONS

ECRDA has performed to its utmost best and has been compliant with laws and regulations relevant to its area of operation. Performance information and monitoring thereof has become one of the priority plans in the entity’s operations.All reports due for submission to the shareholder and other authorities have been developed and submitted accordingly.

9 FRAUD AND CORRUPTION

FRAUD PREVENTION PLAN

ECRDA’s Fraud Prevention Policy has been approved by the Board of Directors and was implemented during the financial year. In addition to the policy, ECRDA has a Risk Management Plan which is inclusive of a Fraud Prevention Plan as required by Treasury Regulations. Although the plan was implemented during the financial year, there were no cases of alleged fraud and or corruption reported to management and the board. Internal Audit continued however to facilitate fraud awareness workshops with employees to ensure that they were familiar with the process to report fraud.

REPORTING FRAUD AND CORRUPTION

In terms of the Fraud Prevention Policy, staff members are required to report fraud to their immediate line managers, Internal Audit Unit and Audit and Risk Committee. Staff members are also required to report fraud to Office of the Premier via the National Anticorruption Hotline. In all cases staff members are encouraged to remain anonymous to avoid victimisation by perpetrators of fraud.

10 MINIMISING CONFLICT OF INTEREST

ECRDA staff is required to declare their interests in other businesses/organisations on a regular basis. In addition to this declaration, all bid evaluation and adjudication committee members are required to declare any potential conflict of interest at each committee meeting. The members are excluded from participating in procurement decisions where a conflict of interest exists or is perceived to exist. Conflict of interest includes the interest of spouses and close family members.

Further, ECRDA requires all suppliers registered on its database to declare its shareholders and any conflict of interest upon registration to avoid the inadvertent use of suppliers in an irregular manner.

The Supply Chain Management Unit prevented conflict of interest by ensuring adherence to National Treasury's Code of Conduct for supply chain management practices. The code proves, inter alia, that an official or other role player involved with supply chain management:

- May not accept any reward, gift, favour, hospitality or other benefit directly, including to any close family member, partner or associate of the person, of a value more than R350;
- Must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process, or in any award of a contract by the entity;
- Must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest;
- Must declare any business, commercial and financial interests or activities undertaken for financial gain that may raise a possible conflict of interest.

The above is important to promote and ensure compliance with highest ethical standards in an entity.

11 CODE OF CONDUCT

ECRDA is continuing to use the approved code of conduct originally from ECRFC and subscribes to its key values of transparency, excellence, honesty and integrity, innovation, commitment to empowerment of the rural poor and Ubuntu. There were no disciplinary hearings scheduled and presided over for the year under review.

OHS

COMMITTEE FORMED

12 HEALTH AND SAFETY

Health and safety is paramount to the well-being of all employees and as such ECRDA found it prudent to conform to the rules as enshrined in the Occupational Health and Safety (OHS) Act. As such, the agency OHS committee comprising staff in different roles aims to ensure that no one operates in hazardous situations. In the event that OHS members identify potential hazardous situation, they are encouraged to report these to the principals for swift attendance.

For the year under review, there were no incidents reported and investigated.

13 COMPANY SECRETARY

In the 2014/15 financial year, the organisation had a company secretary who performed all the functions of the company secretary as set out under section 88 of the Companies Act 71 of 2008 namely:

- Providing the directors of the organisation collectively and individually with guidance as to their duties, responsibilities and powers;
- Making the directors aware of any law relevant to or affecting the organisation;
- Reporting to the organisation's board any failure on the part of the organisation or a director to comply with the rules of the organisation or the Companies Act;
- Ensuring that minutes of all shareholders meetings, board meetings and the meetings of any committees of the directors, or of the company's audit and risk committee, are properly recorded in accordance with the Companies Act;
- Certifying in the organisation's annual financial statements whether the company has filed required returns and notices in terms of the Companies Act and whether all such returns and notices appear to be true, correct and up to date;
- Ensuring that a copy of the organisation's annual financial statements is sent, in accordance with the Company's Act, to every person who is entitled to it; and
- Carrying out the functions of a person designated in terms of section 33(3) of the Companies Act.

CERTIFICATE OF THE COMPANY SECRETARY

I certify that the Eastern Cape Rural Development Agency has completed all processes and annual returns pertaining to the Public Finance Management Act No 1 of 1999 as amended and the Eastern Cape Rural Finance Corporation Amendment Act 1 of 2012, in respect of the financial year ended 31 March 2015 and that such returns are up-to-date.

G Koyana
Company Secretary

14 SOCIAL RESPONSIBILITY

Corporate Social Investment (CSI) is a cornerstone for good corporate citizenship. ECRDA also recognises its responsibility as a corporate citizen towards its stakeholders and the communities within which it operates. As such, ECRDA remains committed to sustainable development in aligning its strategic objectives to that of its performance as a corporate citizen. We are committed to making positive contributions to the benefit of local communities that strive under very hard conditions.

ECRDA remains committed to enhancing relations with our strategic partners and stakeholders whilst at the same time making beneficial contributions to the local communities.

15 REPORT OF THE AUDIT COMMITTEE

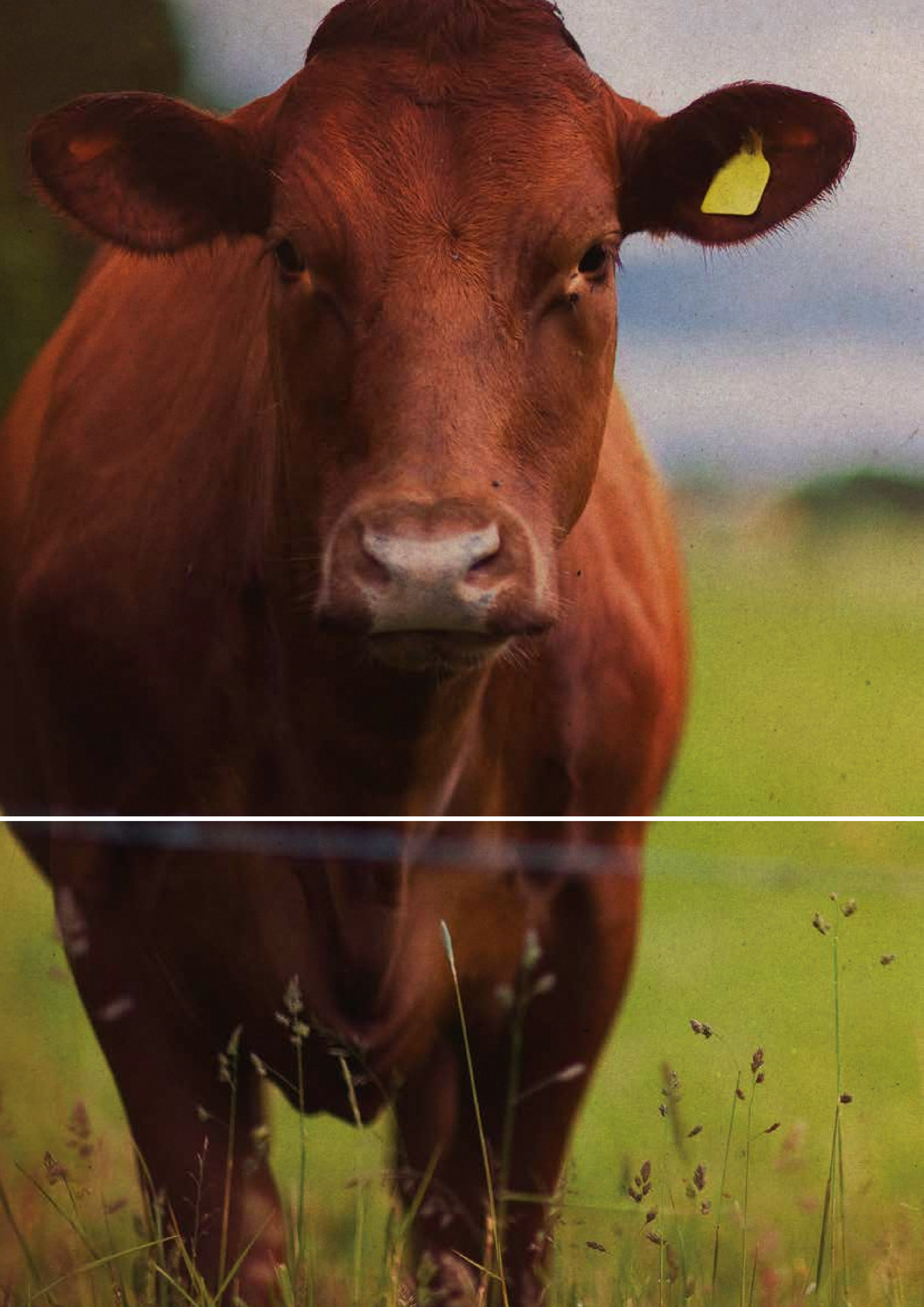
Report by the Audit Committee in terms of the Treasury Regulations 27(1) (10) (b) and (c) to the Public Finance Management Act of 1999 (as amended). In execution of its duties during the past financial year, the Audit Committee has:

- Ensured compliance with its terms of reference and the provisions of the audit committee charter during the year under review;
- Reviewed the procedures for identifying business risks and managing their impact on the Eastern Cape Rural Development Agency (ECRDA) including the risk management functions;
- Reviewed the effectiveness and adequacy of the internal audit services and adequacy of its annual work plan;
- Considered whether the independence, objectives, organisation, staffing plans, financial budget, audit plans and standing of the internal audit function provide adequate support to enable the committee to meet its objectives;
- Reviewed the results of the work performed by the internal audit services in relation to financial reporting, corporate governance, risk areas, internal control and any significant investigations and management response;
- Reviewed the coordination between the internal audit function and the external auditors;
- Reviewed the agency's compliance with significant regulatory provisions;
- Reviewed such significant transactions as the committee deemed appropriate;
- Reviewed the controls over significant financial and operational risks;
- Reviewed the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- Reviewed the accounting and auditing concerns identified by internal and external auditors;
- Reviewed the annual report and the consolidated annual financial statements taken as a whole to ensure they present a balanced and understandable assessment of the positions, performance and prospects of the agency;
- Reviewed the independence and objectivity of the external auditors. The Audit Committee is of the opinion that the internal controls of Eastern Cape Rural Development Agency have operated effectively throughout the year under review and, where internal controls did not operate effectively, compensating controls have ensured that the agency's assets have been safeguarded, proper accounting records maintained and resources utilised efficiently in all significant respects. This opinion is based on the information and explanations given by management, the internal audit services and discussion with the independent external auditors on the results of their audits.

Following our review of the consolidated annual financial statements for the year ended 31 March 2015, we are of the opinion that they substantially comply with the relevant provisions of the the Public Finance Management Act (Act No. 1 of 1999)(as amended by Act 29 of 1999). The consolidated annual financial statements comply, in all material respects, with Statements of Generally Recognised Accounting Practice (GRAP).

The audit committee concurs that the adoption of the going concern premise in framing the consolidated annual financial statements is appropriate. The audit committee has therefore recommended the adoption of the consolidated annual financial statements by the board members.

MR. S. MBALEKWA
Board member and Chairperson of the Audit Committee



E FINANCIAL INFORMATION

THE ORGANISATION'S FINANCIAL STATEMENTS COMPLY WITH THE PROVISIONS OF THE PUBLIC FINANCE MANAGEMENT ACT (ACT NO. 1 OF 1999) AND IN ALL MATERIAL ASPECTS WITH STATEMENTS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE (GRAP) .

STATEMENT OF BOARD MEMBERS' **RESPONSIBILITY**

FOR FINANCIAL REPORTING FOR THE YEAR ENDED 31 MARCH 2015

The board members are required by the Public Finance Management Act (Act No.1 of 1999) (as amended by Act 29 of 1999) and the Eastern Cape Rural Finance Corporation Amendment Act, Act No 1 of 2012, to maintain adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report.

It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the agency and group as at the end of the financial year and the results of their operations and cash flows for the year then ended, in conformity with prescribed Standards of Generally Recognised Accounting Practice.

The Auditor-General was appointed in terms of the Public Audit Act, 2004, to express an independent opinion on the consolidated annual financial statements. The consolidated annual financial statements are prepared in accordance with prescribed Standards of Generally Recognised Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The board members acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the board members to meet these responsibilities, the board members set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner.

The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The board members are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The board members have reviewed the group's cash flow forecast for the year to 31 March 2015 and, in the light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue in operational existence for the foreseeable future. The board members acknowledge that the group is dependent on the continued financial support from the Eastern Cape Provincial Government.

The agency has accumulated a surplus for the year and the Eastern Cape Provincial Government has confirmed funding for the Eastern Cape Rural Development Agency for the 2015/16 financial year.

The consolidated annual financial statements set out on pages 103 - 160 which have been prepared on the going concern basis, were approved by the board members on 29 May 2015 and were signed on its behalf by:

ACCOUNTING AUTHORITY

REPORT OF THE **AUDITOR GENERAL**

FOR THE YEAR ENDED 31 MARCH 2015

REPORT ON THE CONSOLIDATED & SEPARATE FINANCIAL STATEMENTS

INTRODUCTION

1. I have audited the consolidated and separate financial statements of the Eastern Cape Rural Development Agency and its subsidiaries set out on pages 103 - 160, which comprise the consolidated and separate statement of financial position as at 31 March 2015, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

2. The accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR-GENERAL'S RESPONSIBILITY

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Eastern Cape Rural Development Agency and its subsidiaries as at 31 March 2015 and their financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

EMPHASIS OF MATTERS

7. I draw attention to the matter below. My opinion is not modified in respect of these matters.

Material loan impairments and write offs

8. The statement of financial performance to the consolidated and separate financial statements, discloses a material write off of irrecoverable loans and advances of R17,5 million (2014: R0.1 million).

Irregular expenditure

9. As disclosed in note 27 to the consolidated and separate financial statements, irregular expenditure amounting to R6,2 million (2014: R0.9 million) was incurred by the entity during the year ended 31 March 2015. This is as result of non-compliance with the supply chain management requirements.

ADDITIONAL MATTERS

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary information

11. The supplementary information set out on pages 159 - 160 does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Pillar 1: Effective co-ordination and implementation of Agrarian-driven High Impact Priority Programmes (HIPPs) as presented in the annual performance report of the entity for the year ended 31 March 2015:

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programme:
    - Pillar1: Effective co-ordination and implementation of Agrarian-driven High Impact Priority Programmes (HIPPs)

ADDITIONAL MATTERS

18. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matters:

ACHIEVEMENT OF PLANNED TARGETS

19. Refer to the annual performance report on pages 63 - 72 for information on the achievement of the planned targets for the year.

UNAUDITED SUPPLEMENTARY SCHEDULES / INFORMATION

20. The supplementary information set out on pages 159 - 160 does not form part of the annual performance report and is presented as additional information. We have not audited this schedule and, accordingly, we do not express a conclusion thereon.

COMPLIANCE WITH LEGISLATION

21. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows

PROCUREMENT AND CONTRACT MANAGEMENT

22. A construction contract was awarded to a contractor that did not qualify for the contract in accordance with the CIDB Act and CIDB regulations 17 and 25(7 A).

INTERNAL CONTROL

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

FINANCIAL AND PERFORMANCE MANAGEMENT

24. There were inadequate controls over monitoring and implementation of laws and regulations over procurement processes, which resulted in the non-compliance finding.

Auditor-General

EAST LONDON
29 July 2015

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

AS AT 31 MARCH 2015

		AGENCY		GROUP	
	Notes	**2015**	**2014**	**2015**	**2014**
ASSETS					
Current Assets					
Cash and cash equivalents	6	102 829 878	85 470 869	104 652 533	108 063 151
Development deposit	8.1	-	-	1 513 971	1 970 000
Trade and other receivables	8.1	26 677 750	27 204 935	27 564 599	27 953 680
Livestock loans receivable	8.2	-	2 868 646	-	2 868 646
Inventories	9	108 957	98 404	401 962	106 459
Biological assets and agricultural produce	10	-	-	7 487 877	5 608 493
Loans and advances to customers	7	67 824 362	50 108 923	67 824 362	50 108 923
		197 440 947	165 751 777	209 445 304	196 679 352
Non-current assets					
Livestock loans receivable	8.2	-	6 693 507	-	6 693 507
Deferred tax	24	-	-	780 014	1 789 476
Biological assets and agricultural produce	10	-	-	7 492 203	6 475 741
Investment under contingency policy	12	8 168 006	7 724 167	8 168 006	7 724 167
Receivable from Arengo 316 (Pty) Ltd	8.3	-	-	7 469 957	7 455 333
Investment property	13.1	1 840 258	1 878 368	1 840 258	1 878 367
Property, plant and equipment	13.2	23 202 506	8 536 826	25 886 076	11 591 173
Intangible assets	13.3	765 654	1 489 905	944 154	1 668 405
Work in progress	13.2	-	-	3 181 624	-
		33 976 424	26 322 773	55 762 292	45 276 169
Total assets		**231 417 371**	**192 074 551**	**265 207 596**	**241 955 522**

	Notes	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
LIABILITIES					
Current liabilities					
Finance lease obligations	19	821 095	917 784	920 550	1 010 297
Deferred grant income arising from non-exchange transactions	15	16 720 927	13 835 485	29 250 971	26 425 107
Trade and other payables	14	25 316 497	20 855 569	27 113 442	22 319 745
Liablities arising from non-exchange transactions	18	31 871 555	22 967 398	33 616 219	41 545 598
		74 730 074	58 576 236	90 901 182	91 300 748
Non-current liabilities					
Finance lease obligations	19	1 500 408	149 513	1 540 122	283 540
Loan from South African Fruit Exporters (SAFE)	17	-	-	10 811 172	16 592 315
Deferred tax	24	-	-	2 357 626	1 789 476
Provision for insurance contracts	20	-	70 699	-	70 699
		1 500 408	220 212	14 708 920	18 736 030
Total liabilities		**76 230 482**	**58 796 448**	**105 610 102**	**110 036 778**
Total assets less total liabilities		**155 186 889**	**133 278 102**	**159 597 494**	**131 918 744**
NET ASSETS					
Capital contributed	21	41 989 046	41 989 046	41 989 046	41 989 046
Accumulated surplus		113 197 843	91 289 056	117 608 448	89 929 698
Attributable to net asset holder of the agency		155 186 889	133 278 102	159 597 494	131 918 744
Total net assets		**155 186 889**	**133 278 102**	**159 597 494**	**131 918 744**

TOTAL OF KANGELA	R	ATTRIBUTABLE TO THE ECRDA (51%)	ATTRIBUTABLE TO THE MINORITY SHARE (49%)	TOTAL OF THE ECRDA GROUP (EXCL. MINORITY)	TOTAL OF THE ECRDA GROUP (INCL. MINORITY)
Total assets	22 125 082	11 283 792	10 841 290	254 366 306	265 207 596
Total liabilities	22 656 385	11 554 756	11 101 629	(170 699 122)	(105 610 102)
Total net assets	(531 303)	(270 965)	(260 338)	159 857 833	159 597 494

CONSOLIDATED STATEMENT OF **FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 31 MARCH 2015

		AGENCY		GROUP	
	Notes	**2015**	**2014**	**2015**	**2014**
INCOME		**249 906 559**	**151 284 698**	**298 333 716**	**187 796 290**
Revenue from non-exchange transactions		**220 403 788**	**142 491 973**	**220 482 608**	**143 732 885**
Government grant from the Eastern Cape Department of Rural Development and Agrarian Reform - operational		210 779 000	138 137 000	210 779 000	138 137 000
Government grant from the Eastern Cape Department of Rural Development and Agrarian Reform - additional funding for specified transfers and payments		5 298 936	-	5 298 936	-
Impairment reversed		563 225	169 769	563 225	169 769
National Skills Fund		109 696	141 202	109 696	141 202
Other income	23.1	3 652 931	4 044 002	3 731 751	5 284 915
Revenue from exchange transactions		**29 502 771**	**8 792 726**	**77 851 108**	**44 063 405**
Interest income on cash and investments		1 980 053	626 094	2 009 804	652 535
Interest income on loans and advances		-	-	-	-
Interest income on concessionary loans		2 046 222	740 526	2 046 222	740 526
Commission fees for managing projects		3 621 726	3 073 892	3 621 726	3 073 892
Dividends received		-	2 015 205	-	2 015 205
Fair value adjustments		79 232	1 112	19 680 457	13 728 545
Loan initiation fees		86 400	37 711	86 400	37 711
Provisions for bad debts on loans reversed		20 820 194	1 166 148	20 820 194	1 166 148
Rental income from investment property		868 945	1 073 269	868 945	1 073 269
Revenue on sale of assets		-	58 769	-	58 769
Sale of goods - produce		-	-	28 717 361	21 516 805

		AGENCY		GROUP	
	Notes	2015	2014	2015	2014
EXPENSES		**227 503 306**	**151 173 236**	**265 449 938**	**183 009 092**
Administrative expenses	23.2	14 059 058	11 386 527	14 938 381	12 010 465
Audit fees		3 151 659	4 441 506	3 437 231	4 603 152
Cost of sales		-	-	38 285 285	28 369 577
Interest credit charge on loans and advances		240 953	4 055	240 953	4 055
Fee - MAFISA Scheme		451 377	405 501	451 377	405 501
Finance costs		25 036	21 907	262 005	378 254
Marketing and Social facilitation		2 821 933	1 450 955	2 828 723	1 467 391
Other operating expenses	23.3	34 200 920	27 059 727	36 484 861	33 171 725
Project expenses		63 645 669	14 407 628	63 956 419	14 957 839
Skills levy		568 720	442 603	568 720	442 604
Staff costs	23.4	58 686 173	49 653 575	66 469 509	57 040 572
Grants paid to subsidiaries		**14 724 074**	**11 958 124**	**2 598 741**	**216 828**
- ARDA		8 035 800	5 481 828	14 718	216 828
- Kangela		6 640 000	6 474 800	2 584 023	-
- North Pondo Land		48 274	1 496	-	-
Transfer payments		**13 374 600**	**28 141 747**	**13 374 600**	**28 141 747**
- Majola Tea		901 340	4 900 000	901 340	4 900 000
- Ncera Macadamia		7 500 000	8 500 000	7 500 000	8 500 000
- Magwa Tea		4 973 260	14 741 747	4 973 260	14 741 747
Social benefit from concessionary loans		4 099 319	1 675 204	4 099 319	1 675 204
Write off of irrecoverable debts		17 453 814	124 177	17 453 814	124 177
NET SURPLUS/(DEFICIT)		**22 403 253**	**111 462**	**32 883 778**	**4 787 198**
Scrapping of obsolete property, plant and equipment		(494 466)	-	(502 530)	-
SURPLUS/(DEFICIT) BEFORE TAXATION		**21 908 787**	**111 462**	**32 381 247**	**4 787 198**
Taxation		-	-	(1 507 108)	-
SURPLUS/(DEFICIT) FOR THE YEAR		**21 908 787**	**111 462**	**30 874 139**	**4 787 198**

TOTAL OF KANGELA	R	ATTRIBUTABLE TO THE ECRDA (51%)	ATTRIBUTABLE TO THE MINORITY SHARE (49%)	TOTAL OF THE ECRDA GROUP (EXCL. MINORITY)	TOTAL OF THE ECRDA GROUP (INCL. MINORITY)
Surplus/(Deficit)	10 384 020	5 295 850	5 088 170	25 785 969	30 874 139

CONSOLIDATED STATEMENT OF **CHANGES IN NET ASSETS**

FOR THE YEAR ENDED 31 MARCH 2015

		AGENCY		
		ATTRIBUTABLE TO NET ASSET HOLDER OF THE AGENCY		
	Notes	CAPITAL CONTRIBUTED	ACCUMULATED SURPLUS	TOTAL
Balance at 31 March 2010		**41 989 046**	**84 776 911**	**126 765 957**
Surplus for the year		-	127 632 122	127 632 122
Balance at 31 March 2011		**41 989 046**	**212 409 033**	**254 398 079**
Prior year adjustment: Surrender of funds to Treasury		-	(79 169 829)	(79 169 829)
Deficit for the year		-	(95 906 069)	(95 906 070)
Restated Balance at 31 March 2012		**41 989 046**	**37 333 135**	**79 322 180**
Prior year adjustments	36		17 025 061	17 025 061
Surplus for the year		-	36 891 723	36 891 723
Restated balance as at 31 March 2013		**41 989 046**	**91 249 919**	**133 238 965**
Surplus for the year			(1 127 411)	(1 127 411)
Restatements			1 166 548	1 166 548
Balance as at 31 March 2014		**41 989 046**	**91 289 056**	**133 278 102**
Surplus for the year			21 908 787	21 908 787
Balance as at 31 March 2015		**41 989 046**	**113 197 842**	**155 186 888**

	Notes	AGENCY		
		ATTRIBUTABLE TO NET ASSET HOLDER OF THE AGENCY		
	Notes	CAPITAL CONTRIBUTED	ACCUMULATED SURPLUS	TOTAL
Balance at 31 March 2010		**41 989 046**	**85 960 029**	**127 949 075**
Surplus for the year as previously reported		-	129 868 861	129 868 861
Balance at 31 March 2011 as previously reported		**41 989 046**	**215 828 890**	**257 817 936**
Effect of prior year adjustments:				
North Pondoland Sugar (Proprietary) Limited		-	73 023	73 023
AsgiSA - Eastern Cape (Proprietary) Limited		-	(1 944 854)	(1 944 854)
Kangela Citrus Farm (Proprietary) Limited		-	(87 539)	(87 539)
Restated balance at 31 March 2011		**41 989 046**	**213 869 520**	**255 858 566**
Prior year adjustment: Surrender of funds to Treasury			(79 169 829)	(79 169 829)
Deficit for the year		-	(100 053 694)	(100 053 694)
Balance at 31 March 2012		**41 989 046**	**34 645 997**	**76 635 043**
Prior year adjustments by Kangela Citrus Farm		-	(327 198)	(327 198)
Restated balance at 31 March 2012		**41 989 046**	**34 318 799**	**76 307 845**
Revaluation adjustment by Kangela Citrus Farm		-	(4 245)	(4 245)
Surplus for the year		-	27 957 856	27 957 856
Reserve of ARDA for Arengo from sale of assets		-	(30 015)	(30 015)
Prior year adjustments			22 743 042	22 743 042
Restated balance at 31 March 2013		**41 989 046**	**84 985 437**	**126 974 483**
Kangela Citrus Farms revaluation reserve			(29 750)	(29 750)
Shares of NPL and reserves account			319 080	319 080
Surplus for the year			3 428 439	3 428 439
Prior year adjustments			1 226 492	1 226 492
Balance as at 31 March 2014		**41 989 046**	**89 929 698**	**131 918 744**
Revaluations and shares			(3 195 387)	(3 195 387)
Surplus for the year			30 874 139	30 874 139
Balance as at 31 March 2015		**41 989 046**	**117 608 449**	**159 597 495**

CONSOLIDATED
CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2015

	Notes	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts		324 951 603	233 173 965	324 981 354	251 778 606
Grants received		210 779 000	176 137 000	210 779 000	176 137 000
Grants allocated to the ECRDA		210 779 000	138 137 000	210 779 000	138 137 000
Additional programme funding allocated to the agency		-	38 000 000	-	38 000 000
Interest received on cash and cash equivalents (both own funds and on liabiities)		1 980 053	626 094	2 009 804	652 535
Non-exchange transfers arising from administered funds		95 802 805	41 713 156	95 802 805	60 291 356
Net movement in loans and advances to customers before credit impairments		10 899 075	8 535 350	10 899 075	8 535 350
Other receipts from commission and fees		5 490 671	6 162 366	5 490 671	6 162 366
Less: Payments		288 825 290	209 132 015	300 351 241	226 348 451
Employee costs		58 686 173	49 653 575	66 469 509	57 040 572
Disbursements out of non-exchange transactions from administered funds (excl. surrender of own funds)		99 003 798	62 968 075	115 837 334	85 741 361
Disbursed administered funds from own funds		11 135 000	10 365 500	11 135 000	10 365 500
Payments to suppliers		120 000 319	86 144 865	106 909 398	73 201 018
Cash (outflows) / inflows from operating activities	A	**36 126 313**	**24 041 950**	**24 630 113**	**25 430 155**
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(18 970 777)	(1 386 340)	(22 152 401)	(2 892 714)
Proceeds on disposal of property, plant and equipment and intangible assets		-	58 769	-	58 769
Acquisition of intangible assets		(581 178)	(156 883)	(581 178)	(156 883)
Cash invested under contingency policy related admin fees on policy		(443 839)	(430 780)	(443 839)	(430 780)
Proceeds of loan increase from SAFE		-	-	(5 781 143)	(1 491 227)
Increase in Receivable from Arengo 316 (Pty) Ltd		-	-	14 624	44 955
Cash inflows / (outflows) from investing activities		**(19 995 794)**	**(1 915 234)**	**(28 943 937)**	**(4 867 880)**

		AGENCY		GROUP	
	Notes	**2015**	**2014**	**2015**	**2014**
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase / (decrease) in finance lease obligations		1 254 206	335 628	1 166 835	472 692
Finance costs		(25 036)	(21 907)	(262 005)	(378 254)
Penalties and Fines		(680)	(527)	(1 624)	(527)
Cash (outflows) / inflows from financing activities		**1 228 490**	**313 194**	**903 206**	**93 911**
Net increase / (decrease) in cash and cash equivalents		17 359 010	22 439 911	(3 410 618)	20 656 186
Cash and cash equivalents at the beginning of the year	6	85 470 869	63 030 958	108 063 151	87 406 965
Cash and cash equivalents at the end of the year	6	102 829 878	85 470 869	104 652 533	108 063 151

NOTES TO THE CONSOLIDATED **CASH FLOW STATEMENT**

FOR THE YEAR ENDED 31 MARCH 2015

A. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO SURPLUS BEFORE TAXATION	Notes	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Surplus (Deficit) before taxation		21 908 786	111 462	32 381 245	4 787 198
Adjusted for:					
- Programme funding received to administer		-	38 000 000	-	56 578 200
Non cash flow items in surplus/(deficit) before taxation					
- Depreciation of investment property, plant & equipment		5 094 176	3 849 254	5 802 869	5 165 384
- Movement in provision for insurance contracts		(70 699)	-	(70 699)	-
- Discount received		(125 491)	(142 930)	(125 491)	(142 930)
- Movement in bad debt impairment		21 581	1 535 621	21 581	1 535 621
- Loss / (Gain) on scrapping of obsolete property, plant and equipment		494 466	-	502 530	-
- (Gain) / loss on sale of property, plant and equipment		-	(58 769)	-	(58 769)
- Work in progress capitalised to property, plant and equipment		-	-	(4 802 970)	-
- Fair value adjustment on biological assets		-	-	-	2 966 943
- Surrender of funds from disbursed administered funds		-	14 312 366	-	14 312 366
- Fair value adjustments and impairments		(22 454 899)	(520 305)	(41 356 390)	(15 125 547)
- Cost of sales arising from a transfer from biological assets (harvesting)		-	-	17 721 840	11 558 455
- Impairment adjustment in respect of interest recognised on loans and advances that are considered uncollectible		2 046 222	8 937 528	2 046 222	8 937 528
- Movement in allowance for bad debt impairment of loans and staff debtors, and impairment of subsidiaries		17 453 814	124 177	17 453 814	124 177
- Social benefit from consessionary loans (Subsidy cost fair value adjustment)		4 099 319	1 675 204	4 099 319	1 675 204
- Unwinding of subsidy cost/Consessionary loans interest		(2 046 222)	(740 526)	(2 046 222)	(740 526)
- Interest received on loan book and staff debtors		(1 805 269)	(8 933 473)	(1 805 269)	(8 933 473)
- Net of interest capitalised and expenses/fees on investment under contingency policy (non-cash)		(443 839)	(430 780)	(443 839)	(430 780)
- Penalties and fines		680	527	1 624	527
- Interest expense		25 036	21 907	262 005	378 254
Operating cash flows before items on following page		24 197 661	57 741 262	29 642 168	82 587 832

A. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO SURPLUS BEFORE TAXATION...continued	Notes	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Operating cash flows carried forward from previous page		24 197 661	57 741 262	29 642 168	82 587 832
Working capital changes					
- Increase / (decrease) in deferred grant income		2 885 442	2 477 543	2 825 863	2 477 543
- Decrease / (increase) in development deposits held		-	-	456 029	-
- Transfer to biological assets		-	-	1 016 462	-
- Increase in deferred taxes		-	-	1 577 612	-
- Increase / (Decrease) in payables		5 715 135	(3 384 933)	5 960 532	(3 972 542)
- Increase (decrease) in Arengo receivable		-	-	(14 624)	-
- Increase (decrease) in Work In Progress assets		-	-	(3 181 624)	-
- Increase / (Decrease) in administered fund liabilities from non-exchange transfers		8 904 157	(10 585 951)	(7 929 379)	(33 359 237)
- (Increase) / Decrease in trade and other receivables including livestock loans		(527 186)	(32 215 384)	(389 081)	(32 351 588)
- Community contributions utilised for programme		-	8 800 955	-	8 800 955
- Increase / decrease in loans with credit balances		177 290	157 627	177 290	157 627
- Increase / (decrease) in inventories		(10 553)	42 534	(295 503)	81 268
Cash flows from operating activities before:		41 341 945	23 033 653	29 845 746	24 421 858
Lending cash flow movements					
- New loans granted during the year		(15 112 212)	(8 018 687)	(15 112 212)	(8 018 687)
- Loans repaid by customers		9 896 580	9 026 984	9 896 580	9 026 984
Cash (outflows) / inflows from operating activities		36 126 313	24 041 950	24 630 114	25 430 155

B. NON-CASH TRANSACTIONS

Aside from:

- the acquisition of property, plant and equipment on finance lease arrangements (per Note 13)

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 MARCH 2015

NATURE OF BUSINESS AND OPERATIONS

The Eastern Cape Rural Development Agency and its subsidiaries forms the group that is reported on. The agency has been established by the Eastern Cape Rural Finance Corporation Amendment Act, Act 1 of 2012. The agency's objective is to promote, support and facilitate rural development in the Eastern Cape. This objective is achieved through the formulation, promotion and implementation of a rural development strategy and supporting programmes. The agency's administrative office is in East London and it operates from brances in the Eastern Cape Province, Republic of South Africa. The sole equity holder of the agency is the Eastern Cape Provincial Government (through the Eastern Cape Department of Rural Development and Agrarian Tansformation). The agency is a Schedule 3C Provincial Public Entity and is required to comply with the Public Finance Management Act (Act No.1 of 1999) (as amended by Act 29 of 1999).

1. PRESENTATION OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

These consolidated annual financial statements are presented in the South African currency unit, the Rand (R), as that is the currency in which the group's transactions are denominated. All amounts in these consolidated annual financial statements are rounded to the nearest Rand.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated annual financial statements have been prepared in accordance with Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with Section 55 of the Public Finance Management Act (Act no. 29 of 1999). The consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost basis, and incorporate the principal accounting policies set out below.

Accounting policies for material transactions, events or conditions not covered by the Statements of Generally Recognised Accounting Practice reporting framework, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board. A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

Assets, liabilities, revenues and expenses have not been offset except where offsetting is required or permitted by a Standard of Generally Recognised Accounting Practice.
These accounting policies are consistent with the previous period, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The following standards, amendments to standards and interpretations, with their estimated effect on the consolidated annual financial statements, have been issued but are not yet effective as at 31 March 2015:

GRAP 18 – Segment Reporting
ASB Issue date: March 2005 | Effective Date: To be determined by the Minister
The new standard of Generally Recognised Accounting Practice establishes principles for reporting financial information by

segments. The impact of implementing this standard is expected to be immaterial in the context of this agency's operations as the agency mainly has one segment being loans.

GRAP 32 - Service concession arrangements: Grantor
ASB Issue date: August 2013 | Effective Date: To be determined by the Minister
The new standard of Generally Recognised Accounting Practice establishes principles for reporting on the service consession arrangements where a mandated function is performed on behalf of the grantor. The impact of implementing this standard is expected to be immaterial in the context of this agency's operations as the agency already report on the administered funds.

GRAP 108 - Statutory receivables
ASB Issue date: September 2013 | Effective Date: To be determined by the Minister
The new standard of Generally Recognised Accounting Practice establishes principles for additional reporting on exchange and non exchange revenue when it relates to statutory receivables, being a receivable arising from legislation or supporting regulations. The impact of implementing this standard is expected to be immaterial in the context of this agency's operations as the agency already report on the receivables due and currently does not have any receivables accruing to the agency due to legislation.

GRAP 105 – Transfer of Functions between Entities under common control
ASB issue date: November 2010 | Effective date: To be determined by the Minister
New standard of Generally Recognised Accounting Practice that will replace IRFS 3 and that deals specifically with the transfer of functions between entities under common control (i.e. related parties). The standard will prescribe the standard practices to be followed where one entity receives the function(s) and related assets and liabilities of another entity. The standard takes cognizance that the transfer of functions often occurs without any consideration for the assets and liabilities and prescribes the recognition and measurement thereof.

GRAP 106 – Transfer of Functions between Entities not under common control
ASB issue date: November 2010 | Effective date: To be determined by the Minister
New standard of Generally Recognised Accounting Practice that will replace IFRS 3 and that deals specifically with the transfer of functions between entities that are not under common control (i.e. unrelated entities). The standard will prescribe the standard practices to be followed where one entity receives the function(s) and related assets and liabilities of another entity. The standard takes cognizance that the transfer of functions often occurs without any consideration for the assets and liabilities and prescribes the recognition and measurement thereof. The standard will impact the group figures as the non-controlling interest of the subsidiary company Kangela Citrus Farms (Proprietary) Limited will share in the net deficit of the company.

GRAP 107 – Mergers
ASB issue date: November 2010 | Effective date: To be determined by the Minister
New standard of Generally Recognised Accounting Practice that will replace IFRS 3 and that deals specifically with the combination of entities within the public sector. The standard will prescribe the standard practices to be followed where entities combine through acquisition of one entity by another.

In the current financial year, the agency adopted the following standards and interpretations that are effective for the current financial year and that are relevant to the operations:

Standard/Interpretation
GRAP 20: Related party information *(Effective 1 April 2013)*
GRAP 25: Employee benefits *(Effective 1 April 2013)*

2.2 Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the agency and its subsidiaries. Control is achieved where the agency has the power to govern the financial and operating policies of an entity in order to obtain economic benefits from its activities. The operating results of the subsidiaries are included from the effective dates that control is acquired and up to the effective dates of disposal or when control ceases. Business combinations are accounted for in accordance with the purchase method. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition, the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held for sale, which is recognised at fair value less costs to sell. Premiums or discounts arising on the acquisition of subsidiaries are treated in terms of the group's accounting policy for goodwill. Where necessary, adjustments are made to the annual financial statements of a subsidiary to align its accounting policy with those of the controlling entity.

Common control transactions are business combinations in which the combining entities are ultimately controlled by the same entity, both before and after the transaction. In previous years the group has accounted for acquisitions and disposals of business under common control on the acquisition method (i.e. applying IFRS 3 Business Combinations). During the 2012 financial year the group adopted GRAP 105 to account for the transfer of functions between entities under common control. The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group.

The consolidated annual financial statements of the agency and the subsidiaries used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date. When the reporting dates of the agency and a subsidiary are different, the subsidiary prepares for consolidation purposes, additional financial information as of the same date as the agency. This adjustment requires of the subsidiary to adjust the financial information to account for transactions or events that occur between that date and the date of the agency's consolidated annual financial statements. The difference between the reporting date of the agency and the subsidiaries shall be no more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period.

Adjustments are made when necessary to the financial statements of the subsidiaries to bring their accounting policies in line with the GRAP reporting applied by the agency. All intra-agency transactions, balances, revenues and expenses are eliminated in full on consolidation.

2.3 Investment in subsidiaries

In the agency's consolidated annual financial statements, investment in subsidiaries is accounted for at cost. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

2.4 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary and is recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is assessed, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses on goodwill are not reversed.

Negative goodwill, which represents the excess of the group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition, is recognised immediately in the statement of financial performance.

2.5 Taxation

The Income Tax expense represents the sum of the current and deferred tax. The tax charge is based on taxable income for the year. Taxable income differs from the surplus reported in the consolidated statement of financial performance as it excludes items of income or expense that are taxable or deductible in other reporting periods and items that are never subject to tax. Deferred tax is expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated annual financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised when the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the surplus for the year.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the statement of financial performance, except when it relates to items credited or charged directly to net assets, in which case the deferred tax is recorded in net assets. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

2.6 Revenue

Income is recognised to the extent that the economic benefits will flow to the group and the income can be reliably measured. Income is measured at the fair value of consideration received or receivable.

2.6.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the agency directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax. Interest is recognised, in surplus or deficit, using the effective interest rate method.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The agency has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The agency retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the agency; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date.

Rendering of services

The outcome of a transaction involving the rendering of services can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the agency;
- The stage of completion of the transaction at the reporting date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

2.6.2 INTEREST INCOME

Interest income is recognised in the statement of financial performance as it accrues, using the effective interest rate method. In terms of GRAP 104, interest is also accrued in respect of impaired loans and advances, based on the original effective interest rate used to determine the recoverable amount. In instances where a loan has been impaired in full, the accrual of interest from that date is suspended and not recognised in the statement of financial performance.

2.6.3 LOAN INITIATION FEES

These fees are charged upfront and where significant are capitalised into the loan, and are primarily based on the cost of granting the loan to the customer. In accordance with GRAP 9 Revenue from exchange transactions, these origination fees are considered an integral part of the loan agreement and therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method.

The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs.

2.6.4 COMMISSION INCOME

Commission income is recognised on an accrual basis over the life of the underlying contracts.

2.6.5 RENTAL INCOME

Rental income arising from investment properties is accounted for on a straight-line basis over the lease term and is recorded in the statement of financial performance.

2.6.6 FEES FROM ADMINISTERED FUNDS
The group is entitled to fees for administering certain of the funds under administration. Such fees are recognised in terms of the underlying contracts which most often are based on the stage of completion of the administered fund. The stage of completion is determined by reference to an assessment of work performed to date.

2.6.7 SALE OF GOODS
Sale of goods is recognised on the date of sale when significant risks and rewards of ownership have been transferred to the buyer. Sale of goods is measured at the fair value of the consideration received or receivable.

2.6.8 INSURANCE CONTRACTS
An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (policy holder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The agency issues insurance contracts on its borrowers against the payment of an insurance premium (the insured event) adversely affect the policyholder. The agency issues insurance contracts on its borrowers against the payment of insurance premium to cover death, insolvency and certain other risks. Given the market that the agency services, the only insurance event that triggers performance by the agency is the death of the insured.

There is no cover to the extent that the loan is in arrears. In order to build up a reserve to fund future commitments, the group entered into a contingency policy through Guard Risk Insurance Company Limited (a member of the Alexander Forbes Group). This policy is treated as an investment. The risks under the contract remain with the group and the group may utilise funds in the contingency policy account to the extent available to settle its obligations under the insurance contracts.

Premiums
The group recognises insurance premiums in the statement of financial performance when they are due in terms of the insurance contracts.

Benefits and claims
Insurance benefits and claims incurred under insurance contracts are recognised in the statement of financial performance. Claims are recognised when notified. The estimate of the expected settlement value of claims that are notified, if any, but not paid before the reporting date is included in payables.

Movement in the provision for insurance contracts
The agency carries a provision for insurance contracts and the movement in the provision at each reporting date is recognised in the statement of financial performance reporting date is recognised in the statement of financial performance.

2.7 Investment property

Initial Recognition
An investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the agency, and the cost or fair value of the investment property can be measured reliably.

At initial recognition, investment property is measured at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

Subsequent measurement
Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the depreciable amount (after taking residual value into account), using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the estimate useful lives for each asset and component. In the case of buildings classified as investment properties, the estimated average asset life is 30 to 50 years. Land is not depreciated.

2.8 Property, plant and equipment

Initial Recognition
Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or

services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the agency; and
- The cost of the item can be measured reliably.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the agency. Trade discounts and rebates are deducted in arriving at the cost.

If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the agency is obliged to incur such expenses and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Where an asset is acquired for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an item of property, plant and equipment is acquired in exchange for non-monetary or monetary assets or a combination of both, the asset acquired is initially recognised at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the assets given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent measurement
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Land is not depreciated as it is deemed to have an indefinite useful life.

Where the agency replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and Impairment
Property, plant and equipment are depreciated on the straight-line method over their expected useful lives to their estimated residual value. The deprecation charge for each period is recognised in surplus or deficit unless it is included in the total carrying amount of another asset. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The annual depreciation rates for each category of property, plant and equipment are based on the following estimated average asset lives:

Useful life per item

Buildings:	30-50 years
Computer equipment:	5-9 years
Office furniture and fittings:	10-12 years
Leasehold improvements:	2-5 years (period of the lease)
Vehicles:	4-5 years
Plant and equipment:	5-10 years
Equipment under finance lease:	Period of the lease term

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the statement of financial performance. Reviewing the useful life of an asset on an annual basis does not require the agency to amend the previous estimate unless expectations differ from the previous estimate.

The agency tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount) it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is recognised in the statement of financial performance.

Derecognition
Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance. The gain or loss is included in the surplus or deficit when the asset is derecognised.

2.9 Biological assets

Initial recognition
The agency recognise a biological asset that forms part of an agricultural activity or agricultural produce only when:

- The agency controls the asset as a result of past events;
- It is probable that future economic benefits or service potential associated with the asset will flow to the agency; and
- The fair value or cost of the asset can be measured reliably.

Subsequent measurement
Biological assets are measured at their fair value less estimated point-of-sale costs. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in profit or loss for the period in which it arises. Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate is used to determine fair value. Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. A biological asset or agricultural produce is derecognised when the asset is disposed of or when there is no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying value and is included in surplus or deficit when the item is derecognised.

2.10 Intangible assets

Initial recognition
An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences and development costs. An asset is identified as an intangible asset when it:

- Is capable of being separated or divided from an agency and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability; or
- Arises from contractual rights to other legal rights, regardless whether those rights are transferable or separate from the agency or from other rights and obligations.

An intangible asset is recognised in the statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the agency and the cost or fair value of the asset can be measured reliably. Intangible assets are initially recognised at cost.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- It is technically feasible to complete the asset so that it will be available for use or sale;
- There is an intention to complete and use or sell it;
- There is an ability to use or sell it;
- It will generate probable future economic benefits or service potential;
- There are available technical, financial and other resources to complete the development and to use/sell the asset; and
- The expenditure attributable to the asset during its development can be measured reliably.

Where an intangible asset is acquired by the agency for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an intangible asset is acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Subsequent measurement
Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortisation and impairment
Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The amortisation period and the amortisation method for intangible assets are reviewed annually. The annual amortisation rates are based on the following estimated average asset lives:

Item	*Useful life*
Computer software	3 years

An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

Derecognition
Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the statement of financial performance. The agency tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired.

2.11 Inventories

Initial recognition
Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overhead used during the manufacturing process. Where inventory is acquired by the agency for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement
Inventories, consisting of consumable stores and raw materials, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way.

Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. In general, the basis of allocating cost to inventory items is the first-in-first-out method.

2.12 Provisions

Provisions are recognised when the agency has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

2.13 Revenue from non-exchange transactions (taxes and transfers)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction an agency either receives value from another agency without directly giving approximately equal value in exchange, or gives value to another agency without directly receiving approximately equal value in exchange. Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Public Finance Management Act (Act n. 29 of 1999) and is recognised when the recovery thereof from the responsible board members or official is virtually certain.

Government grants and receipts from other parties that arise from non-exchange transactions are recognised in the statement of financial position once official confirmation has been received and the grant can be measured reliably and it is likely that the grant will be received.

Transfer of assets from non-exchange transactions
An inflow of resources from non-exchange transactions, other than services in kind, that meet all the definitions of an asset, other than business combinations which are dealt with is recognised as an asset when it is probable that it will result in an inflow of economic benefits and the fair value of the asset can be measured reliably. An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is recognised for the same inflow.

As the group satisfies a present obligation recognised as a liability in respect of an inflow of resources from non-exchange transactions recognised as an asset, it will simultaneously reduce the carrying amount of the liability recognised and recognise an amount equal to that reduction. On initial recognition, the non-exchange receipt is recognised at its fair value, which is taken as the monetary amount, unless the grant on initial recognition has extended payment terms, in which case the monetary amounts is discounted. Delay in receipt of the non-exchange transfer does not result in it being discounted, but does result in the grant being checked for impairment.

Present obligations arising from non-exchange transactions
A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the settlement amount. A non-exchange transfer receipt that has conditions attaching to it, which has not been fulfilled at the reporting date, and the group is obliged to return the unspent funds if the conditions are not met, gives rise to a liability.

The group receives the following types of non-exchange transactions:
- Voted transfer payments from the Government for operations (these are recognised fully in income);
- Conditional non-transfer funding from Government for specific projects (these are recognised in income when the conditions are met, see above);
- Conditional non-transfer receipts from other Government organisations for specific projects (these are recognised in income when the conditions are met). Conditional grants may comprise both transfer payments voted by the Government (e.g. Eastern Cape Provincial Legislator) and specific grants initiated by a Government Department (e.g. Eastern Cape Provincial Department of Agriculture and Rural Development). Contributions from the controlling shareholder are recognised directly in net assets.

2.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases: Lessee
Assets held under finance leases are recognised as assets of the group at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the asset acquired, are charged to the statement of financial performance over the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each reporting period.

Operating leases
The Group as lessor – Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Income for leases is disclosed under revenue in the statement of financial performance.

The Group as lessee – Operating lease payments are recognised as an expense on a straight line basis over the term of the lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability in the statement of financial performance.

2.15 Financial instruments

Financial instruments are accounted for under the new GRAP 104. The agency only recognises a financial asset or a financial liability in the statement of financial position when the agency becomes a party to the contractual provisions of the instrument. A contract or contractual agreement refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid.

Initial recognition and measurement of financial assets and financial liabilities
The issuer of a financial instrument classifies the instrument on initial recognition as a financial liability, a financial asset or residual interest in accordance with the substance of the contractual arrangement. An instrument is only a residual interest if the instrument includes no contractual obligation to delivery cash/another financial asset or to exchange financial assets/liabilities with another entity. A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. The residual interest includes owner contributions.

A financial asset or liability is initially recognised at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. It is an incremental cost is costs that would not have been incurred if the agency had not acquired, issued or disposed the financial instrument.

Subsequent measurement of financial assets and financial liabilities
On subsequent measurement the agency measures all financial instruments as either –
(a) Financial instruments at fair value; or
(b) Financial instruments at amortised cost; or
(c) Financial instruments at cost.
Financial assets that are measured at amortised cost or cost are subject to annual impairment reviews.

A gain or loss arising from a change in the fair value of a financial instrument is recognised in the surplus or deficit for the period. Identified gains or losses on financial instruments held at amortised cost or cost is recognised in surplus or deficit when the financial instrument is derecognised, impaired or amortised.

Financial assets
A financial asset is either cash; a residual interest of another agency or a contractual right to (i) receive cash or another financial asset from another agency; or (ii) exchange financial assets or financial liabilities with another agency under conditions that are potentially favourable to the agency. Financial assets are initially recognised by applying trade date accounting.

Cash and cash equivalents Cash and cash equivalents comprise cash on hand, in bank, on deposit and other short term highly liquid investments that are readily convertible to known amounts of cash and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash and cash equivalents are initially and subsequently recorded at cost.

Receivables from exchange transactions Trade and other receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the agency provides money, goods or services directly to a debtor with no intention to trade the receivable. In the case of the agency, all loans and advances are in the form of secured, partially secured or unsecured loans that are paid back in fixed equal instalments.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expense in surplus or deficit.

Loans to subsidiaries The loans to subsidiaries are recognised initially at fair value plus direct transaction cost. These financial instruments are measured at amortised cost.

Loans to customers Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in the statement of financial performance. Origination fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to the statement of financial performance over the contractual life of the loan using the effective interest rate method. Given the developmental mandate of the agency, the differences between the fair value and the transaction amount represents a subsidy granted on a concessionary loan in the execution of public policy and is recognised as an expense on initial recognition.

The prime overdraft rate is used as the fair market rate when determining whether a loan is concessionary. Advances, which are deemed uncollectible, are written off either fully or partially against the impairment allowance account for non-performing loans. Cash collected on loans, which have previously been written off and which remain off statement of financial position, is recognised in the statement of financial performance as bad debts recovered as and when the cash is received. Loans and advances are disclosed net of deferred administration fees (consisting of origination fees), impairment provisions and fair value adjustments arising on concessionary loans.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period. The investment under contingency policy is initially and subsequently recorded at fair value. Other investments, which are classified as available for sale, are initially and subsequently recorded at fair value.

Financial Liabilities
A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another agency or to exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the agency.

Payables from exchange transactions Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Trade and other payables are categorised as financial liabilities held at amortised cost.

Loans from subsidiaries The loans from subsidiaries are recognised initially at fair value plus direct transaction cost. These financial instruments are classified as financial liabilities measured at amortised cost.

Net Assets
Amounts contributed by the Eastern Cape Provincial Government toward the capital of the group are recognised as net assets. Such contributions are recognised at the fair value of the net assets acquired. Accumulated surplus/deficit is the surplus/deficit for the year plus the carried forward surplus/deficits.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received. Transaction costs that are directly attributable are included in the initial fair value of financial assets and financial liabilities. Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants. Where the fair value is not stated in the notes to these consolidated annual financial statements, the carrying amount is approximately equal to the fair value.

De-recognition of financial instruments
The group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial asset) when:

- The contractual rights to the cash flows arising from the financial asset have expired, are settled or waived; or
- The group transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- Transfers the contractual rights to receive the cash flows from the financial asset;
- It retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset; or

- No future economic benefits are expected.

A financial liability (or group of financial liabilities) or a part of a financial liability (or part of a group of financial liabilities) is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

Offsetting
Financial assets and liabilities are offset and the net amount reported on the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

2.16 Impairment of assets

Cash-generating assets are those assets held by the agency with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or amortisation.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation/amortisation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Cash-generating assets
The agency assesses annually whether there are any indications that the cash-generating assets may be impaired. External sources and internal sources of information are considered to identify possible impairment indicators. In the event that cash-generating assets should be impaired the recoverable amount of the asset is estimated. If the recoverable value of the asset is less than the carrying value, the carrying value is reduced to the recoverable amount. The reduction is recorded in the surplus or deficit for the period as an impairment loss. After recognition of impairment losses the depreciation/amortisation charges of the asset are adjusted in future periods to allocate the asset's revised carrying amount, less residual values, on a systematic basis over the remaining useful life of the asset.

If any impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the statement of financial performance.

Non-cash-generating assets
Non-cash generating assets are all assets other than cash-generating assets. The agency assesses annually whether there are any indications that an asset may be impaired. After considering the internal and external impairment indicators and when such indication exists, the recoverable service amount of the asset is estimated. A non-cash generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. If the recoverable amount of the asset is less than the carrying amount thereof, the carrying amount of the asset is reduced to the recoverable amount. The reduction is recognised in the period that it occurs in surplus or deficit. This reduction is classified as an impairment loss.

If any impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the statement of financial performance.

2.17 Retirement benefits

A defined contribution plan is a post-employment benefit plan under which an agency pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement plans are recognised as an employee benefit expense in the statement of financial performance when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The agency's employees are members of the Metropolitan Rainmaker Provident Fund and Sanlam. The agency contributes a fixed percentage of each employee's basic salary cost to the retirement benefit scheme to fund the benefits. Payments to this defined contribution retirement plan are expensed when they fall due.

2.18 Administered funds

Amounts received under service level agreements from government departments on an agency basis are recognised as a liability to the extent that the funds have not been disbursed.

2.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The agency ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense when incurred.

2.20 Related parties

The group operates in an economic environment, together with other entities directly or indirectly owned by the South African Government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the Eastern Cape provincial sphere of Government will be considered to be related parties. Senior (key) management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the group.

All individuals from the level of executive management up to the board of directors are regarded as key management per the definition of the standard. Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals in their dealings with the group. Other related party transactions are also disclosed in terms of the requirements of the standard.

2.21 Contingent liabilities and commitments

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. Contingent liabilities are not recognised and only disclosed in the notes to the financial statements.

Commitments

Items are classified as commitments where the group has committed itself to future transactions. Commitments arise when orders have been issued by the agency to suppliers and a commitment was raised to pay the supplier once the service/goods is rendered/delivered.

2.22 Contingent assets

Contingent assets are items which will result in future economic benefit to the organisation however the value of which cannot be measured with any degree of reliability. Contingent assets are not recognised in the records of the organisation and are detailed in the notes to the financial statements.

2.23 Transfer of Functions between entities under common control

A transfer of functions is the reorganisation and/or the reallocation of functions between agencies by transferring functions between agencies or into another agency. For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between agencies within the same sphere of government or between agencies that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. The agency accounts for the transfer of functions between entities under common control in accordance with GRAP 105, as follows:

When the agency is the acquirer: As of the transfer date, the agency recognises the purchase consideration paid (if any) to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts per the transferor's accounting records. The difference between the carrying amounts of the assets acquired, the liabilities assumed ad the consideration paid (if any) to the transferor is recognised in accumulated surplus or accumulated deficit. Costs that the agency incurs to affect the transfer of function, including advisory, legal, accounting and other professional or consulting fees and general administrative expenses, are accounted for as expenses in the period in which the costs are incurred and the services are received.

When the agency is the transferor: As of the transfer date, the agency derecognises from its consolidated annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer is recognised in accumulated surplus or accumulated deficit.

2.24 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.25 Irregular expenditure

Irregular expenditure is recorded in the notes to the consolidated annual financial statements when confirmed. The amount recorded is equal to the total value of the irregularity unless it is impracticable to determine in which case reasons therefore is provided in the note. Irregular expenditure is removed from the note when it is either condoned by the relevant authority or transferred to receivables for recovery. Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with applicable legislation which is not yet condoned or regularised by management. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.26 Comparitive information

When the presentation or classification of items in the consolidated annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

2.27 Statement of compliance

Given the basis of preparation set out above (i.e. GRAP), the consolidated annual financial statements have been prepared in full compliance with Generally Recognised Accounting Practice.

2.28 Cash flow Statement

As required by GRAP 102, the cash flow statement has been prepared on the direct basis whereby the gross cash flow to and from the organisation, including cash flows which arise from administered funds, are disclosed.

2.29 Budget Information

Comparison of budget and actual amounts are presented in a separate additional annual financial statement: Statement of comparison of budget and actual amounts. The agency only presents the final budget amounts. Differences (variances) between the actual amounts and budget amounts are also presented. The annual financial statements and budget are not presented on the same basis as the consolidated annual financial statements are prepared on the accrual basis and the budget on the modified accrual basis of accounting. A reconciliation between the surplus/(deficit) for the period as per the Statement of Financial Performance and budgeted surplus/(deficit) is included in the Statement of comparison of budget and actual amounts.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated annual financial statements in conformity with the basis of preparation requires management to make certain estimates, assumptions and judgements that affects the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant judgements and estimates are summarised below:

Critical accounting judgements

Going concern basis of preparation As is evident from these consolidated annual financial statements, the group and the agency receive an annual Government grant from the Eastern Cape Department Rural Development and Agrarian Reform. The group and the agency budget on the basis of such grant. The group and the agency are not able to generate cash flows from its core business of development finance sufficient to cover its annual total cash requirements. As such, the group and the agency are dependent for its continued operation in the foreseeable future on continued Government financial support. The group is unable to fund the operations of the subsidiary companies that have been transferred and that will be transferred to it, acquisition through business combination without Government support. The Board of Directors have determined that such support is reasonably expected to continue and therefore have prepared these consolidated annual financial statements on the going concern basis.

Accounting treatment of fair value adjustments on concessionary loans The agency has determined that the fair value of loans and advances that have been granted at concessionary rates on initial recognition should be determined based on the ruling Prime Overdraft Rate. The difference is a subsidy expense recognised on initial recognition in the statement of financial performance. The agency has used the Prime Overdraft Rate as the fair market rate, as this is the reference rate in the market and would approximate the average market rate for similar loans to customers with similar credit profiles.

Key sources of estimation uncertainty

Impairment losses on loans and advances The group reviews its loans portfolios to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of financial performance, the group makes judgements as to whether there is any observable date indicating that there is a measureable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Provision for insurance contracts Management has based the measurement of the provision for insurance contracts on mortality rates, persistency assumptions and claims experience from prior years to determine the expected cash outflow for insurance contracts. Actual outcomes could differ from these estimates.

Depreciation rates, methods and residual values Depreciation rates, depreciation methods adopted and residual values of assets requires judgements and estimates to be made. Changes in estimates are disclosed in the relevant notes where applicable.

Fair value estimation The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

4. CHANGES IN PRESENTATION

Changes to prior year information are disclosed in the notes to the consolidated annual financial statements as and when they occur.

5. GRAP STANDARDS

Accounting Standards which have been approved and are effective:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts

GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee benefits
GRAP 26	Impairment of Cash-generating assets
GRAP 27	Agriculture
GRAP 31	Intangible assets
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
IAS 12	Income Tax

Directives issued and effective

Directive 1	Repeal of existing transitional provisions
Directive 2-4	Transitional Provisions for the adoption of Standards of GRAP
Directive 5	Determining the GRAP reporting framework
Directive 7	The application of deemed cost on the adoption of Standards of GRAP

6. CASH AND CASH EQUIVALENTS

	AGENCY		GROUP	
	2015	2014	2015	2014
Cash on call and deposits at commercial banks	46 616 309	57 064 013	46 616 309	57 064 013
Cash on current accounts at commercial banks	56 178 586	27 373 778	57 995 243	49 966 060
Uncleared reconciling items on bank reconciliations	34 116	1 032 257	34 116	1 032 257
Cash on hand	867	821	6 866	821
	102 829 878	**85 470 869**	**104 652 533**	**108 063 151**

The agency mainly places cash at the following commercial banks: Standard Bank and First National Bank. Liquidity is managed to ensure that funds are readily in place to both fund the agency's loan book and to meet administered funds' contractual commitments. This often necessitates holding large cash balances in current accounts or in call accounts (see below for rates of interest).

Rates of interest at 31 March 2015 were 4,15% (2014: 2,75%) for funds on call and 3,75% (2014: 5,6%) for funds on deposit. The Agrarian Research and Development Agency (Proprietary) Limited earns 2,75% (2014: 2,75%) for funds on call, of which the majority are placed at First National Bank. The other subsidiary companies have limited cash resources.

Proprietary composition of cash and cash equivalents

Unspent funds received under non-exchange transactions (refer to Note 18)	31 871 555	22 967 398	33 616 219	41 545 598
Funds committed under conditional grants (refer to Note 15)	16 720 927	13 835 485	29 250 971	26 425 107
Funds at commercial banks and on hand for own commitments and onlending	54 237 395	48 667 985	41 785 343	40 092 446
	102 829 878	**85 470 869**	**104 652 533**	**108 063 151**

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liability.
Management considers that all the above cash and cash equivalent categories are of good quality. The maximum exposure to credit risk at the reporting date is the fair value of each class of cash and cash equivalent mentioned above.
The group does not have any overdraft or other loan facilities with any bank or other financial institution.
The amount of cash and cash equivalents (and the corresponding unspent administered funds balances) varies significantly from month to month and is dependent on the level of administered funds mandated to the group, receipt of governmental tranches and cash flow requirements of projects.

7. LOANS AND ADVANCES TO CUSTOMERS

	AGENCY AND GROUP 2015	AGENCY AND GROUP 2014
Loans and advances to customers	159 249 661	152 132 467
Customers with credit balances	2 081 024	1 903 734
Gross loans and advances to customers (i)	161 330 685	154 036 201
Less: Fair value adjustments arising on concessionary loans	(9 112 946)	(7 059 849)
Less: Specific credit impairments	(82 303 611)	(95 631 263)
	69 914 128	51 345 089
Less: Unallocated loan repayments	(2 089 766)	(1 236 166)
Net carrying amount	**67 824 362**	**50 108 923**

DETAILED LOANS & ADVANCES GRANTED TO CUSTOMERS PER TYPE OF LOAN	ECRDA	MAFISA	UVIMBA
Loans granted at 31 March 2014	8 852 763	42 989 294	102 194 144
Less: Fair value adjustments arising on concessionary loans	(1 017 631)	(1 334 796)	(4 707 422)
Less: Specific credit impairments	(2 606 853)	(40 410 796)	(52 613 614)
Less: Unallocated loan repayments	-	(128 638)	(1 107 528)
Net granted balance at 31 March 2014	**5 228 279**	**1 115 064**	**43 765 580**
Loans granted at 31 March 2015	29 925 058	46 816 647	84 588 980
Less: Fair value adjustments arising on concessionary loans	(2 294 683)	(2 984 459)	(3 833 804)
Less: Specific credit impairments	(9 983 955)	(41 922 018)	(30 397 638)
Less: Unallocated loan repayments	-	(217 190)	(1 872 576)
Net granted balance at 31 March 2015	**17 646 420**	**1 692 980**	**48 484 962**

MOVEMENT IN SPECIFIC CREDIT IMPAIRMENTS		
Balance at the beginning of the year	95 631 263	87 853 186
New impairments created	(15 373 874)	(1 159 451)
Impairment adjustment in respect of interest recognised on loans and advances that are considered uncollectible	2 046 222	8 937 528
Balance at the end of the year (ii)	**82 303 611**	**95 631 263**
Balance at the end of the year expressed as a percentage of gross loans (ii/i) and advances to customers	51%	62%

CONTRACTUAL MATURITY ANALYSIS		
Repayable within 1 year and overdue	112 566 185	99 893 224
Repayable later than 1 year	48 764 500	54 142 977
	161 330 685	**154 036 201**

In terms of GRAP1.67, even though the repayments are not all expected to be realized within twelve months of the reporting date, the loan balances are classified as current assets on the statement of financial position.
The maturity analysis is based on the remaining period from the reporting date to contractual maturity.

SECTORAL ANALYSIS			
Agricultural		123 661 978	98 265 836
Non-agricultural		37 668 707	55 770 365
		161 330 685	**154 036 201**
EXPOSURE TO CREDIT RISK (A)			
Loans and advances neither past due nor impaired		20 438 716	15 748 611
Loans and advances past due but not impaired		-	-
Loans and advances individually assessed as impaired		140 891 969	138 287 590
	A	**161 330 685**	**154 036 201**

A financial asset is past due when a counterparty has failed to make a payment when contractually due.
There are no loans and advances that have been renegotiated that would otherwise have been past due and impaired.
Loans and advances that are past due but not impaired arise where the discounted collateral exceeds the carrying amount.
The livestock loans issued by the former AsgiSA-EC, and recorded on the financial statements as receivables have been recorded on the loans system and is included in the balance of loans advanced to customers. Refer to note 8.2 for more information on the livestock loans.

COLLATERAL HELD AGAINST LOANS AND ADVANCES (LIMITED TO CUSTOMER BALANCE OUTSTANDING) (B)		AGENCY AND GROUP 2015	2014
Loans and advances neither past due nor impaired		15 589 362	17 068 022
Loans and advances past due but not impaired		-	-
Loans and advances individually assessed as impaired		43 046 370	38 532 716
	B	**58 635 732**	**55 600 738**
Expressed as a percentage of the loan book	(B/A)	36.35%	36.10%

The agency does not hold any bought in collateral for the year ended 31 March 2015 (2014: Nil).

NET EXPOSURE TO CREDIT RISK AFTER DEDUCTING COLLATERAL HELD (A - B)	2015	2014
Loans and advances neither past due nor impaired	4 849 354	(1 319 411)
Loans and advances past due but not impaired	-	-
Loans and advances individually assessed as impaired	97 845 599	99 754 874
	102 694 953	**98 435 463**
NET EXPOSURE AFTER SPECIFIC IMPAIRMENTS		
Loans and advances neither past due nor impaired	-	-
Loans and advances past due but not impaired	-	-
Loans and advances individually assessed as impaired	-	-
	-	-

All loans and advances are of one type of product, being loans, but with different repayment periods, collateral, interest rates and other terms. None of the loans and advances carry a credit rating from an external credit rating agency. There are no renegotiated loans and advances. The group does not have a credit quality grading system. The payment status is used as the grading indicator. The group's maximum credit exposure is the gross advances stated above, before taking into account the credit impairments and value of collateral held against such exposures. Included in loans and advances are loans to staff of R1 215 985 (2014: R3 713 016).

A portion of the the line-item "Customers with credit balances" relates to balances which have legally prescribed. To date the agency has not recognised such amounts as income as the agency has not been successful in identifying and informing the specific customers that they are owed money by the agency.

Fair value adjustments arising on concessionary loans

Loans at concessionary interest rates are regularly granted to encourage rural development and agrarian transformation as part of the agency's developmental mandate. The difference between the present value and the nominal value of the loan represents a social benefit granted in the execution of public policy and is recognised as an expense in the reporting period that the loan is granted.

The Prime Overdraft Rate is used as the fair market rate when determining whether a loan is concessionary, and is also used to determine the present value of the loan. The present value of a concessionary loan is calculated at the end of the reporting period during which the loan was granted using the contractual cash flows. The difference between the nominal and the present value of the loan is unwound over the contractual period of the loan on a straight-line basis. The balance described as "Fair value adjustments arising on concessionary loans" represents the cumulative fair value adjustments (since incorporation) which have not yet unwound.

Specific credit impairments

Loans and advances, which are deemed uncollectible, are written off either fully or partially and represent a reduction in the value of loans and advances. The agency reviews its loan portfolios to assess impairment at each reporting date. Collateral is considered when estimating the impairment loss. The present value of collateral is determined using the Prime Overdraft Rate, and is calculated on the assumption that is will take one year to foreclose against the collateral and receive the cash.
In some instances it may take longer than one year to recover the value of the collateral. The agency has a developmental mandate and plays a role in the land redistribution, job creation and food security initiatives of the government. Accordingly, the agency attempts to explore all avenues to try and recover the debt from the other role-players before foreclosing against collateral. Costs to foreclose against collateral are not taken into account when determining the present value of the collateral. These are not considered material and are recognised when they occur.

8. RECEIVABLES

8.1 Trade and other receivables

	AGENCY		GROUP	
	2015	2014	2015	2014
Interest accrued	233 986	188 847	233 986	188 847
Deposits	215 955	275 955	304 388	275 955
Rent receivable	460 482	386 436	460 482	386 436
Trade receivables	-	757 838	-	1 498 926
Funds owed by the Departments for Administered Functions	24 405 949	22 147 629	24 405 949	22 147 629
- Department of Agriculture, Forestry and Fisheries	21 758 444	21 670 157	21 758 444	21 670 157
- Office of the Premier	2 168 522	-	2 168 522	-
- Independent Development Trust	478 443	477 472	478 443	477 472
- Department of Rural Development and Agrarian Reform	540	-	540	-
Staff and other debtors	1 109 887	573 021	1 453 685	573 021
Eastern Cape Development Corporation (legal fees)	53 220	52 575	53 220	52 575
Department of Rural Development and Land Reform	-	2 802 478	-	2 802 478
Prepaid expenses	617 387	360 111	617 387	360 111
South African Revenue Service - Value Added Tax	-	-	454 619	7 657
	27 096 865	27 544 889	27 983 715	28 293 634
Less: impairment of rent	(419 115)	(339 954)	(419 115)	(339 954)
Net carrying amount	**26 677 750**	**27 204 935**	**27 564 599**	**27 953 680**

Kangela Citrus Farms (Pty) Ltd paid a development deposit of R1 513 971 (2014 : R197 0000) to suppliers for the development of assets.

The agency (former ECRFC) signed a once-off cession of R32 000 as security for a staff member in respect of a staff housing loan deposit. Should this result in a future claim against the agency, it will recover such claims from the staff member in question. Not any of the terms and conditions attached to the financial assets were re-negotiated during the period under review. The agency's management considers that all the above trade and other receivables, that are not past due or impaired for each of the agency's reporting dates under review, to be of a good credit quality.

Rent receivable is aged as follows:	0 - 30 DAYS	30 - 60 DAYS	60 - 90 DAYS	OVER 90 DAYS	TOTAL
	R	R	R	R	R
Agency - 2015	41 367	24 674	43 104	351 337	460 482
Agency - 2014	46 482	34 164	24 666	281 125	386 437
Impairment of rent receivable					
Agency - 2015					(419 115)
Agency - 2014					(339 954)

0 - 30 days is considered not past due and over 30 days is considered past due. A specific impairment is carried against the latter (refer above).

The accrued administered fees due from Administered Funds (Liability from non exchange transactions) are recognised in accordance with the service level agreements. Settlement took take place during the 2015 financial year. The 2014 balance due from the Regional Land Claims Commissioner detailed in this note relates to the agency fees invoiced to the Department of Rural Development and Land Reform (Provincial) and was settled in the 2015 financial year.

There are no trade and other receivables arising from non-exchange transactions at 31 March 2015 other than disclosed in note 8.1.

8.2 Livestock loans receivable

The agency holds the cattle sold to community farmers, in terms of interest free loans, as collateral. Farmers are required to maintain herds of 30 cows and 1 bull. If the amount of cattle is not maintained, then any subsequent offspring may not be sold until such time as the herd is at the required level.

	AGENCY AND GROUP
	R
Acquired as part of business combination (former AsgiSA-EC loans)	8 630 997
Impairment loss reversed	154 915
Interest on loans - concessionary adjustment	(809 628)
Balance as at 31 March 20112	7 976 284
Repayment on loans	(390 793)
Interest on loans - discounting (GRAP 104)	365 001
Interest on loans - default loans	180 895
Balance as at 31 March 2013	8 131 387
Repayment on loans	-
Interest on loans - discounting (GRAP 104)	248 641
Interest on loans - default loans	1 182 125
Balance as at 31 March 2014	9 562 153
Transfer of livestock balances to the loans receivables	(9 562 153)
Balance as at 31 March 2015	-

	2015	2014
Receivable within 12 months	-	2 868 646
Receivable after 12 months	-	6 693 507
	-	**9 562 153**

Livestock loans pledged as security: Not any of the terms and/or conditions attached to the financial assets were re-negotiated during the period under review.

Credit quality of livestock loans: The agency's management considers that all the above livestock loans are past due, but the herd is collateral for these loans.

In the 2014 year total downpayments of Rnil (2013: R394 518) was made on the loans. The agency started charging interest on these outstanding balances. As payments were not received during the 2015 financial year, and the loans are now fully interest bearing, the loans were recorded on the loans system and reported on as part of the total loans and advances receivable.

As the livestock loans are now under the terms of conditions of normal loans, the receivables were included in the loans system to manage the receivables. At 31 March 2015 a total of R10 407 028 in respect of livestock loans granted are included in the total loans receivable disclosed in note 7.

8.3 Receivable from Arengo 316 (Pty) Ltd

	GROUP	
	2015	2014
8.3 Receivable from Arengo 316 (Pty) Ltd	**7 469 957**	**7 455 333**
The receivable from Arengo 316 (Proprietary) Limited comprises:		
Initial subscription for shares in the company and linked shareholder funding loan	5 000 000	5 000 000
Expenses borne on behalf of the company and intended to be settled through additional investment in the company.	2 469 957	2 455 333
	7 469 957	**7 455 333**

The operational payment relates to expenses paid on behalf of Arengo 316 Investments (Pty) Ltd, which will be converted to shares in the future once specific terms and conditions have been met. The amount is unsecured, does not bear interest and has no fixed terms of payment. The shares have not been issued to the Agrarian Research and Development Agency (Proprietary) Limited as at 31 March 2015.

9. INVENTORIES

	AGENCY		GROUP	
	2015	2014	2015	2014
Inventories comprise:				
Consumables	108 957	98 404	401 962	106 459
	108 957	**98 404**	**401 962**	**106 459**

Inventory consist of production supplies and consumables which will be utilised by the group in its daily business operations. The inventory is thus held at the lower of cost or net replacement value. Inventory has not been pledged as security for any liabilities.

Reconciliation of inventory	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Total carrying value of inventory valued at the lower of cost or NRV	**108 957**	**98 404**	**401 962**	**106 459**
Inventory carried at FV less costs to sell	-	-	-	-
Opening balance of consumable inventory	98 404	140 938	106 459	187 727
Inventory recognised as an expense during the financial year	(314 038)	(489 943)	(331 424)	(535 207)
Fair value of harvested crop	-	-	17 721 840	11 558 455
Sale of harvested crop	-	-	(17 721 840)	(11 558 455)
Inventory written down	-	-	-	-
Inventory purchased during the financial year	324 591	447 409	626 927	453 939
Inventory pledged as security for liabilities	-	-	-	-

10. BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE

Biological assets and agricultural produce comprise:				
Citrus trees	-	-	7 492 203	6 475 741
Crop/Fruits from trees	-	-	7 487 877	5 608 493
	-	**-**	**14 980 080**	**12 084 234**

Reconciliation of biological assets - 2015

	OPENING BALANCE	DISPOSAL THROUGH OPERATIONS	GAINS OR LOSSES ARISING FROM CHANGES IN FAIR VALUE	CULTIVATED DURING THE YEAR	IMPAIRMENT OF CROPS ON LAND	TOTAL
Citrus trees	6 475 741	-	1 016 462	-	-	7 492 203
Crop/Fruits from trees	5 608 493	-	19 601 224	(17 721 840)	-	7 487 877
	12 084 234	**-**	**20 617 686**	**(17 721 840)**	**-**	**14 980 080**

Reconciliation of biological assets - 2014

	OPENING BALANCE	DISPOSAL THROUGH OPERATIONS	GAINS OR LOSSES ARISING FROM CHANGES IN FAIR VALUE	CULTIVATED DURING THE YEAR	IMPAIRMENT OF CROPS ON LAND	TOTAL
Citrus trees	8 550 000	-	(2 074 259)	-	-	6 475 741
Crop/Fruits from trees	4 099 215	-	1 509 278	-	-	5 608 493
Crops on land	892 684	(892 684)	-	-	-	-
	13 541 899	**(892 684)**	**(564 981)**	**-**	**-**	**12 084 234**

Non- financial information based on latest available valuation information (2014)

Quantities of Citrus trees:	***Output: Agricultural produce (Citrus)***	
Lemons - 23 314 (2011: 23 314)	Lemon	48.59 (tons per Ha)
Navels - 54 250 (2011: 54 250)	Navels	26.98 (tons per Ha)
Valencias - 27 520 (2011: 27 520)	Valencias	36.68 (tons per Ha)
Soft Citrus - 4 530 (2011: 4 530)	Soft Citrus	30.40 (tons per Ha)
Other - 937 (2011 - 937)	Other	52.14 (tons per Ha)

Key assumptions applied to determine the fair value of the biological assets less costs to sell at year end are:

Assumption	***2015***	***2014***
Expected area to harvest	135.4 ha	131.7 ha
Estimated yields	1 608 cartons/ha	1 524 cartons/ha
Average maturity of crop at 31 March	80%	90%
Estimated price per carton	R127,81	R97,49

Biological assets represent citrus fruit trees. Kangela Citrus Farms (Pty) Ltd is engaged in citrus production for the supply to mainly the export market.
The losses on the biological assets (fair value adjustments) is the variance between the fair value of the biological asset and the actual value realised from the sale of the biological assets. The losses as per the accounting standards should be considered in context with the group’s mandate and schedule 3C listing status.

The non-current biological assets refers to the citrus fruit trees on the Kangela farm. At 31 March 2015 the company farmed 150,4 hectares (2014: 135,4ha) of planted citrus fruit trees of which 135,4 hectares (2014: 131,7ha) were bearing hectares. The current biological assets are the citrus crop. The company produced 217 659 (2014: 200 627) cartons of citrus fruit with a fair value less costs to sell of R17 721 840 (2014: R11 558 455) at the time of harvest during the year ended 31 March 2015. The estimated productive life of the biological assets are 30 years and an average market value per hectare of R57 795 (2014: R50 953) exist. The costs of additions during the financial year approximates fair value changes attributable to physical and price changes to the biological assets.

Citrus trees at the Kangela Estate have been valued by M. Swart, Agricultural Valuer (Professional Associate Valuer #4915 M. Agric, Nat Dip Property Valuation Registered Associate Valuer in terms of Act 47/2000), during March 2014 and has been carried at this value in the consolidated annual financial statements. The citrus trees are not insured. Management have not identified any change in legislation, market related demands, disasters or an improvement or deterioration of the trees to indicate a change in the fair value of the biological assets. The biological assets held at 31 March 2015 by the ECRDA and it's subsidiaries consist of the fruit trees at the Kangela Citrus Estate only. These biological assets are held in the normal operations of the company. The title to these biological assets are restricted as Kangela Citrus Farms (Pty) Ltd cannot sell any of it's non-current biological assets.

11. INVESTMENTS IN SUBSIDIARIES

Subsidiaries of the Eastern Cape Rural Development Agency	**2015**	**2014**
The following are the subsidiary companies of the group at the reporting date and the groups effective holding therein.	%	%
Agrarian Research and Development Agency (Proprietary) Limited	100	100
Kangela Citrus Farms (Proprietary) Limited	51	51
North Pondoland Sugar (Proprietary) Limited	100	100
AsgiSA-Eastern Cape (Proprietary) Limited (amalgamated with the former ECRFC to form the Eastern Cape Rural Development Agency)	100	100

11.1 Agrarian Research and Development Agency (Proprietary) Limited

The agency acquired a 100% interest in Sugar Beet RSA (Proprietary) Limited on 16 September 2006 for R5 million. The Eastern Cape Department of Rural Development and Agrarian Reform negotiated the purchase (and the price) and settled the obligation to the vendors and the corporation recognised the R5 million as a grant in the statement of financial performance simultaneous with the recognition of the investment in the subsidiary for the same amount. When performing an allocation of the purchase price in order to apply purchase accounting for this business combination in the group annual financial statements, management determined to impair the investment to the extent of identifiable assets and liabilities acquired. The fair value of identifiable assets and liabilities acquired was assessed as equal to the net carrying amounts in the consolidated annual financial statements of the acquired company at the date of acquisition. As the acquired company was still in the product research stage and future cash flows could not be satisfactorily determined, the goodwill at acquisition was impaired and was recognised in the statement of financial performance. The company changed its name to Agrarian Research and Development Agency (Proprietary) Limited on 29 June 2009.

The goodwill carrying amount in the statement of financial position is as follows:	**GROUP**
	R
Net identifiable assets and liabilities acquired at the date of acquisition	(650 871)
Purchase price, settled by the corporation via a grant	5 000 000
Goodwill arising on acquisition	4 349 129
Impairment of goodwill	(4 349 129)
Goodwill carrying amount	-

This investment in the subsidiary is analysed as follows:	**AGENCY**
	R
Shares - at cost	5 000 000
Accumulated impairment at 31 March 2009	(3 786 564)
Carrying amount at 31 March 2009	1 213 436
Reversal of impairment	436 424
Carrying amount at 31 March 2010	1 649 860
Carrying amount at 31 March 2011	1 649 860
Carrying amount at 31 March 2012	1 649 860
Impairment	(1 649 860)
Carrying amount at 31 March 2013	-
Carrying amount at 31 March 2014	-
Carrying amount at 31 March 2015	-

The company is incorporated under registration number 1999/001579/07 in the Republic of South Africa and is based in the Eastern Cape Province and has a 31 March year end. ARDA's objective is to develop, promote and market the commercial production of sugar beet, grain sorghum and other bio-fuels amongst the farmers of the Eastern Cape and to promote sustainable rural economic development and successful land reform.

The going concern of the company was assessed for the year ending 31 March 2015. In lieu of the Provincial Treasury Instruction number 5 of 2013/2014, the ECRDA's Board has resolved on 28 March 2014 to integrate ARDA into the operational structure of the ECRDA. The integration will be on a going concern basis, as regulated by GRAP 105, as the operations, staff, assets and liabilities of the company will be transferred to the ECRDA. The transfer of functions between entities under common control will not impact on the going concern of the ARDA. Due to the uncertainty and losses incurred, the investment in subsidiary had been fully impaired.

11.2 Kangela Citrus Farms (Proprietary) Limited

On 29 May 2009 the Eastern Cape Department of Rural Development and Agrarian Reform transferred its 51% interest in Kangela Citrus Farms (Proprietary) Limited to the agency. The balance of the shares are held by a workers' empowerment trust, which also owns the land on which the subsidiary company operates. This company is the farming operator of the citrus orchards and vegetable plantations. This transfer is a common control transaction. The company has outsourced the management of the business to South African Fruit Exporters (SAFE).

The company is incorporated under registration number 2003/030011/07 in the Republic of South Africa and is based in the Eastern Cape Province. The company has a March year end.

A fair value of RNil has been placed on this investment at acquisition, given that the liabilities exceed the assets of the company and the company has sustained losses for years. The financial position of Kangela Citrus (Pty) Ltd has improved in the 2014/15 financial year which is part of the recapitalisation and improvement exercise funded from grants paid by ECRDA.

The agency is considering the implications of the Provincial Treasury Instruction number 5 of 2013/2014, on its 50% shareholding in Kangela Citrus Farms (Pty) Ltd.

11.3 North Pondoland Sugar (Proprietary) Limited

On 22 June 2009 the Eastern Cape Department of Rural Development and Agrarian Reform transferred its 100% interest in North Pondoland Sugar (Proprietary) Limited to the agency. This company is dormant and not operating. This transfer is a common control transaction. The fair value of the company's liabilities exceeded its assets at the date of acquisition and therefore a value of Nil has been placed on this investment in subsidiary.

The company is incorporated under registration number 1983/090159/07 in the Republic of South Africa and is based in the Eastern Cape Province. The company has a March year end and is currently in the process of deregistration.

11.4 AsgiSA - Eastern Cape (Proprietary) Limited

On 1 April 2010 the Eastern Cape Office of the Premier transferred to the agency its 100% interest in AsgiSA - Eastern Cape (Proprietary) Limited. The company is incorporated under registration number 2005/008/163/07 in the Republic of South Africa and is based in the Eastern Cape Province.

The company has a March year-end, is now dormant and in the process of deregistration.

12. INVESTMENT UNDER CONTINGENCY POLICY

This represents accumulated amounts paid to Guard Risk Insurance Company Limited under a contingency policy. The investment earns interest at wholesale money market rates (6,71% at 31 March 2015, 6,15% at 31 March 2014). In terms of the policy while in force, the agency may only access the funds through lodging claims incurred under its contracts of insurance. The agency has not claimed against this fund as it has been settling any obligations to date out of its own cash resources, given that it intends building this fund to an acceptable level to meet future obligations for performance under its contracts of insurance. The carrying amount of the investment at 31 March 2015 was R8 168 006 (2014: R7 724 168).

13. INVESTMENT PROPERTY, PROPERTY AND PLANT & EQUIPMENT

13.1 Investment Property

	AGENCY		GROUP	
	2015	2014	2015	2014
Carrying amount at beginning of the year	**1 878 368**	**1 913 534**	**1 878 368**	**1 913 534**
Cost	2 388 564	2 388 564	2 388 564	2 388 564
Accumulated depreciation	(510 196)	(475 030)	(510 196)	(475 030)
Accumulated impairment	-	-	-	-
Additions	-	-	-	-
Acquisition through business combination (Refer to Note 24)	-	-	-	-
Transfer (to)/from other assets - cost	-	-	-	-
Disposals	-	-	-	-
Depreciation charge	(38 110)	(35 166)	(38 110)	(35 166)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on disposal/transfer	-	-	-	-
Carrying amount at end of the year	**1 840 258**	**1 878 368**	**1 840 258**	**1 878 367**
Cost	2 388 564	2 388 564	2 388 564	2 388 564
Accumulated depreciation	(548 306)	(510 196)	(548 306)	(510 196)
Accumulated impairment	-	-	-	-

Investment property consists of:
A commercial office building (situated at 52 Sprigg Street, Erf 1997 Mthatha Magisterial District) was acquired on 25 October 2000 for R2 388 564. Title to the property was transferred to the agency on 22 August 2001. The latest valuation was performed in March 2015 by P. Lindstrom, a registered valuator, who valued the investment property at R11 900 000, using the discounted cash flow method on potential rent. The property earns income from renting out office space. Included in the profit for the year is operating expenditure, inclusive of repairs and maintenance, to the amount of R10 157 which arose from investment property that generated rental revenue of R868 945 during the period.

Pledged as security: No assets are pledged as security.

13.2 Property, plant and equipment

13.2.1 LAND

Carrying amount at beginning of the year	**558 808**	**558 808**	**622 608**	**622 808**
Cost	558 808	558 808	622 608	622 608
Accumulated impairment	-	-	-	-
Additions	-	-	-	-
Disposal	-	-	-	-
Impairment (recognised)/reversed	-	-	-	-
Carrying amount at end of the year	**558 808**	**558 808**	**622 608**	**622 608**
Cost	558 808	558 808	622 608	622 608
Accumulated impairment	-	-	-	-

Land consists of the cost of erven in King William's Town (R555 000) and Whittlesea (R3 808).

13.2.2 BUILDINGS

Carrying amount at beginning of the year	**2 603 755**	**2 666 635**	**2 762 092**	**2 836 283**
Cost	3 684 002	3 684 002	3 910 202	3 910 202
Accumulated depreciation	(646 742)	(583 862)	(714 605)	(640 414)
Accumulated impairment	(433 505)	(433 505)	(433 505)	(433 505)
Additions	2 700 000	-	2 700 000	-
Disposal	-	-	-	-
Depreciation charge	(77 299)	(62 880)	(88 609)	(74 191)
Impairment (recognised)/reversed	-	-	-	-
Carrying amount at end of the year	**5 226 455**	**2 603 755**	**5 373 483**	**2 762 092**
Cost	6 384 002	3 684 002	6 610 202	3 910 202
Accumulated depreciation	(724 042)	(646 742)	(803 214)	(714 605)
Accumulated impairment	(433 505)	(433 505)	(433 505)	(433 505)

Land and buildings consist of:

(1) An office building situated at 128 Alexandra Road, Erf 893 King William's Town was acquired on 30 July 2004 at a cost of R3 761 375 (allocated to land of R555 000 and buildings of R3 206 375). The property was valued at R4 650 000 by a registered valuator, P. Lindstrom in March 2015, using the Comparative Market Analysis of rentals achieved with the discounted cash flow method.

(2) Property on Erf 327 and Erf 328 situated in the Cradock magisterial district purchased on 23 June 2004 at a cost of R290 000 (allocated to land of R63 800 and buildings of R226 200). The property was last valued in March 2015 by P. Lindstrom, registered valuators, at R850 000, using the comparable market sales method.

(3) A prefabricated structure consisting of office premises, shelter for security guards and perimeter security fence acquired during October 2007 in Whittlesea at a cost of R481 435 (allocated to land of R3 808 and buildings of R477 627). The building was subsequently written down by R433 505 as it did not meet normal building standards and did not comply with local municipality bylaws. The plot was valued at R38 000 by a registered valuator, P. Lindstrom in March 2015, comparable sales method.

(4) Erf 9227 in King Williams Town, 13 Eales Street, was reposessed by the ECRDA at R2 700 000 when the loanee defaulted on his loan. The property was subsequently valued by P. Lindstrom, a registered valuer, at R2 600 000 in March 2015 using the comparable sales approach.

	AGENCY		GROUP	
13.2.3 PLANT AND EQUIPMENT (incl. all farming equipment)	**2015**	**2014**	**2015**	**2014**
Carrying amount at beginning of the year	**871 556**	**1 077 974**	**1 750 189**	**2 762 126**
Cost	4 163 807	3 711 758	9 720 746	9 262 245
Accumulated depreciation	(3 292 251)	(2 633 784)	(7 970 557)	(6 500 119)
Accumulated impairment	-	-	-	-
Additions	7 929 930	452 049	7 929 930	458 501
Transfer (to)/from other assets - cost	-	-	302 442	-
Disposal - cost	(2 073 005)	-	(2 081 069)	-
Write -off/scrapping of obsolete assets	-	-	-	-
Depreciation charge	(1 160 041)	(658 467)	(1 411 819)	(1 470 438)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on disposal/transfer	2 036 337	-	2 036 337	-
Carrying amount at end of the year	**7 604 777**	**871 556**	**8 526 010**	**1 750 189**
Cost	10 020 733	4 163 807	15 872 049	9 720 746
Accumulated depreciation	(2 415 955)	(3 292 251)	(7 346 039)	(7 970 557)
Accumulated impairment	-	-	-	-

Plant and machinery of R7 039 720 was purchased during the 2015 financial year for the RED Hub programmes. At 31 March 2015 the carrying value of these assets are R6 370 715. The assets will be transferred to the projects upon registration of the primary co-operations.

13.2.4 EQUIPMENT UNDER FINANCE LEASES

Carrying amount at beginning of the year	**85 602**	**174 893**	**85 602**	**174 893**
Cost	1 640 453	1 601 560	1 640 453	1 601 560
Accumulated depreciation	(1 554 851)	(1 426 667)	(1 554 851)	(1 426 667)
Accumulated impairment	-	-	-	-
Additions	-	38 894	-	38 894
Transfer (to)/from other assets - cost	-	-	-	-
Disposal - cost	(594 660)	-	(594 660)	-
Depreciation charge	(35 828)	(128 184)	(35 828)	(128 184)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on disposal/transfer	575 254	-	575 254	-
Carrying amount at end of the year	**30 368**	**85 602**	**30 368**	**85 602**
Cost	1 045 793	1 640 453	1 045 793	1 640 453
Accumulated depreciation	(1 015 425)	(1 554 851)	(1 015 425)	(1 554 851)
Accumulated impairment	-	-	-	-

The agency's obligations under the finance leases are secured by the lessors' title over the leased equipment.

13.2.5 VEHICLES	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Carrying amount at beginning of the year	**1 411 808**	**2 841 396**	**3 263 632**	**3 611 604**
Cost	4 494 965	5 136 138	8 530 488	7 677 361
Accumulated depreciation	(3 083 157)	(2 294 742)	(5 266 856)	(4 065 757)
Accumulated impairment	-	-	-	-
Additions	-	-	-	1 494 300
Disposal - cost	(8 624)	(641 173)	(8 624)	(641 173)
Revaluation	-	-	-	-
Depreciation charge	(853 187)	(1 264 927)	(1 209 142)	(1 677 612)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on Business Combination	-	-	-	-
Accumulated depreciation on disposal/transfer	8 049	476 513	8 049	476 513
Carrying amount at end of the year	**558 046**	**1 411 808**	**2 053 915**	**3 263 632**
Cost	4 486 341	4 494 965	8 521 864	8 530 488
Accumulated depreciation	(3 928 295)	(3 083 157)	(6 467 949)	(5 266 856)
Accumulated impairment	-	-	-	-

13.2.6 COMPUTER EQUIPMENT	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Carrying amount at beginning of the year	**1 823 321**	**1 464 962**	**1 823 322**	**1 469 454**
Cost	6 057 188	5 253 350	6 068 621	5 268 050
Accumulated depreciation	(4 233 866)	(3 788 388)	(4 245 299)	(3 798 596)
Accumulated impairment	-	-	-	-
Additions	1 079 490	813 228	1 079 490	813 228
Disposal - cost	(1 216 201)	(9 390)	(1 216 201)	(12 657)
Depreciation charge	(776 971)	(445 479)	(776 972)	(446 703)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on Business Combination	-	-	-	-
Accumulated depreciation on disposal/transfer	1 049 430	-	1 049 430	-
Carrying amount at end of the year	**1 959 069**	**1 823 321**	**1 959 069**	**1 823 322**
Cost	5 920 475	6 057 188	6 981 340	6 068 621
Accumulated depreciation	(3 961 406)	(4 233 866)	(5 022 271)	(4 245 299)
Accumulated impairment	-	-	-	-

13.2.7 OFFICE FURNITURE AND FITTINGS	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Carrying amount at beginning of the year	**1 134 118**	**1 116 422**	**1 235 869**	**1 252 524**
Cost	2 291 028	2 208 859	2 547 219	2 459 428
Accumulated depreciation	(1 156 911)	(1 092 437)	(1 311 350)	(1 206 904)
Accumulated impairment	-	-	-	-
Additions	4 448 883	82 169	4 448 883	87 791
Disposal - cost	(718 726)	-	(718 726)	-
Depreciation charge	(556 383)	(64 473)	(602 493)	(104 446)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on Business Combination	-	-	-	-
Accumulated depreciation on disposal/transfer	422 898	-	422 898	-
Carrying amount at end of the year	**4 730 790**	**1 134 118**	**4 786 431**	**1 235 869**
Cost	6 021 185	2 291 028	6 277 376	2 547 219
Accumulated depreciation	(1 290 395)	(1 156 911)	(1 490 945)	(1 311 350)
Accumulated impairment	-	-	-	-

13.2.8 LEASEHOLD	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Carrying amount at beginning of the year	**47 859**	**115 819**	**47 859**	**115 819**
Cost	381 854	381 854	381 854	381 854
Accumulated depreciation	(333 995)	(266 035)	(333 995)	(266 035)
Accumulated impairment	-	-	-	-
Additions	2 812 474	-	2 812 474	-
Disposal - cost	(352 444)	-	(352 444)	-
Depreciation charge	(290 927)	(67 960)	(290 927)	(67 960)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on Business Combination	-	-	-	-
Accumulated depreciation on disposal/transfer	317 231	-	317 231	-
Carrying amount at end of the year	**2 534 193**	**47 859**	**2 534 193**	**47 859**
Cost	2 841 884	381 854	2 841 884	381 854
Accumulated depreciation	(307 691)	(333 995)	(307 691)	(333 995)
Accumulated impairment	-	-	-	-

13.2.9 TOTAL PROPERTY, PLANT AND EQUIPMENT

	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Carrying amount at beginning of the year	**8 536 826**	**10 016 909**	**11 591 173**	**12 845 311**
Cost	23 272 105	22 536 329	33 422 191	31 183 308
Accumulated depreciation	(14 301 773)	(12 085 915)	(21 397 513)	(17 904 492)
Accumulated impairment	(433 505)	(433 505)	(433 505)	(433 505)
Additions	18 970 777	1 386 340	18 970 777	2 892 714
Disposal - cost	(4 963 660)	(650 564)	(4 971 724)	(653 830)
Transfers	-	-	302 442	-
Depreciation charge	(3 750 636)	(2 692 371)	(4 415 790)	(3 969 534)
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on disposal/transfer	4 409 199	476 512	4 409 199	476 513
Carrying amount at end of the year	**23 202 506**	**8 536 826**	**25 886 076**	**11 591 173**
Cost	37 279 220	23 272 105	48 773 115	33 422 191
Accumulated depreciation	(13 643 209)	(14 301 773)	(22 453 534)	(21 397 513)
Accumulated impairment	(433 505)	(433 505)	(433 505)	(433 505)

No estimated useful lives were changed during the financial year (2014: None).

The cost of agency owned property, plant and equipment that has been fully depreciated, but is still in use (i.e. excluding scrapped items) at 31 March 2015 is R5 750 293 (2014: R6 933 594). All property, plant and equipment acquired during the year was purchased out of the group's own funds (excluding the transfer payments for operations) or through finance lease arrangements, not from a specific asset grant. Fully depreciated assets still in use by the subsidiaries amounts to R63 075 (2014: R188 233).

The work in progress of R3 181 624 (2014: Nil) refers to assets under construction by Kangela Citrus Farms (Pty) Ltd that has been capitalised.

Refer to Note 18 for details of a property (Shortland's farm) to which the agency has legal title. The Eastern Cape Rural Development Agency does not derive economic benefit from it and it has not been recognised as property, plant and equipment in these consolidated annual financial statements.

Pledged as security: No assets are pledged as security and there are no contractual commitments on these assets.

13.3 Intangible assets

	AGENCY		GROUP	
	2015	2014	2015	2014
Computer Software				
Carrying amount at beginning of the year	**1 489 905**	**2 453 017**	**1 668 405**	**2 631 517**
Cost	3 934 666	3 777 783	4 116 241	3 959 358
Accumulated depreciation	(2 444 761)	(1 324 766)	(2 447 836)	(1 327 841)
Accumulated impairment	-	-	-	-
Additions	581 178	156 883	581 178	156 883
Disposal	(137 815)	-	(137 815)	-
Depreciation charge	(1 305 429)	(1 119 995)	(1 305 429)	(1 119 995)
Accumulated depreciation on disposal/transfer	-	-	-	-
Impairment (recognised)/reversed	-	-	-	-
Accumulated depreciation on Business Combination 137 815	137 815	-	137 815	-
Carrying amount at end of the year	**765 654**	**1 489 905**	**944 154**	**1 668 405**
Cost	4 209 251	3 934 666	4 697 419	4 116 241
Accumulated depreciation	(3 443 597)	(2 444 761)	(3 753 265)	(2 447 836)
Accumulated impairment	-	-	-	-

Pledged as security: No assets are pledged as security and there are no contractual commitments on these assets.

The intangible asset of R178 500 held by the subsidiary, Kangela Citrus Farms (Pty) Ltd relates to packaging rights. This asset is considered by the company to have an indefiante useful life as it is not bound to any expiry period and there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the company. The intangible assets held by the Eastern Cape Rural Development Agency have not been considered to be assets held with an indefinite life.

14. TRADE AND OTHER PAYABLES

	AGENCY			GROUP
	2015	2014	2015	2014
South African Revenue Service - Pay As You Earn (PAYE)	-	2 894	9 704	6 583
South African Revenue Service - Tax and VAT	-	-	-	-
Amounts due to customers with credit balances	2 081 024	1 903 734	2 081 024	1 903 734
Rent received in advance	35 101	21 357	35 101	21 357
Payables due to uncleared bank recon items	34 116	1 032 257	34 116	1 032 257
Other payables	15 320 749	11 303 977	16 208 771	11 823 866
Accruals	2 070 736	1 677 215	2 517 769	2 059 956
UIF Accrual	-	-	-	-
Leave Pay Accrual	4 023 397	3 665 290	4 475 584	4 223 147
Bonus Accrual	1 416 792	1 200 491	1 416 792	1 200 491
Operating lease straight line adjustments	334 583	48 354	334 583	48 354
	25 316 497	**20 855 569**	**27 113 442**	**22 319 745**

The budgeted funds allocated to Kangela Citrus has not been transferred in full. The payable relating to non-exchange transactions of Kangela at 31 March 2015 amounts to R1 144 932 and is included in Note 18 on the liabilities from non-exchange transactions (2014: Nil).

There are no trade and other payables with extended payment terms at 31 March 2015 (2014: Nil). None of the repayment terms attached to contracts have been renegotiated in the last year. Refer to Note 18 for liabilities on the administered funds.

15. DEFERRED GRANT INCOME ARISING FROM NON-EXCHANGE TRANSACTIONS

	AGENCY		GROUP	
	2015	2014	2015	2014
Grant from the Eastern Cape Department of Rural Development and Agrarian Reform in respect of the investment into Arengo 316 (Proprietary) Limited	-	-	12 530 043	12 589 622
MAFISA grant	16 720 927	13 835 485	16 720 927	13 835 485
Liability for an equitable 1/8th share in interest earned on MAFISA loans	2 384 568	1 933 191	2 384 568	1 933 191
Liability for arising from interest earned on cash deposits on unspent funds	14 336 360	11 902 295	14 336 360	11 902 295
	16 720 927	**13 835 485**	**29 250 971**	**26 425 107**
Comprised of the following assets:				
Cash and cash equivalents (Refer to Note 6)	16 720 927	13 835 485	29 250 971	26 425 107
	16 720 927	**13 835 485**	**29 250 971**	**26 425 107**

The unspent grants may only be used for expenditure under the conditions of grant and must be returned to the grantor if not utilised. The cash balances for onlending are subjected to the same conditions.

16. COMMITMENTS AND CONTINGENCIES

Commitments

At the reporting date the agency and group had commitments amounting to R10 859 155 (2014: R3 529 010) which relates to projects implementation and nil (2014: R4 129 087) committed in respect of capital expenditure commitments to be utilised in operations for which orders have been issued.

Contingent liabilities

The legal fees to the recovery of a receivable of R22 205 303 (included in Note 8.1) is not known at reporting date. The receivable is a result of a civil case against the Department of Agriculture, Forestry and Fisheries in respect of work carried out in relation to project implementation for the department. The timing and outcome of the case is unknown at reporting date.

Contractual agreements have been entered by the former board of the AsgiSA-EC with employees whom opted to not form part of the amalgamated agency, the ECRDA. Of the five contracts entered into, two were paid out to the senior management staff involved. The three staff members that were not paid out took the agency to court, but lost the lawsuit. The employees are liable for the legal costs related to the lawsuit which have not been settled as at reporting date. The legal fees in question amounts to R72 261.

The community contributions paid to the agency was utlised to fund the cropping programme in 2014. Claimants are submitting claims to the agency to have their contributions refunded. The extend of these claims and the exposure of the agency is not known. The maximum exposure is R4 353 883 which is the total amount of contributions received, but this is considered to be unlikely.

The agency (former ECRFC) signed a once-off cession as security for a staff member for a housing loan deposit of R32 000.

At reporting date the agency is involved in CCMA ruling that the organisation is to pay a former employee an amount of R394 958. The financial and legal implications are under consideration by management to act in the best interest of the agency. The timing, outcome and legal costs of the proceedings is not known at reporting date.

The CCMA case against a former employee where the agency stopped the payment of the employee's salary as she refused to attend the CCMA proceedings is still ongoing. The agency received a court order in March 2015 to disburse the withheld funds of R992 403 to the former employee and it was accrued in the financial reports. The disciplinary hearings are due to resume in May 2015. The timing, outcome and legal fees to finalise the proceedings is unknown at reporting date.

The legal proceedings in respect of a uniform increase of 9,2% to all employees at 1 April 2013 as referred to the labour court continued during the financial year. The exposure of the agency amounts to R508 676 excluding legal fees that cannot be estimated reliably at reporting date.

In terms of the Treasury Regulations, at each reporting date, the agency is required to surrender or to apply for a roll over of unspent grants to the relevant Treasury. Refer to Note 15 for unspent grants as at 31 March 2015.

The Department of Agriculture, Forestry and Fisheries has indicated that it is not intending to renew the MAFISA contract. The possibility exists that the agency will be required to return the cash holdings on behalf of MAFISA of R45 144 096 at reporting date. The agency is currently pursuing various avenues to have this decision revisited. The original MAFISA grant for rural financing was R80 000 000.

Contingent assets

The agency is pursuing a legal claim against a debtor who purchased maize in 2010 and never paid. The defendant however relocated his place of business after signing an acknowledgement of debt with the agency. The estimated legal fees to finalise this matter amounts to R80 000. The prospects of recovery appears poor.

A claim against a contractor that claimed a deposit and never performed the contracted work is estimated to cost R8 000 to recover the dues of R20 000. The prospects of recovery appears poor as the claim has been ongoing since 2010.

17. LOANS

Loan from South African Fruit Exporters (SAFE)

The loan of R10 811 172 (2014: R16 592 315) from South African Fruit Exporters (SAFE) is interest free, unsecured and operated on a current account basis. South African Fruit Exporters is the managing agent of the Kangela Citrus estate and has been funding the operations of the estate pending seasonal harvesting. South African Fruit Exporters takes cession of the produce once harvested.

	GROUP	
	2015	**2014**
South African Fruit Exporters (SAFE)	10 811 172	16 592 315

18. LIABILITIES ARISING FROM NON-EXCHANGE TRANSACTIONS

	AGENCY		GROUP	
	2015	**2014**	**2015**	**2014**
Total funds under administration and cash and cash equivalents belonging to administered funds (refer to Note 6)	**31 871 555**	**22 967 398**	**33 616 219**	**41 545 598**
Reconciliation of total funds under administration:				
Balance at beginning of the year	22 967 398	33 553 349	41 545 598	74 904 835
Receipts from fund owners	95 802 805	41 713 156	95 802 805	41 713 156
Additional funding allocated	11 135 000	10 365 500	11 135 000	10 365 500
Interest capitalised on administered funds	970 150	303 468	970 150	303 468
Funds disbursed	(99 003 798)	(62 968 075)	(115 837 334)	(85 741 361)
Total administered funds	**31 871 555**	**22 967 398**	**33 616 219**	**41 545 598**
Comprising:				
Department of Rural Development and Land Reform - Provincial	846 792	4 269 376	846 792	4 269 376
Department of Rural Development and Land Reform - National	5 227 093	5 354 552	6 971 757	23 932 752
Job's Fund	23 986 539	12 179 475	23 986 539	12 179 475
Other administered funds	1 811 131	1 163 995	1 811 131	1 163 995
	31 871 555	**22 967 398**	**33 616 219**	**41 545 598**

Department of Rural Development and Land Reform Provincial	AGENCY 2015	2014
Balance of funds held to adminster	4 269 376	10 348 095
Disbursements and interest earned on funds*	(3 422 584)	(6 078 719)
Balance of administered fund at 31 March	**846 792**	**4 269 376**

* Interest earned on the ring-fenced funds first cover the agency fees due to the agency. At 31 March 2014, the Department owed the agency R2 825 360 in respect of agency fees. Note 8.1 details the receivable. The balance of R846 792 at 31 March 2015 relates to the private land claim of Tshatsu.

Department of Rural Development and Land Reform National		
Balance of funds held to administer	5 354 552	5 592 567
Funds received to administer	20 769 550	17 306 750
Funds disbursed	(20 899 448)	(17 650 977)
Interest earned on ring-fenced funds	2 439	106 212
Balance of administered fund at 31 March 2014	**5 227 093**	**5 354 552**

Job's Fund programme	FORESTRY	AGRO PROCESSING	TOTAL
Contribution: Eastern Cape Rural Development Agency	4 934 000	5 431 500	10 365 500
Contribution: Development Bank of South Africa	5 298 906	16 482 000	21 780 906
Contribution: Eastern Cape Development Corporation	565 000	2 060 500	2 625 500
Disbursements for the year	(5 124 170)	(17 665 517)	(22 789 687)
Interest earned on ring-fenced funds	61 784	135 472	197 256
Balance of administered fund at 31 March 2014	**5 735 520**	**6 443 955**	**12 179 475**
Contribution: Eastern Cape Rural Development Agency	4 262 000	6 873 000	11 135 000
Contribution: Development Bank of South Africa	15 839 000	26 433 284	42 272 284
Contribution: Eastern Cape Development Corporation	4 262 000	4 582 000	8 844 000
Disbursements for the year	(17 251 041)	(33 940 412)	(51 191 453)
Interest earned on ring-fenced funds	227 712	519 521	747 233
Balance of administered fund at 31 March 2015	**13 075 191**	**10 911 348**	**23 986 539**

Oxfam and the Small Projects Foundation (SPF)

A pilot project was launched where Oxfam Italia transferred R627 516 to the ECRDA in September 2014. The funds are ringfenced and used to disburse micro loans to beneficiaries, based on conditions and qualifying criteria determined by Oxfam and SPF. The loans are included in the total loans advanced per note 7. At 31 March 2015 the administered fund amounted to R617 246.

Land Claims Liabilities arising from non-exchange transactions

The Department of Land Affairs appointed the group and / or individual subsidiaries as an implementing agent for the payment of land claims to specified communities / beneficiaries in the Eastern Cape. The Department of Land Affairs remains responsible for identification and verification of the beneficiaries as well as the awarded amounts. The Department of Land Affairs requires that the funds be held in a ringfenced account. The group and /or individual subsidiaries have no rights to the funds, except for the agency fee claimed. All remaining fund were disbursed during the 2015 financial year.

Other liabilities arising from non-exchange transactions

The agency acted as a warehousing agent for the Eastern Cape Department of Rural Development and Agrarian Reform in respect of a farming project known as Shortland's Farm. The Eastern Cape Department of Rural Development and Agrarian Reform identified a farm to be purchased for a local community, who approached the government for support in acquiring a farm to further develop in the Grahamstown area. In order to do this, an entity was established to own and operate the farm for the community. As at the date of sale of the farm from the vendor, this entity was not appropriately established and the Eastern Cape Department of Rural Development and Agrarian Reform instructed the Eastern Cape Rural Development Agency to take transfer pending final transfer to the entity. This was done to accommodate the strict timeframes for the implementation of the project. The farm has since transfer, been under the control of the ultimate beneficiary community who have the risks and rewards of ownership. The R3.2 million purchase price was funded by the Eastern Cape Department of Rural Development and Agrarian Reform. The purchase agreement was dated 27 September 2007.

At 31 March 2015 (since 31 March 2009), the transfer of the farm to the entity is in progress, but not complete. The agency has accounted for this transaction as an administered fund and has not recognised the farm in its statement of financial position, but as an asset of the fund administered on behalf of the Eastern Cape Department of Rural Development and Agrarian Reform.

19. FINANCE LEASE OBLIGATIONS

Finance lease liabilities	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Capitalised finance lease liability	2 321 503	1 067 297	2 460 672	1 293 837
Less: Current portion	(821 095)	(917 784)	(920 550)	(1 010 297)
Non-current portion	**1 500 408**	**149 513**	**1 540 122**	**283 540**

Reconciliation of future minimum lease payments to their present value	AGENCY MINIMUM LEASE PAYMENTS		AGENCY PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
No later than 1 year	832 969	943 304	821 095	917 784
Later than 1 year and not later than 5 years	1 507 475	156 158	1 500 408	149 513
	2 340 444	1 099 462	2 321 503	1 067 297
Less: future finance charges	(18 941)	(32 165)		
Present value of minimum lease payments	2 321 503	1 067 297		

Reconciliation of future minimum lease payments to their present value	GROUP MINIMUM LEASE PAYMENTS		GROUP PRESENT VALUE OF MINIMUM LEASE PAYMENTS	
No later than 1 year	940 703	1 050 229	920 550	1 010 297
Later than 1 year and not later than 5 years	1 570 320	299 481	1 540 122	283 540
	2 511 023	1 349 710	2 460 672	1 293 837
Less: future finance charges	(50 351)	(55 873)		
Present value of minimum lease payments	2 460 672	1 293 837		

Fair value
The fair value of the finance lease liabilities is approximately equal to their carrying amount.

Security
The agency's obligations under finance leases are secured by the lessor's title to the leased assets (refer to Note 10.2.4).

Terms
The agency recognises finances leases where, at the inception of a lease, the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. The typical lease period is 5 years for equipment and 2 years for Vodacom contracts. Such arrangements are summarised below:

Finance lease agreements
The approximate aggregate monthly instalment on finance leases is R5 221 (2014: R16 480) for the Nashua equipment contracts covering a period of 5 years. New 3 year contracts were entered into with Konica Minolta during the 2015 financial year for the lease of equipment. The monthly contractual installment is R26 256.

The Vodacom contracts are capitalised for a period of 2 years and the aggregate monthly instalment on the finance leases is R24 985 (2014: R76 919).

Communication equipment other than above (i.e. PABX and mobile technology)
The agency has capitalised such arrangements at the ruling Prime Overdraft Rate at inception of each lease with Telkom. The contracts were all renewed in the 2015 financial year. The approximate aggregate monthly instalment is R35 742 (2014: R12 212 with contracts on a month-to-month basis of R20 922). The new Telkom contracts covers a period of 5 years.

The finance lease of the subsidiary, Kangela Citrus FarmsTe (Pty) Ltd, relates to tractors and motor vehicles with a lease term of 5 years. The company has options to purchase the assets for a nominal value at the conclusion of the lease agreement. The finance lease have fixed repayment terms on a monthly basis and bear interest at floating rates. The interest rate prevailing is ranging between 10,03% - 14,08% per annum.

20. PROVISION FOR INSURANCE CONTRACTS

	AGENCY AND GROUP	
	2015	2014
Balance at beginning of the year	70 699	70 699
Movement for the year	(70 699)	-
Balance at end of the year	**-**	**70 699**

21. CAPITAL CONTRIBUTED

	AGENCY AND GROUP	
	2015	2014
Capital consists of the value of the net of assets taken over from the Agricultural Bank of Transkei and the Ciskeian Agricultural Bank on 1 July 2000.	25 232 691	25 232 691
The equity contribution relates to the funds received from the Eastern Cape Department of Rural Development and Agrarian Reform utilised to fund the advance to Kangela Citrus Farms (Proprietary) Limited.	15 680 000	15 680 000
This contribution was acquired prior to the formal establishment of the corporation and relates to an amount transferred from trade payables previously owing to the Department of Internal Affairs for farms purchased by clients of the former Ciskeian Agricultural Bank approximately 18 years ago.	1 076 355	1 076 355
	41 989 046	**41 989 046**

In terms of the former Eastern Cape Rural Finance Corporation Act (no 9 of 1999), the corporation is established with an initial authorised share capital of R10 million (comprising one thousand ordinary shares with a par value of ten thousand Rand each). In these consolidated annual financial statements, the amount contributed through the Eastern Cape Provincial Government by the assets taken over (see above) is treated as a capital contribution. The agency has not registered its share capital and does not have a share register as it has not issued any shares.

Restriction on distributions
In terms of the above Act, whilst the government is the sole shareholder, the agency may not distribute any of its profits or gains to any other person and must use its funds solely for the furtherance of its objectives.
No distributions were made during the financial year ending 31 March 2015 (2014: nil).

22. RISK MANAGEMENT

22.1 Capital risk management

The group is currently dependent on the Eastern Cape Provincial Government, its sole equity holder, for subsidies to fund loan advances and to cover operating expenses. The size and quality of the loan book is not sufficient to finance the increased demand for agricultural loans and to generate income sufficient to defray operating costs.

The agency is not in a position to fund the operations of the subsidiary companies that have been transferred to it by the Eastern Cape Department of Rural Development and Agrarian Reform and is therefore dependent upon financial support from the Provincial Government for the ongoing support of these subsidiaries. The above is evidence of the under capitalisation of the group.

22.2 Credit risk

Credit risk is the risk that the counterparties will not repay obligations on time and in full as expected or contracted, resulting in a financial loss to the group. The agency manages credit risk through a credit committee and credit policy.
The core business of the agency is to support rural development within the Eastern Cape. The target market is at the upper end of credit risk fragility in the agricultural sector and small business sectors with high sensitivity to climatic conditions and unpredictable agricultural commodity prices.
The lending activities of the group are regulated by the National Credit Regulator.
The default rate on loan obligations is higher in this industry and, to mitigate this, the group encourages mentorship programmes to assist farmers in managing their crops and markets for their harvests and finances.
The group uses various techniques to reduce credit risk. The most fundamental is performing an assessment on the borrower's ability to service the amount advanced and obtaining collateral (i.e. security based lending).
In line with its mandate, the group has a concentration risk in its credit profile, given that its loan book is in the Eastern Cape only and largely in the agricultural sector.

22.3 Financial guarantee contracts

A part from the provision of credit facilities in the normal course of business which have been granted, but not to date been disbursed, the group does not issue any guarantees or commitments neither in relation to its lending activities nor in any other capacity, save for the insurance contracts set out in the accounting policies and save for the cession of deposits for certain staff and former staff housing loans set out in Note 8.1. The agency assumes obligations under insurance contracts issued on the lives of its borrowers as set out in Note 2.6.8. The agency manages this risk by placing the insurance premiums in an investment account, set aside to meet such obligations. The agency monitors the level of exposure. Such exposure is typically limited given that cover falls away when the borrower's account is in arrears.

The agency has ceded an amount of R32 000 with First National Bank in favour of an employee. This is not considered to be a material risk to the agency as should the employee default the loan the amount would be deducted from the employees monthly salary.

22.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will change or fluctuate as a result of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The group does not have exposure to currency risk or other price risk. The group has little exposure to market risk other than interest rate risk, but to a limited extent. Agricultural loans are largely advanced on fixed interest rates, while certain non-agricultural loans carry variable interest rates. For this reason, the group is not significantly exposed to interest rate risk. Refer to Note 7 for certain sensitivity analyses.

22.5 Liquidity risk

Liquidity risk is the risk that an agency will encounter difficulty in meeting obligations associated with financial liabilities.
As a result of a significant increase in loans and advances to customers over the past few years and an increase is overhead expenses, the group has been placed under heavy liquidity strain. Repayment of agricultural loans tend to follow a seasonal trend rather than scheduled dates, hampering reliance on repayments to fund further advances.

As at 31 March 2015, approximately 49% (2014: 60%) of the agency's cash and cash equivalents was deposited at The Standard Bank of South Africa Limited. Standard Bank's local currency deposit ratings at 31 March 2015 were: Moody's Baa2; Fitch Ratings BBB, both with a negative investors outlook (2014 Moody's Baa1 (C1); Finch BBB+). The remaining 51% was deposited at First National Bank, with the same deposit rating as Standard Bank.

Refer to Note 17 for loans to the group. These are not financial institution loans with a maturity schedule, but are due on demand.

22.6 Other risks

As set out in Note 10 the biological assets are not insured for loss due to fire, theft or other loss.

23. OTHER INCOME AND EXPENSE ANALYSIS

23.1 Other income

	AGENCY		GROUP	
	2015	2014	2015	2014
Discount received	125 491	142 930	125 491	142 930
Insurance contract income	-	102 092	-	102 092
Private telephone calls recovered	-	73 938	-	73 938
Recovery of loans and advances previously written off	359 332	283 241	359 332	283 241
Impairment of payable	1 000 000	-	1 000 000	-
Sundry income	2 168 108	3 441 801	2 246 928	4 682 714
	3 652 931	**4 044 002**	**3 731 751**	**5 284 915**

23.2 Administrative expenses

	AGENCY		GROUP	
	2015	2014	2015	2014
Accounting fees - internal audit	552 539	1 251 693	552 539	1 304 733
Accounting fees - subsidiaries	419 504	231 074	472 004	231 074
Administration costs	6 050	860	6 050	860
Bank charges	241 893	217 563	287 309	270 688
Contingent insurance policy administration fee	-	42 000	-	42 000
Directors' remuneration - fees	3 100 140	4 120 095	3 100 140	4 120 095
Directors' travelling and subsistence	1 424 959	1 635 721	1 441 824	1 724 584
Entertainment	55 708	18 934	68 350	69 484
Fines and Penalties	680	527	1 624	527
General expenses	48 229	21 202	57 827	29 802
Insurance	207 996	252 065	349 972	432 838
Legal expenses	1 643 265	634 356	1 646 556	726 338
Printing and stationery	1 314 495	1 021 264	1 364 989	1 053 889
Relocation - staff	2 653 234	138 198	2 891 375	138 198
Staff recruitment	-	16 393	-	16 393
Staff refreshments	163 621	182 430	163 621	182 430
Staff training	1 721 638	1 470 268	1 736 358	1 508 504
Staff ancilliary costs	387 053	56 979	407 362	78 919
Subscriptions	101 619	72 356	102 219	76 559
Workers forum	16 436	2 550	16 436	2 550
Workmen's compensation	-	-	271 826	-
	14 059 058	**11 386 527**	**14 938 381**	**12 010 465**

23.3 Other operating expenses

	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Bad debts - rental and other income	21 581	1 535 621	21 581	1 535 621
Cleaning	217 454	277 238	218 577	279 265
Commission	-	-	-	24 826
Computer maintenance	3 593 873	2 298 370	3 606 596	2 326 618
Crop production/ harvesting/ irrigation expenses	-	-	-	-
Debt collection service fees	1 798	62 049	1 798	62 049
Depreciation of investment property and property, plant and equipment	5 094 176	3 849 254	5 802 869	5 165 384
DRDAR funded programme: Female Awards	1 476 190	-	1 476 190	-
DRDAR funded programme: Gqwesa Harvesters	648 936	-	648 936	-
ECRDA Establishment cost	17 100	518 577	17 100	518 577
Fair value adjustment on the sale of crop	-	-	-	2 966 943
Fair value adjustment on receivables	543 472	563 225	543 472	563 225
Functional partnerships	-	-	-	-
Investment gain/loss	90	-	90	-
Leasing charges - operating lease for equipment	335 014	339 302	335 014	346 539
Loan application screening/Enquiry cost	28 389	31 794	28 389	31 794
Minor assets expensed and write off of insured assets stolen/damaged	91 054	7 625	97 239	12 003
Motor vehicles: fuel and maintenance	787 874	901 898	806 749	925 391
Municipal services - rates, water and electricity	1 716 778	832 377	1 805 023	909 146
Postages	61 197	109 310	62 849	112 739
Professional fees	2 088 886	3 452 278	2 175 674	3 824 489
Protective clothing and uniforms	38 544	21 617	52 895	42 994
Rental charges on land and buildings	6 319 954	2 369 987	6 319 954	2 369 987
Rent of equipment	-	-	65 082	119 623
Repairs and maintenance - buildings	10 157	18 613	10 157	18 613
Repairs and maintenance - general	985 947	253 406	1 532 591	848 513
Security	847 710	991 248	847 677	1 026 895
Stakeholder management	482 789	745 607	482 789	745 607
Telephone calls and data lines	1 955 610	3 623 490	2 013 040	3 704 327
Travelling and subsistence	6 836 348	4 256 840	7 512 530	4 690 557
	34 200 920	**27 059 727**	**36 484 861**	**33 171 725**

23.4 Staff Costs

	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Salaries - medical aid contributions	1 701 411	1 917 613	1 701 411	1 917 613
Salaries - provident fund contributions	4 754 463	3 792 975	4 754 463	3 792 975
Salaries and wages	52 230 299	43 942 987	60 013 635	51 329 984
	58 686 173	**49 653 575**	**66 469 509**	**57 040 572**

24. TAXATION

In terms of section 10(1)(cA)(i) of the Income Tax Act, 1962, the Commissioner for the South African Revenue Service (SARS) has granted the Eastern Cape Rural Development Agency exemption from income taxation. In terms of Treasury Regulations and agreement with SARS, the agency is also exempt from registration for Value Added Taxation. The subsidiary, North Pondoland Sugar (Proprietary) Limited, has an estimated tax loss of R2 274 533 (2014: R2 293 102) available for set off against future taxable income. A deferred tax asset has not been raised given the uncertainty of earning future income. The subsidiary, Kangela Citrus Farms (Proprietary) Limited, has not been assessed for tax for an extended period of time and management is in the process of regularising its tax and audit affairs. Management of Kangela Citrus Farms (Proprietary) Limited recognised a tax expense of R1 507 109 for the financial year ended 31 March 2015. The company recognised a deferred tax asset of R780 014 (2014: R1 789 476) and a deferred tax liability of R2 357 626 (2014: R1 789 476). The subsidiary, Agrarian Research and Development Agency (Proprietary) Limited, is exempt from taxation in terms of s10(1)(cA)(ii) of the Income Tax Act.

	GROUP	
	2015	2014
Income Tax	-	-
Current year - normal taxation	1 507 109	-
Deferred tax		
Increase (decrease) in tax losses available for set off against future taxable income	(1 006 221)	487 945
Temporary differences on tangible fixed assets	(31 031)	115 669
Temporary differences on leave pay	(3 241)	13 592
Temporary differences on finance lease	(10 891)	(9 892)
Temporary difference on biological assets - current	(526 228)	(607 314)
Balance at end of the year	**(1 577 612)**	-
Comprising:		
Deferred tax asset	780 014	1 789 476
Deferred tax liability	(2 357 626)	(1 789 476)
	(1 577 612)	-

Deferred tax relates to leave pay accrual, finance lease straight line adjustments and property, plant and equipment.

	2015	2014
Current income tax		
Balance at beginning of the year	-	-
Charge for the year	3 329 516	1 313 571
Adjustments - fair value	-	515 200
Adjustments - penalties and interest	264	1 270
Adjustments - utilise tax loss	(686 999)	(918 749)
Adjustments - revenue from non-exchange transactions	(1 135 672)	(911 292)
Balance at end of the year	**1 507 109**	-
Comprising:		
Assets in Kangela Citrus Farms (Proprietary) Limited	1 507 109	-
Liabilities in Agrarian Research and Development Agency	-	-
	1 507 109	-

25. OPERATING LEASE ARRANGEMENTS

	AGENCY		GROUP	
	2015	2014	2015	2014

As at the reporting date the group had outstanding commitments under non-cancellable leases, which fall due as follows:

	AGENCY 2015	AGENCY 2014	GROUP 2015	GROUP 2014
Operating leases where the agency/group is the lessee				
Lease of office premises	12 262 433	15 076 698	12 262 433	15 076 698
Up to 1 year	6 626 801	5 878 403	6 626 801	5 878 403
1 to 5 years	5 635 632	9 198 295	5 635 632	9 198 295
More than 5 years	-	-	-	-

The statement of financial performance details the expenditure incurred by the agency on the operating leases. A total of R6 319 043 (2014: R2 369 987) was paid during the financial year in respect of all lease expenses. The straight lined operating lease liability for the year amounted to R6 123 579 (2014: R2 398 454). A net operating lease liability of R334 583 (2014: R116 495) existed at reporting date. The East London office lease contributes 85% of the lease expense for the next 12 months, with 63% for the period thereafter. This lease was signed for a fixed term and does not have excalation impacts.

Operating leases where the agency is the lessor

The agency earns income from the lease of office premises at the investment property at 52 Sprigg Street. A subsidiary, Agrarian Research and Development Agency (Proprietary) Limited, rents out excess office space in Cradock on a 12 month basis for an amount approximately equal to the rentals earned for the previous year. A subsidiary, Agrarian Research and Development Agency (Proprietary) Limited, rents out excess office space in Cradock on a 12 month basis for an amount approximately equal to the rentals earned for the previous year.

26. FRUITLESS AND WASTEFUL EXPENDITURE

	AGENCY		GROUP	
	2015	2014	2015	2014
Security costs Whittlesea property	-	116 002	-	116 002
Interest/Finance Costs paid	610	21 907	610	21 907
Traffic Fine	-	527	-	527
Total fruitless and wasteful expenditure for the year	610	138 436	610	138 436
Less: condoned by the board		(138 436)	-	(138 436)
Expenditure recovered	(610)	-	(610)	-
Expenditure not condoned by the board - carried forward	-	271 489	-	305 633
Expenditure condoned in current year for prior year	-	(271 489)	-	(305 633)
Expenditure not condoned by the board - brought forward	-	-	-	-

27. IRREGULAR EXPENDITURE/PAYMENTS (OWN FUNDS)

Procurement of goods and services where procurement procedures were not strictly applied:	6 194 374	951 939	6 295 544	951 939
procurement of construction services where the value of combined bids exceeded the CIBD grading level	-		-	
Total non-compliant expenditure for year (irregular expenditure upon payment)	6 194 374	951 939	6 295 544	951 939
Less: current year expenditure/payments condoned by the board	-	(951 939)	(101 170)	(951 939)
Expenditure/payments not condoned by the board - for the year*	6 194 374	-	6 194 374	-
Expenditure/payments not condoned by the board -brought forward	-	3 648 327	-	3 648 327
Less: carried forward expenditure/payments condoned by the board	-	(3 648 327)	-	(3 648 327)
Expenditure/payments not condoned by the board carried forward	6 194 374	-	6 194 374	-

* The ECRDA Board will consider the nature of the expenditure and possible condonement thereof before 31 July 2015
At Group level: The irregular expenditure of R101 170 incurred by the group relates to relocation costs paid to ARDA employees. ARDA's Human Resources policy does not provide guidance when employees are required to relocate during a transitional phase. ARDA is in process of merging with the ECRDA. The irregular expenditure has been condoned.

The ECRDA issued bids for the construction of three steel sheds during the 2014/15 financial year. The same bidder was awarded all three sheds after a due process was followed for the evaluation and adjudication of the bids. The project manager, a qualified quantity surveyer, evaluated the ability of the highest scoring bidder to perform and indicated that:
- The bidder provided a performance guarantee;
- The bidder has been in the industry for more than 20 years;
- The bidder will have access to procure the required steel for the sheds.

The ECRDA thus concluded that the bidder has the ability to perform the required construction work for all three sheds and would not pose undue risk to the overall project. The bidder has a 4GB, 1CE and 1ME grading from the CIBD. The value of all three bids combined is R6 194 374. The CIBD's 4GB allocation grading level is R4 000 000 and is used as a guideline for assessing irregular expenditure. The total value of GB works for all three bids is R3 549 973, but the CIBD's grading level is applied to the value of all categories combined. The goods (sheds) have been delivered.

The prior year irregular expenditure of R951 939 relates to payments on lease contracts that either have not been formally renewed due to the uncertainties to the branches of the Eastern Cape Rural Development Agency and lease contracts where the former ECRFC did not follow the Treasury Regulations in prior years. These lease contracts have been condoned by the agency's Board in the 2013/2014 financial year and is no longer regarded as irregular.


Mbizana RED Hubs

28. BOARD AND SENIOR MANAGEMENT REMUNERATION

28.1 Board remuneration

	AGENCY		DIRECTORS OF AGENCY PAID BY SUBSIDIARIES	
	2015	2014	2015	2014
Board committee members *				
Burn-Ncamashe Z., Prince (appointed 1 January 2010)	297 000	662 500	-	-
Kali B., Ms (appointed 1 January 2010)	283 500	479 673	76 844	59 090
Pietersen C.J., Mr (appointed 1 January 2010)	289 980	216 422	-	-
Mkile F.F., Ms (appointed 20 January 2010)	338 580	576 000	55 396	35 873
Mkosana V.M., Dr (appointed 15 November 2012)	365 580	867 500	-	-
George X., Mr (appointed 15 November 2012)	338 580	298 000	-	-
Jarana V., Mr (appointed 15 November 2012)	282 420	150 000	37 774	41 348
Le Roux A., Mr (appointed 15 November 2012)	283 500	217 500	-	-
Mbalekwa S.W., Mr (appointed 15 November 2012)	338 580	350 500	-	-
Semane Z., Ms (appointed 15 November 2012)	282 420	294 500	-	-
Tonga M., Mr (appointed 15 November 2012)	-	7 500	-	-
Fees for services rendered	**3 100 140**	**4 120 095**	**170 014**	**136 311**

* The Chief Executive Officer, Mr. T.T. Gwanya is also a member of the board.

28.2 Senior management remuneration

	SALARY AND BONUS	PROVIDENT FUND	OTHER BENEFITS	TOTAL
Agency 2015	2015	2014	2015	2014
Gwanya T.T., Mr - Chief Executive Officer	1 767 920	205 465	85 718	2 059 103
Simukonda N., Mr - Chief Operations Officer	1 218 939	141 663	94 429	1 455 032
Baxter J., Mrs - Chief Financial Officer	1 491 601	-	24 070	1 515 670
Ntshanga G., Mr - Chief Strategy Officer	987 443	-	17 343	1 004 786
Mavuso N., Mrs - Executive Corporate Services Manager**	1 001 535	119 886	52 742	1 174 163
Koyana G., Mrs - Executive Legal Manager**	795 892	97 941	9 842	903 674
Velani C., Mr - Executive Office Manager**	595 044	73 225	48 186	716 455
Wobiya N., Mr - Internal Audit Manager	650 513	73 254	8 018	731 784
	8 508 886	**711 434**	**340 347**	**9 560 667**

** The manager was appointed during the financial year ended 31 March 2015

Agency 2014

Gwanya T.T, Mr - Chief Executive Officer	1 206 254	131 931	184 109	1 522 294
Mrwebi L., Dr - Interim Chief Executive Officer (1 July 2012 - 18 June 2013)	213 950	-	-	213 950
Simukonda N., Mr - Chief Operations Officer	916 737	124 586	124 586	1 165 909
Baxter J, Mrs - Chief Financial Officer	1 391 159	-	13 241	1 404 400
	3 728 100	**256 517**	**321 936**	**4 306 553**

Mr. R. Crew is the Chief Executive Officer of ARDA. ARDA does not have a Chief Financial Officer or Chief Operations Officer.

Subsidiaries 2015	GROSS SALARY	OTHER BENEFITS	ALLOWANCES	TOTAL
Crew R., Mr (ARDASA)*	1 554 967	31 022	179 176	1 765 165
	1 554 967	**31 022**	**179 176**	**1 765 165**

Subsidiaries 2014

Crew R., Mr (ARDASA)	1 509 634	8 750	162 600	1 680 984
	1 509 634	**8 750**	**162 600**	**1 680 984**

29. RELATED PARTY TRANSACTIONS

	AGENCY	
	2015	2014
Department of Rural Development and Agrarian Reform (operating grant)	210 779 000	124 003 000
Department of Rural Development and Agrarian Reform (reimbursement of instructed payments)	5 298 936	-
Department of Rural Development and Agrarian Reform (cropping programme)	-	38 000 000
Department of Rural Development and Agrarian Reform (prior year programme)	-	1 348 931
Department of Rural Development and Agrarian Reform (receivable)	540	-
Department of Rural Development and Land Affairs - Provincial (receivable)	-	2 825 360
Department of Rural Development and Land Affairs - National (transfers)	20 769 550	17 306 750
Department of Agriculture, Forestry and Fisheries (receivable)	22 205 303	22 205 303
Industrial Development Trust - payments incurred	-	14 410 730
Industrial Development Trust - receipts	-	27 518 630
Industrial Development Trust - receivable	481 370	481 370
Ncera Macadamia (transfer)	7 500 000	8 500 000
North Pondoland Sugar (payments)	23 951	1 496
Summerpride pineapple (payments)	154 700	549 200
Agrarian Research and Development Agency (payments)	8 035 800	5 481 828
Kangela Citrus Farms (payments)	6 640 000	6 474 800
Magwa Tea - budget allocation and additional funds transferred	4 973 260	2 634 000
Magwa Tea - own funds transferred and payable	-	12 107 747
Majola Tea - budget allocation and additional funds transferred	901 340	3 000 000
Majola Tea - own funds transferred and payable	-	1 900 000
Office of the Premier (receivable)	2 195 135	-
Office of the Premier (receipts)	890 854	-
Development Bank of South Africa (project contribution)	42 272 284	21 780 906
Eastern Cape Development Corporation (receivable)	53 873	53 873
Eastern Cape Development Corporation (project contribution)	8 844 000	2 679 373

Transactions with board members and management are detailed in note 28. Note 7 contains staff loan disclosures.

29.2 Transactions with the Eastern Cape Provincial Government during the year

The agency received (and accrued) a grant of R216 077 936 (2014: R138 137 000) from the Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR) during the year for operating activities. This amount excludes transfer payments. Additional funding for disbursements on behalf of the Department to the value of R5 298 936 was paid to the agency. In 2014 the agency received R38 000 000 to administer a cropping programme and the shortfall on the prior year cropping budget of R1 348 931 was transferred to the agency. At 31 March 2015 a balance of R540 is due to the agency.

The agency implements projects and administer the expenses of the allocated project on behalf of Departments. The following projects were managed and implemented during the financial year and expenses were incurred on behalf of these Departments:

Department of Forestry and Fisheries
Project implementation and cropping expenditure of R22 205 303 was incurred by the agency on behalf of the Department in prior years. The Department has not paid the agency for the programme implementation and a civil case was lodged. Refer to notes 8.1 and 16.

Industrial Development Trust
Cropping project implementation is done on behalf of the IDT. In the financial year a total of nil (2014: R27 518 630) was received and nil (2014: R14 410 730) was paid on behalf of the IDT . At financial year-end the Industrial Development Trust owes the Eastern Cape Rural Development Agency R481 370 (2014: R481 370).

Department of Rural Development and Land Reform (National)
A total of R20 769 550 (2014: R17 306 750) was paid to the agency and disbursed during the year to manage on behalf of the Department. Project implementation is done at Amadlelo Dairy for the Department.

Department of Rural Development and Land Reform (Provincial)
Funds were paid to the agency in the 2010 and 2011 financial years to manage the payment of land claims grants to beneficiaries on behalf of the Department. In terms of the contractual arrangement with the Department the agency pays land claims to beneficiaries upon receipt of instruction from the Department. During the 2012/2013 financial year, the agency was required to surrender R17 682 774 to the Eastern Cape Provincial Treasury. Provincial Treasury allowed for a balance of R11 000 000 to be retained by the agency to disburse further claims.

At reporting date a balance of nil (2014: R4 269 376) was held on behalf of the department for land claims to be disbursed. Agency fees due to the Eastern Cape Rural Development Agency at 31 March 2014 amounted to R2 825 360. Private land claim funds of R846 792 is retained by the agency for the Tshatsu community.

Development Bank of South Africa (DBSA)
The DBSA is the primary co-funder of the job's fund programme. The contribution received during the financial year amounted to R42 272 284 (2014: R21 780 906). Refer to note 18 for the split of the programme funding.

Eastern Cape Development Corporation (ECDC)
ECDC is a co-funder of the DBSA Job's Fund Agro-processing and Forestry Programmes. Contributions of R8 844 000 (2014: R2 679 373) were paid towards the programmes. Expenses to the value of R53 873 was incurred in 2014 on behalf of the Eastern Cape Development Corporation (ECDC) relating to legal payments for the tea estate. The agency invoiced the ECDC for the expenses incurred. The balance due to the agency at financial year end amounts to R53 873 (2014: R53 873).

Office of the Premier
Programme expenditure of R3 085 989 was incurred on behalf of the Office of the Premier. R890 854 was received by the agency resulting in a receivable of R2 195 135 at reporting date.

Summerpride Pineapple
A total of R154 700 (2014: R549 200) was received from Summerpride for the pineapple rescue project of DRDAR and R303 700 (2014: R400 000) was paid on the programme in the financial year.

Ncera Macadamia
A total of R7 500 000 (2014: R8 500 000) was allocated and paid to the programme as per the Provincial budget allocation.

Magwa Tea Enterprise (MTE)
A total of R2 765 000 (2014: R2 634 000) was allocated and paid to the MTE as per the Provincial Budget allocation from the Department of Rural Development and Agrarian Reform (DRDAR). In 2015 additional funding of R2 198 660 was received from the Department and disbursed to the estate. In 2014 the agency paid additional funding of R12 107 747 to the tea estate, based on an instruction from DRDAR.

Majola Tea
A total of R'nil (2014: R3 000 000) was received and paid to the tea estate as per the provincial budget allocation. Additional funding of R901 340 was received from the Department to disburse to the estate. In 2014 the agency paid additional funding of R400 000 to the tea estate with a payable at reporting date to the value of R1 500 000 based on an instruction from DRDAR.

29.3 Administered Funds

The agency administers funds on behalf of various departments (mainly the Department of Rural Development and Agrarian Reform) of the Eastern Cape Government. Refer to the note on non-exchange transactions for further details (note 12). The agency is also entitled to an administration fee levied as a percentage of the fund administered and/or to invest the funds and receive the interest on such funds until disbursed in terms of the specific agreements. Refer to the Statement of Financial Performance for commission fee income and to Note 8.1 for amounts due for commission fees receivable at the reporting date (and comparative information).

29.4 Transactions between the agency and Agrarian Research and Development Agency (Proprietary) Limited

A grant transfer of nil (2014: R5 265 000) was paid to the subsidiary as per the Provincial Budget allocation. The budgeted funds of R5 534 000 received by the agency as part of the voted funds for ARDA was not disbursed to the subsidiary in the 2015 financial year. Instead, payments of R10 700 348 was processed on behalf of the subsidiary. In 2014 the agency transferred an amount of R216 828 to ARDA to assist with strategic review expenses that were not included in the annual budget of ARDA.

29.5 Transactions between the agency and Kangela Citrus Farms (Pty) Limited

The voted funds of R6 640 000 was received from the Department as part of the operational grant of the agency. Transfers were not processed to Kangela as payments were made on their behalf. The total funds transferred to the company in 2014 was R5 198 000. The total funds disbursed to and on behalf of Kangela Citrus Farms (Pty) Ltd is thus R6 474 800 as per the approved business plan of the company. The agency has a 51% shareholding in the subsidiary and considers Kangela Citrus Farms as a Rural Enterprise Development Hub. A payable of R1 144 932 is included in note 18 as at 31 March 2015. A payment of R1 276 800 was paid to suppliers on behalf of the company during the 2014 year.

29.6 Transactions between the agency and North Pondoland Sugar (Pty) Limited

Payments to a supplier for the completion of statutory documentation on behalf of the company was paid by the Eastern Cape Rural Development Agency to the value of R23 951 (2014: R1 496).

30. RETIREMENT FUNDING

Defined contribution plan

Employees of the agency are members of either the non-contributory Rainmaker Provident Fund or the Sanlam Provident Fund. At 31 March 2015 the membership of the Eastern Cape Rural Development Agency's employees of the provident fund were as follows:

	AGENCY 2015		AGENCY 2014	
	NO. OF EMPLOYEES	%	NO. OF EMPLOYEES	%
Members of Rainmaker Plus Provident Fund	112	75%	105	77%
Sanlam Provident Fund	21	14%	20	15%
Non-members	17	11%	11	8%
Total staff complement	**150**	**100%**	**136**	**100%**

	2015	2014
The agency contributed as follows to the defined contribution plans during the financial year:	4 754 463	3 792 975

Refer to Note 23.4 for the agency's contributions to the fund.

Retirement benefits

Provident fund benefits are related to the member's fund credit at retirement. The fund credit consists of the employer's contribution plus declared yield on such contributions.

Funding

The provident fund is a defined contribution plan where contributions are made as a percentage of the total salary package of the employee. Contributions are part of the total cost to company of individuals.

	Fund contribution
Rainmaker Plus Provident Fund	15%
Sanlam Provident Fund	10%

The subsidiary companies do not have any post retirement obligations.

31. RECONCILIATION BETWEEN BUDGET SURPLUS WITH THE SURPLUS IN THE STATEMENT OF FINANCIAL

As the budget that is approved by the Board is not prepared on the same basis as set out in Note 2 to these consolidated annual financial statements, the following reconciliation is provided:

	AGENCY		GROUP	
	2015	2014	2015	2014
Surplus for the year	**21 908 786**	**111 462**	**30 874 136**	**4 787 198**
(refer to the statement of financial performance)				
Adjusted for:				
Initiation fees & net margin on loans	15 202 813	(933 246)	15 202 813	(933 246)
Subsidy costs on concessionary loans	4 099 319	1 675 204	4 099 319	1 675 204
Profit/loss on disposal of property, plant and equipment	494 466	(58 769)	502 530	(58 769)
Bad debts - rental and other income	21 581	1 535 621	21 581	1 535 621
Fair value adjustments - biological assets	-	-	(19 601 224)	(10 760 490)
Fee - MAFISA Scheme	451 377	405 501	451 377	405 501
Minor assets expensed	91 054	7 625	97 239	12 003
Commission fees for managing projects (accrued)	(3 621 726)	(3 073 892)	(3 621 726)	(3 073 892)
Revenue from non-exchange transaction	(1 000 000)	-	(1 000 000)	-
	-	-	-	-
Provision for bad debts on loans reversed	(20 820 194)	(1 159 452)	(20 820 194)	(1 159 452)
Fair value adjustments	534 939	562 113	534 939	3 529 056
Reversal of impairments and provisions	-	(6 696)	-	6 696
Impairments reversed	(633 924)	(169 769)	(633 924)	(169 769)
Net under/(over) budgeting of expenses or over/(under) budgeting of income	-	14 407 628	-	-
Surplus per approved budgets	16 728 492	13 303 330	6 106 867	(4 204 338)

Also refer to the 'Statement of comparison of budget and actual amounts'.

Budget information is not included for ARDA, North Pondoland Sugar (Proprietary) Limited and Kangela Citrus Farms (Proprietary) Limited as it is included under transfers.

The ECRDA compares its actual performance against the budgeted performance in the Medium Term Expenditure Framework (MTEF) based on a modified cash basis. The comparison of the estimated outcomes of the MTEF cash flow statement to the AFS cash flow statement is as follows -

COMPARISON TO CASH FLOW STATEMENT	2014/15	BASIS	AGENCY	TIMING
Net Cash Flows from Operating Activities				
Per AFS	36 126 313			
Per MTEF Budget estimated outcomes	(8 000)			
Difference	36 134 313	x		
Net Cash Flows from Investing Activities				
Per AFS	(19 995 794)			
Per MTEF Budget estimated outcomes	(5 790 000)			
Difference	(14 205 794)	x		
Net Cash Flows from Financing Activities				
Per AFS	1 228 490			
Per MTEF Budget estimated outcomes	-			
Difference	1 228 490	x		
Total	**23 157 010**			

32. POST REPORTING DATE EVENTS

Management has assessed the operations of the agency, the ongoing business operations and all correspondence and contractual obligations that have been exercised during the financial year; the events between the financial year-end and the date of approving the financial statements and have not identified any subsequent events that impacts on the financial statements presented.

33. STANDARDS AND INTERPRETATION NOT YET EFFECTIVE AS AT 31 MARCH 2015

The following is a list of Standards of GRAP approved but for which the Minister of Finance has set the effective date as 1 April 2015. The standards do not have an impact on the reporting of the agency.

REFERENCE	TOPIC
GRAP 32	Service consession arrangements: Grantor
GRAP 105	Transfer of Functions Under Common Control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers
GRAP 108	Statutory Receivables

Approved Standards of GRAP which entities are not required to apply:

REFERENCE	TOPIC
GRAP 18	Segment Reporting

The accounting policy detailed in note 1 to the financial statements details the list of all GRAP Standards effective and adopted by the agency. The following International Accounting Standard is considered by the agency:

IAS 12	Income Tax

34. GOING CONCERN

The Eastern Cape Rural Development Agency depends on government grants from the Department of Rural Development and Agrarian Reform to finance operations and projects. The agency prepares financial statements on a going concern basis as the budget allocation from the Department enables the agency to function. In terms of the PFMA excess funds should be surrendered to the Provincial Treasury. Provincial Treasury took action to ensure compliance on this requirement during the from the 2013 financial year.

The excess funds and all adminsitrative funds controlled on behalf of other Government Departments were surrendered to the Provincial Treasury. The agency has a legal obligation to perform in terms of the entered agreements with the Land Claims Department and the Department of Rural Development and Agrarian Reform. Subsequent to the surrender of the funds, the agency had to use own funds to facilitate these committed expenses.

An assessment on the going concern of the subsidiaries is detailed in note 11 as National Treasury instructed all Public Entities to dissolve the subsidiaries held. ARDA is integrated into the agency on 1 April 2015.

35. FINANCIAL INSTRUMENTS PER CATEGORY

35.1 Financial liablities per category

The accounting policies for financial instruments have been applied to the line items below

	AGENCY	
	2015 AMORTISED COST	2014 AMORTISED COST
Trade and other payables	25 316 497	20 855 569
	25 316 497	**20 855 569**

	GROUP	
	2015 AMORTISED COST	2014 AMORTISED COST
Trade and other payables	27 113 442	22 319 745
Loan from South African Fruit Exporters (SAFE)	10 811 172	16 592 315
	37 924 614	**38 912 060**

35.2 Financial assets by category

The accounting policies for financial instruments have been applied to the line items below

	AGENCY 2015		
	FAIR VALUE	AMORTISED COST	COST
Cash and cash equivalents	-	-	102 829 878
Trade and other receivables	26 677 750	-	-
Loans and advances to customers	-	67 824 362	-
Investments under contingency policy	-	8 168 006	-
	26 677 750	**75 992 368**	**102 829 878**

	AGENCY 2014		
	FAIR VALUE	AMORTISED COST	COST
Cash and cash equivalents	-	-	85 470 869
Trade and other recievables	27 204 935	-	-
Loans and advances to customers	-	50 108 923	-
Investments under contingency policy	-	7 724 167	-
	27 204 935	**57 833 090**	**85 470 869**

	GROUP 2015		
	FAIR VALUE	AMORTISED COST	COST
Cash and cash equivalents	-	-	104 652 533
Trade and other receivables	27 564 599	-	-
Loans and advances to customers	-	67 824 362	-
Investments under contingency policy	-	8 168 006	-
Investments	-	-	-
Receivable owing from Arengo 316 (Proprietary) Limited	-	7 469 957	-
	27 564 599	**83 462 325**	**104 652 533**

	GROUP 2014		
	FAIR VALUE	AMORTISED COST	COST
Cash and cash equivalents	-	-	108 063 151
Trade and other receivables	27 953 680	-	-
Loans and advances to customers	-	50 108 923	-
Investments under contingency policy	-	7 724 167	-
Investments	-	-	-
Receivable from Arengo 316 (Proprietary) Limited	-	7 455 333	-
	27 953 680	**65 288 423**	**108 063 151**

36. COMPARATIVE FIGURES

As part of the audit action plan, a total review of the accounts were performed by management to ensure that the financial results are complete and correct. All discrepancies identified during the 2014 audit were investigated and correcting entries were passed.

(a) Interest earned on the Job's Fund programmes were ringfenced. The agency's interest income was reduced with R22 922 and the Job's Fund administered funds increased.
(b) Project accruals of R1 258 208 that could not be verified after year-end was reversed. The expenses decreased and the accruals decreased.
(c) A duplicate invoice received from a supplier of R12 664 on computer maintenance costs was reversed to reduce the expense and the payable.
(d) A review of obsolete computers resulted in the increase of depreciation of R42 718 and a related decrease in the equipment value.
(e) Entertainment costs reduced with R4 050, marketing expenses reduced with R22 500, municpal charges reduced with R148.91, repairs and maintenance reduced with R3 252, provident fund contributions decreased with R3 997 and the related payables reduced.
(f) The audit of the financial statements of Kangela Citrus resulted in a net decrease in profits of R59 944 for 2014. Sundry income increased with R2 528 with net expenses increasing with R62 472.
(g) The fair value adjustments on biological assets on the Kangela Citrus financial statements were split to record a gain attributable to the physical change of the assets with R13 727 433 and a fair value loss of R2 074 259. This resulted in the increase of the cost of sales to R28 369 577.
(h) The administered funds held by ARDA of R18 578 200 was included in cash and bank and the liabilities.

Statement of Financial Performance

	BALANCE PREVIOUSLY REPORTED (GROUP)	RESTATED BALANCE (GROUP	ERROR CORRECTED
Income			
Fair value adjustment: Biological assets	-	13 727 433	13 727 433
Interest income on cash and investments	675 457	652 535	(22 922)
Sundry income	4 680 185	4 682 714	2 529
	5 355 642	**19 062 682**	**13 707 040**
Expenses			
Audit fees	4 602 477	4 603 152	675
Bank charges	270 539	270 688	149
Computer software maintenance	2 235 591	2 222 927	(12 664)
Cost of sales	16 934 542	28 369 577	11 435 035
Depreciation of investment property and property, plant and equipment	5 073 984	5 165 384	91 400
Entertainment	73 534	69 484	(4 050)
Fair value adjustment: Biological assets	892 684	2 966 943	2 074 259
Finance charges	356 487	378 254	21 767
General expenses	29 434	29 802	368
Insurance	418 787	432 838	14 051
Marketing	1 489 891	1 467 391	(22 500)
Municipal services - rates, water and electricity	906 638	909 146	2 508
Printing and stationery	1 053 396	1 053 889	493
Project expenses	16 216 047	14 957 839	(1 258 208)
Protective clothing and uniforms	23 367	42 994	19 627
Rental of equipment	110 637	119 623	8 986
Repairs and maintenance - general	833 217	848 513	15 296
Salaries - provident fund contributions	3 796 972	3 792 975	(3 997)
Salaries and wages	51 194 450	51 329 984	135 534
Security	1 019 332	1 026 895	7 563
Staff training	1 507 804	1 508 504	700
Staff welfare	80 598	78 919	(1 679)
Telephone calls and data lines	3 702 708	3 704 327	1 619
	112 823 116	**125 350 049**	**12 526 933**

Statement of Financial Position

	BALANCE PREVIOUSLY REPORTED (GROUP)	RESTATED BALANCE (GROUP	ERROR CORRECTED
Non-current assets			
Property, plant and equipment	11 633 892	11 591 173	(42 719)
Current assets			
Trade and other receivables	28 030 975	27 953 680	(77 295)
Cash and cash equivalents	89 484 980	108 063 151	18 578 171
Current liabilities			
Trade and other payables	23 629 230	22 319 745	(1 309 485)
Liabilities arising from non-exchange transactions	22 944 476	41 545 598	18 601 122
Equity			
Accumulated Surplus	88 703 206	89 929 698	1 226 492

Statement of comparison of budget and actual amounts for the year ended 31 March 2015

The Agency's publicly disclosed budget is prepared on the cash basis whilst the AFS is prepared on the accrual basis. The budget is classified per strategic goal regardless of the underlying operating expenditure items whereas the ECRDA consolidated annual financial statements is based per income and expenditure line items.

Both the financial statements and the budget covers the period 1 April 2014 to 31 March 2015. The comparison of budget and actual amounts are based on the MTEF Budget narrative as presented to the Department of Rural Development and Agrarian Reform and the Eastern Cape Provincial Treasury.

	ACTUAL 2013/14	ACTUAL 2014/15	BUDGET 2014/15	VARIANCE
Revenue	**183 753 530**	**221 330 228**	**227 116 000**	**(5 785 772)**
Sale of goods and services (i)	-	-	-	-
Interest, dividends and rentals (ii)	3 714 568	2 848 997	3 728 000	(879 003)
Other non-tax revenue (iii)	3 901 963	2 403 294	12 609 000	(10 205 706)
Transfer received (iv)	176 137 000	216 077 936	210 779 000	5 298 936
Expenses	**170 450 201**	**204 601 737**	**227 116 000**	**(22 514 263)**
Compensation of employees (v)	49 653 575	58 686 173	60 500 000	(1 813 827)
Goods and services (vi)	36 455 606	103 722 777	133 711 000	(29 988 223)
Depreciation (vii)	3 849 254	5 094 176	4 455 000	639 176
Interest, dividends and rentals (viii)	2 391 894	6 344 990	6 011 000	333 990
Transfers and Subsidies (iv)	78 099 871	30 753 621	22 439 000	8 314 621
SURPLUS/(DEFICIT)	**13 303 330**	**16 728 491**	**-**	**16 728 491**

Reason(s) for material variances

(i) The agency classifies commissions earned and agency fees as other non tax revenue. There was no sale of biological assets during the 2014/15 financial year at agency level.

(ii) Interest earned on cash holdings were less than the income estimates as additional administered fund projects from which the agency earns interest could not be secured during the year.

(iii) Other non-tax revenue were less than the revised income estimates as additional administered fund projects from which the agency earns comissions/agency fees could not be secured during the year. In addition, the unimpaired revenue generated from the ECRDA loan book was less than expected.

(iv) Transfers received exceeded the budget due to additional funding allocated to Magwa Enterprise Tea - R2 198 660, Majola Tea Estate - R901 340 and expenditure incurred on behalf of DRDAR relating to harvesting costs - R648 936 and female farmers' awards of R1 550 000.

(v) Compensation of employees were less than expected as only the most critical positions were filled based as a cost saving measure and as per correspondence from Provincial Treasury.

(vi) The expenditure on goods and services is less than what was budgeted. Infrastructure related expenditure was incurred during the latter part of the year which was later than expected. The goods and services line item does not include loans issued during the year.

(vii) Depreciation exceeded expectation due to the purchase of property, plant and equipment for the Rural Enterprise Development Hubs

(viii) The expenditure on rentals is higher than budgeted for. The ECRDA rented offices in the Nelson Mandela Metropole as part of the geographical spread of its offices.

Reconciliated between the detailed income statement and the budget versus actual comparison

	ACTUAL 2014/15	ACTUAL 2013/14
Total Income as per Income Statement	232 211 792	151 156 466
Add:		
Ilima Letsema Grant	-	38 000 000
Less:		
Results from Lending activities	15 202 813	(933 246)
Fair value adjustments and Reversal of impairments and provisions	(22 462 651)	(1 337 029)
Commission fees for managing projects (accrued)	(3 621 726)	(3 073 892)
Gain on disposal of assets		(58 769)
Total Income for comparison of budget and actual income	**221 330 228**	**183 753 530**
Total Expenses as per Income Statement	210 303 006	151 045 005
Add:		
Ilima Letsema Grant	-	38 000 000
Less:		
Bad debts - rental and other income	(21 581)	(1 535 621)
Fee - MAFISA Scheme	(451 377)	(405 501)
Fair value adjustments and impairments	(543 472)	(563 225)
Scrapping of obsolete property, plant and equipment	(494 466)	-
Minor assets expensed	(91 054)	(7 625)
Cropping Expenses not budgeted for	-	(14 407 628)
Social benefit from concessionary loans	(4 099 319)	(1 675 204)
Total Expenses for comparison of budget and actual income	**204 601 737**	**170 450 201**
Net result	**16 728 491**	**13 303 330**

UNAUDITED SUPPLEMENTARY INFORMATION

Detailed consolidated statement of financial performance as at 31 March 2015

	AGENCY		GROUP	
	2015	2014	2015	2014
Interest income on loans and advances	1 805 269	8 933 473	1 805 269	8 933 473
Net credit impairment charge	(17 094 482)	(8 037 938)	(17 094 482)	(8 037 938)
Credit impairment charge	(2 046 222)	(8 937 528)	(2 046 222)	(8 937 528)
Write off of irrecoverable loans and advances	(17 453 814)	(124 177)	(17 453 814)	(124 177)
Interest on concessionary loans	2 046 222	740 526	2 046 222	740 526
Recovery of loans and advances previously written off	359 332	283 241	359 332	283 241
Net interest margin on lending activities	(15 289 213)	895 535	(15 289 213)	895 535
Loan initiation fees	86 400	37 711	86 400	37 711
Result from lending activities	**(15 202 813)**	**933 246**	**(15 202 813)**	**933 246**
Interest income on loans and advances / Average gross loans and advances	0.29%	1.53%	0.29%	1.53%
Insurance contract income	-	102 092	-	102 092
Insurance contract claims	-	-	-	-
Movement in provision for insurance contracts	-	-	-	-
Result from insurance activities	**-**	**102 092**	**-**	**102 092**
Other income	**31 336 669**	**11 984 129**	**79 763 826**	**48 495 721**
Commission fees for managing projects	3 621 726	3 073 892	3 621 726	3 073 892
Discount received	125 491	142 930	125 491	142 930
Dividends received	-	2 015 205	-	2 015 205
Fair value adjustment: Guardrisk	8 533	1 112	8 533	1 112
Fair value adjustment: Biological assets	-	-	19 601 224	13 727 433
Gain on disposal of property, plant and equipment	-	58 769	-	58 769
Interest income on cash and investments	1 980 053	626 094	2 009 804	652 535
Impairment reversed	563 225	169 769	563 225	169 769
Impair contingency insurance contract	70 699	-	70 699	-
National Skills Fund	109 696	141 202	109 696	141 202
Private telephone calls recovered	-	73 938	-	73 938
Rental income from investment property	868 945	1 073 269	868 945	1 073 269
Revenue from non-exchange transactions	1 000 000	-	1 000 000	-
Provision for bad debts on loans reversed	20 820 194	1 159 452	20 820 194	1 159 452
Provision for rental debtors reversed	-	6 696	-	6 696
Sale of goods	-	-	28 717 361	21 516 805
Sundry income	2 168 108	3 441 801	2 246 928	4 682 714
Government grant from Eastern Cape Department of Rural Development and Agrarian Reform	**216 077 936**	**138 137 000**	**216 077 936**	**138 137 000**
TOTAL INCOME	**232 211 792**	**151 156 466**	**280 638 949**	**187 668 058**
EXPENSES				
Adminsitration fee - Guardrisk	-	42 000	-	42 000
Administration Costs	6 050	860	6 050	860
Accounting fees - subsidiaries	419 504	231 074	472 004	231 074
Audit fees	3 151 659	4 441 506	3 437 231	4 603 152
Internal Audit Fees	552 539	1 251 693	552 539	1 304 733
Bad debts - rental and other income	21 581	1 535 621	21 581	1 535 621
Bad debts - Loans	-	-	-	-
Bank charges	241 893	217 563	287 309	270 688
Cleaning	217 454	277 238	218 577	279 265
Commission	-	-	-	24 826
Computer maintenance	1 547 582	75 443	1 560 305	103 691
Computer software maintenance	2 046 290	2 222 927	2 046 290	2 222 927
Cost of Sales	-	-	38 285 285	28 369 577
Debt collection service fees	1 798	62 049	1 798	62 049
Depreciation of investment property and property, plant and equipment	5 094 176	3 849 254	5 802 869	5 165 384
Directors' remuneration and fees	3 100 140	4 120 095	3 100 140	4 120 095
Directors' travelling and subsistence - non executive	1 424 959	1 635 721	1 441 824	1 724 584

Expenses continued...	AGENCY		GROUP	
	2015	2014	2015	2014
DRDAR funded programme: Female Awards	1 476 190	-	1 476 190	-
DRDAR funded programme: Gqwesa Harvesters	648 936	-	648 936	-
ECRDA Establishment costs	17 100	518 577	17 100	518 577
Entertainment	55 708	18 934	68 350	69 484
Enquiry Fees	28 389	31 794	28 389	31 794
Fair value adjustment on receivables and assets	543 472	563 225	543 472	563 225
Fair value adjustment on sale of biological assets	-	-	-	2 966 943
Fee - MAFISA Scheme	451 377	405 501	451 377	405 501
Finance costs	25 036	21 907	262 005	378 254
General expenses	48 229	21 202	57 827	29 802
Insurance	207 996	252 065	349 972	432 838
Investment gain/loss	90	-	90	-
Leasing charges	335 014	339 302	335 014	346 539
Legal expenses	1 643 265	634 356	1 646 556	726 338
Scrapping of obsolete property, plant and equipment	494 466	-	502 530	-
Marketing and functional partnerships	2 821 933	1 450 955	2 828 723	1 467 391
Minor assets expensed	91 054	7 625	97 239	12 003
Motor vehicles: fuel and maintenance	787 874	901 898	806 749	925 391
Municipal services - rates, water and electricity	1 716 778	832 377	1 805 023	909 146
Penalties and Fines	680	527	1 624	527
Postages	61 197	109 310	62 849	112 739
Printing and stationery	1 314 495	1 021 264	1 364 989	1 053 889
Professional Fees	2 088 886	3 452 278	2 175 674	3 824 489
Project expenses	63 645 669	14 407 628	63 956 419	14 957 839
Protective clothing and uniforms	38 544	21 617	52 895	42 994
Relocation - staff and offices	2 653 234	138 198	2 891 375	138 198
Rental charges on land and buildings	6 319 954	2 369 987	6 319 954	2 369 987
Rental of equipment	-	-	65 082	119 623
Repairs and maintenance - general	985 947	253 406	1 532 591	848 513
Repairs and maintenance - buildings	10 157	18 613	10 157	18 613
Subsidiary grants	28 098 675	40 099 871	15 973 344	28 358 575
Salaries - medical aid contributions	1 701 411	1 917 613	1 701 411	1 917 613
Salaries - provident fund contributions	4 754 463	3 792 975	4 754 463	3 792 975
Salaries and wages	52 230 299	43 942 987	60 013 635	51 329 984
Security	847 710	991 248	847 677	1 026 895
Skills levy	568 720	442 604	568 720	442 604
Staff recruitment	-	16 393	-	16 393
Staff refreshments	163 621	182 430	163 621	182 430
Staff training	1 721 638	1 470 268	1 736 358	1 508 504
Staff ancillary cost	387 053	56 979	407 362	78 919
Stakeholder management	482 789	745 607	482 789	745 607
Subscriptions	101 619	72 356	102 219	76 559
Social benefit from concessionary loans	4 099 319	1 675 204	4 099 319	1 675 204
Telephone calls and data lines	1 955 610	3 623 490	2 013 040	3 704 327
Travelling, accommodation and subsistence	6 836 348	4 256 840	7 512 530	4 690 557
Worker’s forum	16 436	2 550	16 436	2 550
Workmen’s compensation	-	-	271 826	-
TOTAL EXPENSES	**210 303 006**	**151 045 005**	**248 257 705**	**182 880 860**
(DEFICIT) / SURPLUS BEFORE TAXATION	**21 908 786**	**111 462**	**32 381 245**	**4 787 198**
TAXATION	**-**	**-**	**1 507 108**	**-**
(DEFICIT) /SURPLUS AFTER TAXATION	**21 908 786**	**111 462**	**30 874 136**	**4 787 198**

Composition:				
ECRDA			21 908 786	111 462
Agrarian Research and Development Agency (Pty) Ltd			(1 437 238)	(3 227 367)
Kangela Citrus Farms (Pty) Ltd			10 384 020	7 919 324
North Pondoland Sugar (Pty) Ltd			18 569	(16 221)
			30 874 136	**4 787 198**

ECRDA
Eastern Cape Rural Development Agency

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T: 043 604 7000 | F: 043 642 5824 | E: info@ecrda.co.za
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Registered name: Eastern Cape Rural Development Agency
Physical address: 128 Alexandra Road, King Williams Town 5600
Postal address: PO Box 495, King Williams Town 5600
External Auditors: The Auditor-General of South Africa
Bankers information: First National Bank, Standard Bank of South Africa
Company Secretary: Gwen Koyana