ECRDA

Eastern Cape Rural Development Agency

Annual Report 2020/21

Future Reimagined

ECRDA
Eastern Cape Rural Development Agency

Registered Name	Eastern Cape Rural Development Agency
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External Auditors	AGSA
Company Secretary	Frank Botha

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For attention: Honourable Nonkqubela Pieters

Member of the Executive Council for the Department of Rural Development and Agrarian Reform. The Board has the honour of submitting the Annual Report of the Eastern Cape Rural Development Agency (ECRDA) for the period 01 April 2020 to 31 March 2021

Ms Lulama Nare
Chairperson of the Board

Abbreviations

AFS	Annual 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
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
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
RED	Rural Enterprise Development Hubs
SALGA	South African Local Government Association
SCM	Supply Chain Management
UFH	University of Fort Hare
UJ	University of Johannesburg
UNISA	University of South Africa

Eastern Cape
Rural Development
Agency

PART A

About The ECRDA

ABOUT THE 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 a merger between 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 integrated rural development strategy for the Eastern Cape Province.

Transparency
We will be clear and open in our actions and promote inclusive and accountable participation by all stakeholders.

Excellence
We will build a competent, capable organisation best equipped to deliver quality services in all interventions and assignments within our mandate for rural development.

Honesty and Integrity
We will be professional, respectful, fair and consistent in our dealings and deliver decisions focused on ethical outcomes.

Innovation
We will be creative and push the boundaries of technology to be relevant and responsive to the development needs of rural communities.

Commitment to empowerment
We will prioritize the upliftment of communities we serve, as well as the capacitation of staff and connected development agents to drive excellence.

Ubuntu
We will demonstrate our commitment to shared humanity and solidarity in the pursuit of common goals for development.

Strategic Overview

Vision: Uqoqosho Iwamaphadle oluzinzileyo, oluquka uwonke-wonke (An inclusive and sustainable rural economy)

Mission:
Connecting abanegelelo to catalyse the prosperity of the rural Eastern Cape

LEGISLATIVE FRAMEWORK

The Agency is impacted upon by the following legislation with which there has to be alignment, compliance and consistency. These include, but are not limited to, the following:

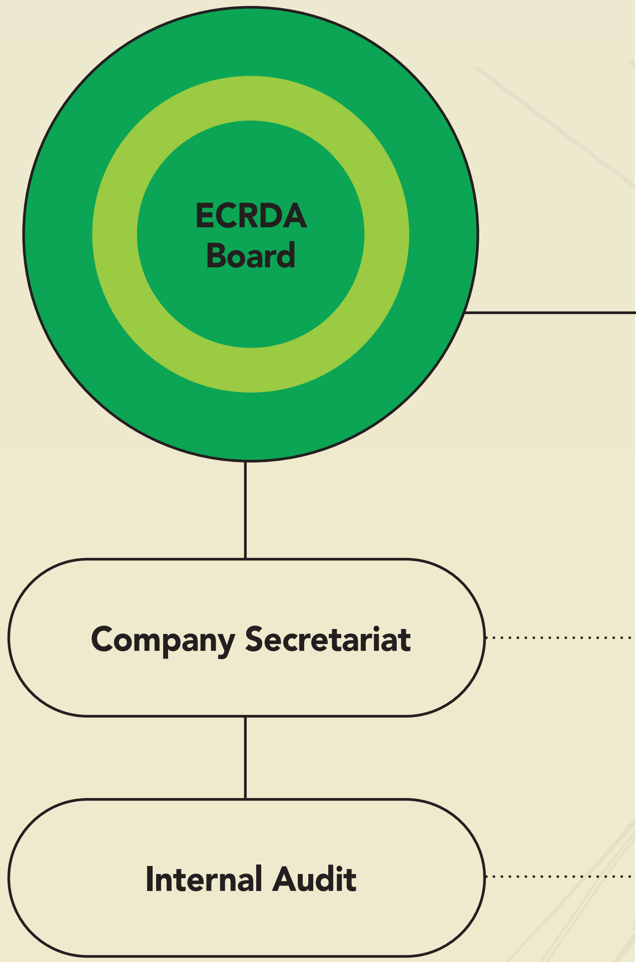
- Eastern Cape Rural Finance Corporation Amendment Act, 2012
- Public Finance Management Act, 1999 Act No.1 of 1999
- Basic Conditions of Employment Act,1997 Act No.75 of 1997
- Preferential Procurement Policy Framework Act, 2000 Act No. 5 of 2000
- Skills Development Act, 1998 Act No. 97 of 1998
- Occupational Health and Safety Act, 1993 Act No. 85 of 1993
- Employment Equity Act, 1998 Act No. 55 of 1998
- Promotion of Access to Information Act, 2000 Act No. 2 of 2000
- Promotion of Administrative Justice Act, 2000 Act No. 2 of 2000

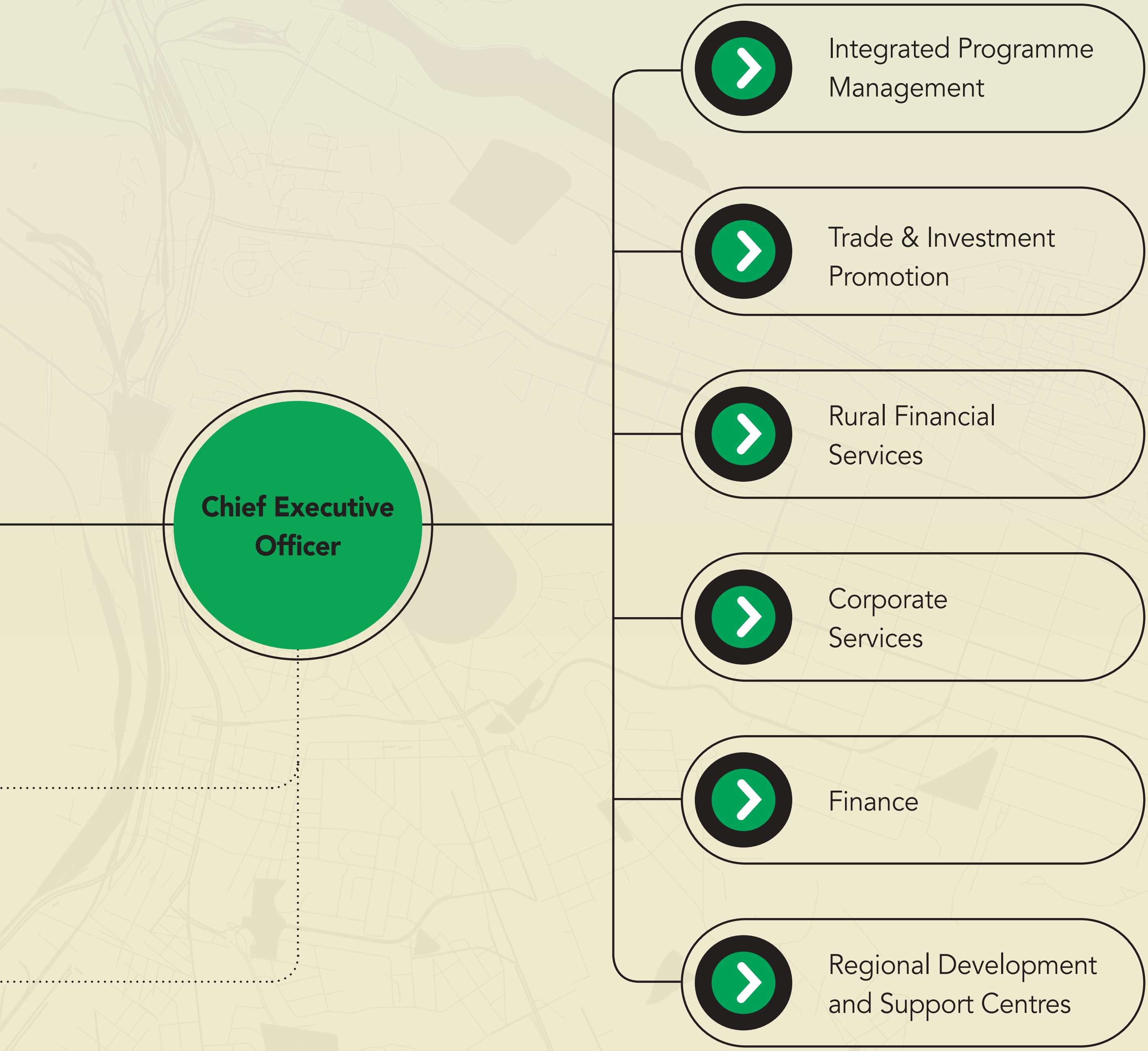
MANDATE

Legislative Mandate

1. Mobilising financial resources and providing financial and supportive services.
2. Promoting and encouraging private sector investment in Eastern Cape.
3. Promoting, assisting and encouraging development of the Eastern Cape Human Resources and financial infrastructure.
4. Acting as the government's agent performing development related tasks
5. Driving and co-ordinating integrated programs of land reform
6. Project managing rural development interventions
7. Promoting applied research and innovative technologies for rural development
8. Planning, facilitating, Monitoring and Evaluation rural development high impact projects
9. Facilitating private sector participation and investment in rural development

Organisational Structure




Chief Executive Officer
Integrated Programme Management
Trade & Investment Promotion
Rural Financial Services
Corporate Services
Finance
Regional Development and Support Centres

ECRDA Board

1

MS L NARE

Chairperson
Appointed
April 2019
Committees:
Human Capital & Remuneration Committee.

2

MR V JARANA

Deputy Chairperson
Reappointed
July 2020
Committees:
Audit, Risk & Compliance Committee.
Finance, Projects & Investment Committee.

3

MR M NCWADI (EXITED FEBRUARY 2021)

Deputy Chairperson
Reappointed
April 2019
Committees:
Social & Ethics Committee.
Finance, Projects & Investment Committee.

4

AMB M MAQETUKA (RESIGNED NOVEMBER 2020)

Appointed
October 2018
Committees:
Human Capital & Remuneration Committee.

5

MR S MAKUNGA

Appointed
April 2019
Committees:
Chairperson: Social & Ethics Committee.
Finance, Projects & Investment Committee.

6

MR S FAKU

Appointed
1 April 2019
Committees:
Chairperson: Human Capital & Remuneration Committee.
Finance, Projects & Investment Committee.

7

ADV P MAYAPHI

Appointed
April 2019
Committees:
Audit, Risk & Compliance Committee.
Human Capital & Remuneration Committee.

8

MS Z THOMAS

Appointed
April 2019
Committees:
Chairperson: Audit, Risk & Compliance Committee. Social & Ethics Committee.

9

MS N MBETE

Appointed
April 2019
Committees:
Chairperson: Finance, Projects & Investment Committee.
Audit, Risk & Compliance Committee.

10

MS N PETELA-NGCANGA (DECEASED DECEMBER 2020)

Appointed
1 April 2019
Committees:
Human Capital & Remuneration Committee.

11

MR M MSOKI

Appointed
1 April 2019
Committees:
Human Capital & Remuneration Committee.

Statement of responsibility and confirmation of the accuracy of 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 GRAP 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 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 entity for the financial year ended 31 March 2021.

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n dladla
Chief Executive Officer
Date

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Ms Lulama Nare
Chairperson of the Board
Date


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CHAIRPERSON'S *Foreword*

The Board issues this report following a period which provided a serious challenge to the efficacy and posture of the organisation as an able steward of empowering and catalytic rural development initiatives. During this period, the ECRDA confronted serious challenges in its service delivery machinery which were mainly caused by a COVID-19 pandemic that visited widespread socio-economic devastation, destroying small businesses, shedding millions of jobs and threatening the overall stability of the economic and business order.

Our response to this challenge was occasioned by an urgent need to bolster the overall sustainability of the Small Medium and Micro Enterprises (SMMEs) and the community projects we support. With collaborative support which included the shareholder department, the Department of Rural Development and Agrarian Reform (DRDAR) and other partners, we were able to implement rural financing programmes as well as catalytic high impact projects (CHIPS). In addition, the R255 million budget allocation by the shareholder allowed the ECRDA to lay the foundation for the rejuvenation of the ECRDA by commencing the implementation of new projects which will unlock economic and small business activity in rural communities. The ECRDA's new project mix includes aquaculture, wool and mohair, cannabis and marine tilapia industries, district mechanisation centres as well as Rural Enterprise Development (RED) Hub aggregation centres. These activities are responsive to the Provincial Development Plan's (PDP) goal of building vibrant, equitable and enabled communities

Challenges

Our response also entailed doing the initial work in addressing the challenges in the rural finance programme. In 2020/21, we developed a Rural Financial Services Strategy Framework which aimed to overhaul and stabilise the rural finance programme. The early phases of the framework have been put in motion by "cleaning up" the loan book of irrecoverable loans. We are redesigning our product and service offering to align with the needs of our clients while addressing corporate sustainability. By facilitating and developing the operating and management capabilities of our clients, we will ensure the recoverability of business loans. Between 2022 and 2024 the strategy framework plans to entrench and expand the programme followed by the consolidation and growth of the rural finance offering.

This response was aided by the Board collective which ensured that corporate governance fundamentals are firmly entrenched in order to protect and promote the overall relevance, viability and sustainability of the organisation. That the organisation emerges from this period as a going concern is testament to its solid and sound adherence to responsible corporate governance principles. The overall corporate governance ethos of the ECRDA is based on a strong ethical organisational and managerial culture which promotes strong people performance. I am grateful to the Board collective for using its appropriate skills, industry experience as well as its diverse gender and geographical backgrounds for objective decision-making and steering the ECRDA through the worst of the effects of the COVID-19 pandemic.

The adherence to sound governance practices has filtered into business operations. Despite existing challenges, the ECRDA maintained its unqualified audit opinion in 2020/21. This is important for building public and funder confidence. In 2020/21, administrative expenses dropped from R14,1 million in 2019/20 to R8,6 million in 2021. Operating expenses decreased from R65,7 million in 2019/20 to R36,1 million in 2020/21. These improvements are responsive to the PDP's goal of building capable, conscientious and accountable institutions in the province.

R5,5m
reduction on administrative expenses from R14,1m to R8,6m

R29,6m
reduction in operating expenses from R65,7m to R36,1m

The ICT function was mobilised to aid the effective functioning of "work-from-home" and remote support interventions which were introduced to ensure the continuation of business activities.

Coming out of the business rescue process, our subsidiary, Magwa Enterprise Tea (MET) began a rebirth process premised on transforming the estate into a critical player in South Africa's eco-tourism and tea industry. During the reporting period, MET's registration was amended to a state-owned company. The Eastern Cape Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) transferred its shares to the Department of Rural Development and Agrarian Reform (DRDAR) which delegated the Eastern Cape Rural Development Agency (ECRDA) to take over the shares. A 15-year master plan for the estate has been approved which aims to expand the estate from tea manufacturing into an agri-ecotourism hub. The plan for the MET Agri and Eco-Tourism Corridor aims to take advantage of the draft National Spatial Development Framework (NSDF) and its transformative promise for Lusikisiki as one of 61 nodes which are prioritised for development towards a spatially rebalanced economy. Allied to this, is the N2 that is under development and it will pass very close to Magwa in Lusikisiki signalling more opportunities for improved logistics for the movement of products and people.

Strategy Implementation

Strategy implementation is being driven by the objective of building an inclusive and sustainable rural economy which will be achieved by connecting abanegalelo to catalyse the prosperity of the rural Eastern Cape. We are doing this by ensuring that our activities find alignment with the National Development Plan (NDP) and the PDP as depicted in the organisational strategy.

Our project implementation finds expression with the development of a capable developmental state and the development of an inclusive rural economy as outlined in the NDP. We continue to place emphasis on job creation for targeted groups in line with the NDP's goal of economic transformation and job creation and the PDP's goal of a growing inclusive and equitable economy. Of the 204 jobs created in 2020/21 through the ECRDA's interventions, 67% are women, youth and people living with disabilities.

In line with the NDP's and PDP's goal of improving education, training and innovation as well as an educated and innovative citizenry, we are also implementing human resource policies which empower women in the workplace. A coaching and mentoring programme is in place which enhances the leadership skills of a group of identified females at the agency. The plan is to build the leadership capabilities within the organisation in order to fulfil the equity vision of the organisation. We have policies in place aimed at reskilling the workforce and retaining the talent pool.

We also continue to ensure that the ECRDA's supply chain policies favour the development of previously disadvantaged groups.

Strategic Partnerships

We are grateful to the shareholder, stakeholders and partners for your continued support as we embark on a reconfigured and reimagined ECRDA. The Board, executive management and all the ECRDA's people are seized with the inspired implementation of the its revised five-year strategy which should deliver the desired mandate outcomes.

Appreciation

We are grateful to the management team and the entire ECRDA staff complement for their resilience in a particularly challenging period for strategy implementation. We extend our thanks to the various communities and SMME's who have accommodated us in their journey toward economic prosperity and a reimagined rural architecture. We are mobilising are human, financial and other resources to better service your needs.

Lulama Nare
Chairperson of the board

ECRDA Executives

NHLANGANISO DLADLA

Chief Executive Officer

JANINE BAXTER

Chief Financial Officer

NAVY SIMUKONDA

Chief Operations Officer

CELLO GARDNER

Corporate Services Executive

CHIEF EXECUTIVE OFFICER'S *Report*

"uqoqosho wamaphadle oluzinzileyo, oluquka uwonke-wonke" - an inclusive and sustainable rural economy. The 2020/21 financial year marked the first year of the implementation of the revised five-year strategy of the Eastern Cape Rural Development Agency (ECRDA), in pursuit of the vision articulated above. It was also a year that ushered in the Covid-19 pandemic and a number of related stresses that have pushed us all to rethink how we order our lives and conduct our work.

The Eastern Cape's rural economy is yet to realise its high potential for high value production which should be supported by sound primary production and processing infrastructure. The significance of the Eastern Cape's rural areas cannot be understated considering that they comprise a major portion of the development interventions imagined for the province. Essentially, this locates the Eastern Cape's rural communities at the epicentre of national strategic and development conversations which acknowledge its strategic significance. This should ensure that the Eastern Cape's rural economy attracts the sought after high impact strategic interventions and investments that are required to bring into life the full socio-economic potential of the region.

Against this under-realised and to a degree under-supported promise, the ECRDA's existing and envisaged interventions are meant to entrench an integrated approach in the implementation of catalytic high impact projects, while providing empowering technical support to agri- and other enterprises operating in the rural areas of the province, this to promote vibrant economic activity which leads to improved rural incomes, jobs as well as competitive and sustainable enterprise. The organisation is thus continuously engaged with government, affected rural communities and traditional authorities to ensure that there is an appropriate appreciation of the organisation's interventions in the rural sector. Communities taking full ownership and pride in these projects will form the basis of successful, sustainable and viable rural enterprise. The ECRDA has also stepped up its efforts to connect local entrepreneurial endeavours in rural communities with institutional partners that can support and resource this effort.

Service Delivery Environment

Our work continues to happen in an environment which is characterised by social vulnerabilities in rural communities that require responses not easily afforded by interventions which are generally not well-coordinated across the public sector. We are thus striving to make that extra effort to reach out to institutional partners that can assist an integrated approach as well as an optimal impact, particularly in the conceptualisation and delivery of catalytic and transformative projects that can reverse underdevelopment and increase the socio-economic security of rural households. A central cog to realising this strategic imperative is the development of robust capabilities for self-representation and self-sustainability of rural communities and entrepreneurial agents that will turn around the social and economic fortunes of these areas.

Organisational Environment

Following a thorough and participatory consultative process around re-shaping the organisation for alignment with the new strategy 2020–2025 the ECRDA board approved a revised organisational structure of the agency in January 2021. The population of the revised structure is underway, with careful attention paid to consolidating our capabilities to be an effective government implementing agency, while mindful of constraints imposed by a gradually dwindling fiscus.

The challenge of a shrinking fiscus though is by no means the bane of the ECRDA alone; many other entities and public institutions find themselves in a similar situation. For the ECRDA, this has prompted greater movement towards leveraging the resources of other partners with a shared interest in the economic upliftment of the Eastern Cape. The resources being mobilised are both material and in kind, and early indications are that our creative response to a condition of want, may in fact yield a pooling of energies and resources that could result in an even greater impact than would be the case of the ECRDA depending on traditional resources for funding our catalytic projects.

The emerging need to consider alternative means resourcing our interventions is also spurring new thinking around the sustainability of the agency itself through partnerships and other arrangements that can generate additional revenue to pursue our work – mainly a balancing of our public good agenda with the commercial imperative we promote and support, and the ECRDA even looking into prospects of equity participation in some ventures through which this dual agenda can thrive.

Financial Review

The financial stewardship of the ECRDA's resources is preceded by the preeminent need to maintain a healthy balancing act between the implementation of high-value, commercially-viable and profitable projects versus those projects which are meant to service a public good not immediately demonstrating financial profit. Against a realistic appreciation of dwindling budget allocations, the ECRDA has to commit itself to a higher standard of fiduciary care and ethics, together with sound financial management, which should also aid a building of confidence as well as address the trust deficit associated with the management of public assets. The agency is pleased that it continues to maintain a relatively healthy record of successive unqualified audit opinions from the Auditor-General. The ECRDA is continuously seized with addressing all material matters raised by the auditors from previous audits in order to improve its audit outcomes further.

I extend my sincere appreciation to government for the R255 million budget allocation for the 2020/21 financial year, The budget was used for the implementation of the catalytic high impact projects under the care of the ECRDA, with a number of these in their infancy. The budget among others funded a number of research studies, planning work, stakeholder engagement and community mobilisation activities associated with new projects such as the Cannabis and Marine Tilapia industries, the Elundini Wool Hub and emerging Mohair entrepreneurs in the Sarah Baartman region, transactional advisory services and the district mechanisation centres. The funds also supported the ongoing implementation of grain-focused Rural Enterprise Development Hubs that are being remodelled into expanded multi-commodity Aggregation Centres, the Tshabo RED Hub dedicated to flora for the establishment of critical infrastructure and start-up plantations of protea flora, as well as technical and capacity-building support to the community-owned forestry projects.

Government made a further fiscal injection of R47.263 million for the revitalisation of the Magwa-Majola Enterprise Tea (MET). The funds were used to give effect to the recently approved and ambitious Magwa-Majola Agri and Eco-Tourism Master Plan, which aims to consolidate the anchor tea enterprise, while expanding to introduce other high value commodities at Magwa and along the naturally endowed corridor from Majola outside of Port St Johns to Magwa in Lusikisiki, with Magwa earmarked as an important centre for the eco-tourism hub.

R47m

further fiscal injection for the revitalisation of the Magwa-Majola Enterprise Tea (MET)

I am pleased to report that the ECRDA is financially sound and it continues to maintain its going concern status.

DISCONTINUED ACTIVITIES / ACTIVITIES TO BE DISCONTINUED

Other than handing back the fledgling livestock programme back to the shareholder Department, DRDAR, the ECRDA did not have any other discontinued operations or activities for the year under review.

SUPPLY CHAIN MANAGEMENT POLICIES AND SYSTEMS

The ECRDA's supply chain management policy is in place and SCM systems and capabilities are undergoing consolidation, as are other critical components of our institutional infrastructure.

AUDIT REPORT MATTERS FROM THE PREVIOUS YEAR

The ECRDA maintained its unqualified audit status and has addressed the matters for emphasis identified in the audit report, namely impairment of the loan book due to the uncollectability and prescription of loans, as well as irregular expenditure incurred. Over and above this, the agency has moved to address a number of other finer areas highlighted for improvement in its operating systems and controls.

Operational Performance

AGROPROCESSING

In 2020/21 the ECRDA provided critical technical support to its five RED Hubs which are comprised of four grain-producing hubs and a flora hub at Tshabo in the Buffalo City Metro. A total of 817 hectares of white maize were planted at three sites. Of the 817 hectares, 122 hectares were planted with grain sorghum at the Emalahleni RED Hub. A further 575 hectares of white maize was planted at the Mbizana RED Hub and 60 hectares were planted at the Mqanduli RED Hub with white maize.

Critical infrastructure was also introduced at the flora Tshabo RED Hub which was established in the 2017/18 financial year. There are 12 primary co-operatives who are beneficiaries at the Tshabo RED Hub. In 2020/21, the ECRDA installed solar drip irrigation on 20 hectares and reservoir water tanks at the Tshabo RED Hub. Prefab site offices with ablution facilities were also constructed. A total of area of five hectares was planted. In 2020/21 the ECRDA began a process of diversifying the activities of the RED Hubs to those of demand aggregators which promote primary production. In 2020/21, the agency identified potential private partners and farmers for the RED Hub Aggregation Centres. Compliance issues were also addressed and the training of farmers was conducted. An awareness campaign to inform producers was conducted as well as the listing of producers.

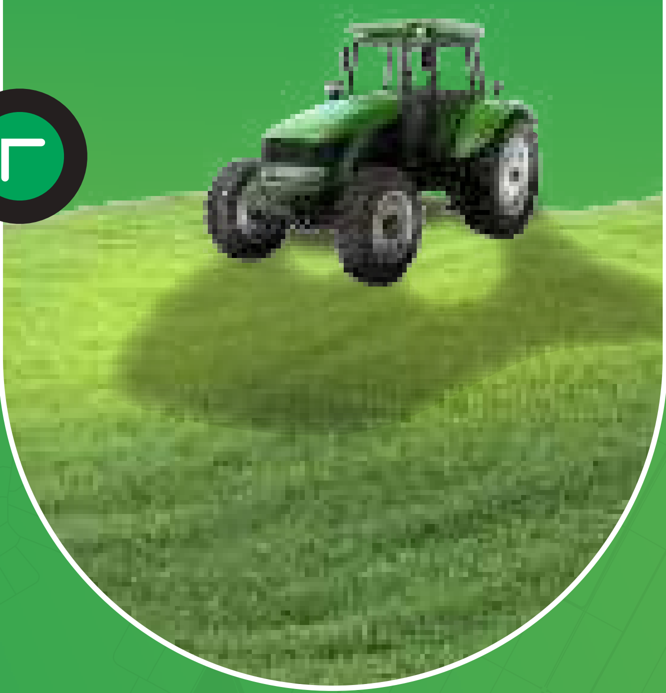
In addition, in 2020/21 the ECRDA introduced district mechanisation centres which are meant to address access to mechanisation for communal and small-scale farmers. District Mechanisation Centres are to be established in the Sarah Baartman, Amathole and Alfred Nzo districts in partnership with the district municipalities and their development agencies. There are mechanisation centres already established in the OR Tambo District Municipality and at Elundini Local Municipality.

2020/21

817 ha
used in the implementation of agro-processing programmes

575 ha
of white maize was planted at the Mbizana RED Hub

20 ha
of solar drip irrigation was installed by the ECRDA at Tshabo RED Hub



FORESTRY DEVELOPMENT

A total of R3,2 million was allocated for forestry development activities in 2020/221. An additional amount of R1,9 million was secured later in the year. This took the total budget for the year to R5,1 million. A total of R3,6 million was used for employee costs at the projects and to pay service providers. A total of 282 690 person hours were recorded for the forestry projects. This included the Mkambathi project workers paid from by their own revenue. This amounts to 136 permanent equivalent jobs for the year. A total of R1, 4 million was used to acquire two 4 x 4 tractors for two projects. The ECRDA is pleased to also report that the Mkambathi project began its first harvesting operation in the 2020/21 financial year.

R5,1m

was allocated for forestry development activities in 2020/221

282 690

person hours were recorded for the forestry projects.

MARINE TILAPIA

During the period under review, the organisation began the planning work for the development of a Marine Tilapia industry to be developed over time along a number of rural coastal municipalities. This work has culminated in Qwaninga Farm 308 in the Qora River in the Mbhashe Local Municipality being identified as the site for the establishment of the Marine Tilapia Industry Incubator. The incubator is earmarked to act as main anchor for the development of the entire industry that will straddle the Eastern Cape and KwaZulu-Natal eastern seaboard when fully developed.

R3,4m

to secure a technical partner for aquaculture training for the local communities and the municipality

The ECRDA initiated the planning stages of the programme in February 2020. The ECRDA used its adjusted R3,4 million budget for 2020/21 to hire a technical partner for aquaculture training for the local communities and the municipality. In 2020/21, a social agreement between the local iNkosi(kazi), communities and the ECRDA was signed. The ECRDA also signed a Memorandum of Understanding (MoU) with the Mbhashe Local Municipality as partner local authority for the development of the industry in the Mbhashe municipal region.

During the review period, the ECRDA also submitted the project for consideration by the Presidency, and this led to the project being prioritised for national development attention as one of the Strategic Integrated Projects (SIP23) gazetted in July 2020.

WOOL AND MOHAIR

In 2020/21, the wool and mohair project was allocated a budget of R677,000 in order to activate planning and set the foundation and building blocks for the further development of the industry. In June 2020, a Memorandum of Understanding and a Service Level Agreement was signed between the ECRDA, the Elundini Local Municipality and the Department of Rural Development and Agrarian Reform for the establishment of the Elundini Wool Hub Project. These agreements specified the roles the three stakeholders would play in the Elundini Wool Hub Project. In addition to these partners, a key stakeholder partner is also the Communal Woolgrowers Association embracing a number of wool-producing regions in the north-east and eastern regions of the province.

With regard to the mohair project, emerging farmers in the Sarah Baartman region were connected to buyers in Scandanavian countries, with their mohair branded as a premium green product that commands premium prices in the export market. Against this, in March 2021, the young goat mohair of one of the ECRDA's emerging mohair farmers in Somerset East was sold at R790 per kilogram. The world record price for this line sold at R799 per kilogram.

In 2020/21, the wool and mohair project was allocated a budget of R677,000 in order to activate the foundation and building blocks for the further development of the industry.

R790

Price per kg for a young goat mohair from the EC

R799

World record price per kg for the world

CANNABIS INDUSTRY

In 2020/21, the programme was allocated a R4,5 million budget which was revised to half this amount because of restrictions imposed as a result of the COVID-19 pandemic, which retarded the pace of activities. The budget was used to rally stakeholder support, funded stakeholder engagement activities in related to the cannabis bill, as well as provided support to farmers in terms of agricultural inputs. A technical advisory team was also established in 2020/21. Community awareness campaigns were also conducted.

During the period under review, the ECRDA worked with DRDAR to develop a strategy for the development of the Cannabis industry in the Eastern Cape. Training was also conducted for interested and affected partners which focussed on the cannabis value chain and key production drivers and requirements thereof.

A Memorandum of Understanding with the Department of Small Business Development was concluded to assist in the establishment of Cannabis Incubators and co-operatives.

TRANSACTIONAL ADVISORY SERVICES

In 2020/21, a budget of R5,2 million was allocated for the establishment of a technical advisory service (TAS). During the 2020/21 financial year the ECRDA developed a transactional advisory services concept document and plan, focused on a detailing of the kinds of services to be offered to rural agri-business and other entrepreneurs, an identification of institutional partners, potential investors, development finance institutions and financial donors to be approached to support entrepreneurs identified through the TAS. A business viability assessment study that is focussed on the ECRDA's clientele was undertaken. A panel of transactional advisory services experts was also established. Furthermore, a framework for packaging the Eastern Cape's investment opportunities was developed. A trade and investment division was also created at the ECRDA during the 2020/21 financial year, as part of the organisational reconfiguration exercise.

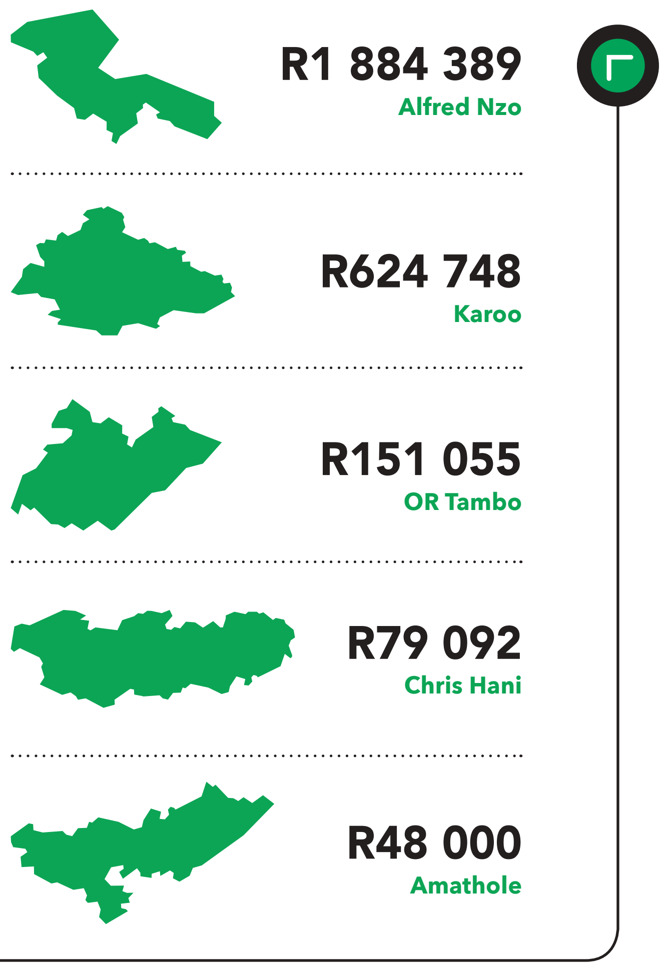
RURAL FINANCE

During the period under review, the ECRDA disbursed a total of R2 787 284 in loans. A total of 58 loans were disbursed to more than 100 beneficiaries. The prevailing drought and the global pandemic has reduced the number of loan enquiries for funding. This also resulted in the reduced value of disbursed loans during the period under review.

In terms of geographic spread, of the R2 787 284 disbursement figure, R1 884 389 went to Alfred Nzo, R624 748 to the Karoo, R151 055 to OR Tambo, R79 092 to Chris Hani and R48 000 to the Amathole district.
In 2020/21, loan repayments were R6 036 701.

The agency also developed a revised future-focused Rural Financial Services Strategy Framework that will underpin a turnaround of the rural development finance programme of the ECRDA.

During the year under review, the agency also undertook a detailed review of its old loan book, and moved to address a long-held off write off of impaired loans that had long prescribed.



FUTURE OUTLOOK

The ECRDA aims to conclude the planning stages of the new identified integrated catalytic high impact projects, while continuing to consolidate and grow existing ones. We look forward to, among others, the exciting bouquet of new catalytic projects mentioned above propelling the ECRDA to a reimagined future which is defined by new industries along carefully connected value chains, jobs, rising income levels and sustainable agri-businesses in rural communities.

APPRECIATION

On behalf of the staff of the ECRDA, I would like to express my heartfelt appreciation to the MEC for Rural Development and Agrarian Reform, the Honourable Noonkqubela Pieters for her continued support to our endeavours. Much appreciated also is the imaginative leadership of the Head of Department of the Department of Rural Development and Agrarian Reform (DRDAR), as well as the close collegial relationship we enjoy with counterparts in DRDAR. We are also indebted to the ECRDA Board of Directors for their wise counsel and for demonstrating a commitment to sound corporate governance during the period under review. I am also grateful for the support of ECRDA staff members for their commitment, unfailing sweat, creativity in pursuit of the agency's development support aspirations. Gratitude also for the support of the various ECRDA partners who ensure that the ECRDA vision is a collaborative enterprise which can count on their financial and other resources for effective project execution. Finally, sincere thanks go to the rural communities we serve and the local development agencies who often keep their ears and eyes on the ground providing valuable support for collaborative endeavours, information, important stakeholder mediation, as well as other critical inputs to ensure the success of programmes whose success is in the interests of all.

nhlanganiso dladla
Chief Executive Officer

OPERATIONS Report

AGRO-PROCESSING

The 2020/21 financial year prepared the foundation for the introduction of exciting new approaches to the implementation of the ECRDA's agro-processing projects. The implementation of these processing initiatives is meant to unlock value in an underserved but promising rural economy. The ECRDA is cognisant of the fact that high value beneficiation interventions lie at the epicentre of a thriving rural economy.

In order to inject the requisite buoyancy into the rural economy, the ECRDA extends several support interventions which are tailored to promote primary production best practices among rural and subsistence farmers in order to prepare them for the rigours of commercial agriculture. While the agency is not involved in primary production activities, it provides critical technical support which is meant to support primary producers to ensure that they exploit the full potential of their prized land assets.

Through its interventions in the sector, the ECRDA mobilises and advocates for a farming revolution among communal farmers so that they break the barriers of entry into the lucrative and intensely competitive commercial farming industry. In addition, the ECRDA has clearly signalled its intent to drive value addition and beneficiation activities which will ensure that primary producers in rural communities get more currency into their pockets for their produce. As a result, the ECRDA is committing its collective resolve on augmenting its value addition capacity and the offering of its Rural Enterprise Development Hubs. The ultimate goal is to improve rural incomes and to ensure the long-term sustainability of rural enterprises as well as the creation of job opportunities.

An improvement in the primary production capacity of rural communities and enterprises should lead to the creation of an entire value chain and downstream opportunities in processing, logistics as well as marketing and sales located within the RED Hubs. This should ensure that revenue circulates within these communities.

RED HUBS

The four grain-producing RED Hubs have milling plants which process maize into maize meal, samp and animal feed. The milling plants have the following processing capacity:

2ton/hour
Emalahleni

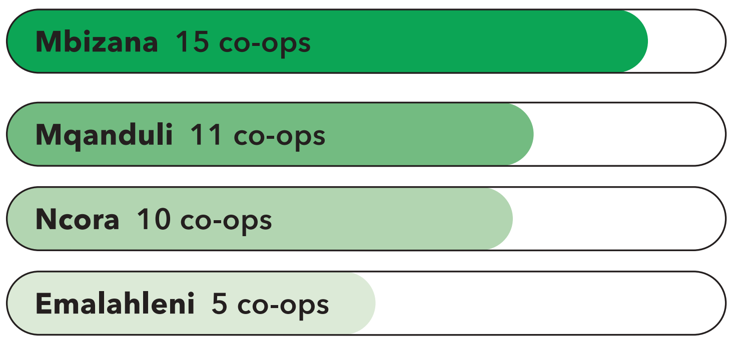
1.1ton/hour
Mbizana

1ton/hour
Ncora

0.8ton/hour
Mqanduli

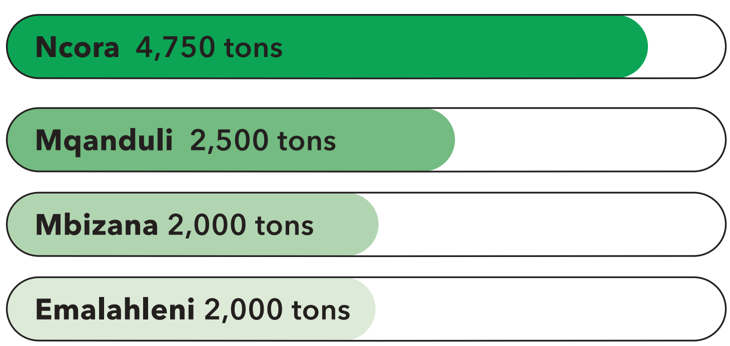
The RED Hubs have a total of 41 primary co-operatives. This is comprised of 15 co-operatives in Mbizana, 11 in Mqanduli, 10 in Ncora and five at Emalahleni. The primary co-operatives have a total of 2,377 members.

41 primary co-operatives
2,377 members



11,259 tons at the four RED Hubs (12 silos)

There are a total of 12 grain storage silos with a total storage capacity of 11,259 tons at the four RED Hubs. This is made up of five in Ncora, three in Mqanduli, and two each at the Mbizana and Emalahleni RED Hubs.



Critical infrastructure is also being introduced at the flora Tshabo RED Hub which was established in the 2017/18 financial year outside Berlin in East London. The RED Hub which has 12 primary co-operatives will farm flowers and vegetables through hydroponics. Solar panels, drip irrigation and reservoir water tanks have been installed at the hub.

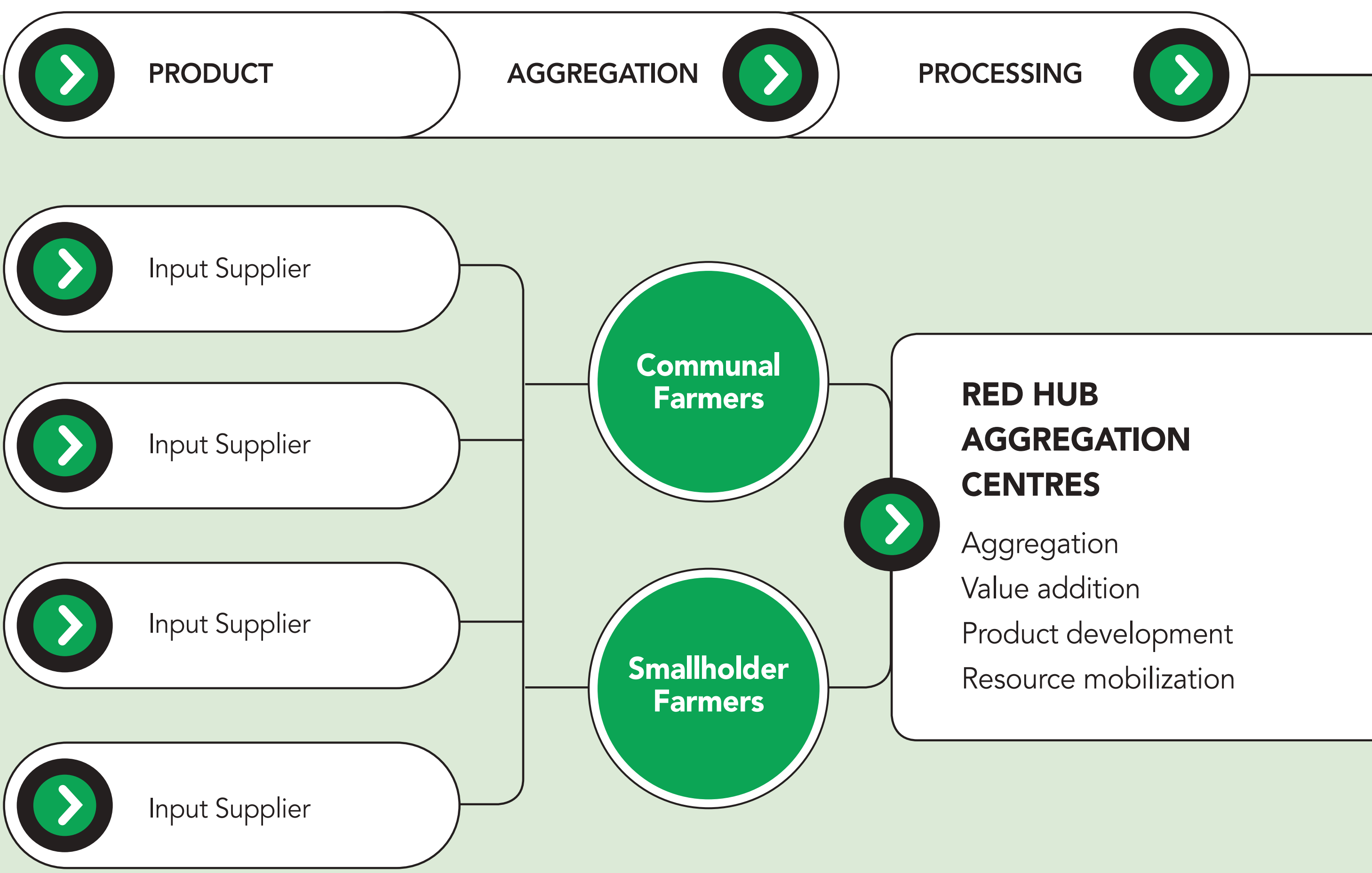
RED HUB AGGREGATION CENTRES

The ECRDA has set its sight on the development of thriving, sustainable and inclusive rural agro-processing centres focused on aggregation and on the value-addition of agricultural produce in the Eastern Cape.

In this regard, in 2020/21 the ECRDA signaled its intent to diversify the activities of the RED Hubs. The plan is for the hubs to serve as demand aggregators which promote primary production and to expand scale. The RED Hubs Aggregation Centres will procure produce from local farmers and open markets. They are intended to inspire an increased adoption of agriculture as a profitable commercial activity. The aggregation centres will boost the competitiveness of the targeted communities by linking the three market elements of production, processing and marketing. The intention is to incorporate support for the entire commodity value chain for small-scale farmers in the form of access to finance, access to inputs, technical support, mechanisation, storage facilities, processing equipment and marketing. The aggregation centres will also promote community development and the empowerment of black agri-entrepreneurs through training and related support.

The aggregation of produce will bring together isolated and fragmented producers in order to achieve economies of scale along the value chain so that the standards and requirements of modern markets are met. An agricultural produce aggregator will be appointed to assist in the development of a business case and business plan. Private sector investors with financial and technical capacity will operate the rural agro-processing centres through agricultural produce aggregation, drying, cleaning, sorting, processing, packaging and distribution. The aggregators will also enable communal and smallholder farmers to sell their produce directly to the centres. The produce will be packaged and processed for both government nutrition programmes and private sector markets. The small-scale farmers will sign a produce off-take agreement with the aggregation centres and the centre would make sure there is market for produce.

RED Hubs Aggregation Centres Model

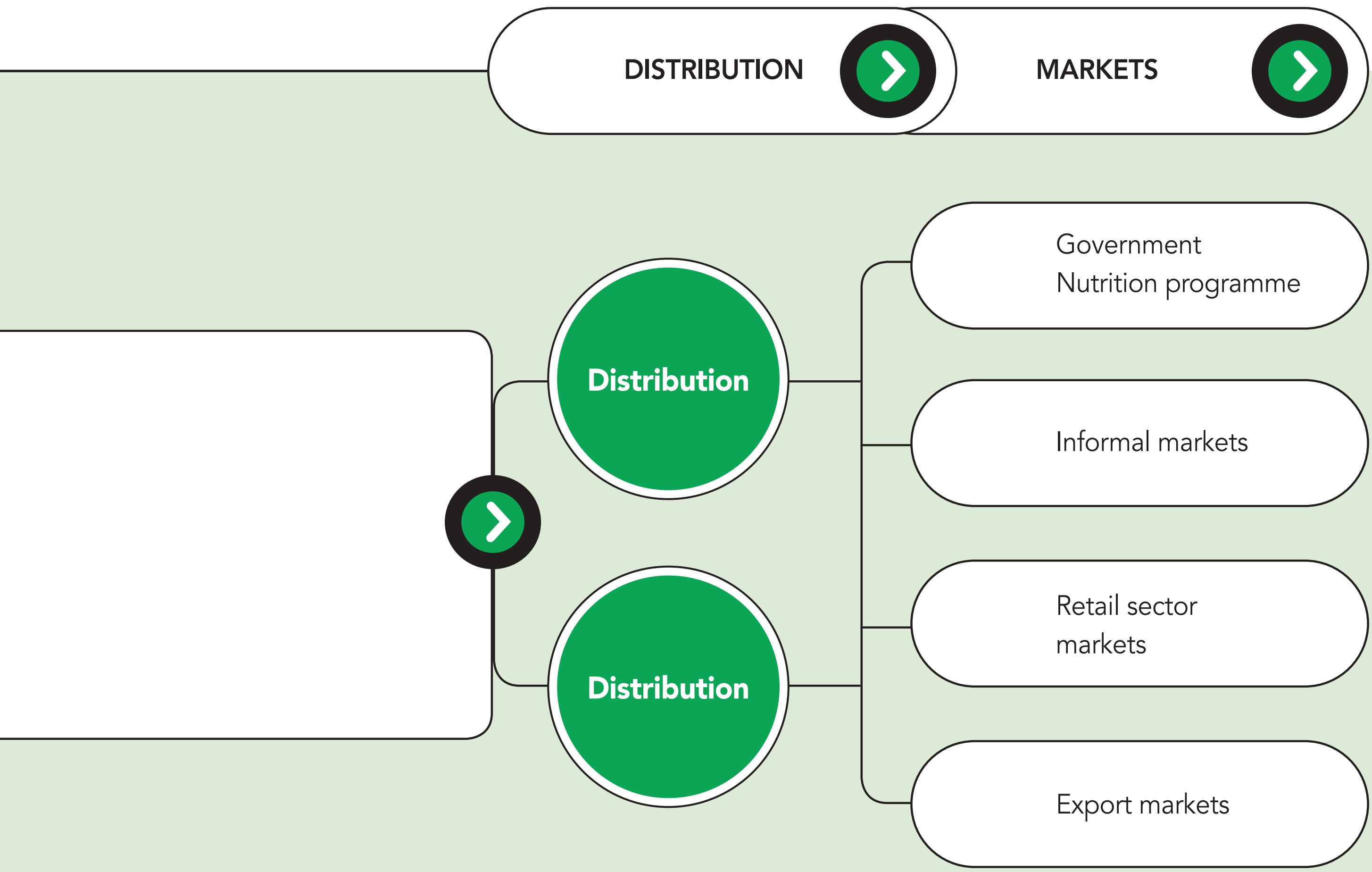


DISTRICT MECHANISATION CENTRES

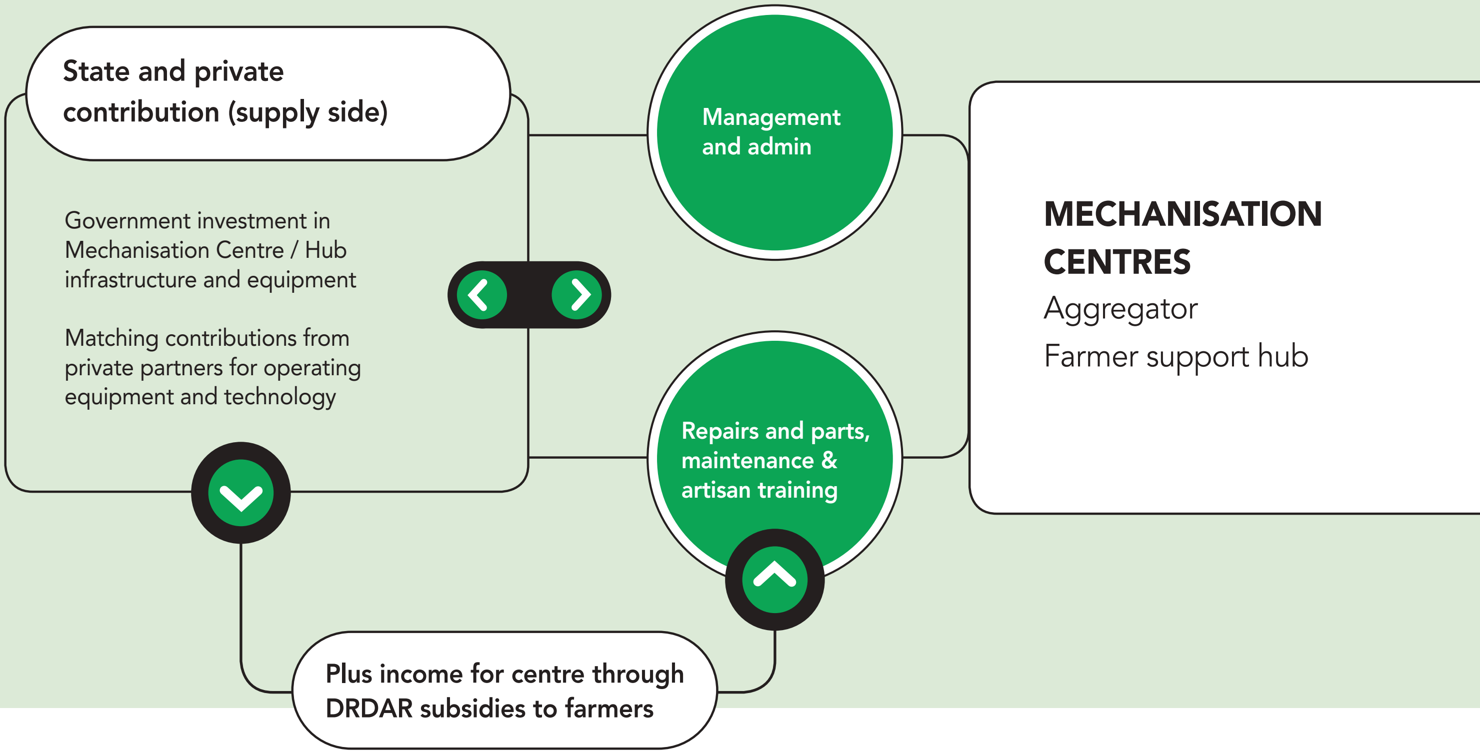
In addition, in 2020/21 the ECRDA introduced district mechanisation centres which are meant to support the development of productive and food secure rural communities through the establishment of thriving, sustainable and inclusive mechanisation centres across the Eastern Cape.
The introduction of the district mechanisation centres addresses the historic challenges that confront rural subsistence and small-scale farmers. Developing farmers don't have access to mechanisation, or the equipment they have is old and in a poor state of disrepair. Without access to the correct mechanisation machinery and implements, it is very difficult for the farmers to do the correct operations at the correct time. Furthermore, a lack of affordable ploughing or mechanisation services has also been identified as a major hindrance or challenge with respect to crop production in communal areas. As a result, the ECRDA was assigned by DRDAR to facilitate the establishment of mechanisation centres across a number of farming regions in the Eastern Cape.

This entails the reorganisation and consolidation of existing mechanisation support entities where they exist, as well as the establishment of new centres. The goal is to provide co-ordinated and sustainable mechanisation support to improve the productivity of producers across all levels of farming – subsistence, small-holder and commercial operations.

District mechanisation centres promote the use of appropriate machinery and implements to assist smallholder crop production farmers, as well as livestock farmers to improve on quality, production yields and profitability. The centres offer repair and maintenance services in a fully-equipped workshop with suitably qualified artisans. They avail consumables and parts to clients in need of such for own equipment and implements within areas serviced from the mechanisation centre. They also intend to encourage and acquire public-private investment that can expand services to untapped production areas and optimise the use of existing agricultural land. District Mechanisation Centres are also to be established in the Sarah Baartman, Amathole and Alfred Nzo districts in partnership with the district municipalities and their development agencies. There are mechanisation centres already established in the OR Tambo District Municipality and at Elundini Local Municipality.



Mechanisation Centre model



OPERATIONAL PERFORMANCE

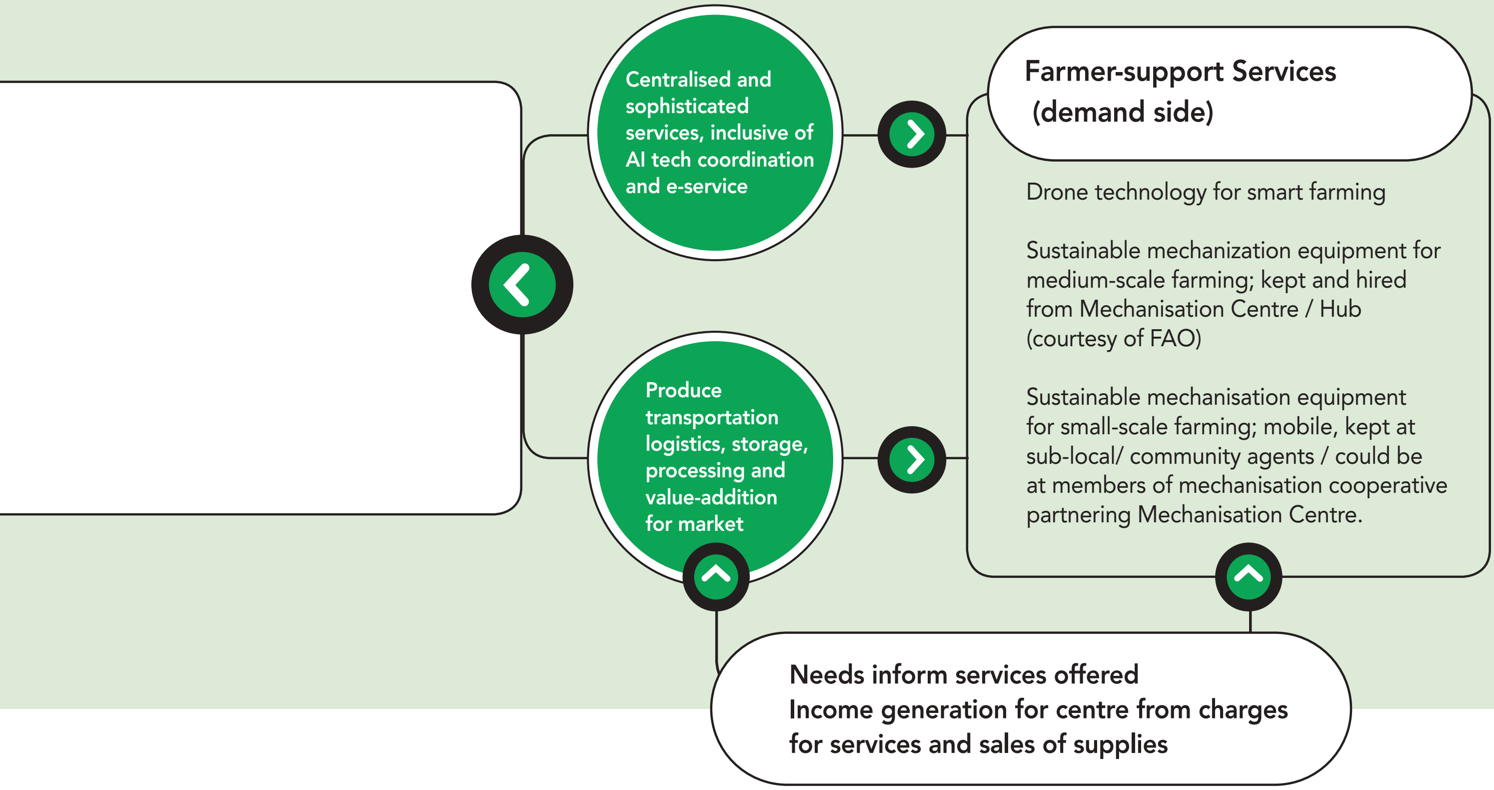
During the period under review, a budget of R11 million was allocated for the implementation of the agro-processing activities across the four RED Hubs. The Tshabo Flora RED Hub was allocated a budget of R9 million. The funds for the aggregation centres were used conduct a technical assessment of RED Hubs Aggregation Centres infrastructure capacity for value-addition and to identify commodities that each centre will focus on. The farmers' productive capacity and needs were also assessed.

In addition, the funds were used to assess the infrastructure upgrade requirements for all the RED Hubs. Training was conducted to develop the technical capacity of RED Hub workers on grain quality grading as part of food safety management. The budget was also used to procure agricultural produce such as white maize feedstock for the Mqanduli and Mbizana RED Hubs aggregation centres. A total of 332 tons of agricultural produce was procured for Mqanduli and 325 tons for the Mbizana RED Hub. Part of the funds were used for the compensation of RED Hub employees.

R11m
was allocated for the implementation of the agro-processing activities across the four RED Hubs

R9m
was allocated for the Tshabo Flora RED Hub

657 tons
of agricultural produce for both Mqanduli and Mbizana



The Tshabo Flora RED Hub funding was mainly utilised for orchard establishment and for the development of pivotal infrastructure such as an irrigation system on 20 hectares and fabricated administration blocks as well as for the compensation of RED Hub employees. A total of area of five hectares was planted with Protea flowers. The monitoring of the growing flora will continue. A private partner has been selected to help with project implementation as well as business development.

In 2020/21, a total of 817 hectares were planted at the four grain-producing RED Hubs. Of the 817 hectares, 122 hectares were planted with grain sorghum at the Emalahleni RED Hub. A further 575 hectares of white maize was planted at the Mbizana RED Hub and 60 hectares were planted at the Mqanduli RED Hub with white maize. No planting took place at the Ncora RED Hub.

Harvesting from the cropping season of 2019/2020 yielded a total of 117.4 tons from the 307 ha that was planted by the two RED Hubs. This was very low and could not meet the required tons of feedstock for the aggregation centres. This required the procurement of additional feedstock. Harvesting for the 2020/21 cropping season will commence in the new financial year.

The operational performance of the mechanisation centres will be measured in the new financial year as the entity has just finalised their establishment.

817 ha

were planted at the four grain-producing RED Hubs

FUTURE PLANS

Going forward, the entity will continue with the facilitation of private sector partnerships with individual RED Hubs. The ECRDA will prioritise the strengthening of social facilitation at projects level to address current community dynamics and challenges. The organisation will promote grain value chain diversification into products such as maize grits for snack production and pre-cooked super maize meal. The plan is to venture into the milling of feed to produce a variety of animal feed products. Efforts will also be made to identify other opportunities and to mobilise producers of other fresh horticulture produce. This includes poultry farmers who will be linked to the aggregation centres.

Finally, the ECRDA will explore opportunities in agro-logistics for the movement of produce from farmers to aggregation centres as the first market. This will extend to distribution to the retail and consumer market. The ECRDA will also be rolling out the establishment of mechanisation centres across the province as directed by DRDAR.

FORESTRY DEVELOPMENT

Over the last few five years, the Eastern Cape Rural Development Agency has driven the establishment of sustainable and commercially viable forestry plantations that are community-owned and operated. Through its various interventions in the sector, the organisation supports and promotes a viable land-use option for willing participants. These communities are those who might have been previously excluded from participating in such opportunities.

A government strategic assessment in 2006 revealed the Eastern Cape as the only province with the potential for forestry expansion. The areas with the most potential for further development are the Alfred Nzo and OR Tambo district municipalities and to a lesser extent, the Joe Gqabi and Amathole districts. The assessment further identified a potential for 100 000 hectares of new afforestation and a further 130 000 hectares for the rehabilitation of existing plantation areas. As such, the ECRDA's intent is to ensure that forestry expansion in the Eastern Cape is pursued and resourced while benefitting individuals and communities involved in the industry through high value support programmes.

The development of the commercial forestry industry is not only targeted at primary production. It involves various value addition and beneficiation activities which result in the manufacturing of products such as sawn timber, pulp, paper, poles, mining timber, matches, charcoal and cellulose-based products. Specific species of trees are planted, harvested, and replanted in sustainable rotation. This ensures that there are trees at various stages of growth and maturity, ready to harvest for generations to come.

The pursuit of a growing forestry sector is in the province also lies in its inherent job creation potential. Forestry enterprises are able to create one direct permanent job for every 15 hectares planted. Once forestry plantations yield enough timber in a specific area, secondary processing facilities can be developed. Currently, a significant portion of raw timber is exported to other provinces. This is a significant opportunity within forestry development that should be pursued.

PROJECT IMPLEMENTATION

The ECRDA currently supports five forestry projects in the province. An outline of these projects follows in the table on the right:

These ECRDA-supported forestry projects have 4,360 hectares under production. The trees planted in these areas are site specific eucalyptus species such as E.dunnii, E. nitens, E. macathurii seedlings and Grandis/Europhyla hybrid cloned cuttings. These are a variety of species which are suitable for specific sites and for specific markets. The seedlings and cuttings are as a result of decades of genetically-improved stock, such as disease resistant, drought resistant, frost resistant, stem form, yield potential and timber density.

A very small area is planted with wattle and pine trees. Wattle and pine trees are not ordinarily suitable for community-owned enterprises. The market for wattle timber is limited and pine trees take double the time to reach maturity for felling compared to eucalyptus trees. Most of the areas planted to date were established when grant funding from the Jobs Fund was made available from early 2014 until the end of 2016.

At this stage, the projects only sell timber to commercial markets. Sappi and PG Bison are the main customers of these forestry projects. A portion of timber produced by these communities can be sold to the highest bidder. However, in most cases, these private companies can absorb the volumes being produced at the most competitive prices.

The agreements between community enterprises and the private forestry companies are of mutual benefit. These are partnership agreements rather than just off-take agreements. In most cases, a portion of timber produced is committed to the companies at current market prices, 20 % on a right-of-first refusal to the companies and 15 % is uncommitted. In return, the private companies create a sustainable market for the projects. They have appointed permanent qualified foresters to support the projects from a planning and technical perspective to ensure best practise operations and industry-quality timber.

Sinawo (Joe Gqabi)
3,000 ha potential
1,850 ha planted

Izinini (Joe Gqabi)
850 ha potential
550 ha planted

Mkambathi (OR Tambo)
1,950 ha potential
850 ha planted

Sixhotyeni (OR Tambo)
1,250 ha potential
410 ha planted

Gqukunqa (Alfred Nzo)
1,700 ha potential
700 ha planted

The profitability of these five projects has been reviewed and their profitability determined. Profitability depends on the size of the enterprise, distance to the market, containment of operational and overhead costs and the protection of biological assets from theft and fires.

The 4, 360 hectares planted in the five projects will produce an estimated 53, 350 tonnes a year on an average nine-year rotation age. These projects should realise a net profit of R200 per ton before tax. This results in around R10,6 million per annum for the five projects. Only three of the five projects have commenced with harvesting to date. The projects have generated R4,3 million to date.

R10,6m per annum

for the five projects

A portion of the profits is retained for the protection, maintenance, and possible expansion of the plantations. The decision regarding the use of the declared dividends is left to the community. Communities will be encouraged to apply such funds in the start-up of other financially viable projects, but if people so choose, they could receive it as a cash pay-out either to the villages, or to individuals. Where possible, villages within a community will share dividends depending on the extent of land released for the project. The more land contributed, the more the benefits. The ECRDA is supporting the projects to develop their own beneficiation model.

The projects are on communal land which means that the land belongs to a defined number of beneficiaries, usually a number of villages, or administrative area, or individual households. As such, the distribution of benefits is usually to a village, rather than to individuals or households.

8 villages

Gqukunqa

7 villages

Mkambathi

3 villages each

Sinawo, Izinini and Sixhotyeni

The involvement of the ECRDA is critical to the success of these projects. The ECRDA contracts human resources who have daily contact with the projects in order to help them with daily governance, management, administration, and problem-solving matters. These resources also engage with private sector foresters where the need arises. They attend monthly management meetings and obtain project information for reporting to the forestry unit of the ECRDA. All financial transactions are reviewed by the human resources deployed to the projects and payments are released once all supporting documents are in place. A significant amount of time is spent dealing with, or advising, project owners on sound business decisions and dealing with community dynamics.

OPERATIONAL PERFORMANCE

A total of R3,2 million was allocated for forestry development activities in 2020/221. An additional amount of R1,9 million was secured later in the year. This took the total budget for the year to R5,1 million. A total of R3,6 million was used for employee costs at the projects and to pay service providers.

R5,1m

was allocated for forestry development activities in 2020/2021

A total of 282 690 person hours were recorded for the forestry projects. This included the Mkambathi project workers paid for by their own revenue. This amounts to 136 permanent equivalent jobs for the year. A total of R1, 4 million was used to acquire two 4 x 4 tractors for two projects.

In 2020/21, no planting took place in the projects. This was mainly due to the lack of grant funding support during the period under review. However, the ECRDA is pleased that the Mkambathi project began its first harvesting operation in the 2020/21 financial year. The ECRDA also contracted its resources to support the five projects during the period under review. The projects employ a total of 136 people. All the projects completed firebreaks and minimised damage to the plantations.

The forestry unit also developed financial and operational management systems for the projects. This was implemented and it assists with creating reports. Submissions were made to secure further funding.

FUTURE PLANS

The ECRDA will continue to provide professional support and expertise to the projects. The ECRDA will engage with the Sinawo community to resolve a significant conflict situation that has caused the project to suspend operations. Funding proposals will be submitted to secure further forestry development funding.

The ECRDA has a target of 20 000 hectares of new afforestation until 2030. More than 1,300 permanent jobs will be created if this is achieved. A total funding amount of R30 million will be required over the next five years to continue supporting the existing projects and to initiate new projects to the extent of 5,000 hectares.

RURAL FINANCE

The Eastern Cape Rural Development Agency manages a rural finance function which is premised on the extension of credit facilities to deserving entrepreneurs which act as a stimulant for an energised rural economy. The extension of empowering rural finance contributes to vibrant economic activity in rural and economically-depressed areas of the province while opening up opportunities for job creation. These credit facilities have a knock-on effect which extends to the alleviation of poverty and the reduction on state dependency among rural communities.

The extension of these credit facilities is critical in unlocking socio-economic value in rural communities which often do not have the required security and collateral prescribed by private lending institutions. This results in a higher risk appetite for development financiers such as the ECRDA in order to ensure that rural entrepreneurs are serviced as they would otherwise not qualify due to the stringent requirements imposed by private and commercial lenders. While only minimal security is required to secure development finance instruments, loan funding and the concomitant repayment obligations ensure that entrepreneurs are fully invested and empowered in the success of their businesses.

The ECRDA is continuously engaged with loan recipients in order to ensure that they honour their debt repayment obligations. The repayment of loans is crucial for future on-lending. Without the loan repayments the ECRDA's ability to extend credit lines to other entrepreneurs is significantly diminished thus leading to the loan book being compromised.

FUNDING CRITERIA

In addition, the ECRDA is compelled to conduct its business within and in full compliance with the prescripts of the law. Primarily, the ECRDA is required to conduct its lending practice within the parameters of the National Credit Act (NCA) which is enforced by the National Credit Regulator (NCR). While the statute is intended to protect consumers from irresponsible lending practices, it also constrains the ECRDA's ability to extend finance to this market segment. As per the NCA, the ECRDA is required to conduct personal credit assessments on loan applicants in order to avoid reckless lending and over-indebtedness. The statute does assist the agency in ensuring that recipients are able to repay their loan facilities. Failure to comply with the criteria set out in the NCA may remove the recipient's obligation to repay the loan.

Furthermore, the agency's loan facility is available to entrepreneurs in all sectors of the economy in rural communities. These sectors include retail, informal traders, primary producers, agro-processing, manufacturing, forestry and livestock development among others.

Prior to a loan being disbursed, there are processes that predate this stage, namely loan enquiry, loan application and loan approval. The Loans Management System (LMS) records all these stages of loan consideration. Physical registers are used in addition to the LMS system.

ECRDA loans are quite diverse ranging from primary production, value addition and business- related facilities. Throughout the year, it is a trend that at specific time of the year there is either a peak or a decrease in terms of number of loan applications received and processed. The peak period for loan disbursements has always being during the farming season that is the third quarter of the financial year. This is done with the aim of ensuring that all farming applicants receive their farming inputs financed by the ECRDA in good time for planting. Delay in delivering the inputs usually leads to crop failure and impacts on loan repayments.

The ECRDA also has a credit policy which ensures that implementers of the policy are mindful of the requirements of the NCA. The NCR performs regular amendments and improvements on the NCA and the ECRDA is therefore required to continuously ensure that its Credit Policy is compatible with the demands of the Act. The Credit Policy also assists the ECRDA to assess its effectiveness in loan funding and to put in place mechanisms to improve the performance of the loan book. All this effort is done to avoid any possibility of reckless lending by the entity which is constantly monitored by the NCR.

AFTERCARE SUPPORT

The organisation is also informed by an aftercare philosophy which is aimed at ensuring the survival and competitiveness of the enterprises funded by the entity. The sustainability of these enterprises is crucial in maintaining a decent repayment rate as well as in saving jobs. As such, the organisation provides aftercare support to loan beneficiaries while encouraging collaboration with agricultural officers of DRDAR in order to improve the scale and efficiency of aftercare support.

In this regard, the ECRDA's loan officers conduct visits to funded entrepreneurs to assess their performance and to identify problem areas which might impede their ability to repay their loans. Where challenges are identified, corrective measures are put into place to ensure that businesses maintain their going concern status. This aftercare support service also ensures that funds are utilised for their intended purpose.

LOAN REPAYMENTS

During the 2020/21 financial year, there was no review made to the ECRDA's Collections Policy and the entity continued to use the framework and processes as outlined in the current Collections Policy.
The Collections Policy provides a guide on loan recovery once a credit facility is approved and disbursed.

Currently, loan recovery faces many challenges particularly with primary agricultural loans where projects are affected by unfavourable climatic conditions which also affect level of production and ultimately chances of full loan recovery. This has been compounded by the effects of the COVID-19 pandemic which placed major restrictions on economic activity. In 2020/21, loan repayments were R6 036 701.

R6 036 701
in loan repayments for the 2020/2021 financial year

OPERATIONAL PERFORMANCE

During the period under review, the ECRDA disbursed a total of R2 787 284 in loans. A total of 58 loans were disbursed to more than 100 beneficiaries.

During March 2020, the declaration of the State of Disaster and the accompanying imposition of the lockdown as part of the government's Risk Adjusted Strategy in relation to COVID-19 pandemic significantly impacted physical interaction with clients. Despite this, there are loan enquiries that are made in various regional offices relating to assistance. The prevailing drought and the global pandemic has reduced the number of loan enquiries for funding. This also resulted in the reduced value of disbursed loans during the period under review. Although in the past it has been a trend that disbursements usually increase from September and a peak is reached during November and December, this did not materialise during the 2020/21 financial year. This is due to the global epidemic. Most of these loans were for crop production.

The COVID-19 lockdown levels restrict the ability of officers to interact with clients with ease. This has an impact on loan uptake.

A reduced uptake in loans resulted in a loss of revenue that could be obtained from interest generated from loans. The adjustment of the lockdown to Level 1 does to a certain extent provide an opportunity for physical interaction with clients. With time, once people start to interact with ease with clients, this will result in improved loan uptake and a concomitant improvement on disbursements made.

In terms of geographic spread, of the R2 787 284 disbursement figure, R1 884 389 went to Alfred Nzo, R624 748 to the Karoo, R151 055 to OR Tambo, R79 092 to Chris Hani and R48 000 to the Amathole district.

R1 884 389
Alfred Nzo

R624 748
Karoo

R151 055
OR Tambo

R79 092
Chris Hani

R48 000
Amathole

FUTURE PLANS

Moving forward, the organisation is working on remodelling of the Rural Finance unit with the aim of improving its operational efficiency. The entity will continue to pursue the development and attraction of quality loans in order to maintain the integrity of its loan book. This will be achieved through scoping out a quality pipeline of rural enterprises who demonstrate the best potential in terms of sustainability and viability. There will be also be a stringent focus on loan collections in order to ensure that public assets are utilised in a judicious manner and that they are recovered in order to expand the extent and reach of the public good

Furthermore, once the remodelling has been completed, the entity will identify partners who will assist in improving the accessibility, functionality, efficiency, and footprint for the rural finance scheme. The ECRDA will seek partners that will enable a balance of technical efficiency with a transformation of the development finance sector. New partnerships will also form basis for establishment of cooperative banking network. This in the end will make ECRDA financing attractive and simple to attract funding capital from partner organisations.

WOOL AND MOHAIR

The Eastern Cape Rural Development Agency is driving the development of a wool and mohair industry which is premised on the improvement of the socio-economic impact, levels of beneficiation and income generation for small-scale wool and mohair producers. The focus on this industry is informed by the abundant potential inherent in the Eastern Cape for wool and mohair producing farmers. The Eastern Cape's vegetation is suitable for grazing wool sheep and angora goats.

According to the National Wool Growers Association, there are approximately 40,000 individual small-scale farmers which produce an estimated eight million kilograms of wool per annum valued at R338 million. South Africa produces 70% of the world's mohair. During the 2020/21 financial year mohair season, South Africa produced 2,160 million kilograms of mohair from 800,000 angora goats.

The industry produces wool and mohair jerseys, suits, jackets, socks, blankets, scarves, carpets, apparel, duvets, jackets, upholstery material and felting among many.

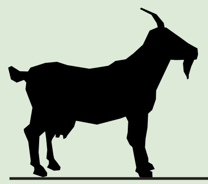
As such, the ECRDA plans to facilitate sustainable resourcing for wool and mohair production whilst promoting sustainable environmental/green practises and to provide a facility to aggregate and add value to the wool product of communal and emerging woolgrowers. The agency also plans to provide effective and efficient programme and project management co-ordination as well as to promote a sustainable innovation and decision support system for small-scale farmers involved in wool and mohair production.

South Africa

Produces 70% of the world's mohair

2,160 million kilograms of mohair from 800,000 angora goats

R338m wool value per annum



Through this programme, the ECRDA aims to extend support to the industry in order to alleviate the challenges encountered by emerging livestock farmers and to strengthen their capabilities in quality primary production. The idea is to provide emerging farmers with a foothold for optimal participation in the industry value chain.

The ECRDA also aims to assist emerging wool and mohair farmers in the Eastern Cape achieve "green" certification for their farms. This will ensure that their farms conform to Responsible Wool Standards (RWS) and Responsible Mohair Standards (RMS) in order to achieve premium prices for their wool and mohair.

Furthermore, the International Responsible Wool Standards accepted by the international wool trade have been amended specifically to accommodate communal-owned farms. The local communities will benefit through employment in the processing and manufacturing section of the value-addition chain.

There are currently similar projects in place with farmers in the Karoo region of the Eastern Cape. Since 2015, the ECRDA has been working with a pilot group of five emerging mohair famers in the Somerset East district. All five farmers have successfully completed the requirement to comply with the Responsible Mohair Standards. They should therefore receive premium prices for their mohair.

OPERATIONAL PERFORMANCE

In 2020/21, the wool and mohair project was allocated a budget of R677,000 in order to activate the foundation and building blocks for the further development of the industry. As such, in June 2020, a Memorandum of Understanding and a Service Level Agreement was signed between the ECRDA, the Elundini Local Municipality and the Department of Agriculture for the establishment of the Elundini Wool Hub Project. These agreements specified the roles the three stakeholders would play in the Elundini Wool Hub Project.

Currently, the targeted area in the Elundini region can produce about one million kilograms of wool per annum. The ECRDA believes with more communal areas supplying wool to the wool hub and better production methods for wool production being adopted, this figure could increase to more than two million kilograms of wool per annum within the next five years.

In February 2021, Urban-Econ was appointed to execute the planning and design of the Elundini Wool Hub Project. According to studies, an establishment amount of between R20 million and R25 million will be needed to bring the Elundini project to the desired scale. This amount will be finalised once the financial business case study has been completed. This will also be affected by the scale of the wool scouring plant that has been decided on.

The work done by the ECRDA with the mohair farmers in the Karoo region on 'on-farm greening" since 2015 will also be shared with the farmers at the Elundini project.

Due to COVID-19 regulations during the 2020/21 financial year "on-farm greening" training was restricted because not all required farm visits could take place.

In addition, in March 2021, the young goat mohair of one of the ECRDA's emerging mohair farmers in Somerset East was sold at R790 per kilogram. The world record price for this line sold at R799 per kilogram. In June 2020, the ECRDA received communication form the Mohair Empowerment Trust extending its gratitude to the ECRDA for its assistance in getting all the mohair empowerment partners certified.

FUTURE PLANS

Moving forward, the ECRDA plans to prepare a business case from the CSIR, Urban Econ and Fulirex reports and involve the services of the Transactional Advisory Panel. The business case will be presented to the IDC and international partners for funding. The ECRDA will also continue with the "on-farm greening" programme and training with wool and mohair farmers in the Eastern Cape.

MARINE TILAPIA INDUSTRY

The Eastern Cape Rural Development Agency has taken the preparatory steps and begun laying the building blocks for the development of a vibrant and thriving marine tilapia industry in the Eastern Cape. Within the broader aquaculture value chain, the development of the marine tilapia industry is a perfect fit with the ECRDA's focus on the formulation, promotion and implementation of comprehensive rural development strategies.

The constitution and development of the industry should act as a catalyst for food, feed and job security. Furthermore, at roll-out stage, the industry should drive the improvement of the socio-economic fibre of historically disadvantaged communities. This is particularly true for those residents located in coastal rural communities. The aim is to ensure the utilisation of environmentally-sustainable agriculture and aquaculture practices.

The establishment of the marine tilapia industry in rural coastal communities is therefore an exciting enterprise because of the Eastern Cape's excellent potential for a buoyant aquaculture sector. The province has the potential to match the dominance of the Western Cape in this sector. The plan is to establish the marine tilapia industry in a phased approach over a 13 – 15-year period. The final output at the end of this period is 100,000 tonnes a year. This is 100 times the current abalone farming output. An estimated investment of R19,2 billion is required to develop the industry to the desired scale. This figure is comprised of R15 billion for the supporting bulk infrastructure costs as well as R4,2 billion of private investment.

13- 15 year

period to establish marine tilapia industry in the Eastern Cape

100,000 tons

per year by the end of the 13 to 15 year period

R19,2b

required to develop the desired industry scale

The province should achieve these objectives through an astute selection of candidate species and appropriate fish farming systems. Tilapia are recognised throughout the world as a desirable eating fish which has a firm white flesh as well as a bland taste that makes it suitable for diverse cooking and preparation methods. The ECRDA is acutely aware that in order to develop a successful marine tilapia industry, this requires a collaborative approach with government and other stakeholders in order to address production costs and environmental sustainability. These issues have already been outlined and addressed in the marine tilapia industry concept which has sets a R15/kg production cost target. This is a radical improvement on other marine fish species such as dusky kob which has production costs upward of R70/kg.

The advantages of low production costs are substantial. Low production costs should allow producers to target a wide range of markets stretching from the massive informal sector to the niche high-end hospitality trade. The marketing strategy for the marine tilapia industry targets the whole fish informal sector. For example, a WorldFish study set the monthly size of the informal fish market at 109 tonnes in the Diepsloot community in the City of Johannesburg. The introduction of this species into this market should create significant empowerment of women traders.

VALUE ADDITION

Commercial processing and value addition activities will be introduced at fish processing facilities when production volumes dictate. Similarly, low production costs will play a significant role as they will allow for competition against the wild capture hake fishers. The annual capture from this fishing practice is stagnant while demand continues to grow. This means the cost of hake will continue to grow which makes marine tilapia a more attractive alternative without compromising quality. The product range possible from the processing of marine tilapia is as wide that found on supermarket shelves.

MARINE TILAPIA INDUSTRY INCUBATOR

The ECRDA has identified Qwaninga Farm 308 in the Qora River in the Mbhashe Local Municipality as the site for the establishment of the Marine Tilapia Industry Incubator. The incubator is earmarked to act as a support based for the development of the entire industry.

The incubator will comprise of a quarantine facility for fish secured from the wild which will be used as breed stock for baby fish in order to stock the fish farms. The incubator will have a genetic enhancement facility which improves the genetic integrity of the fish as well as a training facility which will teach local communities various aquaculture practices, regenerative crop farming and adult basic education. It will also house a research and development facility as well as managerial offices. The plan is to establish the incubator on a floor area of 30 hectares with farms occupying the majority of this space. There will be a fish farm which will produce 2,000 tonnes of the low production cost Mozambique marine tilapia. There will also be experimental farms involving integrated multi-trophic aquaculture systems and experimental farms on crop farming and for training purposes.

The top and fixed infrastructure will be owned by the state through the ECRDA. A private operator will finance the moveable assets and operate the incubator. The land is communally-owned and leased. The funds from the lease rentals will be for the benefit of the community. The programme also plans to establish a community trust at Qwaninga Farm. The Eastern Cape Development Corporation (ECDC) has power of attorney over the farm and it will assist the community in how the income is to be utilised.

30 ha
floor area for the fish farms incubator

2,000 tons
is the expected produce of Mozambique marine tilapia

106 permanent
jobs will be created at the incubator

A total of 106 permanent jobs will be created at the incubator. There will be more than 300 subsistence crop farmers cultivating from at least half a hectare from the surrounding communities who will supply the incubator with feed. The crops which will be sourced for feed will be mung and fava beans and sorghum. The farmers will then be compensated by the operating company.

The first year of the establishment of the incubator will be seized with construction and obtaining fish from the wild for the quarantine facility and for genetic improvement. By the third year, the incubator should start generating revenue. The first phase will thus involve the establishment of the incubator and the development of a first cluster. The first cluster outside the incubator will comprise four farms with production volumes of 5,000 tonnes each per year. This will take total production output to 22,000 tonnes per annum including the 2,000 tonnes from the incubator.

After year four of farming, the incubator should generate revenues of R70 million from the 2,000 tonnes production output.

The fish will be sold to the local South African market. The target market is the informal sector up to the high-end hospitality industry. The informal sector will be targeted first as no major processing is required at this level. This should empower local informal traders who are mainly women. Once this market is saturated, the processing plant will start to produce a wide product range such as fillets and crumbed fish fingers among others.

OPERATIONAL PERFORMANCE

In pursuit of these objectives, the ECRDA initiated the planning stages of the programme in February 2020. The ECRDA used its adjusted R3,4 million budget for 2020/21 to hire a technical partner for aquaculture training for the local communities and the municipality.

As such, during the 2020/21 financial year, the ECRDA conducted orientation training to the local community and traditional leaders at the identified incubator site as well as to the local municipality. The communities expressed concerned about their property rights, licensing and protection of property. These concerns were addressed and resolved during these engagements. This community mobilisation work was done with a focus on women, youth and people with disabilities. These mobilisation activities were somewhat affected and slowed down by the onset of the COVID-19 pandemic which placed restrictions on movement. This meant further mobilisation was postponed until the lockdown restrictions were eased in order to go back to communities.

There is now broad support for the project which has resulted in the conclusion of a social agreement between the chief, communities and the ECRDA. The agreement acknowledges that all parties understand the envisaged project and the resultant benefits. A project charter was also concluded during the period under review.

In 2020/21, the ECRDA also signed a Memorandum of Understanding with the Mbhashe Local Municipality which outlines the assistance the agency will receive from the local authority. Per the agreement, the municipality is assisting the ECRDA with public participation and social facilitation. Their extension officers also assist with this programme when visiting local communities.

During the review period, the ECRDA signed a Service Level Agreement with its KwaZulu-Natal counterpart, the KZN Agri-Business Development Agency. The agreement aims to build areas of collaboration and of mutual interest in the development of marine tilapia along the Eastern Cape and KwaZulu-Natal coastline.

FUTURE PLANS

The proposed future plans are to secure government funding, via the BFI for the bulk infrastructure. The plan also involves securing funding through the Land Bank for the private operator to furnish and set up the MTI Incubator. The ECRDA is also developing training programmes for implementation in the 2021/22 financial year. There are also plans to start construction on a quarantine and genetic improvement facility at the incubator site in February 2022.

CANNABIS DEVELOPMENT

The Eastern Cape Rural Development Agency has been tasked by the Provincial Government to work closely with the Department of Rural Development and Agrarian Reform (DRDAR) and other partners to co-plan, facilitate and mobilise stakeholders as well as resources to establish a massive and thriving Cannabis Industry in the Eastern Cape. Given the competitive advantage of the Eastern Cape in cannabis, the ambition is to develop and grow a Cannabis Industry that will be underpinned by primary producers cultivating 100 000 hectares of the plant in the province over the next twelve to fifteen years of the development of this industry. The province has identified cannabis as a priority project and it has delegated responsibility to the ECRDA to co-lead the establishment and implementation of the project in the Eastern Cape.

The ECRDA's strategy is aligned to the national Cannabis Master Plan whose development is being led by the Department of Agriculture, Land Reform and Rural Development. The master plan agitates for the growth and development of the industry in order to contribute to job creation and poverty alleviation as it seeks to position South Africa as a significant producer market in the global Cannabis Industry. The cannabis development strategy also promotes food security while calling for priority attention to women and youth enterprises. The recreational sub-sector of the industry also holds much potential for the tourism sector.

Cannabis has been successfully farmed in the Eastern Cape for hundreds of years. However, its development has been stunted by regulations governing its production and use. Cannabis is naturalised and its seed genetics are drought resistant and therefore it grows easily with minimal water required. A further benefit for the province is that the farming knowledge of the plant exists. There are farmers who farm cannabis although there exists no provision for the legal cultivation of the plant.

Currently, there is a provision for the cultivation of cannabis in the privacy of a person's home. A research permit is required for the production of industrial cannabis which is allocated by the Department of Health. A medical cannabis licence is also required to grow cannabis for medicinal purposes which is an expensive exercise.

CANNABIS INDUSTRY POTENTIAL

In the medium-term, over the next twelve to fifteen years the Eastern Cape has identified five cannabis production corridors for development. These cannabis corridors are earmarked to produce food, fuel, fibre and medicine from the plant. The cannabis industry development programme estimates that at the maturity stage of the industry in the province, a total of 50 000 cannabis farmers will be created who will be farming on two hectares each. This should bring production volumes to the envisaged 100 000 hectares. Each farmer is estimated to employ one worker per hectare. Each farmer is estimated to generate revenues of R175 000 per hectare which translates to R350 000 of annual revenues on a two-hectare plantation. The total projected revenue from the 100 000 hectares is R35 billion.

50,000
cannabis farmers will be created

2 ha
of farmland per farmer

R350,000
estimated revenue generated per two hactares

R35billion
projected revenue from 100,000 hectares

VALUE ADDITION

The existing challenge is that cannabis has been illegal for 80 years and the market it used to service have looked to alternatives. Therefore, the ECRDA needs to engage industry players such as the automotive, textile and paper manufacturing sectors among others in order to secure potential off-take agreements. While cannabis was traditionally used to make shoe laces and uniforms, some of the products which can be made from cannabis include engines, dashboard, shutter boards, roof insulation, water and fireproof bricks as well as bio composites.

The ECRDA is also addressing this value addition and processing element through a global search for appropriate technology and manufacturing capacity.

CANNABIS INCUBATOR

As a result of limited financial resources, the plan is to establish two incubators in the west and eastern parts of the province. On the eastern side, the Magwa Enterprise Tea has been identified as an incubator site. On the western side, the incubator site has been identified as Dohne at the Department of Rural Development and Agrarian Reform research facility close to Stutterheim.

The eastern side of the province has been identified for the production of cannabis for medical and industrial use and the west for industrial cannabis. Currently, the only available route to market is medical cannabis. It is therefore hoped that government will unlock policy for industrial applications of cannabis in the 2021/22 financial year. The preferred production focus is on the eastern side of the province because of existing production and recreational use

However, the ECRDA is promoting an inclusive strategy which is intent on formalising the informal cannabis market in the Wild Coast belt which should result in immediate access to market for recreational use which would allow government to monitor, regulate and tax it.

On the west of the province, the incubator will provide access to formalised cultivation sites for farmers and to cultivation standards at a fully licenced facility. There is also a potential for satellite growers and for the industrial processing of cannabis flowers.

This preparatory work involves a significant amount of stakeholder engagement and mobilisation in order to marshall the province's collective energy toward the attainment of the industry vision. The ECRDA is planning to establish cooperatives for cannabis production in order to open up access for people to enter the space especially for subsistence farmers and rural communities.

OPERATIONAL PERFORMANCE

In 2020/21, the programme was allocated a R4,5 million budget which was revised to half this amount because of the restrictions imposed as a result of the COVID-19 pandemic. The budget was used to rally stakeholder support for this catalytic high impact project. It funded stakeholder engagement activities related to the cannabis bill and farmer support in terms of agricultural inputs. A technical advisory panel was also established in 2020/21. Community awareness campaigns were also conducted.

During the period under review, the ECRDA co-led the development of a strategy for the industry in the Eastern Cape. Training was also conducted for interested and affected partners. The training focussed on the cannabis value chain and the production thereof.

The ECRDA is also working with the Automotive Industry Development Centre (AIDC) to establish demand. A Memorandum of Understanding with the Department of Small Business Development was concluded to assist in the establishment of the incubators and co-operatives.

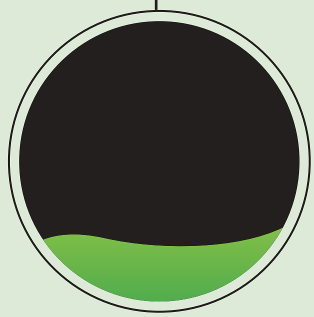
The Council for Scientific and Industrial Research was also engaged for the development of cannabis products. The national department of agriculture was also engaged for the provision of regenerative agriculture and training. There are also conversations with the Industrial Development Corporation (IDC) for the funding of bulk infrastructure.

TRANSACTIONAL ADVISORY SERVICES

During the period under review, the Eastern Cape Rural Development Agency introduced a transactional advisory service which is meant to provide technical and investment support in order to grow and support competent, dynamic and sustainable enterprises in the rural economy. This transactional advisory service facilitates negotiations between investees (farmers) and investors (funders) with the express intent of securing a funding or equity deal.

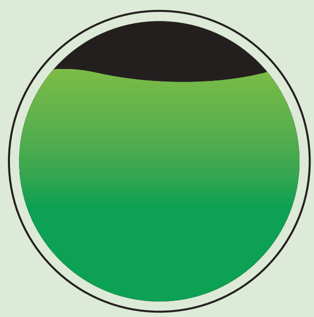
The introduction of advisory services is informed by the lack of expertise in deal-making among smallholder farmers. Through this service, the ECRDA intends to bridge this gap and to ensure that these farmers get a fair and empowering deal. In addition, the lack of transactional advisory services results in lost opportunities as a result of not adequately packaging the high value Eastern Cape's agricultural potential projects. The Eastern Cape's potential in agri-business is represented by the 650 000 hectares of land in the hands of smallholder farmers and the 3,4 million hectares in the communal sector. The transactional advisory service also aims to address the province's historical shortcomings in investor attraction. Currently, the Eastern Cape ranks the second lowest in contribution to provincial Gross Domestic Product (GDP). As such, there is an urgent need for the state to re-inspire the investor sector by making basic funding commitments that are primed to crowd-in investments from Development Finance Institutions (DFIs), multilateral funding agencies and from the private sector.

Furthermore, the province has had insufficient investments in enabling infrastructure to garner support for production, aggregation and processing in rural communities. This has contributed to an unrealised potential. For example, irrigation infrastructure investments were historically skewed in the favour of white commercial farmers in the western region. This, together with aggregation and value-add infrastructure, still requires attention in order for agri-businesses to thrive. Small-scale and communal farmers contribute not more than 5% to total provincial output, while commercial farmers contribute 95% to 99%.



5%

provincial output from small-scale and communal farmers



95%

provincial output from commercial farmers

STRATEGIC OUTPUTS

The benefits of an inspired transactional advisory service are many and varied. Through this service, the ECRDA intends to strengthen the technical capacity and commercial success of agri-businesses and other enterprises in the rural economy. It aims to facilitate and broker commercial partnerships to drive the transformation of the agricultural sector and the broader rural economy. The intent is to bring private and quasi-public investment capital to co-invest with entrepreneurs in the rural economy, communities and land owners. The service will increase access to finance for agri-businesses and other rural enterprises by supporting the development of credible business plans and providing technical support to build robust business models and systems.

The transactional advisory service is also targeted at packaging and marketing investment opportunities in agricultural and other niche sectors to DFIs and the private sector. The service will also play a facilitation role in the trade of the province's agricultural produce to foreign and local markets.

OPERATIONAL PERFORMANCE

In 2020/21, a budget of R5,2 million was allocated for the establishment of the technical advisory service. This budget allocation enabled the ECRDA to conduct the preparatory and planning work for the establishment of an effective and responsive transactional advisory service. As a result, in the 2020/21 financial year the ECRDA developed a transactional advisory services concept document. The purpose of the concept document is to establish a Transaction Advisory Services project as a "Clearing House" to ensure that there is proper due diligence in business transactions and sound business relationships between the SMEs (i.e. agri-business enterprises) and the potential investors, development finance institutions and financial donors. A business viability assessment study that is focussed on the ECRDA's clientele was partially completed. The objective of the business viability assessment was to determine the state of financial viability of ECRDA-supported enterprises and those it intends to support in the future.

A panel of transactional advisory services experts was also established. Furthermore, a framework for packaging the Eastern Cape's investment opportunities was developed. A trade and investment division was also created during the 2020/21 financial year.

FUTURE PLANS

The transactional advisory services will provide business support in the form of development of credible business plans for agri-business enterprises or entrepreneurs. This should create an appetite for financiers to provide funding for economically viable business proposals.

PART B

Performance Information

SITUATIONAL *Analysis*

The rural areas of the Eastern Cape are far from being fully realised. These areas make low contributions to the National Gross-Value-Add despite the high potential for high value production.

The implication of the underutilisation of the full potential of the rural areas of the Eastern Cape is that some strategic existing integrated catalytic programmes and projects need to be consolidated and expanded. There should be a concerted effort to launch new projects that can ensure the realisation of the full potential of the province.

This requires that interventions of the province should be focussed on co-ordinated efforts to address inefficiencies at existing projects as well as exploring the development of new industries. The state of social vulnerability in rural communities in the province compounds the need for co-ordinated rural development interventions across the full public sector portfolio. From a strategic perspective, continued unemployment and low rates of economic growth will exponentially increase not only the social vulnerabilities of rural communities, but also of poor households. The implication of this trend is an increased demand for catalytic and transformative projects that will reverse underdevelopment and increase the socio-economic security of rural households.

The importance of the rural areas of the Eastern Cape is illustrated by the fact that most of the envisaged development interventions within the province are set to take place in its rural areas. For example, this requires the development of a series of national urban regions and national urban nodes which are linked to regional development anchors. These should be connected via a national transformation corridor which supports a key national development corridor that stretches almost the full length of the rural Eastern Cape. This essentially positions the rural Eastern Cape as an area of national strategic and development importance which requires high-impact strategic interventions to realise the full socio-economic potential of the region. This will ensure that the province contributes towards the achievement of the national development trajectory. A central tenet to realising this achievement is the creation of resilient and sustainable rural communities and economies that will fundamentally reconfigure the human condition in rural areas.

The outbreak of the COVID-19 pandemic has impacted the lives and livelihoods of millions of people across the globe. This includes those living in the rural areas of the Eastern Cape. As an event of major historical and socio-economic significance, the COVID-19 pandemic has had a substantial impact on the strategic and operational environment of the ECRDA - how business and interactions are and will be conducted going forward.

The impacts of the COVID-19 pandemic have been defined by the United Nations Development Programme (UNDP) in partnership with the National Department for Cooperative Governance and Traditional Affairs, which issued a socio-economic impact assessment of the COVID-19 pandemic in South Africa in 2020.

The ECRDA has a major role to play in ensuring that the rural areas of the Eastern Cape realise their potential through co-ordinated, resourced and focussed development interventions.

ORGANISATIONAL ENVIRONMENT

The internal strategic and operating environment facing the ECRDA is significantly impacted by the reduction in the fiscus. The reduction in the fiscus has reduced the agency's ability to secure sufficient funding for project implementation to fully address and realise the national strategic importance and potential of the rural areas of the Eastern Cape.

In this regard, a reduction in the fiscus directly translates into an inability to secure technical expertise, operational and implementation resources required to address development challenges in the rural areas of the Eastern Cape. This situation is further compounded by the fact that as economic growth slows and rural development needs increase, the demand for rural services increases. However, the reduction in the fiscus does not appear to have kept track with the increase in demand for services. This creates a situation where limited resources negatively impact on the ability of the ECRDA to address an ever-increasing need for rural services.

The refocussing of the ECRDA towards rural development would require a reorientation of the skills and capabilities required to implement multi-dimensional rural development interventions. In this regard, the need for high-impact technical programmes and project management capacity to drive implementation, monitor and report on progress and impacts achieved has fundamentally shifted from the one-dimensional focus on agriculture. Accordingly, a reconfigured skills profile and enabling structure to deploy the new skills-set is required.

The emerging need to consider alternative means of ownership, securing and holding investment resources, requires the ECRDA to create a balance within its portfolio between implementing projects for purely public good versus commercially-viable projects which generate additional revenue to sustain and/or support operations.

Following a lengthy consultative process with internal and external stakeholders, the ECRDA board has approved a new organisational structure aligned with the 2020 – 2025 strategy of the agency on the 29th of January 2021. This new structure will be populated over the next MTEF to ensure that the strategy can be fully-implemented in order to achieve the impact of increased levels of resource mobilisation as well as an increased socio-economic impact in the Eastern Cape.

Key policy developments and legislative changes

During the period under review there were no legislative changes.

Progress towards Achievement of Institutional Impacts and Outcomes

Impact Statement: Register and leverage socio-economic strategic and systemic impact within the integrated rural space of the Eastern Cape Province.

Outcome	Outcome Indicator	Baseline	2020/21 Performance	Five-year target
Increased levels of resource mobilisation	Combined value of investment, research and/or technical support secured in addition to allocated budget	Zero	R13 087 000	R1 Billion
Increased socio-economic impact	Percentage (%) completed projects within the portfolio with approved socio-economic impact reports	Zero	Zero	100%

INSTITUTIONAL PROGRAMME PERFORMANCE INFORMATION

1. PROGRAMME 1: ADMINISTRATION

1.1. Sub-Programme: Office of the CEO

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Good governance and accountability (1 – 7) Sustainable Innovation and decision support (8)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
1. Number of unqualified financial and performance audit outcomes	1	1	None	n/a
2. % of assigned risk tasks completed	100%	96%	4%	Out of 96 risk tasks 4 were not achieved. The implementation of the redesigned rural finance programme as outlined in the Rural Financial Services Strategy Framework will address the four outstanding tasks, plus other priorities as outlined in the Strategy.
3. Number of organisational quality assurance reviews performed	4	4	None	n/a
4. % of legal advice completed within the specified timeframes	100%	100%	None	n/a
5. % of Board minutes approved	100%	100%	None	n/a
6. % of Board resolutions shared with executive management within 7 days after board meetings	100%	100%	None	n/a
7. Number of group governance framework developed	1	1	None	n/a
8. Number of approved research agendas	1	1	None	n/a

1.2. Sub-Programme: Office of the CFO

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Good governance and accountability (9 – 12)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
9. Number of audited Annual Financial Statements	1	1	None	n/a
10. % of audit action plan actions implemented	80%	82%	2% over	The 2% deviation is positive. The remaining actions will be included in the AOP of 2021/22 to ensure that they are implemented. It should be noted that some of the actions require budget commitments and with the current strain on the fiscus these may not be able to be implemented.
11. Number of approved asset verification reports	3	3	None	n/a
12. % of Bank accounts reconciled	100%	100%	None	n/a

1.3. Sub-Programme: Corporate Services

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Sustainable capacity building and empowerment (13 – 16)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
13. % of Network availability	95%	89%	6%	The agency has done everything within its control to achieve the planned target, the 6% deviation was due to factors outside the control of the organisation. These related to: • Cable theft • Load shedding The 2021/22 AOP thus been adjusted to accommodate uncontrollable externalities such as the above.
14. % of concluded employee performance assessments	100%	100%	None	n/a
15. Number of Corporate Services Executive approved facility inspection reports	9	9	None	n/a
16. % of Human capital plan outputs produced	100%	100%	None	Some of the HCP outputs that were due within the financial year was moved to the 2021/22 financial year with the approval from the board. The percentage of outputs measured were against the remaining outputs.

2. PROGRAMME 2: CATALYTIC HIGH IMPACT PROJECTS (CHIPS)

2.1. Research & Innovation

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Sustainable innovation and decision support (17 - 18)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
17. Number of research reports produced based on the research agenda	4	4	None	n/a
18. Number of CEO approved Stakeholder Mapping and engagement plans	1	1	None	n/a

2.2. Project Packaging

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Sustainable resourcing (19)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
19. Rand value of additional funding and or support secured	R10m	R13 087 000	Exceeded the target with R3,087m	The ECRDA secured additional funding, over and above the tranche allocations as follows: Yellow Fleet: R4,000,000 KSD Mechanisation = R6,277,000 Forestry = R1,900,000 Economic Stimulus Fund = R910 000

2.3. Project Implementation

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Effective and efficient programme and project management services (20)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
20. % of Non-Agricultural Projects within the ECRDA portfolio	10%	33%	23%	ECRDA is a rural development agency and as such have both agricultural and non-agricultural projects within the rural development sphere. The deviation is positive.

2.3. Project Implementation

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Sustainable rural infrastructure (21)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
21. % of scheduled rural infrastructure projects completed	60%	58%	2% under	ECRDA advertised more than once for a service provider to do the construction for the mechanisation project and the bids were not responsive hence 0% achieved on this project, which then negatively impacted the performance.

Project	Description	Completion %
Tshabo Office	Erection of Pre-Fab Office structure with ablution facility	78%
Tshabo Irrigation	Irrigation system installed	95%
Mechanisation Centre	Steel portal frame	0%
	Average completed	**58%**

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Sustainable environmental practice (22)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
22. % of ECRDA projects with regenerative rural development practices implemented	10%	67.86%	57.86%	Most of the projects within the portfolio had some kind of regenerative practice as per the approved framework. This deviation is positive towards sustainable environmental practices being implemented.

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Effective and efficient programme and project management services (23)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
23. Number of direct jobs created (Full time equivalent)	100	204	104 over the target	The original target was 200 and then it was reduced when the APP was amended after the COVID pandemic was announced. Despite the pandemic the ECRDA still achieved at the original estimated target. Thus, the impact of COVID in this sector for job creation was lower than anticipated.

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Effective and efficient programme and project management services (24)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
24. % of direct job created for women, youth and people with disabilities	50%	67%	17% more than anticipated	The jobs created for women, youth and people with disabilities were more than anticipated. This is a positive impact.

Strategic Outcome	Increased levels of resource mobilisation		Strategic Output	Sustainable resourcing (25)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
25. % of savings on the cost of project implementation	5%	27%	22% more savings	The savings was a result that most of the project management had to be virtual due to the lockdown and travel restrictions of COVID.

2.4. Project Technical Support

Strategic Outcome	Increased levels of resource mobilisation		Strategic Output	Sustainable resourcing (26) Sustainable capacity building and empowerment (27 – 28)	
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**	
26. % of requested specialised support interventions completed	100%	100%	None	n/a	
27. % of requested capacity and empowerment interventions completed	100%	100%	None	n/a	
28. % of women, Youth and people with disabilities participating in capacity and empowerment interventions	50%	74%	24% higher	More women and youth were capacitated and empowered through interventions by the ECRDA. This deviation is positive.	
				Total Capacitated	182
				Females capacitated	123
				Youth capacitated	11
				Disabled capacitated	0
				Combined: Youth, women and people with disabilities	134
				% Disaggregation	**74%**

2.5. Project Monitoring & Evaluation

Strategic Outcome	Increased Socio-Economic Impact		Strategic Output	Good governance and accountability (29 – 31)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
29. % completed projects within the portfolio with approved socio-economic impact reports	100%	Not applicable	None	During the 2020/21 financial year there were no completed projects identified. Thus, there was no projects requiring socio-economic impact reports during the 2020/21 financial year.
30. Number of portfolio viability reviews completed	2	2	None	n/a
31. % of monthly project milestones completed	100%	99.7%	0.3%	At an operational level the organisation has completed 1182 milestones against a targeted 1186 for the year, which is a performance of 99.7% at an operational level. The outstanding milestones relate to: • Finalisation of the remodelled rural finance programme due to implementation of the new rural finance strategy not having commenced as yet. • Development of a business viability assessment report by the Transactional Advisory Panel not finalised as the project sponsor expectations required clarity. • Farmer support and capacity building programme for renewable energy could not be finalised in the absence of a clear strategy for this project. The strategy will be developed in the first quarter of the new financial year.

3. PROGRAMME 3: FINANCE FOR RURAL DEVELOPMENT

3.1. Rural Finance

Strategic Outcome	Increased levels of resource mobilisation		Strategic Output	Sustainable resourcing (32)
Output Indicator	**Planned Target**	**Actual Achievement**	**Deviation**	**Comment on Deviation**
32. Number of initiatives completed and implemented to remodel rural finance	3	Not achieved	3 were not achieved	The three initiatives that had to be achieved were as follows: 1. Board approved list of developed products inclusive of clear description and qualifying criteria – not achieved 2. A system through which the different products will be available to the public as well as processed internally – the ECRDA has a system, but without the finalisation of the strategy it is unclear if the system will remain suitable. 3. Recovery models that have clear standard operating procedures and guidelines for effective and efficient loan recovery – There is a guiding collections policy, however it was approved in 2015 and requires a review to be aligned with the recently developed strategy framework.

4. LINKING PERFORMANCE WITH BUDGET

Programme	Project (If applicable)	2020/21		
		Budget	Actual Expenditure	(Over)/Under Expenditure
Administration	n/a	87,053,000	99,262,425	Over-expenditure included non-cash expenditure/accruals for leave pay of R8,3m and an accrual for voluntary severance packages as at 31/3/21.
CHIPS	Other	85,331,612	86,362,528	Over-expenditure is cash based and relates to funding received from DRDAR for specific projects to be implemented during the financial year, not included in the original budget of the ECRDA
	RED Hubs: Tshabo	9,796,388	9,270,899	
	RED Hubs: Aggregation Centres	6,600,000	5,695,290	
	Mechanisation Centres	8,400,000	5,881,577	
	Aquaculture (Marine Tilapia)	3,437,000	1,533,442	
	Forestry	3,263,000	5,488,392	
	Cannabis	2,675,000	1,400,268	
	Transactional Advisory Services	2,000,000	-	
	Wool Hub & Mohair	1,275,000	687,010	
Finance for Rural Development	Rural Finance	54,506,000	83,401,588	Over-expenditure include a non-cash item of R43,2m relating to the write-off of irrecoverable loans ranging from 2010 to date
Total		264,337,000	298,983,418	Actual expenditure exceeded budgeted expenditure, mainly due to non-cash items expensed such as the write-off of irrecoverable debts, which is not budgeted for as per budget guidelines. On a cash basis, ECRDA had a surplus at year end.

5. INSTITUTIONAL RESPONSE TO COVID-19 PANDEMIC

During the period under review, the ECRDA was involved in the following activities which were meant to ensure that employees were provided with the tools of trade to be able to work from home. These measures were implemented to establish protocols that would allow the ECRDA to comply with COVID regulations:
The Corporate Services Executive, Cello Gardner, was appointed as the designated COVID-19 compliance Manager and officer. In terms of the Disaster Management Act (57/2002) and COVID-19 Occupational Health and Safety measures in the workplace, a COVID-19 workplace plan was developed and distributed to all employees. These plans were updated and re-distributed consistently in line with announcements on the changes in the regulations.

A COVID-19 team was established to support the appointed compliance manager that consisted of employees from the head office and the various district officers. This team formed the basis for the implementation of the COVID-19 plan preparation and implementation as well as the monitoring and evaluation thereof.

A work from home principle was applied, with employees working on a rotational basis which provided the ECRDA with the necessary flexibility to ensure that COVID-19 protocols could be applied effectively. A voluntary disclosure process was implemented which granted employees the opportunity to declare comorbidities which could place the individuals at higher risk of complications if infected with the COVID-19 virus.

Monitoring checklists (Employee registers and screening questionnaires) for utilisation at reception areas were developed and implemented. The completion of the check lists is monitored by the Wellness Officer and the OHS Officers.

Within the organisation, there is open discussion regarding COVID-19 and the impact thereof not just in the work environment, but also in all spheres of life. During the reporting period, there was no cases reported where COVID infections were spread at any of the ECRDA's facilities. However, the lives of a number of ECRDA employees was negatively impacted as a result of COVID-19 infections. There were no ECRDA employee mortalities as a result of COVID 19.

A business system (Microsoft RDS solution) was procured and implemented to enable employees to access business systems from home and to ensure better connectivity. The ICT team has worked exceptionally hard to ensure that the ECRDA systems and processes remain relevant and that employees were able to operate from home.

The ECRDA employees and offices were provided with the necessary COVID-19 protocol items. These included the provision of:

- Prescribed material face masks for all employees
- Face shields
- Social distancing screens
- Bar soap and soap holders
- Handheld infrared Thermometers
- Paper towels
- Alcohol based wet wipes
- Protective clothing/gear for all field workers and general co-ordinators
- Disposable aprons
- Disposable masks
- Sanitisers, disinfectants, and plastic spray bottles
- Offices were deep cleaned, disinfected, and sanitised
- All office buildings are required to have the necessary protocols in place to be followed upon entry to office buildings.

In addition to the above, the organisation conducts monthly facility inspections at all its office facilities. These inspections include reporting on the implementation of COVID-19 protocols together with occupational health and safety issues.
COVID-19 expenses for the 2020/2021 financial year was R381 597.

PART C

Human Resources

Introduction

Overview of HR Matters

The Human Resources function has implemented the majority of the initiatives it planned to achieve during the last financial year. Commitments on initiatives not met were due to factors beyond the control of the organisation. Notwithstanding the disruption caused by the COVID-19 pandemic, the ECRDA has delivered effectively towards achieving its operational requirements.

HR PRIORITIES FOR YEAR UNDER REVIEW AND THE IMPACT OF THESE PRIORITIES

The approved organisational structure, human capital strategy and learning and development policy have laid the foundation for the implementation of new talent management initiatives in the areas of staff placement, filling new critical, scarce skill areas and the capacity development of staff. A workforce planning framework and key strategies to attract and recruit a skilled and capable workforce are in place. The newly-approved Placement Policy of the ECRDA provides for the placement of staff. The policy will run concurrently with the search for new scarce and critical skills. The following initiatives will be adopted to ensure the workforce is capable of implementing the new ECRDA Strategic Plan:

- Competency-based interviews based on targeted selection
- An order of preference to be implemented during recruitment
- Adherence to the targets set in the new approved Employment Equity Plan for the ECRDA
- Focused learning and development training programmes such as project management, PFMA training
- An overhaul of the delegations of authority for the ECRDA
- Training and development as identified through the new performance management framework

POLICY DEVELOPMENT

- HR policies approved during the year under review are:
  o Learning and Development Policy
  o Voluntary Severance Package Policy
  o Placement Policy
  o Whistle-Blower Policy
- A new Employment Equity Plan was approved by the Board
- A new Organisational Structure was approved by the board

HIGHLIGHT ACHIEVEMENTS

- The implementation of the automated performance management system commenced on 1 April 2020. As is the case with many new (automated) systems, glitches are being attended to after a one-year phase.
- The implementation of initiatives contained in the Human Capital Strategy
- The development of and implementation of a work-from-home system immediately after lockdown as a result of COVID-19.
- The implementation of the "Power Hour" where staff are invited to attend discussions around critical areas for engagement. These include performance management, fruitless, wasteful and irregular expenditure, risk management, etc.

CHALLENGES IN HR

The challenge of uneven levels of competence in HR remains a reality. This is coupled with general engagement by the corporate services executive in initiatives which are in support of formal development programmes and a new revised organogram for human resources.

FUTURE HR PLANS / GOALS

In respect of internal human resource enhancement, informal coaching and guidance by managers is being implemented. This is coupled with general engagement by the corporate services executive in initiatives which are in support of formal development programmes and a new revised organogram for human resources. Although there is currently no contractual liability, the employer is embarking on a process to implement the placement policy.

HUMAN RESOURCES OVERSIGHT STATISTICS

Personnel cost by salary band (R'000)

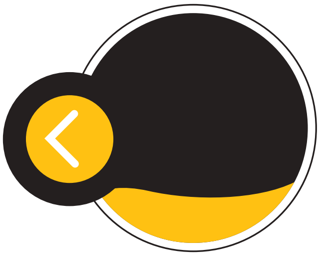
Programme	Personnel Expenditure	Personnel Expenditure as a % of total expenditure	No of employees	Average personnel cost per employee (R'000)
Top Management	9,277	9%	4	2,319
Senior Management	26,893	25%	24	1,121
Professional qualified	7,574	7%	8	947
Skilled	31,142	29%	40	779
Semi-Skilled	28,590	26%	64	447
Unskilled	5,612	5%	19	295
Total	109,088	100%	159	686

Performance Rewards

Level	Performance Rewards	Personnel Expenditure (R'000)	% of performance rewards to total personnel cost
Top Management	0	0	0
Senior Management	0	0	0
Professional qualified	0	0	0
Skilled	0	0	0
Semi-Skilled	0	0	0
Unskilled	0	0	0
Total	0	0	0

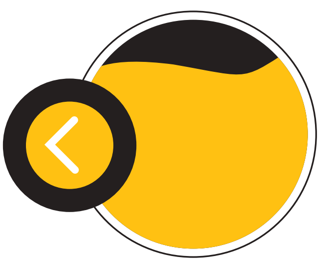
Training Costs (R'000)

Programme	Personnel Expenditure	Training Expenditure	Training Expenditure as a % of Personnel cost	No of employees trained	Average training cost per employee
Administration	47,425	136	0.29%	10	14
CHIPPS	24,250	150	0.62%	5	30
Rural Finance & Support Services	37,413	439	1.17%	11	40



9%
Top Management: Personnel Expenditure as a % of total

25%
Senior Management: Personnel Expenditure as a % of total



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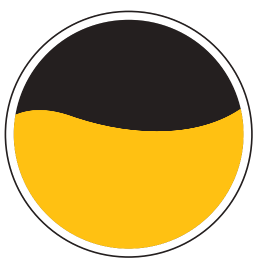
Rural Finance & Support Services employees trained



5
CHIPS: employees trained

PERSONNEL COST BY PROGRAMME

RURAL FINANCE & SUPPORT SERVICES

Total expenditure
R83,331

Personnel Expenditure
R37,413

No of employees
69

Average personnel cost per employee
R542

ADMINISTRATION

Total expenditure
R99,262

Personnel Expenditure
R47,425

No of employees
64

Average personnel cost per employee
R741

CHIPS

Total expenditure
R116,319

Personnel Expenditure
R24,250

No of employees
26

Average personnel cost per employee
R933

EMPLOYMENT AND VACANCIES (PROGRAMMES)

2019/20 NO OF EMPLOYEES

Administration
63

CHIPS
21

Rural Finance & Support Services
73

TOTAL: 157

2019/20 APPROVED POSTS

Administration
86

CHIPS
29

Rural Finance & Support Services
82

TOTAL: 197

2020/21 NO OF EMPLOYEES

Administration
64

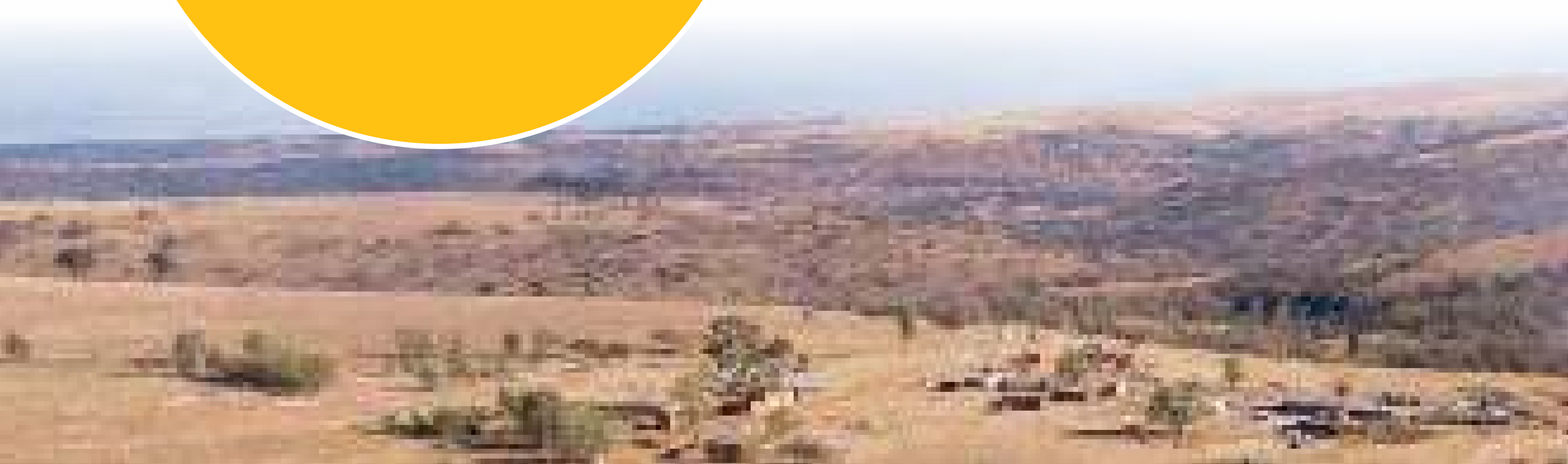
CHIPS
25

Rural Finance & Support Services
69

TOTAL: 158

2020/2021 VACANCIES

A new organizational structure was approved during January 2021. Placement of employees against this structure will only take place in the 2021/2022 financial year.



Employment and Vacancies (R'000)

Level	2019/20 No of employees	2019/20 approved posts	2020/2021 No of employees	Comment
Top Management	5	9	4	A new organisational structure was approved during January 2021. Placement of employees against this structure will only take place in the 2021/2022 financial year.
Senior Management	24	28	24	
Professional qualified	5	6	7	
Skilled	38	51	40	
Semi-Skilled	66	82	64	
Unskilled	19	21	19	
Total	157	197	158	

Employment Changes

Level	Employment at beginning of period	Appointments	Terminations	Employment at end of period
Top Management	4			4
Senior Management	25	1	2	24
Professional qualified	5	3	1	7
Skilled	38	4	2	40
Semi-Skilled	66		2	64
Unskilled	19	1	1	19
Total	157	9	8	158

Reasons for staff leaving

Reason	Number	% of total number of staff leaving
Death	0	0
Resignation	0	0
Dismissal	1	0.6%
Retirement	0	0
Ill health	0	0
Mutual Agreement exit	1	0.6%
Expiry of contract	6	3.8%
Other	0	0
Total	8	5%

Misconduct and disciplinary

Nature of disciplinary Action	Number
Verbal Warning	0
Written Warning	0
Final Written Warning	0
Dismissal	1

Equity Target and Employment Equity Status

MALE EMPLOYEES

Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	2	2	1	1	0	0	0	0
Senior Management	13	11	0	0	0	0	3	3
Professional Qualified	4	4	0	1	0	1	2	0
Skilled	9	9	0	0	0	0	1	1
Semi-Skilled	21	21	0	0	0	0	1	1
Unskilled	3	3	0	0	0	0	0	0
Total	**52**	**50**	**1**	**2**	**0**	**1**	**7**	**5**

Equity Target and Employment Equity Status

FEMALE EMPLOYEES

Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	0	0	0	0	0	1	1
Senior Management	8	8	0	0	0	0	2	2
Professional Qualified	0	0	0	0	0	0	1	1
Skilled	25	25	1	2	0	1	1	1
Semi-Skilled	44	42	0	2	0	0	0	0
Unskilled	16	16	0	0	0	0	0	0
Total	**93**	**91**	**1**	**4**	**0**	**1**	**5**	**5**

PART D
Governance

Introduction

Corporate governance embodies processes and systems by which public entities are directed, controlled and held to account. In addition to legislative requirements based on the ECRDA's enabling legislation corporate governance with regard to public entities is applied through the precepts of the Public Finance Management Act (PFMA) and run in tandem with the principles contained in the Kings Report on Corporate Governance.

PORTFOLIO COMMITTEES

The ECRDA is a Schedule 3C Provincial Public Entity wholly-owned by the Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR). As such, the Agency submits to the guidance and oversight provided by The Portfolio Committee on Agriculture, Land Reform and Rural Development. During the period under review the ECRDA attended portfolio committee meetings on the following dates:

- 11 June 2020
- 25 June 2020
- 09 September 2020
- 16 October 2020
- 13 November 2020
- 27 November 2020
- 10 December 2020
- 15 December 2020

EXECUTIVE AUTHORITY

The ECRDA is compliant with all laws and regulations relevant to its areas of operation. As a Provincial public entity, it is committed to providing the shareholder with all relevant performance and organisational information to allow for effective monitoring, evaluation and oversight. To this end, it has ensured that all reports due for submission to the shareholder and other authorities have been developed thoroughly and submitted timeously.

The ECRDA submits quarterly reports to the executive authority aligned with the Annual Performance Plan of the entity. These reports are supported by a portfolio of evidence that are verified through auditing processes.

ACCOUNTING AUTHORITY

ECRDA is governed by a Board of Directors comprising 10 non–executive directors and one (1) shareholder representative who are appointed by the MEC for Rural Development and Agrarian Reform. The Chief Executive Officer serves as an ex officio representative for the duration of his tenure.

As the Accounting Authority of the ECRDA, the Board of Directors plays a vital role in providing effective leadership, strategic direction, ethical governance, competent guidance and oversight and overall accountability. As the focal point and custodian of corporate governance within the ECRDA, the Board embraces and takes seriously its responsibilities in setting the appropriate example and tone for the rest of the agency. It is further committed to ensuring that the culture within the agency is aligned to this ethical tone through the implementation of appropriate policies and practices. To achieve these goals, Board members are called on to discharge their duties with:

- Integrity
- Competence
- Responsibility
- Accountability
- Fairness
- Transparency

The ECRDA Board has adopted a Charter, in line with the recommendations of the King Code, which
sets out its responsibilities in terms of:

- Adoption of strategic plans
- Monitoring of operational performance and management
- Determination of policy processes to ensure the integrity of the public entity risk management and internal controls
- Communication policies; and
- Director selection, orientation and evaluation.

Board Composition

Name	Designation	Date appointed	Date ended	Qualifications
Nare, L	Chairperson	1 April 2019	n/a	• Bachelor's Degree Industrial Psychology • Higher Education Diploma
M Ncwadi	Deputy Chairperson	1 April 2019	4 Feb 2021 (exited)	• MBA • MPhil: Engineering for Sustainable Development • BS: Civil Engineering • National Diploma: Mine Surveying • Certificates in Environmental Leadership, Global Environment, Managed Grazing Instructor
V Jarana	Deputy Chairperson	3 July 2020	n/a	• National Technical Diploma in Telecoms • Bachelor of Commerce • BUS Admin (Hons) • MBA
Adv P Mayapi	Member	1 April 2019	n/a	• B.Juris • LLB • National Management Diploma: Transportation
S Makunga	Member and Social & Ethics Committee Chairperson	1 April 2019	n/a	• B.Soc.Sc (Communications) • Certificate: Strategic Media Relations • Certificate: Effective Media Relations • Certificate: Multimedia Management Skills
M Msoki	Member	1 April 2019	n/a	• B Soc Sci (Hons) • Certificate in Executive Leadership : Public and Development Management • Certificate in Leadership Training Course
N Mbete	Member and FPI Committee Chairperson	1 April 2019	n/a	• National Diploma: Cost and Management Accounting • Post Graduate Diploma: Strategic Management and Corporate Governance • Certified Financial Accountant • Certified Cultural Transformative Tools Expert
Z Thomas	Member and Audit Risk & Compliance Chairperson	1 April 2019	n/a	• BA Degree: History and Xhosa • LLB • Higher Education Diploma • General Management Programme Certificate, • Compliance Certificate • Law School attendance certificate and Assessor certificate.
S Faku	Member and HC&R Committee Chairperson	1 April 2019	n/a	• MSc • Bachelor of Education (Hons) • Bachelor of Arts • Senior Teachers Diploma • HR Programme • Diploma in Company Direction • Real Estate NQF 5
N Petela-Ngcanga	Member	1 April 2019	7 December 2020 (Deceased)	• Teachers Diploma • Further Diploma Educational Management • Advanced Governance & Leadership (NQF Level 5)
Amb M Maqetuka	Member	1 April 2019	30 November 2020 (Resigned)	• BA (Hons) Contemporary Media Practice • In-house training programme in leadership development. • Certificate in strategic management • Course in news agency journalism.
n dladla	Chief Executive Officer	1 October 2018	n/a	• B.Com (Accounting & Economics) • MBA • EdM

BOARD MEETINGS ATTENDANCE

L Nare
Adv. P Mayapi
S Makunga
M Msoki
N Mbete
Z Thomas
S Faku

10 meetings

BOARD COMMITTEES

To maximise its performance and strengthen corporate governance, the ECRDA Board has established four (4) specialist Board committees. Chaired by independent, non-executive directors, these committees streamline and enhance decision-making by providing more detailed attention to matters within their terms of reference.

They also assist the Board in meeting its oversight responsibilities and ensuring the integrity of financial and other controls. Board committees meet before Board meetings to review matters and to take appropriate decisions. Committees meetings are regulated in terms of an approved calendar and deliberations are minuted and implemented once they have been deliberated upon and ratified by the Board.

Board Committees Composition

Name	Audit, Risk & Compliance	Human Capital & Remuneration	Finance, Projects & Investments Committee	Social & Ethics
L Nare		●		
V Jarana	●		●	
M Ncwadi			●	●
Adv. P Mayapi	●	●		
S Makunga			●	●
M Msoki		●		
N Mbete	●		●	
Z Thomas	●			●
S Faku		●	●	
N Petela-Ngcanga		●		
Amb. M Maqetuka		●		

V Jarana
N Petela-Ngcanga
Amb. M Maqetuka

6 meetings

M Ncwadi

9 meetings

Board Remuneration

Name	Remuneration / Fees	Other Allowances	Other re-imbursements	Total
L Nare	R409 920	n/a	n/a	R409 920
M Ncwadi	R328 871	n/a	R265	R329 136
P Mayapi	R273 921	n/a	n/a	R273 921
S Makunga	R325 152	n/a	R42 598	R367 750
Z Thomas	R325 152	n/a	R3 762	R328 914
S Faku	R325 152	n/a	n/a	R325 152
N Mbete	R325 152	n/a	n/a	R325 152
N B Petela-Ngcanga	R180 656	n/a	n/a	R180 656
M Msoki	R263 388	n/a	n/a	R263 388
Amb. M Maqetuka	R219 490	n/a	n/a	R219 490
V Jarana	R216 534	n/a	n/a	R216 534

RISK MANAGEMENT

The Board through its Audit, Risk and Compliance (ARC) Committee ensures that there is an effective risk management process within the ECRDA. Risk management processes include policy development, facilitation of risk assessments and development of mitigating controls for the risk identified.

Risk assessments were facilitated by the Internal Audit Unit for all business units and regional offices. Risk registers were developed and submitted for approval. The ARC plays an independent oversight role which assist management with risk management processes and as such recommends suitable actions for mitigating unacceptable levels of risk identified.

Risk management practices assist the ECRDA to improve its performance and achieve the impact that is intended with the implementation of the approved strategy.

INTERNAL AUDIT AND AUDIT COMMITTEE

The entity's internal audit function is performed by an external service provider which fulfils an independent assurance function. The internal audit unit follows a risk-based audit approach in providing management and the audit committee with assurance on the adequacy and effectiveness of governance, risk management and internal control processes. The internal audit unit is guided by an Internal Audit Charter approved by the Audit Committee and performs its function as provided in the Public Finance Management Act (PFMA) and the internal audit charter.

The internal audit unit compiles a rolling three-year risk-based plan and prepares an annual plan after taking into consideration the risks facing the entity, strategic objectives, the entity's mandate, audit issues and inputs by management. The audit committee approves the Internal Audit Plan for implementation.

The internal audit reviews performed for the financial year, were all in line with the approved annual audit plan and consisted of the following for the 2020/21 financial year:

- Enterprise Risk Management Review
- Annual Financial Statements and Annual Performance Report review
- Review of Internal Audit Plan, Risk Management Plan and Internal Audit Charter
- Quarterly Report reviews, Q1 – Q4
- Review of the Audit Action Plan
- SCM Review
- Fraud Awareness workshops
- Review of Annual Performance Plan 2021/22
- Agro Processing Audit
- Compliance audit, including legal and company secretariat
- Key controls assessment / dashboard
- Rural Finance Programme
- Human Resource Management
- GRAP Enhancement checklist
- AIP review
- Loans prescriptions
- Interest rates
- Quality Review Human Capital Plan
- Thin beef value assessment

Internal audit findings were communicated timely and management implemented measures to mitigate risks. Significant matters identified during the audit were reported to the Audit Committee.

COMPLIANCE WITH LAWS AND REGULATIONS

During the period under review ECRDA has been compliant with the laws and regulations relevant to its areas of operation.

FRAUD AND CORRUPTION

In terms of the Fraud Prevention Policy, employees are required to report fraud to their immediate line managers, Internal Audit and Audit, Risk and Compliance Committee. Staff are also encouraged to report any fraud to the Office of the Premier via the free National Anti-Corruption Hotline.

During the period under review no instances of fraud or corruption have been reported.

MINIMISING CONFLICT OF INTEREST

The 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 agency prevents conflict of interest by ensuring adherence to National Treasury Code of Conduct for supply chain management practices. Lastly the ECRDA requires all staff to declare their interest in other businesses or organisations, in addition to this staff that are members of the Bid Evaluation and Adjudication committees are required to declare any potential conflict of interest at each committee meeting.

CODE OF CONDUCT

The ECRDA continue to subscribe to its core values as set out below:

- **Transparency:** We will be clear and open in our actions and promote inclusive and accountable participation by all stakeholders.
- **Excellence:** We will build a competent, capable organisation best equipped to deliver quality services in all interventions and assignments within our mandate for rural development.
- **Honesty and integrity:** We will be professional, respectful, fair and consistent in our dealings and deliver decisions focused on ethical outcomes.
- **Innovation:** We will be creative and push the boundaries of technology to be relevant and responsive to the development needs of rural communities.
- **Commitment to empowerment:** We will prioritise the upliftment of communities we serve, as well as the capacitation of staff and connected development agents to drive excellence.
- **Ubuntu:** We will demonstrate our commitment to shared humanity and solidarity in the

HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

ECRDA recognises the health and safety is paramount to the well-being of all employees. As such the Agency conforms to the rules as enshrined in the Occupational Health and Safety Act (Act 85 of 1993). Its OHS Committee, comprising staff in different roles aims to ensure that no one operates in hazardous situations. During the period under review there were no potentially hazardous incidents reported or investigated and all COVID-19 protocols were strictly adhered to.

COMPANY SECRETARY

The Company Secretary has a wide range of duties and responsibilities, among which:

- Assisting in the proper induction, orientation, ongoing training and education of directors, including assessing the specific training needs of directors in their fiduciary and other governance responsibilities.
- Providing comprehensive practical support and guidance to directors, with particular emphasis on supporting the chairperson of the Board, the chairpersons of committees and the Audit, Risk and Compliance Committee.
- Ensuring that the Board and terms of reference are kept up to date.
- Ensuring the proper compilation and timely circulation of Board documents and assisting the chairperson of the Board and chairpersons of committees with drafting of yearly meeting schedules.
- The company secretary has the duty to obtain appropriate responses and feedback to specific agenda items and matters arising from earlier meetings in board and board committee deliberations.
- Facilitate formal Board Evaluations
- Ensuring that minutes of all meetings of the directors, as well as meetings of the Audit, Risk and Compliance Committee, are properly recorded.
- Develop and maintain the resolutions register.

During the period under review, the duties and responsibilities of the Company Secretary were discharged within the Eastern Cape Rural Development Agency, and all reports and returns were timeously lodged as required.

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2021.

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee reports that it has complied with its responsibilities arising from Section 51 (1)(a)(ii) of the Public Finance Management Act and Treasury Regulation 27.1. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, except that we have not reviewed changes in accounting policies and practices.

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 agency's policies and procedures for detecting and preventing fraud;
- Reviewed the operational effectiveness of the agency's policies, systems and procedures;
- 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 have been maintained and resources have been 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.

THE EFFECTIVENESS OF INTERNAL CONTROL

Our review of the findings of the Internal Audit work, which was based on the risk assessments conducted in the public entity revealed certain weaknesses, which were then raised with the public entity.

Internal audit work during the year under review:

The entity's Internal Audit function is performed by an external service provider, which fulfils an independent assurance function. The internal audit unit follows a risk based audit approach in providing management and the Audit Committee with assurance on the adequacy and effectiveness of governance, risk management and internal control processes. The Internal Audit Unit is guided by an Internal Audit Charter approved by the Audit Committee and performs its function as provided in the Public Finance Management Act (PFMA) and the Internal Audit Charter.

The Internal Audit unit compiles a rolling three-year risk based plan and prepares an annual plan after taking into consideration the risks facing the entity, strategic objectives, the entity's mandate, audit issues and inputs by management. The Audit Committee approves the Internal Audit Plan for implementation.

The internal audit reviews performed for the financial year, were all in line with the approved annual audit plan and consisted of the following for the 2020/21 financial year:

- Enterprise Risk Management Review
- Annual Financial Statements and Annual Performance Report review
- Review of Internal Audit Plan, Risk Management Plan and Internal Audit Charter
- Quarterly Report reviews, Q1 – Q4
- Review of the Audit Action Plan
- SCM Review
- Fraud Awareness workshops
- Review of Annual Performance Plan 2021/22
- Agro Processing Audit
- Compliance audit, including legal and company secretariat
- Key controls assessment / dashboard
- Rural Finance Programme
- Human Resource Management
- GRAP Enhancement checklist
- AIP review
- Loans prescriptions
- Interest rates
- Quality Review Human Capital Plan
- Thin beef value assessment

Internal audit findings were communicated timely and management implemented measures to mitigate risks. Significant matters identified during the audit were reported to the Audit Committee.
No areas of concern were noted as management on a continuous basis puts measures in place to mitigate risks and findings identified by Internal Audit.

IN-YEAR MANAGEMENT AND MONTHLY/QUARTERLY REPORT

The public entity has reporting monthly and quarterly to the Treasury as is required by the PFMA.

EVALUATION OF FINANCIAL STATEMENTS

We have reviewed the annual financial statements prepared by the public entity. Following our review of the consolidated annual financial statements for the year ended 31 March 2021, we are of the opinion that they substantially comply with the relevant provisions of 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 the 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.

AUDITOR'S REPORT

We have reviewed the entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters have been adequately resolved except for the following:

- No action was implemented on the finding for Letters of demand for the write off of irrecoverable debt that were not submitted in the prior year in relation to customers.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

Ms. Thomas
Board member and Chairperson of the Audit Committee

SUBSIDIARIES

Magwa Enterprise Tea

Board Composition

Name	Designation	Qualifications	Date appointed	Date of Termination of Tenure	No of Board meetings attended
Mr. Vuyani Mapiya (Eastern Cape Parks and Tourism Agency)	Chairperson	National Diploma in Nature Conservation; Bachelor of Technology in Conservation	01 May 2019		7
Mr. Ayanda Gabula (ECRDA)	Deputy Chairperson	Post Graduate Diploma in Business Management; BCOMPT Accounting Science; Secondary Teachers Diploma	01 May 2019		7
Mr. Mfundo Macanda (DRDAR)	Member	Masters of Science in Agriculture Bachelor degree in Agriculture	08 May 2020	31 March 2021	6
Mrs. Nomahlubi Geja (Rural Development and Land reform)	Member	Bachelor of Science, BSc (Hons), Masters in Science, Post Graduate Diploma in Public Development and Management	01 May 2019	31 March 2021	2
Mr. Philasande Citywayo (Eastern Cape Provisional Treasury)	Member	Bachelor of Commerce Accounting; Post Graduate Diploma in Public Sector Accounting	01 May 2019	31 October 2020	3

COMMITTEE COMPOSITION

The Magwa Interim Board did not have committees.

REMUNERATION OF BOARD MEMBERS

No board remuneration was incurred. All board members were seconded from various state organs at no cost to Magwa Enterprise Tea (Pty) Ltd.

MAGWA PERFORMANCE INFORMATION

MET has developed a Turnaround Plan which provides a blueprint for transforming the company. Its immediate focus was to bring organisational stability and strengthen governance and accountability through the appointment of a new board for a three-year period. As a matter of urgency, MET is re-engineering its operations in order to dramatically improve its operational efficiencies, restructuring of the balance sheet, cost-cutting, improve profit margins, become a world-class competitor and to improve the customer experience.

During the period under review, the company has been significantly challenged by slow growth, the COVID-19 pandemic and a tough global economy. In order to remain competitive in the global marketplace, MET must adopt a radical corporate approach. This requires MET to form strategic alliances with customers, suppliers and competitors. Having to deal with a whole new set of non-traditional competitors can slow progress of even the sleekest of companies. As such, trading conditions during the review period demanded the introduction of Business Process Re-Engineering (BPR) at Magwa Enterprise Tea. BPR will be used as a vehicle for developing a corporate strategy, streamlining operations and systems to deliver significantly increased financial results and customer satisfaction. MET tried to find ways to do more with less and provide a better product and service in the minimum amount of time- speed, quality, and cost being the key drivers.

GENERAL FINANCIAL OVERVIEW

MET remains under-capitalised with a significant negative equity position. Finding solutions to the balance sheet challenges requires concerted action by management, the Board and the provincial government. Magwa Enterprise Tea (Pty) Ltd is not able to generate adequate cash flows from its core business of tea. Current cash flows are not sufficient to cover its annual total cash requirements. As such, the company is dependent on continued government financial support into the foreseeable future in order to maintain its operations. Increased labour costs and CIP on input costs continues to be a drag on MET's gross profit margins.

SPENDING TRENDS

Labour costs constitute 82% of the total operational cost and it remains high at R56.7million: R44.9 million (direct production) and R11.9 million (non-production) and labour costs. Increased minimum wage remains a drag and it is only managed by reducing seasonal labourers.

Diesel, and electricity costs increased by 25% from R4.1 million to R5.2 million due to aged tractors/infrastructure and increased electricity tariffs.

The cost of labour and the cost of processing tea are squeezing Magwa Estate profit margins with almost 75% of the costs of producing tea fixed in labour cost. Labour is priced at R18,68 per hour and it will rise to R21,69 per hour from 1 March 2021 per worker. At 40,000kg green leaf per day and 8,000kg of made tea, labour costs currently constitutes 75% of the cost of production.

Other essential inputs including fertiliser, pest control chemicals, energy (coal, fuel and electricity) are reducing earnings and holding back investments in quality at a time when only good quality teas are competitive. Falling tea prices, over supply of tea and greater competition from growers in Kenya and China are making change an urgent requirement.

CAPACITY CONSTRAINTS AND CHALLENGES FACING MAGWA

During the year under review, a Board of Directors was appointed. The Board is comprised of three women and four men. A company secretariat and governance framework was developed. Management systems have been established as well as the appointment of management and technical staff with the requisite skills to drive finance, human resources and operations. The company had a labour force totalling 1,558 (516 permanent and 1,031 seasonal workers) at the end of the financial year.

1,558
total labour force at the end of the year

Permanent
516

Seasonal workers
1,031

Discontinued key activities / activities to be discontinued / New or proposed new key activities

There were no discontinued operations during the 2020/21 financial year. MET is soliciting investments in technology and mechanisation remains critical in turning around the company financial position. The medium to long-term plan is to develop Magwa Falls Park and link all tourist attraction sites within the Wild Coast region. Potential investors are being sought for the Magwa Falls development project.

PRODUCTION (TONNAGE) AND SALES (TONNAGE)

In terms of production, a total of 556 tons of bulk black tea were produced. This figure is comprised of 502,8 tons from Magwa and 53,2 from Majola. A total of 59 tons of tea bags were produced. In terms sales, a total of 636,2 tons of bulk black tea were sold. Of this figure, 550 tons were from Magwa and 86,2 from Majola. A total of four tons of tea bags were sold.

556 tons
of bulk black tea were produced

Magwa
502,8 tons

Majola
53,2 tons

OUTLOOK/ PLANS FOR THE FUTURE TO ADDRESS FINANCIAL CHALLENGES

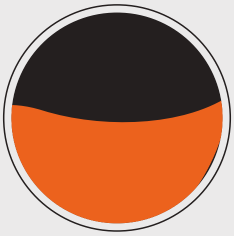
Extensive work has been done on the expansion of the product line, rebranding and marketing. Furthermore, MET has started a business process re-engineering process (BPR), focusing on the analysis and design of workflows and business processes within the company. BPR aims to help MET to fundamentally rethink how the company does its work in order to dramatically improve customer service, cut operational costs, improve profit margins and to become a world-class competitor.

The re-engineering process started with a high-level assessment of the organisation's vision and mission, strategic goals, and customer needs. This process resulted in the development and approval of a Corporate Strategy and Annual Performance Plan. MET has developed a production framework with clear cost centres and revenue streams in order to ensure that the company is viable and profitable.

In order to reduce production and labour costs to an acceptable level, MET is working towards introducing technological innovations such as:

Automation – To cut costs so that a viable and sustainable future is prepared for the shareholder, Magwa is working on introducing innovative technologies. MET continues to work toward meeting the demands of climate change, renewable energy, and operational sustainability.

Mechanical Harvesting Equipment - Procurement of mechanical harvesting equipment for the 2021/22 financial year harvest season commencing in October 2021 will lead to an efficient and cost-effective delivery of green leaf. This will reduce the current field labour force by at least 50% at R2,5 million per month during the harvest season commencing from October 2021 to May 2022.



R2,5m

cost reduction due to the introduction of innovative technologies

Hedge Trimming Equipment - MET has procured Hedge Trimming equipment for tea bush skiffing and tabling. This investment reduces costs during the maintenance period by at least R4,4 million. This will reduce seasonal workers' numbers during this period from 694 to 72. MET will continue to explore and invest in mechanical harvesters. Skills development remains critical in improving workforce productivity in order to ensure that MET remains competitive in the global marketplace.

MET will continue to produce products that are certified by the Rainforest alliance. MET is pesticide free. The company plants trees and it preserves its soil while educating and practicing sustainable values. Economic Viability

Tough times ahead in the tea market, high production, over supply, reduced demand, slow economic recovery and COVID-19 disruptions may drive tea prices to an all-time low. The tea price drop is out of MET's control, MET can only improve operational efficiencies and curb costs.

Performance Management

Output Indicator	2020/21 Target	Actual Achieved	Deviation	Reason for deviation
1. Number of tons of tea produced for the market	1100	621	479	Prolonged drought in 2020 contributed to low yields. Unplanned power outages negatively affected tea processing resulting in losses.
2. Number of participating smallholder farmers	10	0	10	Funds were not secured in 2020 to start vegetable production. Smallholder farmers will be participating in vegetable production in 2021/22
3. Number of new commodities and enterprises introduced	2	0	2	Not achieved due to COVID 19 business interruption.
4. Number of board resolutions shared with senior management	4	4	0	n/a
5. Number of partnership agreements signed	5	1	4	Not achieved due to COVID 19 business interruption.
6. Number of audited financial statements approved	1	1	0	n/a
7. Number of asset verifications reports signed	1	1	0	n/a
8. Number of payroll reports signed	12	12	0	n/a
9. Number of SMME's and informal traders participating in downstream value chains	16	16	0	n/a
10. Number of hectares pruned and harvested	2088 ha	2088 ha	0	n/a

MAGWA HUMAN RESOURCE MANAGEMENT

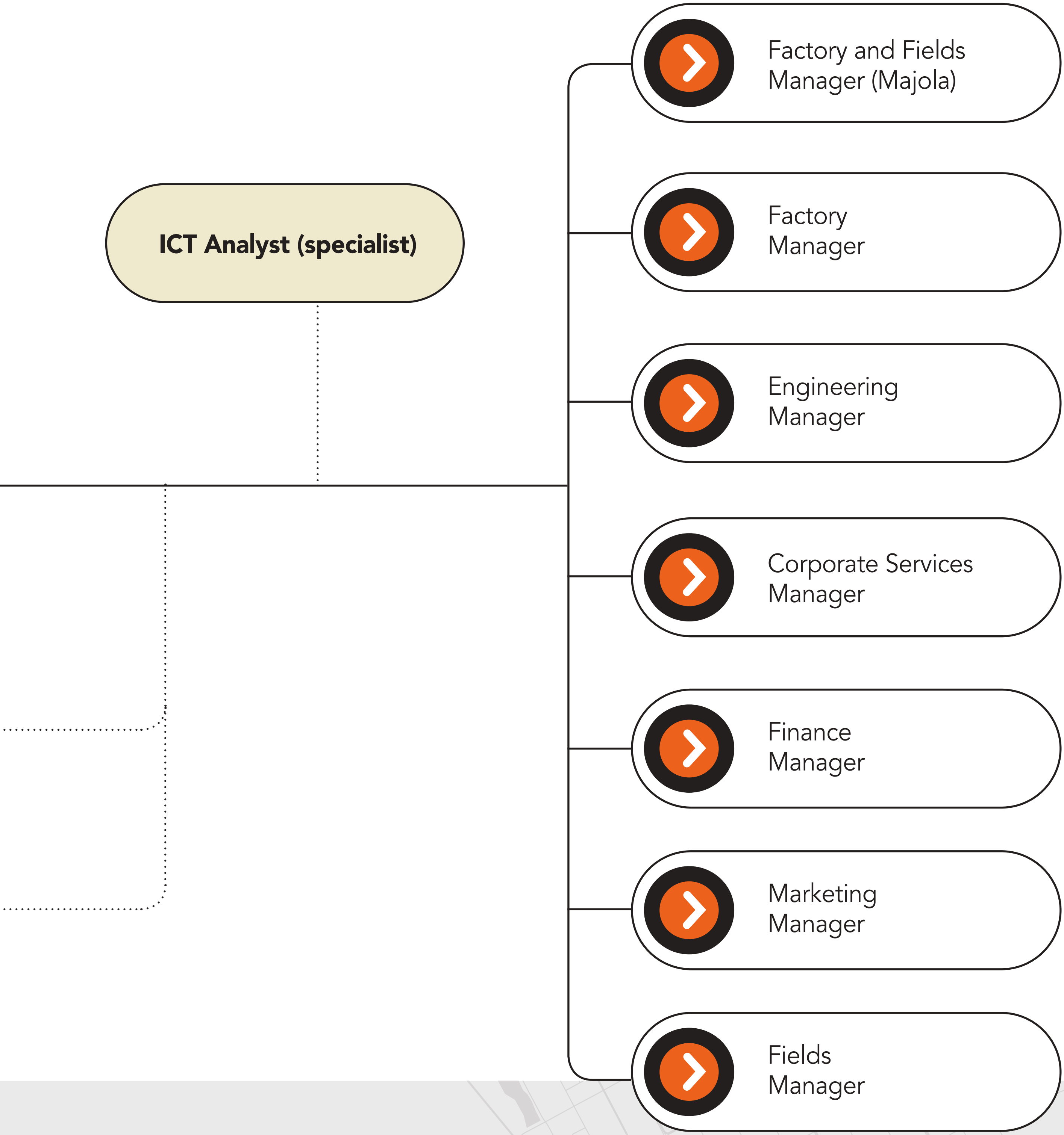
The organisational structure and design requires development which is aligned with the new approved strategy. Magwa management needs to establish the company chain of command and accountability relationship and to identify areas that are not effectively aligned as well as gaps and inconsistencies in the relationship/workflow. Management via corporate services needs to create a generic optimal organisational design to allow the company to achieve its goals and objectives. There are concrete changes to the chain of hierarchy, the flow of communication, and reporting relationships that need review. Human capital needs to be aligned to the organisational structure, strategy, systems, staff, skills set, management style, shared values (mission, objectives, and values) and standards.

Organisational Structure

General Manager

Admin Support

Project Management Officer


ICT Analyst (specialist)
Factory and Fields Manager (Majola)
Factory Manager
Engineering Manager
Corporate Services Manager
Finance Manager
Marketing Manager
Fields Manager

Personnel cost by salary band

Level	Personnel Expenditure (R'000)	% of personnel expenditure to total personnel cost	No of employees	Average personnel cost per employee (R'000)
Top Management	3,329,024.52	6%	8	416,128
Senior Management	1,544,508.74	3%	17	90,853
Professional qualified	2,344,115.20	4%	17	137,889
Skilled	536,520.36	1%	8	67,065
Semi-Skilled	460,388.04	1%	8	57,549
Unskilled	50,881,385.54	86%	1496	34,012
Total	**59,095,942.40**	**100%**	**1554**	

PERFORMANCE REWARDS

No performance rewards were awarded during the period under review.

TRAINING COSTS

There was no training expenditure during the period under review.

Employment

Level	Employment at beginning of period	Appointments	Terminations	Employment at end of period
Top Management	5	3	0	8
Senior Management	14	4	5	13
Professional qualified	23	4	0	27
Skilled	13	0	2	11
Semi-Skilled	9	0	0	9
Unskilled	717	679	349	1047
Total	**781**	**690**	**356**	**1115**

Reasons for leaving

Reason	Number	% of total number of staff leaving
Death	5	1%
Resignation	2	1%
Retirement	59	17%
Ill health	1	0%
Mutual Agreement exit	1	0%
Expiry of contract	287	81%
Other	1	0%
Total	**356**	**100%**

Misconduct and disciplinary action

Nature of disciplinary Action	Number
Verbal Warning	0
Written Warning	0
Final Written Warning	2
Dismissal	1

Ngquza Hill is predominantly Black, hence the equity will always lean towards that. For the MTEF year, it will remain the same. However, after the approval of the organisational structure, management will design a five-year plan to address the equity and disability appointments.

Equity Target and Employment Equity Status

MALE EMPLOYEES

Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	7	n/a	1	n/a	0	n/a	0	n/a
Senior Management	8	n/a	2	n/a	0	n/a	1	n/a
Professional Qualified	2	n/a	0	n/a	0	n/a	0	n/a
Skilled	3	n/a	0	n/a	0	n/a	0	n/a
Semi-Skilled	9	n/a	0	n/a	0	n/a	0	n/a
Unskilled	404	n/a	0	n/a	0	n/a	0	n/a
Total	**433**	**n/a**	**3**	**n/a**	**0**	**n/a**	**1**	**n/a**

Equity Target and Employment Equity Status

FEMALE EMPLOYEES

Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	1	n/a	0	n/a	0	n/a	0	n/a
Senior Management	5	n/a	0	n/a	0	n/a	0	n/a
Professional Qualified	18	n/a	0	n/a	0	n/a	0	n/a
Skilled	8	n/a	0	n/a	0	n/a	0	n/a
Semi-Skilled	0	n/a	0	n/a	0	n/a	0	n/a
Unskilled	647	n/a	0	n/a	0	n/a	0	n/a
Total	**679**	**n/a**	**0**	**n/a**	**0**	**n/a**	**0**	**n/a**

B-BBEE Compliance Performance Information

Criteria	Response (Yes / No)	Discussion
Determining qualification criteria for the issuing of licences, concessions or other authorisations in respect of economic activity in terms of any law?	No	ECRDA's business activities do not include the issuing of licences, concessions or other authorisations. Should the situation arise, it will be governed by the PFMA, Treasury Regulations, Treasury Circulars and Instruction notes.
Developing and implementing a preferential procurement policy?	Yes	The ECRDA has adopted the Preferential Procurement Policy Framework and this in included in the entity's Supply Chain Management Policy.
Determining qualification criteria for the sale of state-owned enterprises?	No	ECRDA's business activities do not include the sale of state-owned enterprises. Should the situation arise, it will be governed by the PFMA, Treasury Regulations, Treasury Circulars and Instruction notes.
Developing criteria for entering into partnerships with the private sector?	No	Partnership arrangements are governed by the PFMA, Treasury Regulations, Treasury Circulars and Instruction notes.
Determining criteria for the awarding of incentives, grants and investment schemes in support of Broad Based Black Economic Empowerment?	Yes	ECRDA provides loan funding with preferential interest rates to rural clients in order to promote BBBEE in rural areas.

PART E

Financial Information

CONTENTS PAGE

Eastern Cape Rural Development Agency Consolidated statement of financial position as at 31 March 2021

Statement of Board members' responsibility for financial reporting for the year ended 31 March 2021

The Board members are required by the Public Finance Management Act, Act No. 1 of 1999, (as amended by Act No. 29 of 1999) and the Eastern Cape Rural Finance Corporation Amendment Act, Act No. 1 of 2012 to maintain adequate accounting records, while they are responsible for the content and integrity of the consolidated annual financial statements and the related financial information 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 the prescribed Standards of Generally Recognised Accounting Practice.

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 Auditor-General was appointed in terms of the Public Audit Act, 2004, to express an independent opinion on the consolidated annual financial statements.

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 that 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 ended 31 March 2021 and for the 2020 financial year and, in the light of this review and the current financial position, 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 Group has accumulated a profit for the year and the Eastern Cape Provincial Government has confirmed funding for the Eastern Cape Rural Development Agency for the 2021/22 financial year.

The consolidated annual financial statements set out on pages 93 to 170, which have been prepared on the going concern basis, were approved by the board members on 31 May 2021 and were signed on its behalf by:

Lulama Nare
Chairperson of the Board

Report of the Auditor-General to Provincial Legislature on Eastern Cape Rural Development Agency

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Eastern Cape Rural Development Agency and its subsidiaries set out on pages 93 to 170, which comprise the consolidated and separate statement of financial position as at 31 March 2021, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. 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 as at 31 March 2021, and the group's financial performance and cash flows for the year then ended in accordance with the 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).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.

4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matters

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

Material impairments

7. As disclosed in note 7 to the consolidated financial statements, impairment of R122,8 million (2019-20: R152,9 million) was provided for loans and advances to customers which are deemed uncollectable.

Irregular expenditure

8. Irregular expenditure of R2,8 million (2019-20: R14,2 million) disclosed in note 26 to the consolidated financial statements was incurred due to non-compliance with SCM legislation.

Other matters

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

Unaudited supplementary schedules

10. The supplementary information set out on pages 168 to 170 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly we do not express an opinion on them.

Responsibilities of the accounting authority for the financial statements

11. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with SA Standards of GRAP and the requirements of the 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.

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

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

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

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

Report on the audit of the annual performance report

Introduction and scope

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

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

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

Programmes	Pages in the annual performance report
Programme 2 — Catalytic High Impact Programmes	53 — 55

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

19. The material findings on the usefulness and reliability of the performance information of the selected programme are as follows:

Programme 2 - Catalytic High Impact Programmes

% of non-agricultural projects within the ECRDA portfolio

20. I was unable to obtain sufficient appropriate audit evidence for the achievement of 33% reported against the target of 10% in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

% of scheduled rural infrastructure projects completed

21. The achievement of 58% was reported against the target of 60% in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement.

Other matters

22. I draw attention to the matters below.

Achievement of planned targets

23. Refer to the annual performance report on pages 49 to 57 for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 20 to 21 of this report.

Adjustment of material misstatements

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Programme 2 - Catalytic high impact programmes. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

26. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual reports

27. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements of non-current assets, current assets, expenditure, and statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

28. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R2,8 million as disclosed in note 26 to the consolidated and separate financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by extension of contracts that exceeded the 15% and 20% threshold without prior approval by relevant treasury.

Other information

29. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

30. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

32. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

33. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the finding on compliance with legislation included in this report.

34. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls, which include adequate document management, to ensure sound financial and performance management and compliance with laws and regulations. Management failed to confirm that the financial information of its subsidiaries included in the consolidated financial statements were final audited amounts, and this contributed to inaccurate financial and performance reporting.

35. Although reviews were done by management, internal audit and audit committee, material misstatements were identified on the financial and performance information. This indicates that the review processes need to be strengthened.

36. Compliance with laws and regulations is not always monitored and this has led to the findings reported on annual financial statements, performance and annual reports and expenditure management.

Auditor General

East London
13 August 2021

Annexure — Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected programmes and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Eastern Cape Rural Development Agency and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

The segments of the agency are detailed and reconciled to the consolidated statement of financial position as follows:

	Notes	Agency 2021 R	Agency 2020 R	Group 2021 R	Group 2020 R
ASSETS					
Current Assets					
Cash and cash equivalents	6	**102 734 411**	62 010 879	**105 479 297**	64 609 268
Trade and other receivables: Exchange	8	**2 516 921**	2 816 792	**40 654 491**	33 615 432
Inventories	9	**143 571**	97 392	**12 976 945**	97 392
Loans and advances to customers	7	**17 085 841**	22 310 191	**17 085 841**	22 310 191
		122 480 744	87 235 254	**176 196 574**	120 632 283
Non-current assets					
Deferred tax	23	**-**	-	**104 826 076**	-
Bearer biological assets	9	**-**	-	**3 083 948**	-
Investment under contingency policy	12	**11 559 688**	11 096 939	**11 559 688**	11 096 939
Investment property	13.1	**1 610 848**	1 649 065	**1 610 848**	1 649 065
Property, plant and equipment	13.2	**15 676 276**	11 232 369	**25 723 018**	11 232 369
Intangible assets	13.3	**421 437**	659 833	**421 437**	659 833
		29 268 249	24 638 206	**147 225 015**	24 638 206
Total assets		**151 748 993**	111 873 460	**323 421 589**	145 270 489
LIABILITIES					
Current liabilities					
Finance lease obligations	19	**1 883 320**	504 019	**1 883 320**	504 019
Deferred grant income arising from non-exchange transactions	15	**23 086 303**	21 099 934	**23 086 303**	21 099 934
Trade and other payables	14	**55 421 357**	27 710 375	**58 265 633**	28 263 886
Loan from South African Fruit Exporters	17	**-**	-	**21 980 575**	21 980 575
Liabilities arising from non-exchange transactions	18	**5 399 410**	545 049	**5 399 410**	545 049
		85 790 390	49 859 377	**110 615 241**	72 393 463
Non-current liabilities					
Finance lease obligations	19	**2 773 978**	195 661	**2 773 978**	195 661
Deferred tax	23	**-**	-	**863 506**	-
		2 773 978	195 661	**3 637 484**	195 661
Total liabilities		**88 564 368**	50 055 038	**114 252 725**	72 589 124
Total assets less total liabilities		**63 184 625**	61 818 422	**209 168 863**	72 681 365
NET ASSETS					
Capital contributed	20	**41 989 046**	41 989 046	**41 989 046**	41 989 046
Accumulated surplus		**21 195 579**	19 829 376	**167 179 817**	30 692 319
Attributable to the minority shareholders		**-**	-	**(383 664)**	(806 723)
Attributable to net asset holder of the agency		**63 184 625**	61 818 422	**209 552 528**	73 488 088
Total net assets		**63 184 625**	61 818 422	**209 168 863**	72 681 365

Total of Kangela Citrus (Pty) Ltd ('R)		Attributable to the ECRDA (51%)	Attributable to the minority share (49%)	Total of the ECRDA group (exc Minority)	Total of the ECRDA group (inc Minority)
Total assets	33 298 578	16 982 275	16 316 303	307 105 286	323 421 589
Total liabilities	(32 515 591)	(16 582 951)	(15 932 640)	(98 320 086)	(114 252 725)
Total net assets	(782 987)	(399 323)	(383 664)	(208 785 200)	(209 168 863)

The segments of the agency are detailed and reconciled to the consolidated statement of financial position as follows:

	2021					
	Admin (non-segment)	East London Project management	Branches Rural Finance	Segments total	Subsidiaries Kangela Citrus & Magwa Tea	**Statement of financial position**
	R	R	R	R	R	**R**
ASSETS						
Current Assets						
Cash and cash equivalents	66 307 125	-	36 427 285	36 427 285	2 744 887	**105 479 297**
Trade and other receivables	2 421 480	-	95 441	95 441	38 137 571	**40 654 491**
Inventories	143 571	-	-	-	12 833 374	**12 976 945**
Loans and advances to customers	-	-	139 928 506	139 928 506	(10 245 869)	**129 682 637**
Less: Credit impairments on loans	-	-	(122 842 665)	(122 842 665)	10 245 869	**(112 596 796)**
Net loans and advances to customers	-	-	17 085 841	17 085 841	-	**17 085 841**
	68 872 176	-	53 608 567	53 608 567	53 715 831	**176 196 574**
Non-current assets						
Deferred tax	-	-	-	-	104 826 076	**104 826 076**
Bearer biological assets	-	-	-	-	3 083 948	**3 083 948**
Investment under contingency policy	11 559 688	-	-	-	-	**11 559 688**
Investment property	-	-	1 610 848	1 610 848	-	**1 610 848**
Property, plant and equipment	9 878 791	-	5 797 485	5 797 485	10 046 742	**25 723 018**
Intangible assets	421 437	-	-	-	0	**421 437**
	21 859 916	-	7 408 333	7 408 333	117 956 766	**147 225 015**
Total assets	90 732 092	-	61 016 900	61 016 900	171 672 598	**323 421 589**
LIABILITIES						
Current liabilities						
Finance lease obligations	1 759 749	-	123 571	123 571	-	**1 883 320**
Deferred grant income arising from non-exchange transactions	-	-	23 086 303	23 086 303	-	**23 086 303**
Trade and other payables	55 421 357	-	-	-	2 844 276	**58 265 633**
Loan from South African Fruit Exporters	-	-	-	-	21 980 575	**21 980 575**
Liabilities arising from non-exchange transactions	-	5 399 410	-	5 399 410	-	**5 399 410**
	57 181 106	5 399 410	23 209 874	28 609 284	24 824 851	**110 615 241**
Non-current liabilities						
Finance lease obligations	2 586 264	-	187 714	187 714	-	**2 773 978**
Deferred tax		-	-	-	863 506	**863 506**
	2 586 264	-	187 714	187 714	863 506	**3 637 484**
Total liabilities	59 767 370	5 399 410	23 397 588	28 796 998	25 688 357	**114 252 725**
Total assets less total liabilities	30 964 722	(5 399 410)	37 619 312	32 219 902	145 984 240	**209 168 863**
NET ASSETS						
Capital contributed	41 989 046	-	-	-	-	**41 989 046**
Accumulated surplus	21 195 579	-	-	-	145 984 239	**167 179 817**
Attributable to net asset holder	63 184 625	-	-	-	145 984 239	**209 168 863**
Total net assets	63 184 625	-	-	-	145 984 239	**209 168 863**

2020					
Admin (non-segment)	East London Project management	Branches Rural Finance	Segments total	Subsidiaries Kangela Citrus	**Statement of financial position**
R	R	R	R	R	**R**
27 245 951	-	34 764 928	34 764 928	2 598 389	**64 609 268**
2 728 289	-	88 502	88 502	30 798 641	**33 615 432**
97 392	-	-	-	-	**97 392**
-	-	175 175 461	175 175 461	(9 266 352)	**165 909 109**
-	-	(152 865 270)	(152 865 270)	9 266 352	**(143 598 918)**
-	-	22 310 191	22 310 191	-	**22 310 191**
30 071 632	-	57 163 621	57 163 621	33 397 030	**120 632 283**
-	-	-	-	-	**-**
11 096 939	-	-	-	-	**11 096 939**
-	-	1 649 065	1 649 065	-	**1 649 065**
6 593 986	-	4 638 383	4 638 383	-	**11 232 369**
659 833	-	-	-	-	**659 833**
18 350 758	-	6 287 448	6 287 448	-	**24 638 206**
48 422 390	-	63 451 069	63 451 069	33 397 030	**145 270 489**
504 019	-	-	-	-	**504 019**
-	-	21 099 934	21 099 934	-	**21 099 934**
27 710 376	-	-	-	553 510	**28 263 886**
-	-	-	-	21 980 575	**21 980 575**
-	545 049	-	545 049	-	**545 049**
28 214 395	545 049	21 099 934	21 644 983	22 534 085	**72 393 463**
195 661	-	-	-	-	**195 661**
	-	-	-	-	**-**
195 661	-	-	-	-	**195 661**
28 410 056	545 049	21 099 934	21 644 983	22 534 085	**72 589 124**
20 012 334	(545 049)	42 351 135	41 806 087	10 862 945	**72 681 365**
41 989 046	-	-	-	-	**41 989 046**
19 829 376	-	-	-	10 862 943	**30 692 319**
61 818 422	-	-	-	10 862 943	**72 681 365**
61 818 422	-	-	-	10 862 943	**72 681 365**

The segments of the agency are detailed and reconciled to the consolidated statement of financial position as follows:

	2021					
	Rural Finance Segment Breakdown					
	King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha	Queenstown & Engcobo	Kokstad
	Amathole	Nelson Mandela Metro	Karoo	OR Tambo	Chris Hani	Alfred Nzo
	R	R	R	R	R	R
ASSETS						
Current Assets						
Cash and cash equivalents	9 694 702	5 323 119	1 324 300	3 591 459	6 069 592	10 424 112
Trade and other receivables	-	-	-	95 441	-	-
Inventories	-	-	-	-	-	-
Loans and advances to customers	37 240 361	20 447 753	5 087 048	13 795 908	23 315 185	40 042 251
Less: Credit impairments on loans	(32 693 160)	(17 950 999)	(4 465 899)	(12 111 372)	(20 468 306)	(35 152 929)
Net loans and advances to customers	4 547 201	2 496 754	621 149	1 684 536	2 846 879	4 889 322
	14 241 903	7 819 873	1 945 449	5 371 436	8 916 471	15 313 434
Non-current assets						
Deferred tax	-	-	-	-	-	-
Investment under contingency policy	-	-	-	-	-	-
Investment property	-	-	-	1 610 848	-	-
Property, plant and equipment	3 104 223	266 975	1 120 773	437 109	242 275	626 130
Intangible assets	-	-	-	-	-	-
	3 104 223	266 975	1 120 773	2 047 957	242 275	626 130
Total assets	17 346 126	8 086 848	3 066 222	7 419 393	9 158 746	15 939 564
LIABILITIES						
Current liabilities						
Finance lease obligations	67 747	-	11 165	11 165	22 330	11 165
Deferred grant income arising from non-exchange transactions	6 144 153	3 373 602	839 294	2 276 138	3 846 689	6 606 428
Trade and other payables	-	-	-	-	-	-
Liabilities arising from non-exchange transactions	-	-	-	-	-	-
	6 211 900	3 373 602	850 459	2 287 303	3 869 019	6 617 593
Non-current liabilities						
Finance lease obligations	102 913	-	16 960	16 960	33 920	16 960
Deferred tax	-	-	-	-	-	-
	102 913	-	16 960	16 960	33 920	16 960
Total liabilities	6 314 813	3 373 602	867 419	2 304 263	3 902 939	6 634 553
Total assets less total liabilities	11 031 313	4 713 246	2 198 802	5 115 130	5 255 807	9 305 011
NET ASSETS						
Capital contributed	-	-	-	-	-	-
Accumulated surplus	-	-	-	-	-	-
Attributable to net asset holder	-	-	-	-	-	-
Total net assets	-	-	-	-	-	-

2020					
Rural Finance Segment Breakdown					
King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha	Queenstown & Engcobo	Kokstad
Amathole	Nelson Mandela Metro	Karoo	OR Tambo	Chris Hani	Alfred Nzo
R	R	R	R	R	R
11 734 994	4 182 524	146 816	5 193 159	6 558 834	6 948 602
-	-	-	88 502	-	-
-	-	-	-	-	-
59 130 944	21 075 135	739 787	26 167 577	33 049 017	35 013 001
(51 600 079)	(18 391 025)	(645 568)	(22 834 898)	(28 839 923)	(30 553 777)
7 530 865	2 684 110	94 219	3 332 679	4 209 094	4 459 224
19 265 859	6 866 634	241 035	8 614 340	10 767 928	11 407 826
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1 649 065	-	-
2 984 724	160 685	693 365	177 273	70 899	551 438
-	-	-	-	-	-
2 984 724	160 685	693 365	1 826 338	70 899	551 438
22 250 583	7 027 319	934 400	10 440 678	10 838 827	11 959 264
-	-	-	-	-	-
7 122 339	2 538 506	89 108	3 151 892	3 980 763	4 217 326
-	-	-	-	-	-
-	-	-	-	-	-
7 122 339	2 538 506	89 108	3 151 892	3 980 763	4 217 326
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
7 122 339	2 538 506	89 108	3 151 892	3 980 763	4 217 326
15 128 244	4 488 813	845 292	7 288 786	6 858 064	7 741 938
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Consolidated statement of financial performance for the period ended 31 March 2021

	Notes	Agency 2021 R	Agency 2020 R	Group 2021 R	Group 2020 R
INCOME		**300 872 393**	306 287 102	**309 419 883**	305 765 903
Revenue from non-exchange transactions		**255 386 240**	291 183 411	**256 038 451**	291 183 411
Government grant from the Eastern Cape Department of Rural Development and Agrarian Reform - operational		**231 189 000**	192 564 000	**231 189 000**	192 564 000
Government funding for additional specified transfers and payments		**23 726 822**	98 015 000	**23 726 822**	98 015 000
National Skills Fund		**69 020**	187 793	**69 020**	187 793
Other income	22.1	**401 398**	416 618	**1 053 609**	416 618
Revenue from exchange transactions		**45 486 153**	15 103 691	**53 381 432**	14 582 492
Interest income on cash and investments		**1 757 890**	2 594 918	**1 461 259**	2 609 342
Interest income on loans and advances		**5 422 741**	6 173 174	**4 443 224**	5 373 245
Interest income on concessionary loans		**1 135 018**	348 401	**1 135 018**	348 401
Commission fees for managing projects		**3 818 833**	4 072 703	**3 818 833**	4 072 703
Fair value adjustments		**1 197 103**	90 313	**1 197 101**	90 316
Impairment reversed		**30 022 605**	-	**31 002 122**	-
Gain on disposal of property, plant and equipment		**-**	9 103	**-**	9 103
Loan initiation fees		**39 100**	80 826	**39 100**	80 826
Rental income from investment property		**1 635 617**	1 734 253	**1 635 617**	1 734 253
Other income	**22.1**	**457 246**	-	**457 246**	-
Sale of goods - produce		**-**	-	**8 191 913**	264 303
EXPENSES		**298 983 418**	332 152 322	**305 105 369**	323 610 572
Administrative expenses	**22.2**	**8 650 195**	14 123 283	**9 121 141**	14 521 178
Audit fees		**3 450 058**	4 073 982	**3 601 914**	4 232 147
Cost of sales		**-**	-	**13 406 462**	19 268
Depreciation and amortisation		**3 682 928**	3 491 337	**5 107 324**	3 491 337
Fee - MAFISA Scheme		**406 383**	452 954	**406 383**	452 954
Finance costs		**23 272**	29 945	**23 272**	29 945
Marketing and social facilitation		**569 975**	587 992	**781 271**	587 992
Other operating expenses	**22.3**	**36 106 818**	65 708 935	**66 992 853**	56 591 857
Project expenses		**33 692 821**	23 521 975	**33 692 821**	23 521 975
Skills levy		**592 266**	900 458	**905 788**	900 458
Staff costs	**22.4**	**109 088 275**	98 022 863	**115 240 547**	98 022 863
Transfer payments		**58 812 822**	108 936 000	**11 549 822**	108 936 000
- Amagingi		**-**	16 360 000	**-**	16 360 000
- Stimulus project		**910 000**	-	**910 000**	-
- EPWP/DRDAR project funding		**10 639 822**	-	**10 639 822**	-
- Magwa Tea		**47 263 000**	92 576 000	**-**	92 576 000
Social benefit from concessionary loans		**565 598**	566 921	**565 598**	566 921
Write off of irrecoverable debts	7&8	**43 342 007**	11 735 677	**43 710 175**	11 735 677
NET SURPLUS/(DEFICIT)		**1 888 975**	(25 865 220)	**4 314 514**	(17 844 669)
Sale and scrapping of property, plant and equipment		**(522 772)**	-	**(530 272)**	-
SURPLUS/(DEFICIT) BEFORE TAXATION		**1 366 203**	(25 865 220)	**3 784 242**	(17 844 669)
Taxation		**-**	-	**12 523 343**	(981 504)
SURPLUS/(DEFICIT) FOR THE YEAR		**1 366 203**	(25 865 220)	**16 307 585**	(18 826 173)
Profit/(Loss) of subsidiary attributable to:					
ECRDA (51%)		**1 366 203**	(25 865 220)	**(48 078)**	(727 962)
Minority Share (49%)		**-**	-	**(46 193)**	(699 414)

The segments of the agency are detailed and reconciled to the consolidated statement of financial performance as follows:

	2021					
	Admin (non-segment)	East London Project management	Branches Rural Finance	Segments total	Subsidiaries Kangela Citrus & Magwa Tea	**Statement of financial performance**
	R	R	R	R	R	**R**
INCOME	198 550 829	93 258 833	9 062 730	**102 321 563**	8 547 493	**309 419 885**
Revenue from non-exchange transactions	165 648 764	89 440 000	297 476	**89 737 476**	652 212	**256 038 451**
Government funding	165 475 822	89 440 000	-	**89 440 000**	-	**254 915 822**
National Skills Fund	69 020	-	-	**-**	-	**69 020**
Other income	103 922	-	297 476	**297 476**	652 212	**1 053 609**
Revenue from exchange transactions	32 902 065	3 818 833	8 765 254	**12 584 087**	7 895 281	**53 381 433**
Interest income on cash and investments	1 210 747	-	547 143	**547 143**	(296 631)	**1 461 259**
Interest income on loans and advances	14 365	-	5 408 376	**5 408 376**	(979 517)	**4 443 224**
Interest income on concessionary loans	-	-	1 135 018	**1 135 018**	-	**1 135 018**
Commission fees for managing projects	-	3 818 833	-	**3 818 833**	-	**3 818 833**
Fair value and impairment adjustments	31 219 707	-	-	**-**	979 517	**32 199 224**
Loan initiation fees	-	-	39 100	**39 100**	-	**39 100**
Rental income from investment property	-	-	1 635 617	**1 635 617**	-	**1 635 617**
Gain on disposal of property, plant and equipment	-	-	-	**-**	-	**-**
Other income	457 246	-	-	**-**	-	**457 246**
Sale of goods - produce		-	-	**-**	8 191 913	**8 191 913**
EXPENSES	99 262 425	116 319 405	83 401 588	**199 720 994**	6 121 951	**305 105 369**
Administrative expenses	7 872 962	193 203	584 030	**777 234**	470 946	**9 121 141**
Audit fees	1 643 466	586 492	1 220 100	**1 806 592**	151 856	**3 601 914**
Cost of sales	-	-	-	**-**	13 406 462	**13 406 462**
Fee - MAFISA Scheme	-	-	406 383	**406 383**	-	**406 383**
Finance costs	21 915	28	1 329	**1 357**	(0)	**23 272**
Marketing and social facilitation	569 975	-	-	**-**	211 296	**781 271**
Other operating expenses and depreciation	32 283 988	1 368 072	6 137 686	**7 505 758**	32 310 431	**72 100 177**
Project expenses	-	33 692 821	-	**33 692 821**	-	**33 692 821**
Skills levy	592 266	-	-	**-**	313 522	**905 788**
Staff costs	56 277 853	21 665 967	31 144 455	**52 810 422**	6 152 272	**115 240 547**
Subsidiaries and transfer payments	-	58 812 822	-	**58 812 822**	(47 263 000)	**11 549 822**
Social benefit from concessionary loans	-	-	565 598	**565 598**	-	**565 598**
Write off of irrecoverable debts	-	-	43 342 007	**43 342 007**	368 168	**43 710 175**
NET (DEFICIT)/SURPLUS	99 288 404	(23 060 572)	(74 338 858)	**(97 399 430)**	2 425 541	**4 314 513**
Sale and scrapping of property, plant and equipment	(522 772)	-	-	**-**	(7 500)	**(530 272)**
(DEFICIT)/SURPLUS BEFORE TAXATION	98 765 632	(23 060 572)	(74 338 858)	**(97 399 430)**	2 418 041	**3 784 242**
Taxation	-	-	-	**-**	12 523 343	**12 523 343**
(DEFICIT)/SURPLUS FOR THE YEAR	98 765 632	(23 060 572)	(74 338 858)	**(97 399 430)**	14 941 384	**16 307 585**

2020					
Admin (non-segment)	East London Project management	Branches Rural Finance	Segments total	Subsidiaries Kangela Citrus	**Statement of financial performance**
R	R	R	R	R	**R**
237 767 353	59 809 703	8 710 049	**68 519 752**	(521 203)	**305 765 903**
235 067 964	55 737 000	378 446	**56 115 446**	-	**291 183 411**
234 842 000	55 737 000	-	**55 737 000**	-	**290 579 000**
187 793	-	-	**-**	-	**187 793**
38 171	-	378 446	**378 446**	-	**416 618**
2 699 389	4 072 703	8 331 603	**12 404 306**	(521 203)	**14 582 492**
1 820 413	-	774 506	**774 506**	14 423	**2 609 342**
776 807	-	5 396 367	**5 396 367**	(799 929)	**5 373 245**
-	-	348 401	**348 401**	-	**348 401**
-	4 072 703	-	**4 072 703**	-	**4 072 703**
90 316	-	-	**-**	-	**90 316**
2 750	-	78 076	**78 076**	-	**80 826**
-	-	1 734 253	**1 734 253**	-	**1 734 253**
9 103	-	-	**-**	-	**9 103**
-	-	-	**-**	264 303	**264 303**
82 589 322	180 203 811	69 359 192	**249 563 003**	(8 541 753)	**323 610 572**
12 772 646	371 301	979 338	**1 350 639**	397 893	**14 521 178**
2 539 669	450 790	1 083 524	**1 534 314**	158 164	**4 232 147**
-	-	-	**-**	19 268	**19 268**
-	-	452 954	**452 954**	-	**452 954**
20 077	669	9 199	**9 868**	-	**29 945**
583 874	-	4 118	**4 118**	-	**587 992**
22 680 102	23 152 566	23 367 604	**46 520 170**	(9 117 078)	**60 083 194**
-	23 521 975	-	**23 521 975**	-	**23 521 975**
900 458	-	-	**-**	-	**900 458**
43 092 496	23 770 510	31 159 857	**54 930 367**	-	**98 022 863**
-	108 936 000	-	**108 936 000**	-	**108 936 000**
-	-	566 921	**566 921**	-	**566 921**
-	-	11 735 677	**11 735 677**	-	**11 735 677**
155 178 031	(120 394 108)	(60 649 143)	**(181 043 251)**	8 020 550	**(17 844 669)**
-	-	-	**-**	-	**-**
155 178 031	(120 394 108)	(60 649 143)	**(181 043 251)**	8 020 550	**(17 844 669)**
-	-	-	**-**	(981 504)	**(981 504)**
155 178 031	(120 394 108)	(60 649 143)	**(181 043 251)**	7 039 046	**(18 826 173)**

The segments of the agency are detailed and reconciled to the consolidated statement of financial performance as follows:

	2021					
	Rural Finance Segment Breakdown					
	King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha	Queenstown & Engcobo	Kokstad
	Amathole	Nelson Mandela Metro	Karoo	OR Tambo	Chris Hani	Alfred Nzo
	R	R	R	R	R	R
INCOME	2 861 828	957 305	290 136	2 703 222	1 248 886	1 001 354
Revenue from non-exchange transactions	218 884	-	-	43 043	4 315	31 235
Other income	218 884	-	-	43 043	4 315	31 235
Revenue from exchange transactions	2 642 944	957 305	290 136	2 660 179	1 244 571	970 119
Interest income on cash and investments	547 143	-	-	-	-	-
Interest income on loans and advances	921 683	957 305	290 136	1 024 562	1 244 571	970 119
Interest income on concessionary loans	1 135 018	-	-	-	-	-
Commission fees for managing projects	-	-	-	-	-	-
Loan initiation fees	39 100	-	-	-	-	-
Rental income from investment property	-	-	-	1 635 617	-	-
EXPENSES	12 879 638	4 805 285	15 299 387	19 092 565	22 030 854	9 293 859
Administrative expenses	321 009	15 736	56 182	91 354	22 206	77 543
Audit fees	410 994	176 140	234 854	176 140	215 283	6 689
Fee - MAFISA Scheme	406 383	-	-	-	-	-
Finance costs	400	-	352	419	159	-
Marketing and social facilitation	-	-	-	-	-	-
Other operating expenses and depreciation	1 802 501	411 350	474 871	1 431 462	964 878	1 052 624
Project expenses	-	-	-	-	-	-
Skills levy	-	-	-	-	-	-
Staff costs	8 870 393	4 007 312	4 614 011	3 482 826	4 909 991	5 259 922
Social benefit from concessionary loans	565 598	-	-	-	-	-
Write off of irrecoverable debts	502 360	194 747	9 919 117	13 910 364	15 918 337	2 897 081
NET (DEFICIT)/SURPLUS	(10 017 810)	(3 847 980)	(15 009 251)	(16 389 343)	(20 781 968)	(8 292 505)
Sale and scrapping of property, plant and equipment	-	-	-	-	-	-
(DEFICIT)/SURPLUS BEFORE TAXATION	(10 017 810)	(3 847 980)	(15 009 251)	(16 389 343)	(20 781 968)	(8 292 505)
Taxation						
(DEFICIT)/SURPLUS FOR THE YEAR	(10 017 810)	(3 847 980)	(15 009 251)	(16 389 343)	(20 781 968)	(8 292 505)

2020					
Rural Finance Segment Breakdown					
King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha	Queenstown & Engcobo	Kokstad
Amathole	Nelson Mandela Metro	Karoo	OR Tambo	Chris Hani	Alfred Nzo
R	R	R	R	R	R
2 295 274	904 342	396 877	2 688 308	1 404 155	1 021 094
218 067	-	-	2 500	12 920	144 960
218 067	-	-	2 500	12 920	144 960
2 077 207	904 342	396 877	2 685 808	1 391 235	876 134
774 506	-	-	-	-	-
876 224	904 342	396 877	951 555	1 391 235	876 134
348 401	-	-	-	-	-
-	-	-	-	-	-
78 076	-	-	-	-	-
-	-	-	1 734 253	-	-
32 123 426	6 951 929	5 961 505	6 783 886	9 483 244	8 055 205
517 675	112 736	40 311	52 379	93 159	163 077
329 643	138 817	208 040	156 030	202 178	48 817
452 954	-	-	-	-	-
963	-	244	7 766	227	-
4 118	-	-	-	-	-
17 541 821	1 160 275	684 293	1 379 544	1 374 916	1 226 756
-	-	-	-	-	-
-	-	-	-	-	-
9 046 521	3 902 507	4 546 602	3 657 196	4 822 179	5 184 853
566 921	-	-	-	-	-
3 662 810	1 637 594	482 015	1 530 971	2 990 585	1 431 702
(29 828 152)	(6 047 587)	(5 564 628)	(4 095 578)	(8 079 089)	(7 034 111)
-	-	-	-	-	-
(29 828 152)	(6 047 587)	(5 564 628)	(4 095 578)	(8 079 089)	(7 034 111)
(29 828 152)	(6 047 587)	(5 564 628)	(4 095 578)	(8 079 089)	(7 034 111)

Consolidated statement of changes in net assets for the year ended 31 March 2021

	Agency		
	Attributable to net asset holder of the agency		
	Capital contributed R	Accumulated surplus R	Total R
Balance as at 31 March 2019	41 989 046	45 694 596	87 683 642
Surplus/(deficit) for the year	-	(25 865 220)	(25 865 220)
Balance as at 31 March 2020	41 989 046	19 829 376	61 818 422
Surplus/(deficit) for the year	-	1 366 203	1 366 203
Balance as at 31 March 2021	**41 989 046**	**21 195 579**	**63 184 625**

	Group		
	Attributable to net asset holder of the agency		
	Capital contributed R	Accumulated surplus R	Total R
Balance as at 31 March 2019	41 989 046	49 518 572	91 507 618
Kangela Citrus (Pty)Ltd *	-	(80)	(80)
Surplus/(deficit) for the year	-	(18 826 173)	(18 826 173)
Balance as at 31 March 2020	41 989 046	30 692 319	72 681 365
Effect of transfer of functions: Magwa Enterprise Tea (Pty) Ltd (note 28)	-	143 878 431	143 878 431
Elimination of intergroup grant transaction included in the takeover	-	(23 631 500)	(23 631 500)
Inter-group elimination on consolidation	-	(67 019)	(67 019)
Surplus/(deficit) for the year	**-**	**16 307 586**	**16 307 586**
Balance as at 31 March 2021	**41 989 046**	**167 179 817**	**209 168 863**

*immaterial correction on the revaluation due to tax assessment concluded in the 2020 financial year.
Refer to note 28 on the Magwa Enterprise Tea transfer of functions under common control.

Accumulated surplus of subsidiary (Kangela Citrus Farms (Pty) Ltd attributable to:	**2021**	**2020**
ECRDA (51%)	(399 323)	(839 650)
Minority Share (49%)	(383 664)	(806 723)
	(782 987)	**(1 646 373)**

Statement of comparison of budget and actual amounts for the year ended 31 March 2021

The Eastern Cape Rural Development Agency (ECRDA) publicly disclosed budget is prepared on the cash basis whilst the financial statements 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 2020 to 31 March 2021. 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 (DRDAR) and the Eastern Cape Provincial Treasury (budgets that are publicly available).

Statement of comparison of budget and actual amounts for the year ended 31 March 2021 (continued)

	Actual 2019/20	Actual 2020/21	Budget 2020/21	Over / (Under) Budget
Revenue	**295 135 134**	**258 598 084**	**264 537 199**	**(5 939 115)**
Interest, dividends and rentals (a)	4 329 170	3 393 507	3 862 969	(469 462)
Other non-tax revenue (b)	226 964	288 755	14 820 230	(14 531 475)
Government Grants ('c)	192 564 000	207 652 822	198 591 000	9 061 822
Government Transfers & Payments received (d)	98 015 000	47 263 000	47 263 000	-

	Actual 2019/20	Actual 2020/21	Budget 2020/21	Over / (Under) Budget
Expenses	**275 312 298**	**219 454 208**	**251 441 198**	**(31 986 990)**
Compensation of employees (e)	98 022 863	109 088 275	106 297 000	2 791 275
Goods and services (f)	61 154 763	58 531 359	94 018 230	(35 486 871)
Interest, dividends and rentals (g)	7 198 672	4 571 574	3 862 968	708 606
Transfer Payments Made (h)	108 936 000	47 263 000	47 263 000	-
Surplus / (Deficit) Excluding Items of Capital Nature & Results from Lending Activities	19 822 836	39 143 876	13 096 001	26 047 875

Budgeted Items of a Statement of Financial Position Nature	Actual 2019/20	Actual 2020/21	Budget 2020/21	Over / (Under) Budget
Items of Capital Nature	**10 544 940**	**12 794 260**	**13 096 000**	**-301 740**
Capital Expenditure, including intangibles (i)	5 415 402	10 006 976	7 586 000	2 420 976
Loans Disbursed (j)	5 129 538	2 787 284	5 510 000	(2 722 716)

Reason(s) for material variances

For the purpose of the annual financial statements, the agency classifies commissions earned, project implementation fees and agency fees as other non tax revenue.

(a) Interest earned on cash holdings were below the income estimates due to the decrease in interest rates during the financial year under review and was less the prior year as the transfer payments received in the current financial year was less than in the previous financial year.

(b) Other non-tax revenue were below budget expectations as the ECRDA did not secure additional funds for implementation of new projects over and above the voted funds for the year.

(c) Government transfers and payments not originally included in the MTEF budget included additional funding from DRDAR for implementation of EPWP payrolls on behalf of the department (R10.6m) and the Stimulus Fund (R910k).

(d) Transfers received for Magwa Tea Estates were in line with voted funds for the financial year.

(e) Compensation of employees (COE) were above the original budget for the year and included voluntary severances packages. The agency has revisited its organisational structure during the financial year under review. The variance was funded from own revenue generated and under-expenditure under Goods and Services.

(f) The expenditure on goods and services were less than what was budgeted for, resulting mainly from the delayed implementation of the renovations of King Williams' Town offices, unresponsive bids received for large projects and the impact of COVID -19 lockdown.

(g) The expenditure on rentals was above the original budget. ECRDA did not complete the organisational redesign process in the financial year and the anticipated consolidation of regional offices are thus not complete, impacting on rental charges.

(h) Transfers payments consists of transfers paid to Magwa Tea Estates (R47.3m) in line with the allocated budget. The ECRDA allocates expenditure on the DRDAR EPWP project, Stimulus Fund and programme implementation as goods and services and not as transfer payments as per the National Treasury Circular 21 of 2018.

(i) ECRDA specific capital expenditure for the financial year included the capitilisation of leased equipment over the lease term.

(j) Loans disbursed aligned to the annual allocation for the year. Disbursement of loans are dependent on sufficient quality applications received by branches and the demand for loans by qualifying clients.

Statement of comparison of budget and actual amounts for the year ended 31 March 2021 (continued)

Reconciliation between the detailed income statement and the budget versus actual comparison:	Actual 2020/21	Actual 2019/20
Total Income as per Income Statement	259 322 794	294 551 426
Results from Lending activities	34 771 075	4 755 830
Fair value adjustments and Reversal of impairments and provisions	(31 219 705)	-
Dividends: New Republic Bank	(457 246)	-
Commission fees for managing projects (accrued)	(3 818 833)	(4 072 703)
Gain on disposal of assets	-	(9 103)
Total Income for comparison of budget and actual income	**258 598 085**	**295 225 450**
Total Expenses as per Income Statement	257 956 592	320 416 646
Add:		
Depreciation	(3 682 928)	(3 491 337)
Bad debts - rental and other income	(1 792 410)	-
Bad debts - Loans		(15 500 078)
Surrender of Funds to Provincial Treasury	(19 836 584)	(3 134 875)
Fee - MAFISA Scheme	(406 383)	(452 954)
Impairment loss	-	(1 123 204)
Fair value adjustments and impairments	-	(2 586)
Scrapping of obsolete property, plant and equipment	(522 772)	-
Minor assets expensed	(145 888)	(27 079)
Project implemented on behalf of funders	-	(20 715 000)
Transfer payments expensed, not yet transferred	(11 549 820)	-
Social benefit from concessionary loans	(565 598)	(566 920)
Total Expenses for comparison of budget and actual income	**219 454 209**	**275 402 613**
Net result	**39 143 876**	**19 822 837**

Consolidated cash flow statement for the year ended 31 March 2021

	Note	Agency 2021 R	Agency 2020 R	Group 2021 R	Group 2020 R
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts		**303 860 194**	324 895 873	**312 407 797**	325 713 634
Grants received		**244 276 000**	192 564 000	**244 276 000**	192 564 000
Interest received on cash and cash equivalents and loans and advances		**7 273 198**	8 768 092	**5 997 049**	7 982 587
Non-exchange transfers arising from administered funds		**10 639 822**	105 945 020	**10 639 822**	105 945 020
Tax(es) refund		**-**	-	**111**	1 338 963
Net movement in loans and advances to customers before credit impairments		**35 746 306**	11 207 395	**36 725 823**	11 207 395
Other receipts from commission and fees		**5 924 868**	6 411 366	**14 768 992**	6 675 669
Less: Payments		**258 267 654**	323 091 668	**275 276 240**	323 282 282
Employee costs		**97 080 927**	98 022 863	**103 233 199**	98 022 862
Disbursements of non-exchange transactions from administered funds		**55 184 974**	108 888 710	**55 184 974**	108 888 710
Payments to suppliers		**106 001 753**	116 180 095	**116 858 068**	116 370 710
Cash (outflows) / inflows from operating activities	A	**45 592 541**	1 804 205	**37 131 556**	2 431 352
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition and transfer of property, plant and equipment		**(8 910 656)**	(4 526 648)	**(10 702 169)**	(4 526 648)
Proceeds on disposal of property, plant and equipment and intangible assets		**546 778**	9 103	**546 778**	9 103
Acquisition of intangible assets		**-**	(548 480)	**-**	(548 480)
Cash invested under contingency policy and related admin fees on policy		**(462 749)**	(636 309)	**(462 749)**	(636 309)
Increase in receivable from Arengo 316 (Pty) Ltd		**-**	-	**-**	-
Cash (outflows) / inflows from investing activities		**(8 826 627)**	(5 702 334)	**(10 618 140)**	(5 702 334)
CASH FLOWS FROM FINANCING ACTIVITIES					
Decrease in finance lease obligations		**3 957 618**	42 300	**3 957 618**	42 300
Loan repayment		**-**	-	**-**	(5 242 145)
Loan repayment non-cash		**-**	-	**-**	242 145
Cash (outflows) / inflows from financing activities		**3 957 618**	42 300	**3 957 618**	(4 957 700)
Net increase / (decrease) in cash and cash equivalents		**40 723 532**	(3 855 829)	**30 471 035**	(8 228 682)
Cash and cash equivalents at the beginning of the year	6	**62 010 879**	65 866 708	**64 609 268**	72 837 950
Cash and cash equivalents transferred through entities under common control		**-**	-	**10 398 993**	-
Cash and cash equivalents at the end of the year	6	**102 734 411**	62 010 879	**105 479 297**	64 609 268

The cash and cash equivalents held at reporting date constitutes agency funds as well as funds administered on behalf of third parties. Refer to note 6 for an analysis of the cash held at reporting date.

Notes to the consolidated cash flow statement for the year ended 31 March 2021

A. Reconciliation of net cash flows from operating activities to surplus before taxation	Agency 2021 R	Agency 2020 R	Group 2021 R	Group 2020 R
Surplus (Deficit) before taxation	**1 366 203**	(25 865 220)	**3 784 243**	(17 844 669)
Non cash flow items in surplus / (deficit) before taxation				
Depreciation of investment property and property, plant and equipment	**3 682 928**	3 491 337	**5 107 324**	3 491 337
Administration fee: Guardrisk (non-cash)	**45 000**	45 000	**45 000**	45 000
Sale of goods (cession/non-cash)	**-**	-	**-**	(264 303)
Tax result in respect of prior year assessments	**-**	-	**-**	53 571
Project expenditure as a result of motor vehicle transfer	**-**	236 554	**-**	236 554
Scrapping of property, plant and equipment	**(24 006)**	-	**(16 506)**	-
Fair value adjustments and impairments	**(1 197 099)**	1 065 161	**24 362 956**	1 065 162
Increase/(decrease) in credit impairments	**(30 022 605)**	15 500 078	**(31 002 122)**	7 033 655
Irrecoverable debts written off	**43 342 007**	11 735 677	**43 710 175**	11 735 677
Social benefit from concessionary loans (Subsidy cost fair value adjustment)	**565 598**	566 921	**565 598**	566 921
Unwinding of subsidy cost / Concessionary loans interest	**(1 135 018)**	(348 401)	**(1 135 018)**	(348 401)
Interest received on loan book and staff debtors	**(5 422 741)**	(6 173 174)	**(4 443 224)**	(5 373 245)
Net of interest capitalised and expenses / fees on investment under contingency policy (non-cash)	**(462 749)**	(636 310)	**(462 749)**	(636 310)
Penalties and fines	**18 061**	29 576	**42 523**	29 576
Interest expense	**23 272**	29 945	**23 272**	29 945
Adjusted operating cash flow	**10 778 851**	(322 856)	**40 581 472**	(179 530)
Working capital changes				
Increase / (decrease) in deferred grant income	**1 986 368**	2 954 796	**1 986 368**	2 954 796
Change in deferred taxes	**-**	-	**-**	(906 836)
Increase / (Decrease) in payables	**27 638 364**	(8 437 378)	**29 929 129**	(8 464 981)
Decrease in Property, Plant and Equipment: scrapping	**(3 170 465)**	(3 489 555)	**(3 170 465)**	(3 489 555)
Changes in assets due to transfer of entities under common control	**-**	-	**(20 382 064)**	-
Increase / (Decrease) in administered fund liabilities from non-exchange transfers	**4 855 422**	126 872	**4 855 422**	126 872
(Increase) / Decrease in trade and other receivables	**299 871**	2 586 655	**(7 039 059)**	4 004 915
Increase / (Decrease) in loans with credit balances	**892**	(262 701)	**892**	(262 701)
(Increase) / Decrease in inventories	**(46 179)**	(16 328)	**(12 879 554)**	(16 328)
Working capital changes	**31 564 273**	(6 537 639)	**(6 699 331)**	(6 053 818)
Operating cash flow adjusted for working capital changes	**42 343 124**	(6 860 495)	**33 882 140**	(6 233 348)
Lending cash flow movements				
New loans granted during the year	**(2 787 284)**	(5 129 538)	**(2 787 284)**	(5 129 538)
Loans repaid by customers	**6 036 701**	13 794 238	**6 036 701**	13 794 238
Net lending movements	**3 249 417**	8 664 700	**3 249 417**	8 664 700
Cash (outflows) / inflows from operating activities	**45 592 541**	**1 804 205**	**37 131 556**	**2 431 352**

B. Non-cash transactions

Aside from:

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

NATURE OF BUSINESS AND OPERATIONS

The Eastern Cape Rural Development Agency and its subsidiaries forms the reporting group. The agency was 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 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 branches 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 Transformation). 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

The consolidated annual financial statements are presented in the South African currency unit, the Rand (R), as it is the currency in which the group's transactions are denominated. All amounts in the 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 the Standards 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 (amended Act). The consolidated annual financial statements have been prepared on an accrual basis of accounting as required by GRAP and incorporate the principal accounting policies set out below.

Accounting policies for material transactions, events or conditions not covered by the Standards of Generally Recognised Accounting Practice 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.

The 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.

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 at the same reporting date. Where the reporting dates of the agency and a subsidiary are different, the subsidiary prepares for consolidation purposes, additional financial information to align to the reporting date of the agency. This adjustment requires that the subsidiary adjusts 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 group 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 transaction value, equating the fair value of the 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 or 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. 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 on 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. These origination fees are considered an integral part of the loan agreement and recognised as revenue at loan origination.

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 specifying the agent/implementation fee structures.

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, where such need arise, 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 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.

The fair value of the investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued is performed every three years for disclosure and insurance purposes only.

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 are 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 assets are 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:

Item / Useful life
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 requires the agency to amend the previous estimate applied.

In assessing whether there is any indication that the expected useful life of an asset has changed, the ECRDA considers the following indications:

(a) Whether the composition of the asset changed during the reporting period, i.e. the significant components of the assets changed.

(b) Whether the use of the asset has changed, because of the following:

(i) The entity has changed the manner in which the asset is used.

(ii) The entity has changed the utilisation rate of the asset.

(iii) The entity has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used.

(iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, changethe use of the asset.

(v) Legal or similar limits placed on the use of the asset have changed.

(vi) The asset was idle or retired from use during the reporting period.

(c) Whether the asset is approaching the end of its previously expected useful life.

(d) Whether planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components is either being undertaken or delayed.

(e) Whether environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution exist.

(f) Whether there is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.

(g) Whether the asset is assessed as being impaired in accordance with the Standards of GRAP on Impairment of cash-generating assets and impairment of non-cash generating assets."

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life.

The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. An entity considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repairs and maintenance of an asset do not negate the need to depreciate it.

The depreciable amount of an assets is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

Land and buildings are separable assets and are accounted separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

If the cost of land includes the cost of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

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 from 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 Property, plant and equipment - Fruit Trees

Initial recognition

The agency recognises an asset (tree) 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

Assets are measured at their fair value less estimated point-of-sale costs. A gain or loss arising on initial recognition of the asset 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, assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

An asset is derecognised when the asset is disposed of or when there is no further economic benefits or service potential expected from the use thereof. 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 recognised 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 at 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 or purchased licencing term

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 thereof. 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 arise. 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.

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 attached 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 (recognised fully in income);

• Conditional non-transfer funding from Government for specific projects (recognised in income when the conditions are met, see above);

• Conditional non-transfer receipts from other Government organisations for specific projects (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.

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) 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.

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 lease 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 at 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 position.

2.15 Financial instruments

Financial instruments are accounted for under GRAP 104. The agency only recognises a financial asset or a financial liability in the statement of financial position when it 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 or another financial asset or to exchange financial assets or 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 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 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 transaction cost. Such 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 concessionary loans. Advances, which are deemed uncollectible, are written off either fully or partially against the impairment allowance for non-performing loans. Cash collected on loans, which have previously been written off 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 from concessionary loans. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset or 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 for 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 transaction costs. 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 used by the agency with the primary objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return. The Acczone loan system and the investment property of the ECRDA are cash-generating assets.

Cost of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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. An impairment loss of a non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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. Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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, thus all assets other than the investment property and the loan system. Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Value in use of a non-cash generating asset is the present value of the asset's remaining service potential.

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 select to which funds they wish to belong.

2.18 Administered funds

Amounts received under service level agreements (i.e. from government departments or agencies) 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, mainly parties within the Eastern Cape provincial sphere of Government will be considered to be related parties.

<u>Senior (executive) management</u> 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 but 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:

<u>When the agency is the acquirer:</u>

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 and 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 Comparative 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 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.

2.30 Segment reporting
The agency regards the geographical offices, where loans are initiated to customers, the projects unit and the subsidiaries as the reportable segments to the consolidated financial statements. These segments generates economic benefits for the ECRDA group and such results are monitored and reviewed by management. The segments per geographical area allows the users to comprehend the loans disbursed and the clients serviced at the branches. The projects department and the activities of the subsidiaries are disclosed as separate segments as per the operational requirements of the group. Segment reporting is included in the consolidated financial statements of the group as entities are required to use allocated resources efficiently and effectively to achieve the entity's objectives. As the consolidated financial statements provides an overview of the assets controlled and the liabilities incurred, the cost of the services provided and the budget allocations and cost recoveries generated to fund the provision of those services, such aggregate reporting may not provide information about the specific operational objectives and major activities devoted to and the costs of those objectives and activities.

As the activities of the entity are broad and undertaken in a wide range of geographical areas, the information was disaggregated to report on each geographical segment of the entity. The administrative Head Office is not regarded as a segment as it does not undertake activities that generates economical benefit or service potential for the group. In order to reconcile the generated income and expenditure per segment to the overall results of the group, the administrative unit was detailed as a reconciling unit. The geographical spread of the offices of the ECRDA forms the basis of segment reporting on the loans division of the agency. The projects unit of the agency was identified as the other reportable segment due to the economic benefits the department derives for the agency. The subsidiaries of the ECRDA are reported separately due to their mandated functions. Segments have not been aggregated in the financial statements.

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.

The financial statements of the Kangela Citrus Farms (Pty) Ltd have however not been prepared on the going concern basis as operations ceased on 3 October 2018.

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 measurable 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 base the measurement of the provision for insurance contracts (when required) 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 18: Segment reporting
GRAP 19: Provisions, contingent liabilities and contingent assets
GRAP 20: Related party disclosures
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 32: Service concession arrangements: Grantor
GRAP 34: Separate financial statements
GRAP 35: Consolidated financial statements
GRAP 36: Investments in associates and joint ventures
GRAP 37: Joint arrangements
GRAP 38: Disclosure of interests in other entities
GRAP 100: Discontinued operations
GRAP 103: Heritage assets
GRAP 104: Financial instruments
GRAP 105: Transfer of functions between entities under common control
GRAP 106: Transfer of functions between entities not under common control
GRAP 107: Mergers
GRAP 108: Statutory receivables
GRAP 109: Accounting by principles and agents
GRAP 110: Living and non-living resources

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: GRAP reporting framework
Directive 7: The application of deemed cost
Directive 12: The selection of an appropriate reporting framework by Public Entities
Directive 14: Application of standards of GRAP by Public Entities
"

6. CASH AND CASH EQUIVALENTS

	Agency 2021 R	Agency 2020 R	Group 2021 R	Group 2020 R
Cash on call and deposits at commercial banks	49 771 520	38 604 474	49 771 520	38 604 474
Cash on current accounts at commercial banks	52 959 282	23 398 313	55 573 918	25 996 702
Cash on hand	3 609	8 092	133 859	8 092
	102 734 411	62 010 879	105 479 297	64 609 268

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 2021 were 2,5% (2020: 4,25%) for funds on call and 1,9% (2020: 3,65%) for funds on deposit. Kangela Citrus Farms (Pty) Ltd has limited cash resources.

	Agency 2021 R	Agency 2020 R	Group 2021 R	Group 2020 R
Composition of cash and cash equivalents:				
Liabilities arising from non-exchange transactions (note 18)	5 399 410	545 049	5 399 410	545 049
Deferred grant income arising from non-exchange transactions (note 15)	23 086 303	21 099 934	23 086 303	21 099 934
Funds at commercial banks - own and funder	74 248 698	40 365 896	76 993 583	42 964 285
	102 734 411	62 010 879	105 479 297	64 609 268
Detailed analysis of cash balances at reporting date:				
MAFISA funding (DAFF)	41 665 368	40 640 294	41 665 368	40 640 294
Oxfam/SPF funding	593 113	734 874	593 113	734 874
Office of the Premier Youth Funds	5 785	425 137	5 785	425 137
Stimulus fund (DEDEAT)	910 000	10 806 795	910 000	10 806 795
Kangela Citrus Farms (Pty) Ltd	-	-	2 500 048	2 598 389
Magwa Enterprise Tea (Pty) Ltd	-	-	244 838	-
EPWP (DRDAR)	4 982 846	-	4 982 846	-
ECRDA own funds	54 577 299	9 403 779	54 577 299	9 403 779
	102 734 411	62 010 879	105 479 297	64 609 268
Cash available for operational use (ECRDA)*	54 577 299	9 403 779	54 577 299	9 403 779
Cash held for project/programme implementation on behalf of third parties	48 157 112	52 607 100	48 157 112	52 607 100
Cash held by subsidiaries	-	-	2 744 886	2 598 389
	102 734 411	62 010 879	105 479 297	64 609 268

*The agency accrued for the funds to be returned to Provincial Treasury in note 14. The agency can only retain cash to settle the payables (detailed in note 14) as unused and uncommitted cash is returned to Government. The agency cannot fund operations or administrative expenses from funding held on behalf of third parties.

Cash and cash equivalents reconciliation:				
- Statement of Financial Position	102 734 411	62 010 879	105 479 297	64 609 268
- Cash flow statement	102 734 411	62 010 879	105 479 297	64 609 268
Difference	(1)	(0)	(1)	(0)

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 2021	Agency and Group 2020
		R	R
Loans and advances to customers		138 856 312	174 603 510
Loans and advances to customers prescribed and written off		41 549 597	-
Customers with credit balances		2 342 228	2 341 336
Gross loans and advances to customers	(i)	**182 748 137**	176 944 846
Less: Prescribed loans written off		(41 549 597)	-
Less: Fair value adjustments arising on concessionary loans		(953 822)	(1 523 242)
Less: Specific credit impairments		(122 842 665)	(152 865 270)
		17 402 053	22 556 334
Less: Unallocated loan repayments		(316 212)	(246 143)
Net carrying amount for ECRDA	*	**17 085 841**	22 310 191
Less: Group loan		(10 245 869)	(9 266 352)
Add: Impairment of Group loan		10 245 869	9 266 352
Net carrying amount for the ECRDA Group		**17 085 841**	22 310 191
	* As % of loanbook	**9%**	13%

Detailed loans and advances granted to customers per type of loan	ECRDA	Asgisa	Mafisa	Uvimba
Loans granted at 31 March 2020	38 216 340	13 959 385	74 525 391	50 243 730
Less: Fair value adjustments arising on concessionary loans	(530 241)	(846)	-	(992 155)
Less: Specific credit impairments	(32 742 967)	(13 609 320)	(74 525 388)	(31 987 595)
Less: Unallocated loan repayments	(28 800)	-	(47 597)	(169 746)
Net granted balance at 31 March 2020	**4 914 332**	**349 219**	**(47 594)**	**17 094 234**
As % of loans granted	13%	3%	0%	34%
Loans granted at 31 March 2021	33 852 119	1 122 770	79 538 040	26 685 611
Less: Fair value adjustments arising on concessionary loans	(172 301)	-	-	(781 521)
Less: Specific credit impairments	(30 715 814)	(1 122 770)	(78 654 973)	(12 349 108)
Less: Unallocated loan repayments	(31 220)	-	(47 597)	(237 395)
Net granted balance at 31 March 2021	**2 932 784**	**-**	**835 470**	**13 317 587**
As % of loans granted	9%	0%	1%	50%

Movement in specific credit impairments:			
Balance at the beginning of the year		**152 865 270**	137 365 192
New impairments created		**(30 022 605)**	15 500 078
Balance at the end of the year	(ii)	**122 842 665**	152 865 270
Balance at the end of the year expressed as a percentage of gross loans (ii/i) and advances to customers		67%	86%

The loss of income and employment on the economy as a result of Covid 19 could decrease loan repayments - necessitating further impairments.

Contractual maturity analysis:		
Repayable within 1 year and overdue	**118 858 370**	144 926 997
Repayable later than 1 year	**63 889 767**	32 017 849
	182 748 137	176 944 846

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	**127 853 527**	153 718 169
Non-agricultural	**13 345 013**	23 226 677
	182 748 137	176 944 846

Exposure to credit risk (A):				
Loans and advances neither past due nor impaired		*	**9 858 744**	8 051 198
Loans and advances past due but not impaired			**2**	10
Loans and advances individually assessed as impaired			**131 339 794**	168 893 638
	A		**182 748 137**	176 944 846
		* As % of loanbook	5%	5%

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

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. The contractual repayment terms are currently renegotiated with the debtors as these loans are all past due.

		Agency and Group 2021 R	Agency and Group 2020 R
Collateral held against loans and advances (limited to customer balance outstanding) (B):			
Loans and advances neither past due nor impaired		**9 482 540**	3 957 757
Loans and advances past due but not impaired		**-**	-
Loans and advances individually assessed as impaired		**16 143 875**	23 584 625
	B	**25 626 415**	27 542 382
Expressed as a percentage of the loan book	**(B/A)**	**14,02%**	15,57%

The collateral can be applied as stipulated in the individual loan agreements entered into with the customers. The agency does not hold any bought in collateral for the year ended 31 March 2021 (2020: Nil).

Net exposure to credit risk after deducting collateral held (A - B):		
Loans and advances neither past due nor impaired	**376 204**	4 093 441
Loans and advances past due but not impaired	**2**	10
Loans and advances individually assessed as impaired	**115 195 919**	145 309 013
	115 572 125	149 402 464
Net exposure after specific impairments:		
Loans and advances neither past due nor impaired	**9 858 744**	8 051 198
Loans and advances past due but not impaired	**2**	10
Loans and advances individually assessed as impaired	**-**	-
	9 858 746	8 051 208

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

Loans to customers are impaired when the loan terms have not been met (defaulted payments) and/or when the loan has expired. Individual loan assessments are performed to evaluate the repayments, the arrears outstanding, the repayment period and the interest rate of the loan to calculate the impairment. Specific loan impairment was done on all loans in 2021 and 2020 due to the default rate.

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 revolving loans to staff of Rnil (2021: credit balances amounting to R2 351) (2020: loans due amounting to R2 149).

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 it 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."

During the 2021 financial year, prescribed loans to the value of R41 549 597 (2020: irrecoverable and non-performing loans of R11 735 677) was written off. The Board duly approved this write-off.

Detailed consolidated statement of financial performance as at 31 March 2021 (unaudited schedule to financial statements)

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