

EASTERN CAPE  
RURAL DEVELOPMENT  
AGENCY

# ANNUAL REPORT

2017/2018



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RURAL DEVELOPMENT  
AGENCY

# ANNUAL REPORT

2017/2018

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External Auditors: Auditor-General of South Africa

Bankers Information: First National Bank | Standard Bank of South Africa







**PR412/2018**  
**ISBN: 978-0-621-46794-9**





# TABLE OF CONTENTS

ECRDA ANNUAL REPORT 2017/2018

## PART A: GENERAL INFORMATION

ACRONYMS	001
<b>1. ABOUT ECRDA</b>	<b>002</b>
1.1 Organisational Structure	002
- Board of Directors	003
- Executive Management	005
1.2 Strategic Overview	007
- Vision	007
- Mission	007
- Values and Guiding Principles	007
- Objectives	008
<b>2. CHAIRPERSON'S FOREWORD</b>	<b>009</b>
<b>3. CHIEF EXECUTIVE OFFICER'S OVERVIEW</b>	<b>013</b>
<b>4. CHIEF FINANCIAL OFFICER'S OVERVIEW</b>	<b>017</b>
<b>5. MANDATES</b>	<b>021</b>
Developmental Mandate	021
Legislative Mandates	021
<b>6. STATEMENT OF RESPONSIBILITY</b>	<b>023</b>

## PART B: PERFORMANCE INFORMATION

<b>1. SITUATIONAL ANALYSIS</b>	<b>027</b>
1.1 Service Delivery Environment	027
- Agroprocessing	027
- Livestock	031
- Forestry	033
- Renewable Energy	035
- Rural Finance	037
- Strategic Partnerships & Supported Entities	039
1.2 Organisational Environment	043
1.3 Strategic Pillars	045



<b>2. PERFORMANCE INFORMATION BY PROGRAMME</b>	<b>047</b>
2.1 Programme 1: Administration	047
2.2 Programme 2: HIPPs (Management & Implementation)	049
2.3 Programme 2: HIPPs (Strategic Partnerships)	055
2.4 Programme 3: Rural Finance (Loans & Support Services)	057
2.5 Programme 3: Rural Finance (Investment)	057

### **PART C: GOVERNANCE**

<b>1. INTRODUCTION</b>	<b>061</b>
<b>2. PORTFOLIO COMMITTEES</b>	<b>061</b>
<b>3. EXECUTIVE AUTHORITY</b>	<b>061</b>
<b>4. ACCOUNTING AUTHORITY</b>	<b>061</b>
<b>5. RISK MANAGEMENT</b>	<b>066</b>
<b>6. INTERNAL AUDIT &amp; AUDIT COMMITTEE</b>	<b>066</b>
<b>7. COMPLIANCE WITH LAWS AND REGULATIONS</b>	<b>067</b>
<b>8. FRAUD &amp; CORRUPTION</b>	<b>067</b>
<b>9. MINIMISING CONFLICT OF INTEREST</b>	<b>067</b>
<b>10. CODE OF CONDUCT</b>	<b>068</b>
<b>11. HEALTH &amp; SAFETY</b>	<b>068</b>
<b>12. COMPANY SECRETARY</b>	<b>068</b>
<b>13. SOCIAL RESPONSIBILITY</b>	<b>068</b>
<b>14. AUDIT COMMITTEE REPORT</b>	<b>070</b>

### **PART D: CORPORATE SERVICES**

<b>1. CORPORATE SERVICES AND HR OVERVIEW</b>	<b>073</b>
<b>2. HR STATISTICS</b>	<b>075</b>

### **PART E: FINANCIAL INFORMATION**

<b>1. AUDITOR-GENERAL</b>	<b>081</b>
<b>2. ANNUAL FINANCIAL STATEMENTS</b>	<b>087</b>





Honourable Member of the Executive Council  
Department of Rural Development and Agrarian Reform

The Board had the honour of submitting the Annual Report  
of the Eastern Cape Rural Development Agency for the period  
01 April 2017 to 31 March 2018



Dr Vanguard Mkosana  
Chairperson







EASTERN CAPE  
RURAL DEVELOPMENT AGENCY  
**ANNUAL REPORT**  
2017/2018

*Part A*  
**GENERAL  
INFORMATION**



A vibrant and sustainable rural economy that improves the livelihoods of rural communities within the Eastern Cape



# ACRONYMS

<b>AGSA</b>	Auditor-General of South Africa
<b>AOPO</b>	Audit of Predetermined Objectives
<b>BRP</b>	Business Rescue Process
<b>CPA</b>	Community Property Association
<b>CRDP</b>	Comprehensive Rural Development Programme
<b>CSI</b>	Corporate Social Investment
<b>DAFF</b>	Department of Agriculture and Fisheries
<b>DEDEAT</b>	Department of Economic Development, Environmental Affairs and Tourism
<b>DRDAR</b>	Eastern Cape Department of Rural Development and Agrarian Reform
<b>dti</b>	Department of Trade and Industry
<b>DWA</b>	Department of Water and Sanitation
<b>ECDC</b>	Eastern Cape Development Corporation
<b>ECRDA</b>	Eastern Cape Rural Development Agency
<b>ECRFC</b>	Eastern Cape Rural Finance Corporation
<b>ECPTA</b>	Eastern Cape Parks and Tourism Agency
<b>GDP</b>	Gross Domestic Product
<b>HIPPs</b>	High Impact Priority Programmes
<b>HRD</b>	Human Resource Development
<b>IA</b>	Internal Audit
<b>IDC</b>	Industrial Development Cooperation
<b>ICT</b>	Information Communication and Technology
<b>ISRDP</b>	Integrated Sustainable Rural Development
<b>KCF</b>	Kangela Citrus Farm
<b>MAFISA</b>	Micro Agricultural Financial Institutions of South Africa
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NCR</b>	National Credit Regulator Act
<b>OHS</b>	Occupational Health and Safety
<b>OTP</b>	Office of the Premier
<b>PFMA</b>	Public Finance Management Act
<b>PMU</b>	Programme Management Unit
<b>PV</b>	Photovoltaic
<b>RED Hub</b>	Rural Enterprise Development Hub
<b>SARS</b>	South African Revenue Service
<b>SFM</b>	Sustainable Forest Management

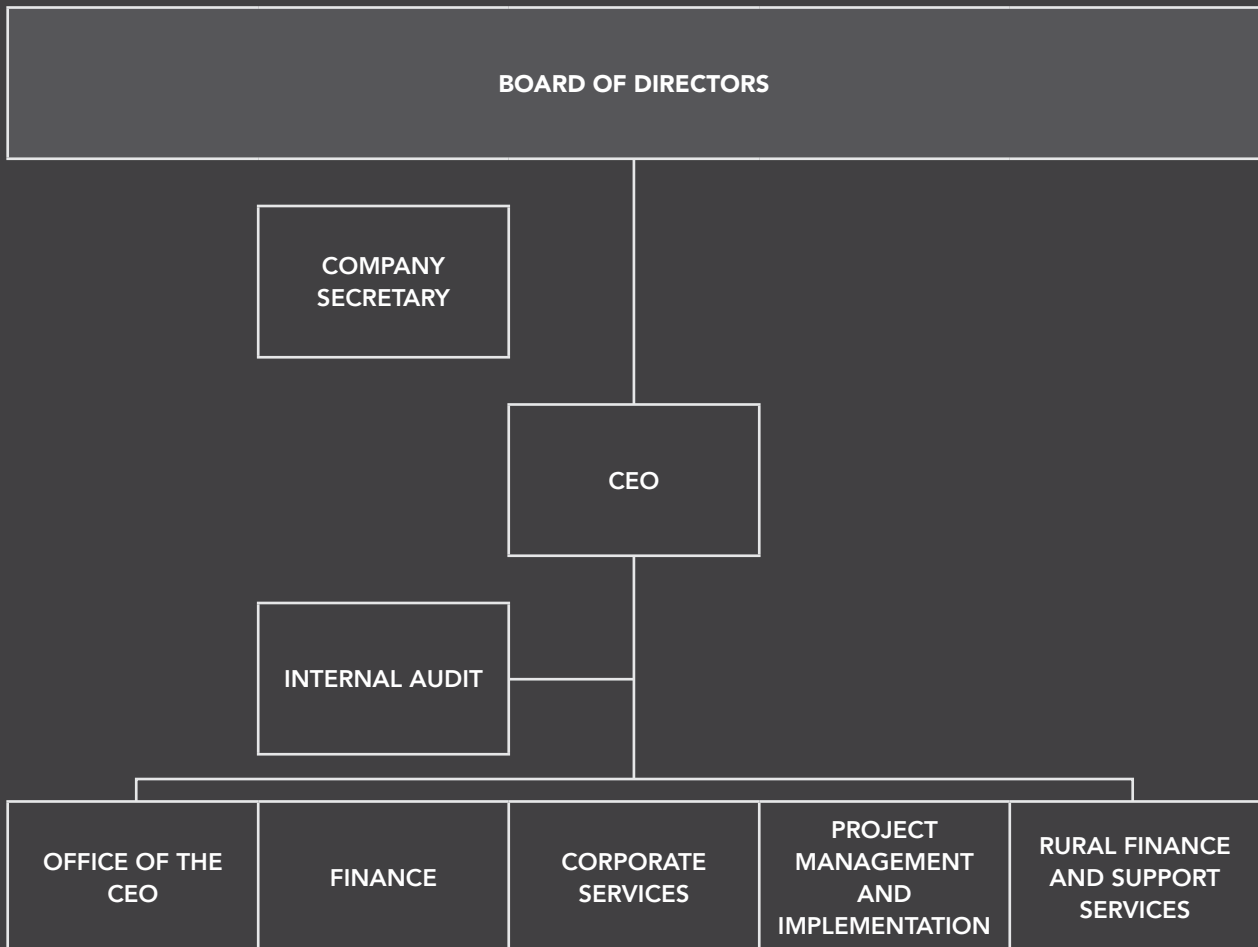
# 1. ABOUT ECRDA

The Eastern Cape Rural Development Agency (hereafter “the Agency” or ECRDA) is a Schedule 3(c) entity in terms of the Public Finance Management Act (PFMA). It was established following the amalgamation of two Eastern Cape rural development entities: The Eastern Cape Rural Finance Corporation (ECRFC) and Asgisa Eastern Cape (Pty) Ltd, which were merged to achieve greater efficiencies in rural development.

ECRDA’s primary objective is to promote, support and facilitate rural development in the Eastern Cape province of South Africa, for the benefit of all rural communities throughout the province. To achieve this objective, the Agency has formulated and is driving the implementation of a comprehensive, integrated and holistic rural development strategy. This includes growing the competitiveness of the rural sector by stimulating a largely subsistence sector toward commercialisation and global competitiveness, encouraging private sector investment, promoting land and agrarian reform and mobilising financial resources to enable sustainable development.

## 1.1 ORGANISATIONAL STRUCTURE

ECRDA is in the process of crafting a lean, fit-for-purpose organisational structure which is informed by the Vision and Mission of the entity and optimised towards achieving its strategic objectives.





# ECRDA BOARD OF DIRECTORS



**DR VANGUARD  
MKOSANA**

**Chairperson:**  
Reappointed: February 2016

**Committees:** Governance and Ethics



**FEZEKA  
FAITH MKILE**

**Deputy Chairperson:**  
Reappointed: February 2016

**Committees:** Governance & Ethics,  
FINVEST



**SABATHA  
MBALEKWA**

Reappointed: February 2016

**Committees:** Governance & Ethics,  
Audit & Risk (Chairperson),  
FINVEST



**CORNELIUS  
PIETERSEN**

Reappointed: February 2016

**Committees:** Governance & Ethics,  
FINVEST, Programmes & Projects  
(Chairperson)



**ZANELE  
SEMANE**

Reappointed: February 2016

**Committees:** Programmes and  
Projects, Human Capital and  
Remuneration



**VUYANI  
JARANA**

Reappointed: February 2016

**Committees:** Governance & Ethics,  
FINVEST  
(Chairperson)





**XOLILE  
GEORGE**

Reappointed: February 2016  
**Committees:** Governance & Ethics,  
Human Capital & Remuneration  
(Chairperson)



**MPUMELELO  
NCWADI**

Appointed: February 2016  
**Committees:** FINVEST,  
Programmes & Projects Committee



**ABRAHAM  
LE ROUX**

Reappointed: February 2016  
**Committees:** Audit and Risk,  
Human Capital and Remuneration



**MBULELO  
SOGONI**

Appointed: February 2016  
**Committees:** Audit and Risk,  
Human Capital & Remuneration



**BONGIWE  
KALI**

Reappointed: February 2016  
**Committees:** Audit and Risk,  
Programmes and Projects



**THOZAMILE  
GWANYA (Ex Officio)**

**Chief Executive Officer:**  
Appointed:  
June 2013



EASTERN CAPE  
RURAL DEVELOPMENT AGENCY

# ECRDA EXECUTIVE TEAM



**THOZAMILE  
GWANYA**

Chief Executive Officer



**JANINE  
BAXTER**

Chief Financial Officer



**NAVY  
SIMUKONDA**

Chief Operations Officer



**GCOBANI  
NTSHANGA**

Executive Manager:  
Strategic Management



**ROAK  
CREW**

Executive Manager:  
Renewable Energy



**CHUMA  
VELANI**

Executive Office Manager:  
Office of the CEO





**NCEDO  
WOBIYA**

**Independent Executive:**  
Internal Audit Unit

## 1.2 STRATEGIC OVERVIEW

### VISION

**A vibrant and sustainable rural economy that improves the livelihoods of rural communities within the Eastern Cape**

### MISSION

To achieve its vision, ECRDA drives, coordinates and facilitates the implementation of integrated, high-impact programmes of rural development and agrarian reform in the Eastern Cape by forming partnerships with rural communities, the private sector and other public sector organisations and departments with the main objective of building a vibrant and sustainable rural economy.

### VALUES AND GUIDING PRINCIPLES

#### TRANSPARENCY

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

#### EXCELLENCE

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

#### HONESTY & INTEGRITY

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

#### INNOVATION

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

#### COMMITMENT TO EMPOWERMENT

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

#### UBUNTU

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

**“We will demonstrate loyalty to our developmental goals in uplifting the plight of the rural poor”**



# OBJECTIVES

The objectives of the Eastern Cape Rural Development Agency are to promote, support and facilitate rural development in the province. This is achieved by:

- Mobilising financial resources and providing financial and supportive services to persons domiciled, ordinarily resident or carrying on business within the province;
- Promoting and encouraging private sector investment in the province and the participation of the private sector in contributing to economic growth;
- Acting as the government's agent for performing any development-related tasks and responsibilities that the government considers may be more efficiently or effectively performed by a corporate entity;
- Driving and coordinating integrated programmes of rural development, land reform and agrarian transformation in the province;
- Project managing rural development interventions in the province;
- Promoting applied research and innovative technologies for rural development in the province;
- Planning, monitoring and evaluating rural development in the province; and
- Facilitating the participation of the private sector and community organisations in rural development programmes.

# TO ACHIEVE THESE OBJECTIVES, ECRDA STREAMLINES ITS EFFORTS AND ENERGIES IN ACCORDANCE WITH THE FOLLOWING STRATEGIC PILLARS:

**PILLAR 1:** FIT FOR PURPOSE ORGANISATION TO ENABLE STRATEGY IMPLEMENTATION

**PILLAR 2:** EFFECTIVE COORDINATION AND IMPLEMENTATION OF AGRARIAN DRIVEN HIGH IMPACT PRIORITY PROJECTS (HIPPS)

**PILLAR 3:** LEVERAGE STRATEGIC PARTNERSHIPS TOWARDS IMPLEMENTATION AND FUNDING OF RURAL DEVELOPMENT INITIATIVES

**PILLAR 4:** CREATE RURAL DEVELOPMENT CLUSTERS BY PROMOTING ENTREPRENEURSHIP THROUGH ACCESS TO FINANCE, MARKET LINKAGES AND CAPACITY BUILDING

**PILLAR 5:** SOLICIT AND PROMOTE PRIVATE SECTOR INVESTMENT IN KEY RURAL DEVELOPMENT INITIATIVES

# CHAIRMAN'S FOREWORD





## 2. CHAIRPERSON'S FOREWORD

**I have pleasure in presenting the 2017/18 Annual Report of the Eastern Cape Rural Development Agency (ECRDA), which provides a detailed overview of the entity's performance against set strategic goals, its mandate execution, its financial and operational performance and the contextual landscape that impacted this performance.**

The primary mission of the ECRDA Board of Directors is to provide the necessary guidance, strategic leadership and financial and ethical oversight to ensure that the entity is optimally positioned to deliver against its mandate.

The Board takes this responsibility extremely seriously, not only in terms of its fiduciary and legislative accountability, but also because it is acutely aware of the tangible income and employment impacts the organisation has on the rural communities in which it operates.

To this end, I am pleased to report that both the Board and its five functional sub-committees discharged its duties with distinction during the year under review. In addition to its four scheduled quarterly meetings, the Board held an additional special meeting, two teleconferences, a Board workshop and a special Board Indaba during the year in review.

During these interactions, Board members – the majority of whom have served in this capacity since 2012 – again displayed the requisite skill, knowledge and experience that is required for the Board to provide leadership to the organisation while also monitoring performance and providing oversight.

### EXECUTION OF OUR MANDATE

The ECRDA is entrusted with a critically important mandate: to bring about tangible and sustainable improvements in the quality of life of the Eastern Cape's rural communities. This includes being a catalyst for economic development, supporting sustainable rural economies and facilitating rural value chains that succeed in luring subsistence and small-scale farmers, communal landowners and rural entrepreneurs into the mainstream economy.

The Eastern Cape is home to millions of vastly talented, entrepreneurial and hardworking individuals and communities who, through no fault of their own and as a result largely of their geography and history, have not yet been able to tap into the abundant opportunities this province offers.

The ECRDA is committed to changing the legacy of undeveloped rural communities by providing them with the tools they need to build viable enterprises that generate income, provide employment, attract investment and create circular value chains that enhance entire communities. As the performance information presented in this Annual Report clearly demonstrates, the ECRDA achieved numerous impactful successes against this mandate during the year under review.

Our flagship initiative, the Rural Enterprise Development (RED) Hub programme, is beginning to stabilise and this has allowed the Agency to embark on expansion, resulting in the establishment of the fifth RED Hub in the Amathole District Municipality. This development is exciting on a number of levels: not only does it underline both the success and the future potential of the programme, it also showcases the diversity of industries which can be successfully cultivated to drive rural development. Furthermore, this is a step towards realising the long-standing desire of ECRDA to have a provincial footprint with visible geographical spread of RED Hubs.

Another important highlight regarding this programme is the independent, academic assessment of the RED Hubs by researchers of the University of Fort Hare. ECRDA has always touted the success of the Hubs as engines for scaling and commercialising rural production. For the first time, the academic assessment presents tangible financial benefits of the Hubs.

In every other area of operations – from nurturing and incubating emerging livestock farmers to helping communal landowners tap into the province's vast forestry potential and fast-tracking remote communities' access to electricity – ECRDA has initiated or enabled a range of development initiatives that are transforming our rural areas.



#### AREA OF OPERATIONS

ECRDA has initiated or enabled a range of development initiatives that are transforming our rural areas

## CHALLENGES

The ECRDA is not without its challenges. As the Chief Executive Officer's overview illustrates, the entity is at a pivotal moment in its history which require all of us tasked with governance, oversight and leadership to take stock of the organisation's strengths, identify its weaknesses and put together an effective, sustainable strategy to guarantee future success.

The next financial year – 2018/19 – marks the culmination of the current five-year Strategic Plan, which will see the development and implementation of a new roadmap to ensure the ECRDA is optimally positioned to fulfil the full complexity of its mandate. The Board will continue to provide guidance and strategic leadership in this regard, including overseeing the ongoing organisational re-alignment which is aimed at best utilising the Agency's human capital.

A diagnostic evaluation of the ECRDA structure, compared with other Development Finance Institutions, has already been completed and the results thereof submitted to the Human Capital & Remuneration Committee, along with possible organisational design options. From this, the Board will be able to finalise a holistic human resource strategy and organisational design which will equip the organisation with the necessary framework to maximise its developmental impact.

While ECRDA remains fully committed to unlocking critically needed financing for rural enterprises, ongoing budgetary constraints and a still-too-low loan recovery rate place a serious strain on the Agency's ability to fully utilise its loan finance instruments. We will continue to engage with these challenges by utilising the appropriate platforms and partnerships to strengthen our loan finance function, while also ensuring that our impairments are minimised and mitigated.



### ECRDA RED HUBS

The RED Hub programme is stabilising and expanding, resulting in a fifth Hub being established in the Amathole District



### ECRDA SUPPORTING COMMUNITIES

The ECRDA is committed to providing rural communities with the tools they need to build viable enterprises

## ACKNOWLEDGMENTS

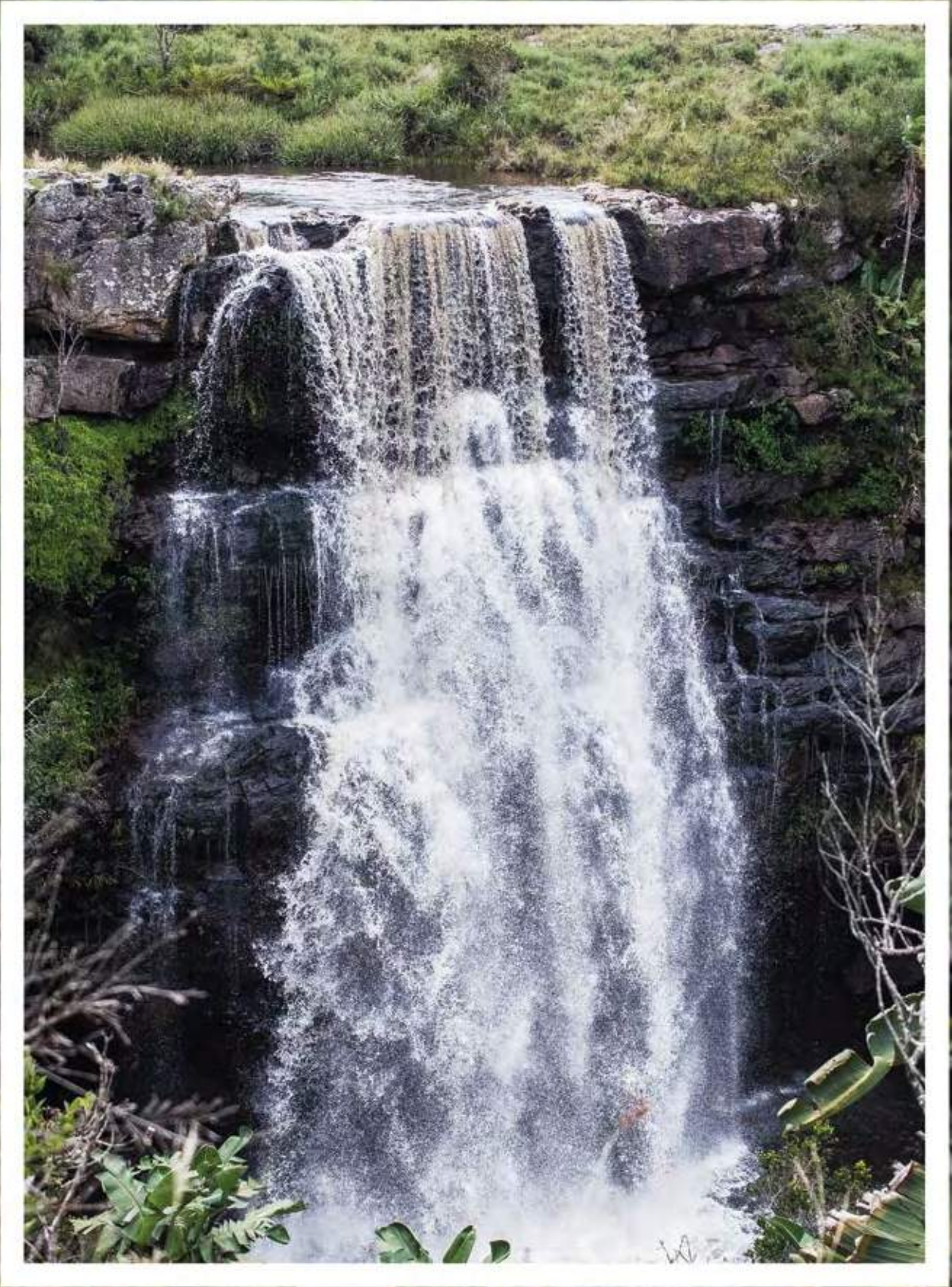
On behalf of the ECRDA Board, I wish to express our sincere gratitude to the Honourable MEC for Rural Development and Agrarian Reform for his ongoing guidance and policy support. We sincerely thank the support and cooperation we receive from the Portfolio Committee members. Thank you also to all corresponding entities and departments within national and provincial government for the strong relationships we have developed and which we are committed to strengthening further.

The Board also wishes to express its appreciation to the Chief Executive Officer, his management team and the entire ECRDA staff for their dedication and hard work, often under difficult conditions.

The importance of the work the ECRDA is doing cannot be overstated, and this would not have been possible without the extraordinary efforts of the men and women who selflessly serve this organisation.

**Vanguard Mkosana**  
Chairperson of the Board







# CHIEF EXECUTIVE'S OVERVIEW





# 3. CHIEF EXECUTIVE'S OVERVIEW

The Eastern Cape Rural Development Agency has an ambitious, forward-looking vision: a vibrant and sustainable rural economy that improves the livelihood of rural communities within the Eastern Cape.

Given the vast rural character of the Eastern Cape and the historically low economic outputs of these areas, this was never going to be an easy endeavour.

In addition to creating enabling infrastructure, providing support mechanisms and facilitating enterprise finance, the Agency has also had to address difficult social barriers. Across all our programmes, historic conflicts, leadership fatigue and deeply entrenched social and cultural mindsets have, at one time or another, halted or slowed down developmental progress. This made the work of ECRDA, on the ground, challenging and often highly frustrating.

These challenges notwithstanding, it is with great pride that I present an overview of the ECRDA's activities for 2017/18 which speaks of significant achievement across all our high-impact priority programmes of rural development.

## PERFORMANCE OVERVIEW

ECRDA's flagship initiative, the development of Rural Enterprise Development (RED) Hubs, is making a demonstrable impact in rural economies and communities. Four RED Hubs have been implemented and operations have commenced on the development for a 5th RED Hub, at Tshabo outside Berlin. While the first four RED Hubs focused specifically on milling of crops such as maize and sorghum, and creating sustainable value chains around these enterprises, the Tshabo RED Hub will unlock exciting new economic opportunities around heliculture, or snail farming, flower cultivation and hydroponic vegetable production.

**"Our renewable energy unit has taken important steps towards securing the sustainability and long-term success of the RED Hubs by connecting photovoltaic solar energy systems to all four of the Hubs, thereby reducing their dependence on what has proven to be highly unreliable power supply from the National Grid"**

The energy producing capacity of these PV systems will be further expanded during the next financial period and solar batteries will be installed to make the Hubs completely energy independent.

A further initiative to support the RED Hubs is the development of a new feedstock aggregation strategy, which will secure sufficient feedstock for the RED Hub mills to ensure that they are able to operate at optimum capacity.

Similar high-impact successes were recorded across all five pillars which inform the Agency's development programmes.


Our forestry unit continued to unlock commercial forestry opportunities for rural communities with an aggressive rural afforestation programme. ECRDA had set itself the goal of planting 200 hectares of hardwood trees across all six forestry projects during the 2017/18 financial year. It also aimed to secure approval for an additional 1 000 hectares for future forestry plantations. By the end of the review period, a total of 326.32 hectares had been planted, 63 per cent above target.

Some of the community forestry programmes supported by ECRDA have not diversified into vegetable farming, specifically focusing on cash crops such as cabbage and spinach. The first vegetables have been harvested and project beneficiaries are being provided with training on irrigation systems and vegetable farming.


During the year under review, ECRDA facilitated, along with other partners, the establishment of a 100-kW solar-powered mini grid in the Fort Beaufort area, electrifying a community which has never been connected to the National Grid, and which was not due to be connected for at least 10 years.

To support communal and small-scale farmers venturing into commercial livestock farming, ECRDA established two feedlots at Lingomso LamaNdungwane and Ncora to improve the animals' physical condition and overall marketability.

The Agency also continued to provide support services to a number of Eastern Cape entities, including Kangelana Citrus Farm and Ncera Macadamia. These community development entities were assisted with technical support, skills development and business guidance to help them achieve maximum efficiency and to work towards long-term sustainability.



**FORESTRY UNIT**  
A total of 326 hectares have been planted, **63 per cent above target**



**SUPPORTING SMALL-SCALE FARMERS**  
Two feedlots were established to improve animal condition and overall marketability

In addition, ECRDA is overseeing a business rescue process for the Magwa and Majola tea estates in the OR Tambo District. To this end, ECRDA has initiated consultations with potential private sector investors on the revitalisation, marketing and certification of the tea industry in the Eastern Cape.

The Agency has also made big strides in supporting entrepreneurs with financial and nonfinancial support. Financial support has been in the form of developmental loans to assist rural entrepreneurs and projects, while non-financial support includes social facilitation, SMME development and new-business support.

**OVERALL, THE ECRDA ACHIEVED 85% OF THE 27 PERFORMANCE TARGETS LISTED IN ITS ANNUAL PERFORMANCE PLAN.**

Despite these achievements, ECRDA continues to experience significant challenges in the pursuit of our mandate.

**CAPACITY CONSTRAINTS AND CHALLENGES**

ECRDA is committed to remaining an efficient, fit-for-purpose organisation. However, the organisation continues to grapple with the consequences of coming into being through the consolidation of three previously independent entities.

Rather than being able to stock the organisation with skills aligned to the implementation of its five-year strategy, ECRDA has had to accept a placement process to accommodate staff from the various entities. This has caused serious disjuncture within the organisation, leaving some employees demotivated by the fact that their skill sets, while valuable, were not congruent with the requirements of their positions.

To address this challenge the Agency must re-engineer its organisation structure to align it with the implementation demands of its strategic objectives.

The continued fiscal constraints within government is another serious challenge and the ECRDA will continue to seek ways of actively participating in integrated planning with all stakeholders within the rural development sphere, with a view to ensuring the limited resources available have a focused impact.

**FUTURE OUTLOOK**

ECRDA’s operational focus over the next period will be aimed at establishing additional small, independent enterprises such as trading stores and workshops within the RED Hubs and ensuring the established milling enterprises become sustainable. This will be done by upgrading the mills and increasing milling capacity.

The ECRDA will continue to support rural economic development by being part of the integrated development planning process, ensuring rural communities have a voice and enabling and facilitating their growth through the support of both big infrastructure initiatives and small-scale entrepreneurial projects.

The ECRDA will also capacitate its employees to enable effective social facilitation within the complex cultural environment that is the Eastern Cape. They will also be empowered to understand the intricacies of establishing projects which can become economic drivers within rural communities and to have the skills to support entrepreneurs with business plan development and project packaging to attract investment.

In doing so, ECRDA is committed to establishing itself as the “go to agency” for investors looking for assistance with rural development initiatives in the Eastern Cape. Our focus will be on re-engineering the ECRDA regional footprint to become development centres where entrepreneurs and investors can come together and where their needs can be met. In essence, our goal is to be a one-stop development shop to incubate businesses and drive economic rural development.

**ACKNOWLEDGEMENTS**

**“I would like to express my appreciation to the Shareholder for continued support, the Board for their strategic guidance and direction and ECRDA’s management and staff for their commitment to making rural development a priority in the Eastern Cape”**



**ASSISTANCE AND SUPPORT**  
ECRDA is establishing itself as the “go to agency” for investors looking for assistance

**Thozamile Gwanya**  
Chief Executive Officer







# CHIEF FINANCIAL OFFICER'S OVERVIEW





# 4. CHIEF FINANCIAL OFFICER'S OVERVIEW

The Eastern Cape Rural Development Agency (ECRDA) focuses on revenue generation to augment project and programme funding and the sustainability of its projects. As a schedule 3C public entity, the ECRDA is not profit driven and surrenders unspent funds at the end of the financial year to Provincial Treasury. This hampers the building up of reserves to reduce government dependency, long term planning and, to an extent, participation in multi-year projects.

The 2017/18 financial year proved challenging for the global economy, South Africa and the Eastern Cape, as well as the ECRDA Group. The unfavourable economic environment and provincial funding constraints placed strain on development and implementation of new, large-scale projects.

## FINANCIAL PERFORMANCE

The income of the ECRDA consists mainly of government funding, revenue generated from the ECRDA loan book and rentals from commercial property in Mthatha.

The ECRDA's income grew by R66.8 million (31%), from R213.8 million (2016/17) to R259.4 million (2017/18), reflecting improvement in own-generated income from R15.2 million (2016/17) to R23 million (2017/18). Own-generated revenue comprised nine percent of the ECRDA's total annual income and the ECRDA aims to develop this income stream further.



**ECRDA FINANCIAL PERFORMANCE**  
The ECRDA's income grew by R66,8 million (31% per cent)

## INCOME SOURCES

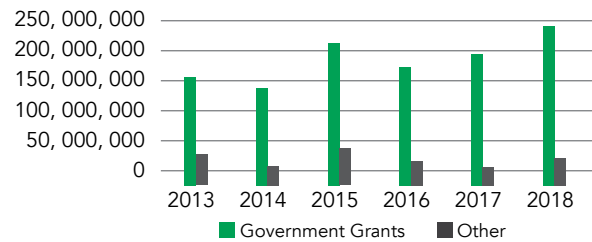


FIGURE 1: ECRDA INCOME SOURCES

The funding allocated to the ECRDA by provincial government increased by R37.8 million (19 per cent) to R236.3 million in the 2017/18 year and included an increase in transfer payments of R32.5 million. The ECRDA also received funding of R2.8 million and R2.5 million, respectively, to implement projects on behalf of the Office of the Premier (OTP) and the Department of Rural Development and Agrarian Reform (DRDAR). The increase in government funding is therefore not indicative of significant increased funding for ECRDA's own projects and operations.

During the 2017/18 financial year transfer payments in the amount of R10 million (2016/17: R16.7 million) were received in support of the Ncera Macadamia Project, R1.5 million (2016/17: R0) for the Summerpride Pineapple Programme and R45.1 million (2016/17: R4.8 million) for the Magwa and Majola tea estates' Business Rescue Process.

**As increased funding levels are unlikely over the medium term, the ongoing focus of the ECRDA is to:**

- Drive partnerships with government departments and entities to further integrated planning and project implementation;
- Augment existing funding by implementing projects on behalf of departments;
- Reprioritise through maintaining existing projects, scaling down non-priority programmes, change service delivery models and make greater use of technology to improve efficiencies and reduce costs; and
- Continued implementation of cost cutting measures.

The provision for impairments increased by R20.3 million, contributing to a R6.7 million deficit for the financial year. The current impairment levels are aligned with the risks associated in supporting and developing rural enterprises and agricultural loans as these are typically high-risk sectors which may be unattractive to commercial financiers. The ECRDA loan book consists of three loan portfolios, namely MAFISA loans administered on behalf of the Department of Agriculture, Forestry and Fisheries (DAFF), the Uvimba loans from ECRDA's predecessor, the Eastern Cape Rural Finance Corporation (ECRFC) and ECRDA loans. The total value of ECRDA loans granted amounts to R53.2 million.

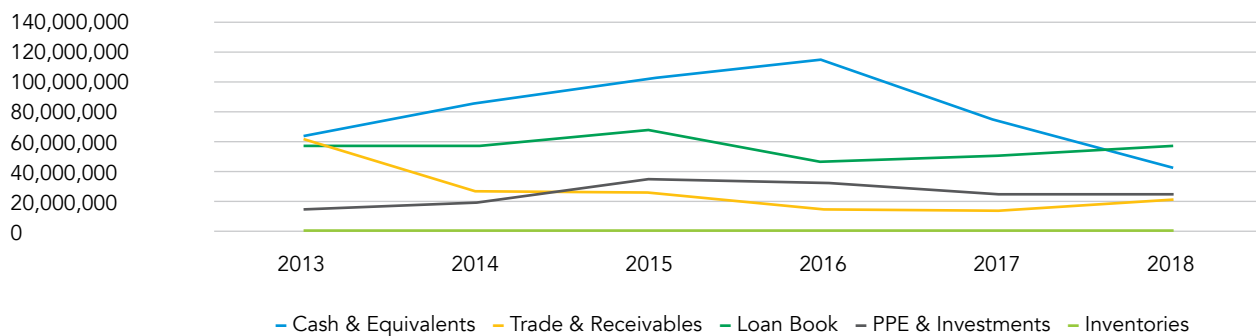
The ECRDA is currently engaged in the review of the rural finance strategy and operating model to find the equilibrium between improving financial returns and providing developmental finance at low cost to clients in a high-credit risk environment. The ECRDA acknowledges that the continuous optimisation of own-generated revenue streams and development of partnerships are key to further entrench the relevance of the organisation through service delivery.

Project expenditure for the year focused on the development of Tshabo Red Hub and maintaining support for the four existing RED Hubs at Mqanduli, Ncora, Mbizana and Emalahleni which focus on grains and milling. Tshabo RED hub will focus on innovative enterprises such as snail farming and establishing a large protea farm and nursery, with feedstock for these enterprises having been secured.

The ECRDA obtained an unqualified audit opinion which is an indication of the organisation's commitment to a strong internal control environment, whilst the need for continuous improvement is noted.

## ASSET BASE

### Asset Base Composition



### Asset Base Composition

	2013	2014	2015	2016	2017	2018
Cash & Equivalents	63 030 959	85 470 869	102 829 878	115 049 019	74 642 220	42 955 041
Trade Receivables	60 850 785	27 204 935	26 677 750	14 016 433	12 667 372	21 265 349
Loan Book	57 496 495	59 671 076	67 824 362	47 506 949	50 932 562	58 959 511
PPE & Investments	14 383 457	19 629 266	33 976 424	33 651 768	26 566 113	25 338 491
Inventories	140 938	98 404	108 957	90 564	123 971	91 118

### Key Ratios

	2013	2014	2015	2016	2017	2018
Current Ratio	2,5	2,8	2,6	2,6	2,8	2,8
Own Cash vs Current Trade Liabilities	0,8	1,0	1,1	1,9	1,8	0,3
Administered funds vs cash holdings	0,7	0,8	0,7	0,7	0,8	1,0
Total Assets vs Total Liabilities	2,8	3,3	3,0	3,0	3,3	3,7

The asset base of the ECRDA decreased with R16.3 million, or 10 per cent, year on year. This was a result mainly of the reduction in cash and cash equivalents. The reduction in cash holdings is attributable to utilisation of ECRDA's budget and administered funds for project implementation. Correspondingly, the ECRDA's liabilities arising from administered fund holdings decreased in the current year and there was no surplus of own funds to surrender at year end.

The ability of ECRDA to pay its trade liabilities from own cash holdings decreased from the previous year. Regardless, the ECRDA is still able to pay its debts as they fall due, based on ongoing government funding in the foreseeable future.

ECRDA maintains a fixed asset register which is updated and verified quarterly. During the verification process, assets in need of repair and/or maintenance are identified. The condition of the majority of ECRDA's assets are considered to be good. The internal controls over assets and the fixed asset register are sound in light of audit outcomes. There has been no theft or loss of significant assets during the year not covered by insurance.

ECRDA's results for the year are evidence of management's commitment to utilising funding, provide rural finance and implement projects. This review should be read in conjunction with the Annual Financial Statements presented on pages 91 to 156.

## CAPITAL INVESTMENT AND MAINTENANCE

Capital investments during the year comprised of the replacement of computer equipment, equipment under finance leases and minor assets. Extensive maintenance took place at ECRDA's buildings in Mthatha and King William's Town and is expected to improve revenue streams.

**Janine Baxter**  
Chief Financial Officer







# 5. MANDATES

## 5.1 DEVELOPMENTAL MANDATE

The national Integrated Sustainable Rural Development Programme (ISRDP) ushered in a new era of holistic, integrated and sustainable growth and development, with the specific aim of bringing about improved quality of life. Building on this vision for rural development, the White Paper for Agrarian Transformation in the Eastern Cape committed the province “to attain socially cohesive and stable communities with viable institutions, sustainable economies and universal access to social amenities, able to attract skilled and knowledgeable people, equipped to contribute to their own and the nation’s growth and development”.

**In pursuit of the fulfilment of its development mandate, the Agency frames its activities against the following organisational objectives:**

- Mobilising financial resources and providing financial and supportive services to persons domiciled, ordinarily resident or carrying on business within the province;
- Promoting and encouraging private sector investment in the province and the participation of the private sector in contributing to economic growth;
- Acting as the government’s agent for performing any development-related tasks and responsibilities that the government considers may be more efficiently or effectively performed by a corporate entity;
- Driving and co-ordinating integrated programmes of rural development, land reform and agrarian transformation in the province;
- Project managing rural development interventions in the province;
- Promoting applied research and innovative technologies for rural development in the province;
- Planning, monitoring and evaluating rural development in the province; and
- Facilitating the participation of the private sector and community organisations in rural development programmes.

This means ensuring that rural communities have access to quality physical, social and economic infrastructure; that land and other natural resources becoming viable assets in the hands of the rural poor; that indigenous knowledge and cultural value systems are harnessed for human and social development; that a vibrant arts and cultural life is supported; and that rural communities have access to information communication and technologies.

ECRDA works towards this vision by creating an institutional environment conducive to rural development and driving, facilitating and supporting transformative economic and social development in rural areas.

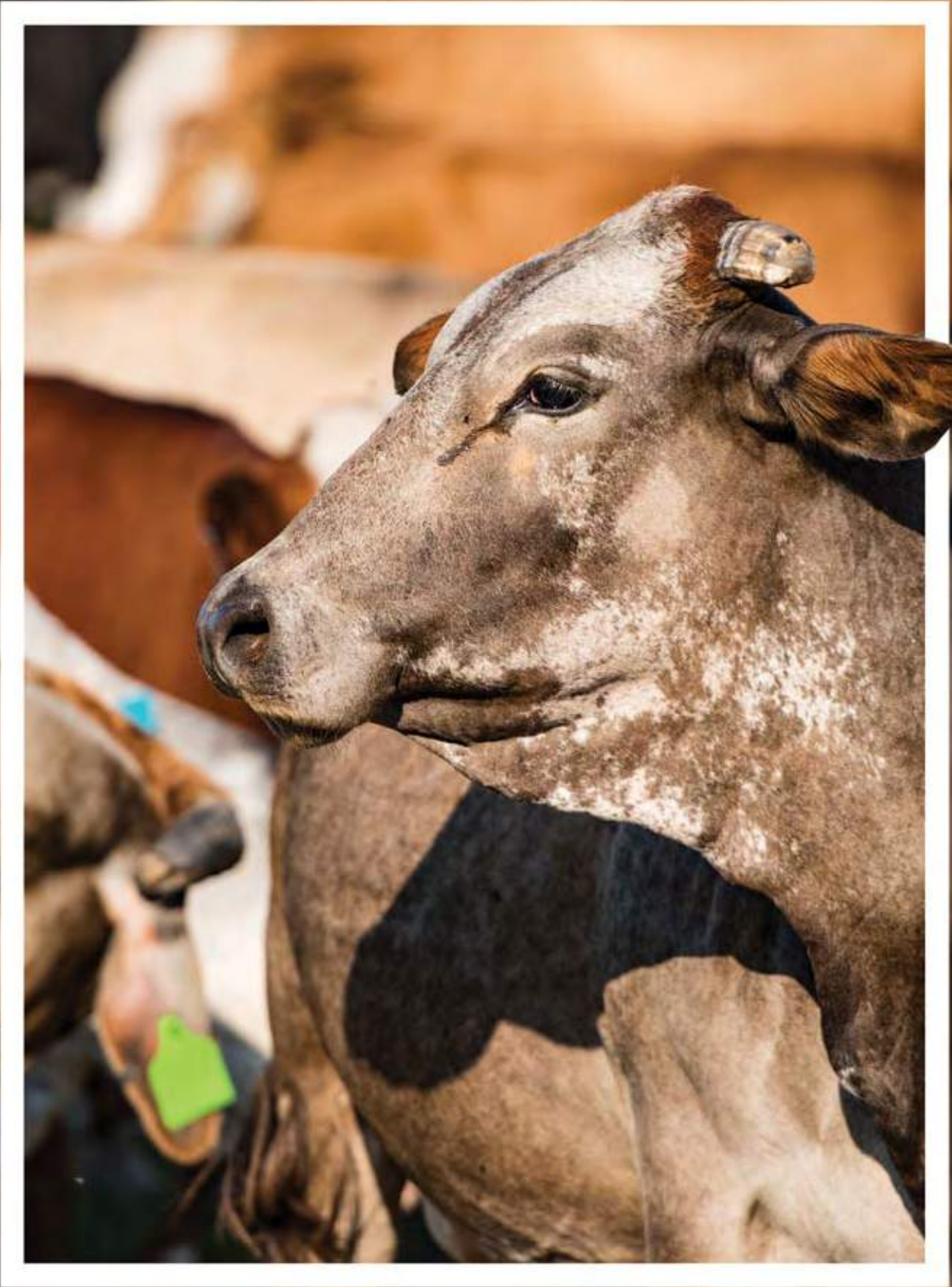
## 5.2 LEGISLATIVE MANDATE

ECRDA is wholly owned by the Department of Rural Development and Agrarian Reform (DRDAR). Its mandate is contained in its founding legislation, the Eastern Cape Rural Finance Corporation Act (Act 1 of 2012), as amended.

The Agency is further guided, impacted on and aligned to all relevant legislation, including:

- Occupational Health and Safety Act, 1993, Act 85 of 1993
- Labour Relations Act, Act 66 of 1995
- Basic Conditions of Employment Act, Act 75 of 1997
- Employment Equity Act, 1998, Act 55 of 1998
- Skills Development Act, 1998, Act 97 of 1998
- Public Finance Management Act, 1999, Act No.1 of 1999
- Promotion of Administrative Justice Act, 2000, Act 2 of 2000
- Promotion of Access to Information Act, 2000, Act 2 of 2000
- Preferential Procurement Policy Framework Act, Act 5 of 2000
- Intergovernmental Relations Framework, Act 13 of 2005
- National Credit Act and Regulations Framework, Act 34 of 2005
- King IV Report of Governance for South Africa (2016)
- New Companies Act, 2011
- Eastern Cape Rural Finance Corporation Amendment, Act 1 of 2012
- Protection of Personal Information, Act 4 of 2013





# 6.

## STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

**To the best of our knowledge and belief, we confirm the following:**

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

The Annual Report is complete, accurate and is free from any omissions.

The Annual Report has been prepared in accordance with the guidelines on the Annual Report as issued by National Treasury. The Annual Financial Statements (Part E) have been prepared in accordance with the Generally Recognised Accounting Practice standards applicable to the public entity.

The accounting authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The accounting authority is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.

The external auditors are engaged to express an independent opinion on the Annual Financial Statements.

**“In our opinion, the Annual Report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2018”**

Yours Faithfully

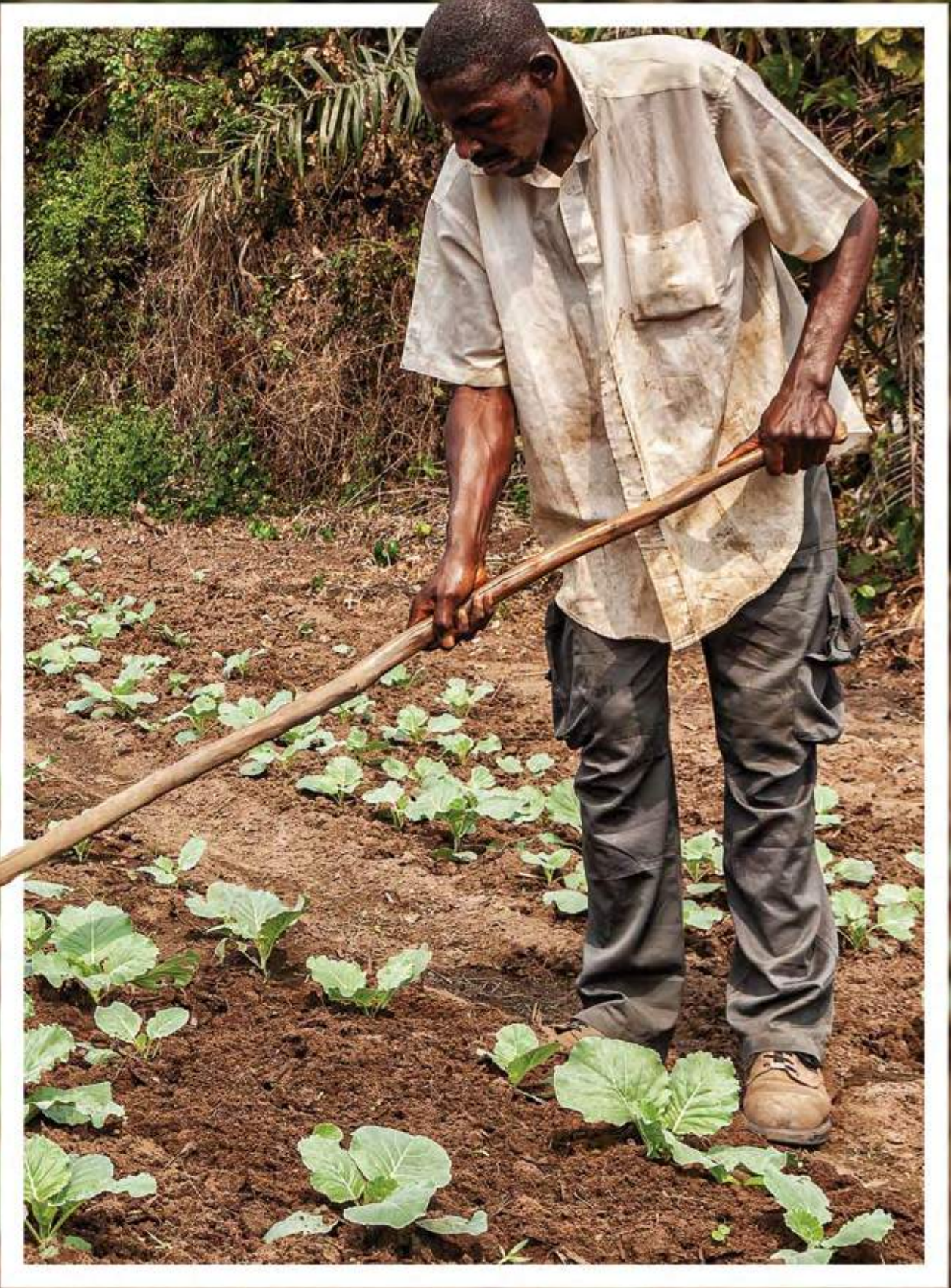


**Thozamile Gwanya**  
Chief Executive Officer



**Vanguard Mkosana**  
Chairperson of the Board











EASTERN CAPE  
RURAL DEVELOPMENT AGENCY  
**ANNUAL REPORT**  
2017/2018

*Part B*  
**PERFORMANCE  
INFORMATION**



In compliance with Treasury guidelines, the ECRDA Board approved a five-year strategic plan that guides strategic interventions and key programmes that are implemented over the financial years.

# PART B: PERFORMANCE INFORMATION

## SITUATIONAL ANALYSIS

**SERVICE  
DELIVERY  
ENVIRONMENT  
AGRO-  
PROCESSING**

### RURAL ENTERPRISE DEVELOPMENT (RED) HUBS

ECRDA's flagship agro-processing initiative, its Rural Enterprise Development Hubs programme, continues to transform the communities in which they operate by turning under-productive tracts of arable land into income-generating hubs of agricultural production, processing and economic activity.

Initiated in 2013, the RED Hubs project is aligned to national government's Comprehensive Rural Development Programme (CRDP), which re-imagines underdeveloped rural areas as dynamic clusters of value-chain beneficiation. This is achieved by linking three critical market elements – production, processing and marketing – to boost competitiveness, maximise yields and assist small- or subsistence farmers to scale in order to maximise income.

**In addition to providing the practical means to scale, RED Hubs also support commercialisation by focusing on capacity building, skills development and rural and agrarian education and support.**

Practically, RED Hubs, which are owned and operated by communities through secondary co-operatives, are commercial environments which facilitate agro-industrialisation through the

joint operation of local storage facilities, milling and processing plants, machinery and implements. This creates a circular, village-centred economy: primary production takes place in the community, harvested crops are stored in local silos, grain is processed and packed at community-owned RED Hub mills and the end product is sold back to local and surrounding villages.

Thus, money generated within a specific area stays and circulates within that area, improving the quality of life of local communities. By facilitating the sale of excess produce to newly-unlocked regional or national markets, RED Hubs also enable external revenue sources. Such has been the success of this model that the Rural Enterprise Development Hub programme has seen rapid expansion over the past five years.

By the end of the year in review, ECRDA was supporting four fully operational RED Hubs at Mqanduli, Ncora, Mbizana and Emalahleni, with a combined budget totalling R14.5 million. An additional R14.8 million was earmarked for the establishment of a fifth RED Hub at Tshabo Village near Berlin, which is due to become operational during 2018/19.

This is in line with ECRDA's Strategic Objectives for its High Impact Priority Projects (HIPPs), which sets the Agency the goal of establishing six agro-processing and marketing infrastructure projects by 2018/19.

### SOCIO-ECONOMIC IMPACT

Until recently, the success of the Rural Enterprise Development Hub programme could only be measured in terms of production. However, the 2017/18 financial year saw, for the first time since this programme's inception, an independent, academic evaluation of the Hubs' socio-economic impact.

Three scholars from the University of Fort Hare's Geography and Environmental Science Department, Enoch T. Iortyom, Sonwabo P. Mazinyo and Werner Nel, researched the impact of the RED Hubs programme on the annual income of farmers associated with the RED Hubs.

Their findings, published in the Journal of Agricultural Sciences in March 2018, revealed a significant increase in annual income, productivity and job creation.

In Mqanduli, site of the most established of the RED Hubs, annual income per farm increased by a massive 264% following the launch of the Hub, from R4 742 to R17 276, on average, while income per hectare increased by 212%, from R2 408 to R7 523.

Up to 144 farmers, representing 72% of the beneficiaries, indicated that jobs were created within host villages. Those jobs include field ranchers, farm supervisors and machinery operators, among others, they reported.

The study also revealed that there was substantial market provision by the project to encourage farmers' productivity, which led to an overall improvement in the economic status of maize farmers, and their community as a whole.



## CHALLENGES

While the RED Hubs programme continues to play an important role in growing rural economies by creating village-based agro-processing value chains, a number of challenges remain.

With regard to primary production, RED Hubs are negatively impacted by insufficient or inadequate participation by some primary co-operative members. RED Hubs are premised on communities organising themselves into production clusters and taking full ownership of the value chains they create. However, many secondary co-operatives are no longer fully constitutional or representative of their primary co-operatives, often due to apathy and disinterest on the part of the primary producer.

This also extends to the long-term sustainability of RED Hub mills, which depend on both the quantity and quality of the available feedstock. Productivity must improve across all RED Hubs, which requires the activity and committed participation of local producers.

The ECRDA continues to engage critically with these challenges and will intensify its efforts during the next financial year on its social facilitation and other engagement strategies to address these challenges.



## TSHABO RED HUB

During the 2016/17 financial year, ECRDA initiated and finalised a comprehensive feasibility study into the development of a maize-based Rural Enterprise Development Hub at Tshabo Village, a first in the Amathole region of the Eastern Cape. During the year in review, this initiative matured into the planning and development phase of the project. Extensive GIS mapping of all 12 villages due to feed into the Tshabo RED Hub was carried out, which identified a total of 1 936 hectares of available land.

Consequently, the Dohne Agriculture Development Institute in Stutterheim was commissioned to conduct additional soil survey across the entire 1 936 hectares area. It was originally envisaged that the Tshabo RED Hub would support maize production and milling as in other RED Hubs. However, the Dohne soil surveys revealed the soil to be unsuitable.

With maize production off the table, the Agency was forced to re-examine other primary production options which could be linked, in terms of the RED Hub model, with an economically viable value chain. This led ECRDA officials to the Ncera Macadamia Project in Ncera and to the Summerpride Juice and Pineapple Growers Association, with a view to linking Tshabo production to Ncera's Macadamia nut crushing plant or to an East London Summerpride pineapple juice factory. Neither of these options proved viable, however by the second quarter of the financial year, ECRDA had succeeded in identifying three suitable enterprises: heliculture, or snail farming, King Protea cultivation and hydroponic vegetable production.

Business plans have been developed for all three identified enterprises, with a total of R6.2 million already committed to importing breeding stock for the snail enterprise and procuring the necessary plant materials for Protea production. Hydroponic vegetable production will form part of the next phase of the Tshabo RED Hub development.

## MQANDULI RED HUB

Despite being one of ECRDA's most successful Hubs, Mqanduli recorded a disappointing 2017/18 harvesting season. Seven primary co-operatives planted close to 900 hectares the previous season but could only deliver 173.9 tonnes of white maize to the Hub's storage silos – significantly less than the 258 tons from only 165 hectares delivered during the previous reporting period.

This low yield was due largely to adverse weather conditions, including an unusually hot, dry spell during germination. Furthermore, an area comprising about 210 hectares of primary production was hit by a severe storm around tassling stage, causing significant hail damage to uninsured crops. Maize quality was so poor that the secondary co-operative decided primary members should only harvest for their own consumption.

A third factor impacting the Mqanduli yield was the deliberate destruction of about 130 planted hectares as a result of intra-community conflict over a tractor donated by the Department of Trade and Industry (dti). ECRDA responded to this conflict with heightened social facilitation, engaging farmers, local chiefs and the community at large. These efforts are ongoing and are due to be amplified during the next financial year.

However, crop damage by livestock decreased following the fencing of planted fields in other primary co-operatives, an initiative which should roll out to all areas dedicated to producing feedstock for the RED Hubs.

Despite these setbacks the Mqanduli mill remained operational during the period under review, maintaining a 0.9 tonne per hour processing capacity.

## NCORA RED HUB

Close to 833 tonnes of white maize were delivered to the Ncora RED Hub during the year under review. This was harvested from 1 150 hectares planted during the previous season by seven of Ncora's 10 primary co-operatives.

The entire 2017/18 yield was sold to Ncora Dairy at the agreed price of R1 750 per tonne. In addition, the Ncora mill, which has a one tonne per hour processing capacity, produced 215 tonnes of maize meal, which was sold mainly to informal markets. Operational since July 2016, the mill continues to employ 12 community members.

In September 2017, ECRDA and its RED Hub secondary co-operatives hosted an Agriculture Supplier Day as part of their preparation for the 2017/18 crop production season. Suppliers were invited to present the services which they can offer to the RED Hubs.

Most of the suppliers that attended the Supplier Day were chosen to supply production inputs for 1580 hectares of maize planted with 1164 hectares of white maize and 416 hectares of yellow maize.

## MBIZANA RED HUB

Primary co-operatives associated with the Mbizana RED Hub recorded one of their highest yielding seasons in 2017/18, harvesting 1 580 tonnes of maize from 1 164 hectares. This constitutes an increase of almost 240% over the 488 hectares planted during the previous season, which can be ascribed mainly to renewed commitment from the primary co-operative farmers.

While the sharp increase in quantity of maize produced is a positive development for the Hub, the quality of most maize delivered to the storage silos is not yet what it should be. ECRDA will continue to work closely with both primary and secondary co-operatives to address quality issues, and to assist farmers in acquiring the necessary training, support and skills development to support sustainable commercialisation.





**MQANDULI RED HUB**  
Maintaining a 0.9 tonne per hour processing capacity



**NCORA RED HUB**  
1580 hectares of maize planted with 1164 hectares of white maize and 416 hectares of yellow maize



**MBIZANA RED HUB**  
Recorded one of their highest yielding seasons in 2017/18, harvesting 1 580 tonnes of maize from 1 164 hectares

## EMALAHLENI RED HUB

One of the most impactful developments at the Emalahleni RED Hub during the period under review was significant improvements in the super maize meal-to-hominy chop ratio of the mill, following major refurbishment.

The mill, which predates the establishment of the Emalahleni RED Hub, was commissioned during the previous financial year, but has never operated at optimum efficiency due to its age and the difficulty in sourcing custom components and maintenance contractors skilled in servicing the mill.

**ECRDA managed to secure the services of an expert milling technician who improved the mill's super maize meal-to-hominy chop ratio from about 55-45 to a more sustainable 70-30. As a result, the mill will commence with sales in the next financial year.**

With regard to production, three primary co-operatives planted an area of 187 hectares. However, their crops were severely damaged by early frost, which resulted in nothing being harvested.

## FEEDSTOCK

ECRDA has itself the target of securing feedstock for all RED Hub mills. As a result, maize for the mills was procured from the Mqanduli, Ncora and Mbizana primary co-operatives. The quantities supplied were not sufficient, however, to achieve set targets. This initiative will remain a priority for the Agency in the next financial year as it pursues a new feedstock aggregation (FA) system.

The FA would be the link between the producer and the processor by assuming responsibility for guaranteeing a market for the producer which is not dependent on the establishment of a processor and by guaranteeing the supply of raw material to the processor which is not dependent on the establishment of producers.

The ECRDA has approved the development of the feedstock aggregator, to be managed by the Agency, which would serve as a link between the producer and the processor by assuming responsibility for guaranteeing a market that is not dependent on the establishment of a processor, and by guaranteeing the supply of raw material to the processor which is not dependent on the establishment of producers.

While the aggregator would support RED Hubs by securing sufficient feedstock to enable the mills to operate at optimum capacity, it would not be limited to RED Hubs and would support any agro-processing project, supplier and producer.

# PART B: PERFORMANCE INFORMATION

## SERVICE DELIVERY ENVIRONMENT LIVESTOCK

The Eastern Cape remains a predominantly rural province, with upwards of 65% of the population still living in what is designated as non-urban areas. For the vast majority of these rural communities, livestock remains both an important source of economic security and an integral part of the cultural and socio-economic fabric of their lives.

However, while the abundance of livestock in the province – the Eastern Cape is home to roughly 20% of the country's cattle, 30% of its sheep and 45% of its goats – is conducive to livestock-based economic activity, many communal farmers hang on to their livestock assets throughout their lives without ever realising a financial return on these assets or converting them into cash. This reluctance to sell, informed by deeply embedded cultural beliefs about livestock wealth, means these farmers never benefit from the commercial opportunities presented by the livestock industry, and are therefore unable to either participate in or drive enhanced economic activity in their communities.

Central to ECRDA's livestock development strategy is a clear commitment to encouraging and empowering the province's subsistence and small-scale farmers to become active participants in – and beneficiaries of – emerging livestock markets. To this end, the Agency is actively working to change traditional mindsets about livestock wealth, to cultivate positive attitudes towards the commercialisation of livestock, to facilitate appropriate market exposure and, where small-scale farmers do participate in the market, ensuring that they are able to realise fair market value. ECRDA also remains focused on facilitating and growing a culture of value addition in the livestock sector to improve and maximise income generation and value chain beneficiation.

In pursuance of these goals, the ECRDA livestock programme is centred on two key objectives: improving the physical condition and overall marketability of livestock; and supporting livestock marketing and livestock sales.

## FEEDLOTS

One of the most effective ways to improve the overall health and marketability of rural livestock is through the establishment of quality-enhancing feedlots. During the year in review, ECRDA successfully implemented two feedlots at Lingomso LamaNdungwane and Ncora.

At Lingomso LamaNdungwane, ECRDA built two feeding kraals with feeding troughs capable of holding 40 animals in total. The Agency also supplied machinery for the feedlot, including a tractor, hammer mill, water pumps and water reticulation material, as well as a vitamin and mineral supplementing beef finisher, which was feeding 30 animals as at the end of the financial year.

Ownership of the feedlot is vested with the Lingomso LamaNdungwane co-operative, comprising 20 community members who each invested R3 000 of their own money in the co-operative. The concept of a co-operative "buy in" was initiated by the community itself to ensure only committed members with a vested interest in the long-term success of the project were involved.

The Lingomso LamaNdungwane feedlot has created nine permanent jobs, including feeders, security personnel and a dedicated feedlot manager.

**At Ncora, ECRDA supplied feed, a hammer mill tractor, feed mixer, hay making equipment and a fine seed planter. The feedlot employed nine community members, five of whom were youth, and was able to feed 73 animals as at the end of the financial year.**

ECRDA also procured infrastructure material, machinery, equipment and feed as part of the development of the Mqanduli feedlot. This feedlot could not be operationalised during the period under review after some member of the community objected to the proposed location of kraals which will form part of the feedlot. ECRDA facilitated negotiations with the traditional authority in this area, which resulted in a new site being earmarked a few days before the close of the financial period under review. Construction of the kraals on the new site will commence shortly, with the Mqanduli feedlot expected to be operationalised during the first quarter of the new financial year.

One of the challenges ECRDA continues to grapple with in regard to the feedlots is the profitability of these facilities. The Ncora feedlot, for example, has not yet reached break-even point, largely due to the inability of the feedlot owners to recover the full cost of feeding cattle from those community members who utilise the feedlot.





The high costs associated with running the feedlots are also cause for concern. With no affordable, readily available feedstock available, feedlot owners are forced to rely on commercial feed, which have to be procured at significant cost. This reduces the amount of feed that can be purchased, leading in turn to the under-utilisation of the feedlot.

ECRDA will be rolling out a number of initiatives over the next financial period to address these challenges. At Ncora, the Agency will be planting grass and maize to supplement feed for the feedlot. Similarly, an irrigation project is in the pipeline for Lingomso LamaNdungwane, which will support feedlot owners in growing lucerne and maize to reduce their feed costs.

## **LIVESTOCK MARKETING INFRASTRUCTURE AND LIVESTOCK SALES**

To facilitate livestock marketing in previously disadvantaged rural areas, ECRDA built loading ramps at Xolani near Alice and at Crossroads and Gcinisa near Peddie. The Agency also constructed auction pens at Tylden and kwaNobumba, also near Peddie. A total of 50 people were employed for at least 10 days across all five sites during construction.

ECRDA also conducted four training sessions, with the assistance of Frontier Bonsmara and Tuli Stud breeders

from the Makana region, to build capacity and foster a greater understanding among small-scale livestock farmers about the business aspects of farming. The farmers, who hailed from Zigudu, Ncora, Mqanduli and Peddie, were also exposed to a feedlot, a commercially run auction and visited a bull testing station as part of their training.

Due to the excellent relationship ECRDA has developed with Frontier Bonsmara, farmers were also offered stud bulls at a substantially discounted price.

With regard to livestock sales, ECRDA has set itself the goal of facilitating the sale of 14 500 units of livestock to the market by the end of 2018/19 as a means of growing the rural livestock industry. Its target for the period under review was to facilitate the sale, both formally and informally, of 5 000 units of livestock.

Due to the persistence of cultural and historic perceptions about livestock commercialisation, as outlined earlier, the Agency could not achieve this target, facilitating the sale of 2 579 units in total. This shortfall was despite an encouraging surge of 1 662 units during the fourth quarter, which unfortunately was not enough to achieve the annual goal.

To address this challenge, the Agency will continue to facilitate a transfer of knowledge to small-scale livestock farmers about the financial and economic benefits of selling their livestock through formal and informal auctions.

## PART B: PERFORMANCE INFORMATION

### SERVICE DELIVERY ENVIRONMENT FORESTRY

**While still largely under-developed, the Eastern Cape forestry industry has the potential to be an important engine for rural development and economic growth.**

The province currently has 130 000 hectares of commercial plantations which sustain 8 000 permanent jobs and contribute upwards of R2.4 billion to the Eastern Cape Gross Domestic Product. However, with an additional 100 000 hectares of mostly-state-owned land already identified as having forestry potential, there is significant opportunity for high-impact afforestation projects across the province.

The Eastern Cape Rural Development Agency has worked closely with the Department of Agriculture, Forestry and Fisheries (DAFF) over the past few years to craft a responsive and progressive forestry strategy that places rural and subsistence landowners at the centre of the Eastern Cape's afforestation initiatives. Specifically, the strategy engages private commercial forestry partners to ensure the recognition of community land rights, within the context of maintaining a delicate balance between the developmental and commercial opportunities of future forestry projects.

To this end, ECRDA's forestry model recognises the communal tenure nature of rural land ownership and aims to incorporate landowners into a forestry development value chain that presents viable economic spinoffs and financial returns for their land assets. The model also seeks to ensure that communal land owners become active participants in the formal forestry sector.

Currently, the vast majority of communal land assets are largely unproductive, with no real economic or financial benefit being derived from this potentially valuable asset. ECRDA seeks to change this by facilitating community ownership and community management of forestry projects, for the direct benefit of these communities. This includes the development of high-value, empowering partnerships with private sectors players who can provide technical, operational and administrative support in exchange for preferential access to a portion of the timber produced, at market rates.

To ensure sustainable empowerment, these partnerships must be underpinned by genuine skills transfer components geared towards helping communal and emerging timber landowners transition into successful commercial forestry enterprises. ECRDA, in association with DAFF and its private sector partners, is also working towards creating opportunities for local communities to extend their participation in the sector beyond primary production, including processing and other beneficiation activities.

To achieve these objectives, ECRDA has initiated and continues to implement six community-driven forestry projects in Gqukunqa, Sixhotyeni, Mkambathi, Sinawo, Izinini and Lusikisiki. In all of these projects, rural landowners contribute their land pockets under a legal entity to manage their assets in the form of trusts, co-operatives and Communal Property Associations (CPAs).

A definite highlight of this programme during the period under review was the ECRDA's success in exceeding, by a considerable margin, annual afforestation targets for both the number of new hectares planted, as well as the total number of hectares secured for future planting.

ECRDA had set itself the goal of planting 200 hectares of hardwood trees across all six forestry projects during the 2017/18 financial year. It also aimed to secure approval for an additional 1 000 hectares for future forestry plantations.

**By March 31, at the close of the review period, a total of 326.32 hectares had been planted, 63 per cent above target. This was made possible by an unanticipated donation of seedlings from one of ECRDA's commercial forestry partners, Sappi SA, which allowed for the planting of a greater number of seedlings than anticipated.**

Additionally, the ECRDA managed to secure 2 901 hectares – 1 250 hectares at Mkambathi and 1 652 hectares at Sinawo – for future plantations, against an initial target of 1 000 hectares. This over-achievement was also due to the ECRDA's strong partnerships, this time with the Department of Water Affairs and Sanitation, which approved 1 901 water licences above what was expected. These additional licences will significantly strengthen both these projects, which are already among the most successful in the Forestry programme and routinely score above 90 per cent in informal Sustainable Forest Management (SFM) assessments.

Another milestone was the initiation of two five- and 10-hectare vegetable projects at Sinawo and Izinini forestry projects, to complement the forestry programmes at these locations. The projects, spanning five and 10 hectares respectively, were both wholly community funded and were initiated by community members themselves to generate income during the relatively long forestry maturation phase.



Following an initial design and development phase, both vegetable projects were successfully implemented, resulting in communities from both areas able to sell their produce to major retailers like Spar and Boxer Cash Carry. Such has been the success of this project that the ECRDA is looking into rolling out similar initiatives in the other four forestry projects.

During the financial year under review, Mkambathi forestry project proposal was selected for presentation at an Investment conference held in Cape Town.

To strengthen governance in the forestry projects, seven policies were developed, approved and implemented at project level for all six community forestry projects. These include an asset and tool management policy, vehicle policy, sales policy and petty cash management policy, among others. Collectively, these policies will help the enterprises manage and administer their operations appropriately and prevent mismanagement or misuse of funds in the projects.

Despite the success of the six ECRDA-supported forestry projects, a number of challenges remain. Key among these are lingering community conflicts, unresolved land claims and leadership fatigue within the Communal Property Associations.

Critically, four of the six forestry projects also face legal compliance issues. These projects are not registered with the South African Revenue Service and thus not tax compliant, making it difficult for government to support them with funding.

Looking ahead, the ECRDA, despite lacking adequate resources and manpower, will continue to drive community-based afforestation and transformation of the forestry industry through skills development, empowerment partnerships and beneficiation initiatives.



#### **ECRDA**

Secured 2 901 hectares – 1 250 hectares at Mkambathi and 1 652 hectares at Sinawo – for future plantations



#### **DEPARTMENT OF WATER**

Facilitated the approval by the Department of Water and Sanitation of 1 901 water licences - above what was expected





## PART B: PERFORMANCE INFORMATION

### SERVICE DELIVERY ENVIRONMENT RENEWABLE ENERGY

With abundant natural resources and optimal climatic conditions, the Eastern Cape has set itself the goal of becoming South Africa's leading "green province". It is already the biggest wind energy producer in the country and has the largest number of operational wind farms, which collectively contribute 34% of the country's clean renewable power resources.

With the national grid under increasing pressure, and both the provincial and national governments doubling down on their renewable energy strategies, this green footprint is set to expand rapidly and exponentially over the next few years: Current models predict that the Eastern Cape has the potential to produce about 5 000 megawatts of energy from available resources such as wind, solar and biofuels.

As part of its commitment to facilitating comprehensive and holistic rural development, the Eastern Cape Rural Development Agency has adopted as one of its strategic focus areas the goal of realising the province's vast renewable energy potential as a driver and enabler of rural growth. Specifically, the Agency is actively developing strategies and exploring public-private partnerships that will harness green energy to produce tangible, substantial and sustainable returns for rural communities.

During the previous two financial periods, ECRDA focused on building its research and innovation capabilities to effectively respond to the Agency's overall strategy and objectives. While this remained a core function during the reporting period, the ECRDA began implementing practical programmes aimed at realising renewable solutions in rural areas.

In its flagship initiative, the ECRDA partnered with the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT), Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR), Raymond Mhlaba Local Municipality and the Government of Lower Saxony to establish a mini grid at Upper Blinkwater.

A pilot project to assess the viability of establishing mini grids in areas where the National Grid does not reach, this initiative involved establishing a 100-kW mini-grid in the Fort Beaufort area to electrify the Upper Blinkwater village. The 67 households in this community have never had electricity access as the remotely situated village lies beyond the Eskom National Grid.

The project consists of a low-voltage PV system, storage batteries and a diesel backup generator with a low-voltage overhead connection to each house, with about 97 per cent of the energy renewably sourced. ECRDA funded construction of the first phase of implementation, at a cost of R 1 300 000, which entailed the installation of the solar PV system and fencing to secure the installation.

It is envisaged that the Upper Blinkwater project will culminate in a replicable model as well as an institutional framework for establishing mini-grids in areas that are currently beyond the National Grid, and not due to be connected to the grid in the short to medium term.

**ECRDA believes that fast-tracking unelectrified rural communities' access to a reliable power supply will hasten their access to income-generating economic opportunities by at least 10 years.**

To ensure maximum community-wide beneficitation, the Agency is working to ensure these projects go beyond basic electrification to also include training and the delivery of holistic skills, livelihood and local enterprise development.

In addition to the Upper Blinkwater project, ECRDA also facilitated renewable energy solutions for the Ncora, Mbizana, Mqanduli and Emalaheni Rural Economic Development (RED) Hubs. While the RED Hubs are connected to the National Grid, electricity supply has proven to be unreliable, due to the infrastructure limitations of the grid. Powering these Hubs with renewable energy sources was also deemed economically beneficial, as it would reduce their overall operational costs.

A feasibility study carried out during the 2016/17 financial year determined that a grid-tied solar energy option was the most economically viable and sustainable solution. As a result, ECRDA provided and connected 35-Kw photovoltaic (PV) solar systems at each of the RED Hubs. Initially, only two of the four Hubs were due to be connected during the year in review. However, additional funding became available during the course of the year, allowing for the PV systems to be installed at all four RED Hubs, at a total cost of R3 million.

The goal for the next financial year is to ramp up the energy capacity of the system and to install solar-powered batteries as a back-up system at the Mbizana Hub, effectively removing it from the grid.





**ECRDA**

Connected 35-Kw photovoltaic (PV) solar systems at each of the RED Hubs



**ENERGY PILOT PROJECT**

ECRDA funded construction of the first phase of the Upper Blinkwater solar solution, at a cost of R 1 300 000

# PART B: PERFORMANCE INFORMATION

## SERVICE DELIVERY ENVIRONMENT RURAL FINANCE

The Eastern Cape Rural Development Agency's five-year Strategic Plan identifies five pillars which both informs its operational strategy and steers implementation of its various programmes. Pillar 4 of this strategy commits the Agency to promote entrepreneurship through rural finance and support programmes, which includes entrepreneurial development.

This is in recognition of the fact that rural financing is a powerful tool with which to stimulate economic activity and to promote, encourage and enable the creation of projects which create rural jobs and generate income, to the benefit of entire communities. Conversely, lack of finance has been proven to depress economic growth, derail enterprise development and stifle innovation and entrepreneurship, thereby perpetuating the economic woes of rural communities.

Added to this, the absence of loan finance instruments increases pressure on government grants, while the responsibility of loan servicing encourages entrepreneurs to take ownership of their businesses.

ECRDA's focus over the past few financial cycles has been to increase the number of beneficiaries of its loan instruments, while also improving loan repayment patterns. This has proven a delicate balancing act, as rural finance is often an unavoidably high-risk endeavour, embedded with significant collection challenges.

ECRDA has endeavoured to mitigate risk, where possible, by diversifying its loan portfolio, paying close attention to the quality of loans disbursed, the number of beneficiary enterprises and the application of sound collections strategies. Moreover, its loan disbursements are guided by an internal credit and collection policy which is in line with the requirements and expectations of the National Credit Regulator Act (NCR).

During the period under review, ECRDA further streamlined and amplified these strategies. The Agency also forged a closer working relationship with the Department of Rural Development and Agrarian Reform (DRDAR) as well as non-governmental organisations to offer complementary services to other

government institutions, acting as a single unit rather than as competitors. For example, ECRDA solidified its partnership with Grain SA, working closely with the grain farmer association in the Alfred Nzo District to maximise the support extended to farmers in this region.

## LOAN DISBURSEMENTS AND COLLECTIONS

ECRDA approved and disbursed loans to the value of R22.7 million to 1 351 clients during 2017/18. The bulk of these loans, accounting for R18.3 million, were agricultural loans, with the balance going to non-agricultural loans. This was significantly higher than the loan disbursement target for the year (R8.3 million) due to a much higher-than-anticipated demand for loan financing.

**Of the R22.7 million disbursed, a total of R13.4 million went to loan recipients in the Sarah Baartman District, R4.6 million in Amathole, R1.4 million in Chris Hani, R 1.2 million in OR Tambo, R830 000 in Alfred Nzo and R649 000 in the Karoo region.**

In addition to this, 19 Micro Agricultural Financial Institutions of South Africa (MAFISA) loans worth a total of R14.3 million were approved. The bulk of these loans – 15 – went to recipients in Alfred Nzo District, with two in Chris Hani and one each in the OR Tambo and Sarah Baartman regions.

With regard to collections, ECRDA intensified its loan repayment efforts and procedures during the period under review, including expanding its aftercare support. The Agency also ensured that its loan officers were as visible as possible, interacted with loan recipients on a regular basis and engaged in active, on-the-ground loan monitoring. This allowed ECRDA to identify issues and challenges which may impact of loan repayments early on.

The recovery of loans remains a serious challenge with ECRDA collecting only R9.5 million against a target of R13.1 million, resulting in a loan recovery rate of 72 per cent – eight percentage points below the annual target. The ECRDA will embark on various additional loan recovery strategies, including follow-the-rand principles and expanded borrower education programmes, to improve the rate of repayment over the next financial period.





**LOANS APPROVED & DISBURSED**

ECRDA approved and disbursed loans to the value of R22.7 million to 1 351 clients during 2017/18



## PART B: PERFORMANCE INFORMATION

### SERVICE DELIVERY ENVIRONMENT STRATEGIC PARTNERSHIPS AND SUPPORTED ENTITIES

As part of its development mandate, the Eastern Cape Rural Development Agency (ECRDA) supports a number of subsidiary and associated entities throughout the province, providing technical support, skills development and business guidance to steer them towards operational efficiency and sustainability.

#### KANGELA CITRUS FARM

Kangela Citrus Farm is a 450-hectare agricultural empowerment initiative near Addo in the Sarah Baartman District which produces citrus fruit for the domestic and export markets. ECRDA is a 51 per cent majority shareholder in the farm, with the remaining 49 per cent held by the Kangela Empowerment Trust on behalf of farmworkers.

ECRDA supports KCF with management, human resources, accounting support, operational oversight, stakeholder engagement and governance.

During the year in review, ECRDA channelled these support mechanisms into a coherent strategy to strengthen the entity's corporate governance, maximise its operational efficiencies and improve productivity.



#### KANGELA CITRUS FARM

ECRDA is a 51 per cent majority shareholder in the farm







## NCERA MACADAMIA

Ncera Macadamia Farming (Pty) Ltd is a private company with a 51% majority shareholding by the Ncera community.

**It employs 150 permanent workers, with potential to increase job creation to at least 300 once the 300-hectare farm is producing and harvesting at full capacity.**

In addition to its macadamia production, Ncera Macadamia also operates a world-class nursery which has been recognised as one of the best in South Africa.

During the year in review, ECRDA funded a feasibility study and undertook business planning for eight macadamia out-grower sites, targeting mainly women and youth, which have been earmarked for the frost-free coastal belt from Peddie to the Kei River. The proposed out-grower scheme is aimed at introducing black farmers into macadamia farming, developing and rapidly increasing the growth rate of the macadamia industry in the Eastern Cape and ramping up guaranteed throughput for an envisaged Eastern Cape nut cracking factory.

To this end, ECRDA facilitated site visits to 16 black-owned farms, with a view to selecting the eight most promising sites. However, most of the sites presented with shallow soils and lacking adequate water sources to support macadamia farming. This has led to the sample size being increased to 33 farms to identify land pockets which are the most conducive to successful macadamia cultivation.

From the 33 farms screened, five have qualified to move into a second, more detailed feasibility phase. ECRDA's technical teams are, however, still visiting farms in the target area to find three additional farms which will bring the number of beneficiaries of the out-grower scheme to eight.



### ECRDA SITE VISITED

16 black-owned farms, with a view to selecting the eight most promising sites

# MAGWA AND MAJOLA

**The Magwa and Majola tea estates are situated on community-owned land in the OR Tambo District and have been operated as commercial tea enterprises under informal lease agreements with the land owners.**

Magwa, comprising 1 703 hectares of commercial tea plantations and 100 hectares of smallholder tea plantations, is operated by the state-owned Magwa Enterprise Tea (Pty), which was established by the Eastern Cape Development Corporation (ECDC) in June 2004.

The much-smaller Majola estate, which consists of 385 hectares of tea bushes, was operated by a privately-owned entity, Majola Tea (Pty) Ltd. This entity has since been liquidated, with the estate in the process of being integrated into Magwa as a going concern, under DRDAR control.

Despite inconsistent production, Magwa has been an important job creator in a region which continues to suffer record unemployment, low economic activity and severe under-development. As a result, Provincial Government made the decision in 2016 to place the estate under formal business rescue in a bid to save jobs and revitalise the tea industry in this region.

The business rescue plan contemplates the consolidation of the two estates, which would achieve economies of scale and a single and more effective management structure. To this end, the business rescue practitioner has started the process of contracting a tea estate specialist from Kenya as General Manager, with responsibility to upscale and improve Majola operational efficiencies and overall performance.

This appointment will be supported by hiring other suitably qualified and experienced personnel, with the positions of Management Accountant and HR Manager due to be prioritised.



**MAGWA**  
560 hectares of green leaves harvested on Magwa



**MAJOLA**  
100 hectares of green leaves harvested on Majola



**RESULTING IN MORE THAN 330 TONNES OF TEA BEING PRODUCED AT BOTH ESTATES**



A number of other significant and highly encouraging developments have been recorded during the year in review. With the approval of the appointed business rescue practitioner, extensive repairs have been carried out to factory buildings, the processing plant, equipment and vehicles.

More than 200 hectares of plants have also been pruned to rehabilitate the plantation and over 560 hectares on Magwa and 100 hectares on Majola have been harvested, resulting in more than 330 tonnes of tea being produced at both estates. This has led to combined sales of R10 million for the 2017/18 harvesting season.

During the year under review, ECRDA also partnered with UTZ / Rainforest Alliance, the world's leading tea certification organisation, on the revitalisation, marketing and certification of the tea industry in the Eastern Cape.

Through this partnership, a renowned Kenyan tea expert, Joseph Kamanu, was engaged to carry out a detailed viability evaluation of Majola as a commercial tea estate and to make recommendations on how to optimise tea production at both estates. The report concluded that Majola was a viable tea enterprise, provided green leaf yields of over 6 875 kilogrammes per hectare could be attained in the fields. The estate has previously produced yields above this, which suggests they can be realised again.

### **Extensive engagement with the local communities has taken place, which has culminated in greater support for the revitalisation of the estates under the business rescue structure.**

ECRDA has furthermore initiated consultations with potential investors in regard to financing, value addition, enhanced market potential, market development, technology upgrades and roll out plans. In a bid to ensure the long-term viability of the estates, the Agency is also investigating diversification of the tea estates to also include crops such as soya beans, macadamia nuts and avocados, as well as ecotourism and forestry projects.

One of the key proposals of the business rescue plan is the unbundling of the shareholding structure. A new shareholder structure has been proposed, which, if approved, would see the estates jointly owned by private sector investors, communities and workers, with government retaining a minority share in order to continue playing its oversight role.

To this end, an Expression of Interest document has already been advertised to attract potential investors.



# SECTION B: PERFORMANCE INFORMATION

## SERVICE DELIVERY ENVIRONMENT

### 1.2 ORGANISATIONAL ENVIRONMENT

During the year under review the ECRDA Board assessed the progress of the implementation of the five-year strategy of the Agency. In preparation for the final year in the five-year term (2018/19) an analysis of the current situation was developed. The Board took a number of resolutions for management to implement to ensure that the entity deliver on its mandate and achieve its five-year strategic goals as set out in the Five-Year Strategic Plan (2014/15- 2018/19).

A diagnostic evaluation and comparison of the ECRDA Structure with other Development Finance Institutions and developmental agencies have been completed and the results thereof submitted to the Human Capital & Remuneration Committee, along with possible organisational design options.

The Human Resource Development (HRD) Strategy, skills audit and organisational design will be finalised in line with strategic guidance from the Board.

#### 1.2.2 Key policy developments and legislative changes

There were no policy developments during the period under review which impacted or impeded the ECRDA's mandate, structure or operational activities.

#### 1.2.3 Significant developments

During the year under review Vuyani Jarana resigned from the ECRDA Board due to personal reasons. He was the chairperson of the Finance and Investment (FINVEST) Committee and a member of the Governance and Ethics Committee. Following his resignation, the Board resolved to appoint Faith Mkile as chairperson of the FINVEST Committee.

#### 1.2.4 Significant future events

The Chief Executive Officer of the ERCDA, Thozamile Gwanya's fixed-term contract of employment is scheduled to come to an end in May 2018.





# SECTION B:

## PERFORMANCE INFORMATION

### SERVICE DELIVERY ENVIRONMENT

#### 1.3 STRATEGIC PILLARS

To achieve its strategic objectives and give full effect to its mandate of rural economic development, ECRDA streamlines its efforts and energies in accordance with the following strategic pillars:

##### **PILLAR 1:**

Fit for purpose organisation to enable strategy implementation

**Programme:** Administration

##### **PILLAR 2:**

Effective coordination and implementation of Agrarian Driven High Impact Priority Projects (HIPPs)

**Programme:** High Impact Priority Projects

**Sub-programmes:** RED Hubs / Agri Parks, Livestock Marketing, Forestry and Timber Development, Renewable Energy

##### **PILLAR 3:**

Leverage strategic partnerships towards implementation and funding of rural development initiatives

**Programme:** High Impact Priority Projects

**Sub-programme:** Strategic Partnerships

##### **PILLAR 4:**

Create rural development clusters by promoting entrepreneurship through access to finance, market linkages and capacity building

**Programme:** Rural Finance

**Sub-programme:** Strategic Loan Finance & Support Services

##### **PILLAR 5:**

Solicit and promote private sector investment in key rural development initiative

**Programme:** Rural Finance

**Sub-programme:** Investment





## 2. PERFORMANCE INFORMATION BY PROGRAMME

### 2.1 PROGRAMME 1: ADMINISTRATION

The purpose of the Administration Programme is to ensure that the ECRDA is a fit-for-purpose organisation to enable strategy implementation. To this end, there are two strategic objectives for this programme.

**Strategic Objective 1:** Provide leadership, ensure good corporate governance, legislative compliance and strategic direction to ECRDA over the MTEF period.

**Strategic Objective 2:** Effective financial and risk management over the MTEF period.

#### PROGRAMME 1: ADMINISTRATION

Strategic Objective	Performance Indicator	Annual Target
<b>1. Provide leadership, ensure good corporate governance, legislative compliance and strategic direction to ECRDA over the MTEF period (2017/18-2019/20)</b>	1. Number of strategic compliance documents developed	One (1) strategic suite of documents (Strategic Plan, Annual Performance Plan)
	2. Number of performance reports developed	Six (6) performance reports <ul style="list-style-type: none"> <li>• 4 Quarterly Reports</li> <li>• 1 Midterm Report</li> <li>• 1 Annual Report</li> </ul>
	3. Brand awareness created with target market	Five (5) (4 publications & 1 media perception survey)
	4. Number of board committee meetings convened	Four (4) Board meetings
	5. Legal suite of documents developed (ECRDA and Shareholder - DRDAR)	Two (2) (shareholders compact and SLA)
	6. 95% of vacant and budgeted positions on the organogram filled and resourced	95%
	7. Development and implementation of a capacity building plan	One (1) Capacity building plan developed and approved
<b>2. Effective financial and risk management over the MTEF Period (2017/18 – 2019/20)</b>	8. Risk Management and Fraud Prevention Plan developed, approved and implemented	One (1)
	9. Annual Financial Statements developed	One (1)
	10. SCM annual procurement plan developed and implemented	One (1)



Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<b>Target achieved</b> One (1) strategic suite of documents developed and submitted to authorities	No deviation	None
<b>Target achieved</b> Six (6) performance reports developed <ul style="list-style-type: none"> <li>• 4 Quarterly Reports</li> <li>• 1 Midterm Report</li> <li>• 1 Annual Report</li> </ul>	No deviation	None
<b>Target achieved</b> Five (5) (4 publications & 1 media perception survey) <ul style="list-style-type: none"> <li>• 2 internal staff newsletters (Pulse)</li> <li>• 1 annual results booklet</li> <li>• 1 Inkqubela</li> <li>• 1 media perception survey</li> </ul>	No deviation	None
<b>Target Achieved</b> Four (4) Board meetings was convened <ul style="list-style-type: none"> <li>• 29/06/2017</li> <li>• 22/08/2017</li> <li>• 04/12/2017</li> <li>• 20/03/2018</li> </ul>	No deviation	None
<b>Target achieved</b> Two (2) (shareholders compact and SLA)	No deviation	None
<b>Target achieved (98.68%)</b> Staff members: 150 Funded Posts: 152	3.68%	Some of the funded posts were discontinued which reduced the funded posts from 157 to 152 resulting in the 95% increasing to 98% (150/157 = 95% vs 150/152 = 98%)
<b>Target achieved</b> One (1) capacity building plan developed and approved	No deviation	None
<b>Target achieved</b> One(1) Risk Management and Fraud Prevention Plan developed, approved and Implemented	No deviation	None
<b>Target achieved</b> One (1) AFS was developed and approved	No deviation	None
<b>Target achieved</b> One (1) SCM annual procurement plan was developed	No deviation	None

## 2.2 PROGRAMME 2: HIGH IMPACT PRIORITY PROGRAMMES (HIPPs) SUB-PROGRAMME: MANAGEMENT & IMPLEMENTATION

This sub-programme endeavours to effectively coordinate and implement agrarian-driven High Impact Priority Projects (HIPPs). It focusses on agro-processing, livestock marketing, forestry and timber development, as well as alternative energy solutions for projects and households in rural communities. The strategic objectives relating to this sub-programme are:

**Strategic Objective 3:** Establish eight (8) agro-processing and marketing infrastructure projects to enhance value addition by 2018/19 (cumulative)

**Strategic Objective 4:** Total of 29 000 tonnes of feedstock supplied to milling plants by 2018/19 (cumulative)

### PROGRAMME 2: HIGH IMPACT PRIORITY PROJECTS (HIPPs) SUB-PROGRAMME

#### MANAGEMENT AND IMPLEMENTATION

#### A) RED HUBS / AGRI-PARKS (INFRASTRUCTURE DEVELOPMENT-MILLING, LIVESTOCK, ETC.)

Strategic Objective	Performance Indicator	Annual Target
3. Establish eight (8) agro-processing and marketing infrastructure projects to enhance value addition by 2018/19 (cumulative)	11. Number of milling plants with silos completed and operational	Four (4) mills supported (Mbizana, Emalahle- ni, Ncora and Mqanduli) One (1) new RED Hub project initiated (Tshabo)
	12. Number of initiatives towards establishing rural markets	One (1) rural market established (trading infrastructure and equipment)
	13. Number of livestock value chain projects developed (feedlots and meat processing plants)	One (1) feedlot (Mqanduli)
4. 29 000 tonnes of feedstock supplied to milling plants by 2018/19 (cumulative)	14. Number of tonnes of feedstock secured for milling plants	8 000 tonnes



**Strategic Objective 5:** Total of 14 500 livestock units sold to the market by 2018/19 (cumulative)

**Strategic Objective 6:** Facilitate the establishment, support and oversight of community owned and operated forestry projects covering 20 000ha by 2018/19

**Strategic Objective 7:** Position ECRDA as a biomass aggregator by 2018/19

**Strategic Objective 8:** Facilitate the implementation of six (6) renewable energy and ancillary enterprises by 2018/19

**Strategic Objective 9:** Conduct eight (8) applied research studies in renewable energy sources by 2018/19

Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<b>Target achieved</b> Four (4) mills were supported	No deviation	None
<b>Target achieved</b> The Tshabo RED Hub was initiated through the following initiatives: <ul style="list-style-type: none"> <li>• GIS Mapping</li> <li>• Soil analysis</li> <li>• Business plans developed for three identified enterprises (snails, flora and vegetables)</li> <li>• Procurement of snail breeding stock</li> <li>• Procurement of planting material for flora enterprise</li> </ul>	No deviation	None
<b>Target achieved</b> One (1) rural market (a computer information centre that would be used to access markets online) was established through the following initiatives: <ul style="list-style-type: none"> <li>• Design and layout of the Computer Information Centre</li> <li>• Procurement of equipment                             <ul style="list-style-type: none"> <li>• 2 laptops</li> <li>• 22 tablets</li> <li>• 2 x3G cards</li> <li>• CCTV equipment</li> </ul> </li> </ul>	No deviation	None
<b>Target not achieved</b> The following items were procured for the development of the Mqanduli feedlot: <ul style="list-style-type: none"> <li>• Infrastructure material</li> <li>• Machinery &amp; equipment</li> <li>• Feed</li> </ul>	<b>Variance:</b> Feedlot not operational due to kraals not being built until the site issue is resolved.	The project experienced challenges from some community members who disrupted the construction of the feedlot. Traditional authority intervention was sought to resolve the issue. The local traditional leader granted farmers a new site on 23 March 2018 where the kraals will now be built to operationalise the feedlot.
<b>Target not achieved</b> Q1: 2 762.3 tonnes Q2: zero Q3: zero Q4: zero	<b>Variation:</b> 5 237.7 tonnes short	The mills were not operating at optimum as the production was reduced due to the low sales volumes of finished products. This impacted securing of feedstock in two ways: <ol style="list-style-type: none"> <li>1. The low sales volumes impact the cashflow of the mills, which means the mills do not have sufficient funds to procure feedstock or repay a loan to procure feedstock.</li> <li>2. The lowering of production means that the intake of feedstock also lowers. Thus, once the silos are filled the mill do not have capacity to procure feedstock that it will not be able to mill.</li> </ol>

## PROGRAMME 2: HIGH IMPACT PRIORITY PROJECTS (HIPPs) SUB-PROGRAMME

## MANAGEMENT AND IMPLEMENTATION

**B) LIVESTOCK MARKETING**

Strategic Objective	Performance Indicator	Annual Target
5. <b>14 500 livestock units sold to the market by 2018/19 (cumulative)</b>	15. Number of livestock units sold through ECRDA facilitation	Facilitate the sale of 5000 livestock units (formal and informal)

## MANAGEMENT AND IMPLEMENTATION

**C) FORESTRY AND TIMBER DEVELOPMENT**

6. <b>Facilitate the establishment, support and oversight of community owned and operated forestry projects covering 20 000ha by 2018/19</b>	16. Number of new forestry ha planted	200 ha new  1 000 ha secured for forestry plantations
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Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<p><b>Target not achieved</b>                      The sale of 2 579 livestock units was facilitated                      Q1: 355                      Q2: 365                      Q3: 197                      Q4: 1 662</p>	<p><b>Variation:</b> 2 421 short</p>	<p>Rural farmers display a reluctance to enter the commercial livestock farming arena due to their culturally embedded perception about the value of having livestock. The transfer of knowledge about the financial value of selling livestock through formal and informal auctions to create economic growth is an ongoing process that the ECRDA will continue to facilitate.</p>
<p><b>Target Achieved</b>                      326.32 ha was planted</p>	<p><b>Variation:</b> 126.32 ha additional</p>	<p>Additional budget enabled the procurement and planting of more seedlings than anticipated.</p>
<p><b>Target Achieved</b>                      2901 ha was secured for forestry plantations</p>	<p><b>Variation:</b> 1901 ha additional</p>	<p>Negotiations with Eastern Cape Parks and Tourism (ECPTA) to reduce the buffer zone from 5km to 3km accounted for the additional hectares secured.</p>



## PROGRAMME 2: HIGH IMPACT PRIORITY PROJECTS (HIPPs) SUB-PROGRAMME

## MANAGEMENT AND IMPLEMENTATION

**D) RENEWABLE ENERGY**

Strategic Objective	Performance Indicator	Annual Target
7. <b>Position ECRDA as a biomass aggregator by 2018/19</b>	17. Number of biomass aggregator business plans implemented	One (1) business plan approved and implemented
8. <b>Facilitate the implementation of six (6) renewable energy and ancillary enterprises by 2018/19</b>	18. Number of alternative energy solutions developed	Two (2) alternative energy solutions implemented at RED Hubs
	19. Number of households benefitting from alternative energy solutions	Twenty (20) households benefitting from alternative energy solution project
9. <b>Conduct eight (8) applied research studies in renewable energy sources by 2018/19</b>	20. Number of research studies conducted in renewable energy sources	Two (2) research studies completed





Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<p><b>Target achieved</b> One (1) business plan was approved and implementation commenced through the following initiatives:</p> <ul style="list-style-type: none"> <li>• Development of the funding framework template</li> <li>• Research into various online platforms that could be used for aggregation</li> <li>• Initiate discussions to ensure continuous social facilitation with stakeholders</li> </ul>	No deviation	None
<p><b>Target achieved</b> Four (4) alternative energy solutions were implemented</p> <ul style="list-style-type: none"> <li>• Ncora</li> <li>• Emalahleni</li> <li>• Mbizana</li> <li>• Mqanduli</li> </ul>	<b>Variation:</b> Two (2) additional	Additional budget allowed for the roll out of two additional energy solutions, thus all four the RED Hubs now have alternative energy solutions.
<p><b>Target partially achieved</b> Installation of a ground-mounted PV system at Upper Blinkwater during Phase One of the Mini Grid Project to benefit 62 households</p>	<b>Variation:</b> The project was expanded from 20 to 62 households. The 62 households have not been connected to the grid that was installed.	The project is 80% complete as the Mini Grid was installed and is ready to be connected by a third party to the 62 identified households, as per the signed tripartite agreement. The Board has approved that this target could be converted from partially achieved to achieve for the purpose of calculating overall organisational performance, due to the fact that it was achieved at 80%.
<p><b>Target achieved</b> Two (2) research studies were completed</p> <ul style="list-style-type: none"> <li>• Sugar beet as feedstock for energy production</li> <li>• Bamboo production in the Eastern Cape</li> </ul>	<b>No deviation</b>	None



**RENEWABLE ENERGY TARGET ACHIEVED**



4 Alternative energy solutions implemented



1 business plan approved and implementation

## 2.3 PROGRAMME 2: HIGH IMPACT PRIORITY PROGRAMMES (HIPPs) SUB-PROGRAMME: STRATEGIC PARTNERSHIPS

This sub-programme looks at leveraging strategic partnerships to collaborate on High Impact Priority Projects (HIPPs). This sub-programme has the following strategic objective:

**Strategic Objective 10:** Sign 25 strategic partnership agreement for collaboration by 2018/19

### PROGRAMME 2: HIGH IMPACT PRIORITY PROJECTS (HIPPs)

#### SUB-PROGRAMME STRATEGIC PARTNERSHIPS

Strategic Objective	Performance Indicator	Annual Target
10. Sign 25 strategic partnership agreement for collaboration by 2018/19	21. Number of agreements signed with strategic partners for collaboration	Six (6)







**STRATEGIC PARTNERSHIPS TARGET ACHIEVED**



21. Number of agreements signed with strategic partners for collaboration

Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<p><b>Target achieved</b>                      The following agreements were signed:</p> <ul style="list-style-type: none"> <li>• ECRDA, DRDAR and Magwa</li> <li>• ECRDA and Corporate Farms</li> <li>• Port St Johns Development Agency</li> <li>• ECRDA, DRDAR and Ncera Macadamia Farm</li> <li>• ECRDA and Lingomso LamaNdungwane Primary &amp; Multi-Purpose Cooperative</li> <li>• DEDEAT, ECRDA and Raymond Mhlaba Municipality</li> </ul>	<p><b>No deviation</b></p>	<p>None</p>



## 2.4 PROGRAMME 3: RURAL FINANCE

### SUB-PROGRAMME: LOANS AND SUPPORT SERVICES

This sub-programme is responsible for creating rural development clusters by promoting entrepreneurship through access to finance, market linkages and capacity building. The strategic

objectives relating to this sub-programme are linked to business support and community capacitation, as well as loan disbursements and recovery.

#### PROGRAMME 3: RURAL FINANCE

##### SUB-PROGRAMME LOANS AND SUPPORT SERVICES

Strategic Objective	Performance Indicator	Annual Target
11. Establish and support(1) rural clusters by 2018/19 (cumulative)	22. Number of rural development clusters (linked to RED Hubs)	Two (2)
	23. Number of communities capacitated	Two (2)
12. Establish and support 150 sustainable legal entities by 2018/19 (cumulative)	24. Number of established and/or supported legal entities	Twenty (20)
13. Disbursement and recovery of loan funding to the value of R32m by 2018/19 (cumulative)	25. Amount of loans disbursed to beneficiaries	R8 266 000
	26. Recovery rate increased by 20% per annum from a baseline of 40% (loan portfolio of ECRDA effective from 2012)	80%

## 2.5 PROGRAMME 3: RURAL FINANCE

### SUB-PROGRAMME: INVESTMENT

This sub-programme endeavours to solicit and promote private and public-sector investment in key rural development initiatives through various initiatives such as the facilitation of financial services, investment opportunities and oversight towards making projects sustainable.

**Strategic Objective 14:** Establish ECRDA as an investment partner in rural development projects by 2018/19.

#### PROGRAMME 3: RURAL FINANCE

##### SUB-PROGRAMME INVESTMENT

Strategic Objective	Performance Indicator	Annual Target
14. Establish ECRDA as an investment partner in rural development projects by 2018/19	27. Number of projects supported towards sustainability with the facilitation of financial services, investment opportunities and oversight	Four (4) RED Hubs supported to become sustainable



**Strategic Objective 11: Establish and support** 12 rural clusters by 2018/19 (cumulative)

**Strategic Objective 13: Disbursement and recovery of loan funding to the value of R32 million** by 2018/19 (cumulative)

**Strategic Objective 12: Establish and support** 150 sustainable legal entities by 2018/19 (cumulative)

Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<b>Target achieved</b> Clusters established <ul style="list-style-type: none"> <li>Phoenix Investment Cluster at Tyatyorha in Ford Beaufort (Raymond Mhlaba Municipality)</li> <li>Emalahleni Vegetable Cluster</li> </ul>	<b>No deviation</b>	None
<b>Target achieved</b> Trainings was done in two communities: <ul style="list-style-type: none"> <li>Cooperative Governance and Conflict Management at Lingomso LamaNdungwane</li> <li>Piggery production at Lingomso LamaNdungwane and Vuselela clusters</li> </ul>	<b>No deviation</b>	None
<b>Target achieved</b> A total of 36 legal entities were supported through various means	<b>Variation:</b> 16 additional legal entities were supported	The demand for support was higher than anticipated during the 2017/18 financial year.
<b>Target achieved</b> Total disbursed from ECRDA R22 732 803.30	<b>Variation:</b> R14 466 803.30 more	The demand for loans were higher than anticipated.
<b>Target not achieved</b> Annual: R 9 475 928.18 / R 13 190 960.24 72% recovery rate	<b>Variance:</b> 8% short	The recovery of loans remains a serious challenge. The agency is considering various means of mitigation such as intensive "follow the rand" principles to improve the rate of repayments by loan beneficiaries.



**RURAL FINANCE TARGET ACHIEVED**



The business plans for the 4 RED Hubs have been finalised and is being implemented to support sustainability

Actual Annual Achievement	Deviation from Planned Target	Comment on Deviations
<b>Target achieved</b> The business plans for the 4 RED Hubs have been finalised and is being implemented to support sustainability	<b>No deviation</b>	None





EASTERN CAPE  
RURAL DEVELOPMENT AGENCY  
**ANNUAL REPORT**  
2017/2018

*Part C*  
**GOVERNANCE**



The organisation's human resources function performs its work fully aware that motivated, competent and skilled human capital forms the backbone of energised mandate delivery.

# PART C GOVERNANCE

## 1. 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 a public entity's enabling legislation, corporate governance with regard to public entities is applied through the precepts of the Public Finance Management Act (PFMA) (Act 1 of 1999) and runs in tandem with the principles contained in the King's Reports on Corporate Governance.

The Eastern Cape Rural Development Agency (ECRDA) is committed to good corporate governance and organisational integrity in the running of all its affairs. As such, the Agency subscribes to the corporate governance principles set out in the PFMA Act and the Companies Act (Act 71 of 2008). It also endorses and implements the Code of Corporate Practices and Conduct, as contained in the King Reports on Corporate Governance.

Parliament, the Executive and the Accounting Authority of the public entity are responsible for corporate governance.

## 2. PORTFOLIO COMMITTEES

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 Eastern Cape Portfolio Committee on Agriculture, Forestry and Fisheries.

During the period under review the ECRDA attended portfolio committee meetings on the following dates:

31/03/17	09/11/17
16/05/17	17/11/17
11/08/17	27/03/18
07/09/17	

## 3. EXECUTIVE AUTHORITY

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.

## 4. ACCOUNTING AUTHORITY

ECRDA is governed by a Board of directors comprising 11 non-executive directors 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 company 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; and
- 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.



## 4.1 BOARD COMPOSITION

The current Board was appointed and duly inaugurated in 2016. Its composition, as at the end of the 2017/18 financial year, was as follows:

BOARD MEMBER	FIRST APPOINTMENT	COMMITTEES
<b>Dr Vanguard Mkosana (Chairperson)</b>	First appointed November 2012 Re-appointed February 2016	Governance & Ethics
<b>Fezeka Faith Mkile (Deputy Chairperson)</b>	First appointed to ECRFC January 2012 Appointed to ECRDA November 2012 Re-appointed February 2016	Governance & Ethics FINVEST
<b>Cornelius Pietersen</b>	First appointed to ECRFC January 2010 First appointed November 2012 Re-appointed February 2016	Governance & Ethics Programmes & Projects FINVEST
<b>Xolile George</b>	First appointed November 2012 Re-appointed February 2016	Governance & Ethics Human Capital & Remuneration
<b>Sabatha Mbalekwa</b>	First appointed November 2012 Re-appointed February 2016	Governance & Ethics Audit & Risk FINVEST
<b>Zanele Semane</b>	First appointed November 2012 Re-appointed February 2016	Programmes & Projects Human Capital & Remuneration
<b>Mpumelelo Ncwadi</b>	First appointed February 2016	Programme & Projects FINVEST
<b>Abraham le Roux</b>	First appointed November 2012 Re-appointed February 2016	Audit & Risk Human Capital & Remuneration
<b>Mbulelo Sogoni</b>	First appointed February 2016	Audit & Risk Human Capital & Remuneration
<b>Bongiwe Kali</b>	First appointed to ECRFC January 2010 First appointed November 2012 Re-appointed February 2016	Programme & Projects Audit & Risk
<b>Vuyani Jarana</b>	First appointed November 2012 Re-appointed February 2016 Resigned 1 January 2018	Governance & Ethics FINVEST
<b>Thozamile Gwanya Ex Officio</b>	First appointed June 2013 Contract ends May 2018	Chief Executive Officer

## 4.2 BOARD MEETINGS AND ATTENDANCE

The ECRDA Board met for four ordinary and one special Board meeting during the year in review. Board members also attended a Board Indaba and participated in two teleconferences and a workshop.

DATE	NATURE OF MEETING	ATTENDED BY
5 April 2017	Special Board Meeting	V Mkosana, F Mkile, S Mbalekwa, T Gwanya, A le Roux
10-11 April 2017	Board Indaba	T Gwanya, F Mkile, V Mkosana, M Sogoni, S Mbalekwa, Z Semane, A le Roux, X George, B Kali, M Ncwadi, C Pietersen
29 June 2017	Ordinary Board Meeting	V Mkosana, F Mkile, Z Semane, C Pietersen, V Jarana, A le Roux, X George, M Ncwadi, S Mbalekwa, T Gwanya
22 August 2017	Ordinary Board Meeting	V Mkosana, C Pietersen, M Ncwadi, Z Semane, T Gwanya, S Mbalekwa, B Kali, A le Roux, F Mkile, V Jarana (via telecon), X George (by telecon)
22-24 October 2017	Workshop	M Sogoni, V Mkosana, F Mkile, C Pietersen, V Jarana, A le Roux, B Kali, M Ncwadi, Z Semane, X George
4 December 2017	Ordinary Board Meeting	V Mkosana, F Mkile, Z Semane, C Pietersen, M Ncwadi, T Gwanya, S Mbalekwa, X George, A le Roux, B Kali
9 March 2018	Board Teleconference	V Mkosana, F Mkile, S Mbalekwa, T Gwanya, B Kali, X George, Z Semane, M Ncwadi
20 March 2018	Ordinary Board Meeting	V Mkosana, F Mkile, M Ncwadi, B Kali, M Sogoni, Z Semane, A le Roux, X George, S Mbalekwa, C Pietersen, T Gwanya
28 March 2018	Board Teleconference	V Mkosana, F Mkile, B Kali, A le Roux, C Pietersen, X George, S Mbalekwa, T Gwanya, M Ncwadi

## 4.3 BOARD COMMITTEES

To maximise its performance and strengthen corporate governance, the ECRDA Board has established five (5) 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.

# AUDIT AND RISK COMMITTEE

**CHAIRPERSON:**  
**CHAIR: MR SABATHA MBALEKWA**

**Committee members:**

Bongiwe Kali,  
Abraham le Roux,  
Mbulelo Sogoni

The Audit and Risk Committee provides independent oversight and ensure that there is an effective risk management process in place, thereby increasing the assurance stakeholders can place on the governance of the Agency. The Committee's terms of reference take into account the recommendations in King III, the Companies Act, the Public Finance Management Act and Treasury Regulations 2005, to ensure alignment to best practice and legislation.

# GOVERNANCE AND ETHICS COMMITTEE

**CHAIRPERSON:**  
**DR VANGUARD MKOSANA**

**Committee members:**

Fezeka Mkile,  
Vuyani Jarana (resigned January 2018),  
Sabatha Mbalekwa,  
Xolile George,  
Cornelius Pietersen

Board committees meet before Board meetings to review matters and to take appropriate decisions to be tabled before the Governance Committee for oversight. Committees meetings are regulated in terms of an approved calendar and deliberations are minuted and implemented once they have been deliberated upon by the Governance and Ethics Committee and ratified by the Board.

**The committee's main functions are to:**

- Assist management in their evaluation of the adequacy and efficiency of the financial reporting process, the system of internal control, performance information, information communication and technology and compliance with laws and regulations;
- Review the work performed by the Agency's Internal Audit Unit, which comprises mainly internal audit assignments and risk management activities; and
- Maintain effective working relations with the Board, management and the internal and external auditors.

**Committee Meetings and Attendance**

Committee Meeting	Attendance
25 May 2017	B Kali, S Mbalekwa, A le Roux, M Sogoni, T Gwanya
22 August 2017	S Mbalekwa, B Kali, A le Roux, T Gwanya
15 November 2017	S Mbalekwa, B Kali, M Sogoni, T Gwanya
1 March 2017	B Kali, S Mbalekwa, A le Roux, T Gwanya
20 March 2017	B Kali, S Mbalekwa, M Sogoni, T Gwanya, A le Roux

The Governance and Ethics Committee is the penultimate governance structure of the Board of Directors to which all the Board committees report for oversight and to get guidance on their respective deliberations. The Committee is also mandated to promote ethical behaviour and to monitor the Agency's activities with a view to ensuring the entity complies with legislation and legal requirements.

**Committee Meetings and Attendance**

Committee Meeting	Attendance
28 June 2017	V Mkosana, F Mkile, S Mbalekwa, C Pietersen, X George, T Gwanya
3 December 2017	V Mkosana, F Mkile, C Pietersen, X George, T Gwanya, S Mbalekwa
7 March 2018	V Mkosana, f Mkile, C Pietersen, S Mbalekwa, M Ncwadi, T Gwanya



# HUMAN CAPITAL AND REMUNERATION

**CHAIRPERSON:**  
**XOLILE GEORGE**

**Committee members:**  
Abraham le Roux,  
Zanele Semane,  
Mbulelo Sogoni

The primary purpose of the Human Capital and Remuneration Committee is to review, consider and make recommendations to the Board on the human capital policies, procedures and structures which regulate the entity's relationship with its employees. The committee also considers performance results and makes recommendations to the Board with a view to determining the remuneration of the Chief Executive and other executives.

**Committee Meetings and Attendance**

Committee Meeting	Attendance
<b>14 June 2017</b>	Z Semane, M Sogoni, X George, T Gwanya
<b>28 February 2018</b>	X George, A le Roux, Z Semane, T Gwanya

# PROGRAMMES AND PROJECTS

**CHAIRPERSON:**  
**CORNELIUS PIETERSEN**

**Committee members:**  
Bongiwe Kali,  
Zanele Semane,  
Mpumelelo Ncwadi

The Programmes and Projects Committee assists the Board in aligning the activities of the ECRDA to national and provincial planning and policy priorities.

**Committee Meetings and Attendance**

Committee Meeting	Attendance
<b>7 June 2017</b>	C Pietersen, B Kali, Z Semane, F Mkile, T Gwanya
<b>3 November 2017</b>	C Pietersen, M Ncwadi, Z Semane, B Kali, T Gwanya
<b>13 February 2018</b>	Z Semane, T Gwanya, B Kali, M Ncwadi, C Pietersen
<b>19 March 2018</b>	C Pietersen, B Kali, T Gwanya, M Ncwadi

# FINANCE AND INVESTMENT (INVEST) COMMITTEE

**CHAIRPERSON:**  
**VUYANI JARANA**

**Committee members:**  
Fezeka Mkile,  
Sabatha Mbalekwa,  
Mpumelelo Ncwadi,  
Cornelius Pietersen

The FINVEST Committee has overall responsibility for the effective formulation, implementation, monitoring and review of the credit policy, as well as formulating and monitoring the implementation of ECRDA's Credit, Finance and Investment policies. The Committee also monitors inflows and outflows of the Agency's finances.

**Committee Meetings and Attendance**

Committee Meeting	Attendance
<b>7 June 2017</b>	C Pietersen, F Mkile, V Jarana, S Mbalekwa, T Gwanya
<b>3 November 2017</b>	F Mkile, M Ncwadi, C Pietersen, S Mbalekwa
<b>8 December 2017</b>	F Mkile, T Gwanya, S Mbalekwa, M Ncwadi
<b>12 February 2018</b> (Teleconference)	M Ncwadi, t Gwanya, A le Roux, S Mbalekwa
<b>13 February 2018</b>	F Mkile, T Gwanya, M Ncwadi, C Pietersen, S Mbalekwa
<b>22 February 2018</b>	T Gwanya, F Mkile, C Pietersen, M Ncwadi,
<b>27 March 2018</b> (Teleconference)	M Ncwadi, C Pietersen, S Mbalekwa, T Gwanya, F Mkile

#### 4.4 BOARD MEMBER REMUNERATION

<b>BOARD MEMBER</b>	<b>Fees 2018</b>	<b>Claims 2018</b>	<b>Fees 2017</b>	<b>Claims 2017</b>
B. Kali	299,604	-	299,604	-
C.J. Pietersen	<b>357,816</b>	<b>42,732</b>	357,816	53,998
F.F. Mkile	<b>365,220</b>	<b>8,656</b>	365,220	40,594
Dr. V. Mkosana	<b>386,352</b>	<b>1,870</b>	386,352	2,918
X. George	<b>306,456</b>	<b>1,296</b>	306,456	2,974
V. Jarana	<b>280,918</b>	-	306,456	2,096
A. le Roux	<b>299,604</b>	<b>4,384</b>	299,604	33,655
S.W. Mbalekwa	<b>357,816</b>	<b>3,553</b>	357,816	5,800
Z. Semane	<b>299,604</b>	-	299,604	1,216
M. Sogoni	<b>299,604</b>	<b>4,787</b>	299,604	12,417
M. Ncwadi	<b>299,604</b>	<b>1,672</b>	299,604	2,772
<b>Fees for services rendered</b>	<b>3,552,598</b>	<b>68,950</b>	3,578,135	158,440

\* The Chief Executive Officer, Mr T.T. Gwanya is also a member of the Board.

\* V. Jarana resigned in January 2018



## 5. RISK MANAGEMENT

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

**The Board is the ultimate Chief Risk Officer of the Agency and this function has been delegated to the Internal Audit and Risk Unit.**

The Board has implemented a risk management policy throughout the financial year that responds appropriately to significant risks identified by management.

Risk assessments were facilitated by the Internal Audit Unit for all business units and regional offices. The risk registers were submitted to the Audit and Risk Committee to review and provide input with regard to effective implementation of the Risk Management Policy within the Agency.

The Audit and Risk Committee plays an independent oversight role which assists management with risk management processes and as such recommends suitable actions for mitigating unacceptable levels of risks identified.

Risk management practices assist the Agency to improve its performance and achieve its objectives, and ultimately ensure a positive audit outcome is received from the Auditor-General of South Africa (AGSA) when external audit is conducted.

## 6. INTERNAL AUDIT AND AUDIT COMMITTEE

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

### The specific objectives of the internal audit are to:

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

## 6.1 SUMMARY OF AUDIT ASSIGNMENTS PERFORMED

The following audit areas were reviewed during the 2017/18 financial year:

- Information communication and technology (ICT);
- Asset management;
- Compliance with laws and regulations;
- Audit of Predetermined Objectives (AOPO);
- Supply chain management;
- Agro-processing and rural finance;
- Annual Financial Statements;
- Forestry and livestock;
- Human resources management; and
- Follow up on AGSA findings.

## 6.2 KEY ACTIVITIES AND OBJECTIVES OF THE AUDIT AND RISK COMMITTEE

The objective of the Audit and Risk Committee is to provide an independent oversight of the Agency which increases the assurance stakeholders can place on the governance of the Agency.

### As such, the committee endeavours to:

- Assist management in their evaluation of the adequacy and efficiency of the financial reporting process, the system of internal control, performance information, information communication and technology and compliance with laws and regulations;
- Review the work performed by the Agency's Internal Audit Unit, which comprises mainly internal audit assignments and risk management activities; and
- Maintain effective working relations with the Board, management and the internal and external auditors.



## 7. COMPLIANCE WITH LAWS AND REGULATIONS

During the period under review, ECRDA's Internal Audit (IA) performed a comprehensive Compliance with Laws and Regulations review. The results of this review have satisfied the IA that the Agency is fully compliant with all laws and regulations relevant to its areas of operation.

## 8. FRAUD AND CORRUPTION

ECRDA has adopted and is enforcing a Fraud Prevention Policy. This policy is augmented by the organisation's Risk Management Plan, which is inclusive of a Fraud Prevention Plan, as required by Treasury Regulations.

Internal Audit continued to facilitate fraud awareness workshops to employees to ensure that they are familiar with the process to reporting fraud.

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

No instances of fraud or corruption have been reported to management or the Board to date.

## 9. MINIMISING CONFLICT OF INTEREST

ECRDA staff are required to declare their interests in other businesses/organisations on a regular basis. In addition to this declaration, all bid evaluation and adjudication committee



members are required to declare any potential conflict of interest at each committee meeting. Committee members are excluded from participating in procurement decisions where a conflict of interest exists or is perceived to exist. Conflict of interest includes the interest of spouses and close family members.

Further, the Agency 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 ECRDA prevents conflict of interest by ensuring adherence to National Treasury's Code of Conduct for supply chain management practices.

The Code specifies that an official or other role player involved with supply chain management:

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

The ECRDA conducts ethics awareness workshop to all staff members to further assist them in understanding potential conflict of interest dilemmas.

## 10. CODE OF CONDUCT

The Agency is continuing to use the approved Code of Conduct and subscribes to its key values of transparency, excellence, honesty and integrity, innovation, commitment to empowerment of the rural poor and Ubuntu.

## 11. HEALTH AND SAFETY

ECRDA recognises that 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 Occupational Health and Safety (OHS) Committee, comprising staff in different roles, aims to ensure that no one operates in hazardous situations. In the event that OHS members identify potential hazardous situation, they are encouraged to report these to the principals for swift attendance.

There were no potentially hazardous incidents reported or investigated during the period under review.

## 12. COMPANY SECRETARY

The Companies Act prescribes that all public and state-owned companies are required to have a Company Secretary to assist the Board and its committees to function effectively, efficiently and in accordance with their terms of reference and best practice norms and standards.

In addition, the King Reports envisages a more holistic role in which the Company Secretary plays a pivotal role in ensuring sound corporate governance practice.

### 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 and executive management 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 and Risk Committee;
- Ensuring that the Board and committee charters and terms of reference are kept up to date;
- Ensuring the proper compilation and timely circulation of Board document and assisting the chairperson of the Board and chairpersons of committees with drafting of yearly work plans;
- The company secretary should have the duty to obtain appropriate responses and feedback to specific agenda items and matters arising from earlier meetings in board and board committee deliberations
- Assisting the Board with yearly evaluation of the Board, its individual directors and senior management;
- Ensuring that minutes of all meetings of the directors, as well as meetings of the Audit and Risk Committee, are properly recorded, in accordance with the Companies Act;
- Following meetings, pursue and manage all follow-up actions and report on matters arising; and
- Ensuring the entity's Annual Financial Statements is sent to every person who is entitled to it.

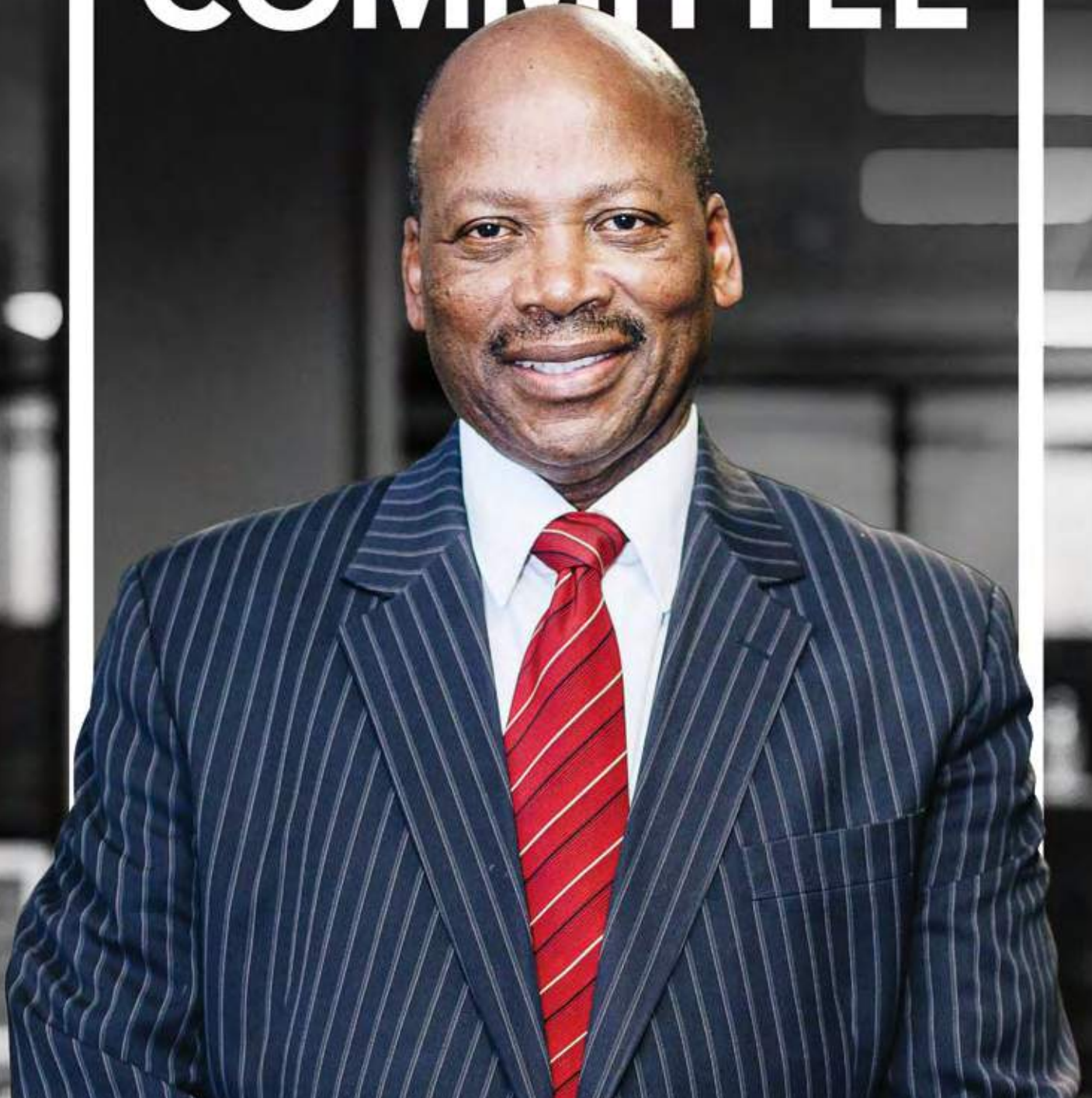
During the period under review, the duties and responsibilities of the Company Secretary were discharged within the Eastern Cape Rural Development Agency, and all reports and returns were timeously lodged, as required.

## 13. SOCIAL RESPONSIBILITY

As a responsible corporate citizen eager to contribute to the socio-economic development and upliftment of marginalised communities, ECRDA has made its Corporate Social Investment (CSI) strategy one of its core business imperatives. With a developmental mandate firmly rooted in social upliftment through economic growth, the entity recognises the powerful way in which sustainable, inclusive CSI initiatives contribute to creating an environment that allows for more inclusive growth.

Moreover, meaningful CSI implementation allows the entity to both strengthen and broaden its stakeholder relations and to forge closer ties with the communities we serve.

# REPORT OF THE AUDIT COMMITTEE





# 14. AUDIT AND RISK COMMITTEE REPORT

## REPORT OF THE AUDIT AND RISK COMMITTEE FOR THE YEAR ENDED 31 MARCH 2018

Report by the Audit and Risk Committee in terms of Treasury Regulations 27(1)(10)(b) and (c) of the Public Finance Management Act (Act 29 of 1999, as amended).

In execution of its duties during the past financial year, the Audit and Risk Committee has:

- Ensured compliance with its terms of reference and the provisions of the Audit and Risk 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;

"The Audit and Risk Committee is of the opinion that the internal controls of the Eastern Cape Rural Development Agency have operated effectively throughout the year"

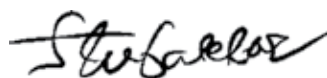
- Reviewed the results of the work performed by the internal audit services in relation to financial reporting, corporate governance, risk areas, internal control and any significant investigations and management response;
- Reviewed the coordination between the internal audit function and the external 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; and
- Reviewed the independence and objectivity of the external auditors.

The Audit and Risk Committee is of the opinion that the internal controls of the 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.

Following our review of the consolidated Annual Financial Statements for the year ended 31 March 2018, we are of the opinion that they substantially comply with the relevant provisions of the Public Finance Management Act (Act 29 of 1999, as amended).

The consolidated Annual Financial Statements comply, in all material respects, with the Statements of Generally Recognised Accounting Practice (GRAP). The Audit and Risk Committee concurs that the adoption of the going concern premise in framing the consolidated Annual Financial Statements is appropriate. The Audit and Risk Committee has therefore recommended the adoption of the consolidated Annual Financial Statements by the Board members.



**Mr S. Mbalekwa**  
Board Member and Chairperson  
of the Audit and Risk Committee





EASTERN CAPE  
RURAL DEVELOPMENT AGENCY  
**ANNUAL REPORT**  
2017/2018

*Part D*  
**CORPORATE  
SERVICES**



In addition to legislative requirements, ECRDA also endorses the Code of Corporate Practices and Conduct as contained in the King reports on corporate governance.

# SECTION D: CORPORATE SERVICES

## 1. CORPORATE SERVICES AND HR OVERVIEW

### PERSONNEL EXPENDITURE

The ECRDA's Corporate Services includes Human Resources and ICT. Several initiatives were undertaken by Human Resources which included the rollout of a performance management system for all levels within the ECRDA as well as salary benchmarking.

The ECRDA has initiated a process to align the organisational structure, which resulted from the merging of the legacy entities and the integration of the subsidiary in 2015, to ensure the effective implementation of the strategy in pursuit of achieving the mandate of the ECRDA.

To date, this process has included the performance of an organisational diagnostic and benchmarking, outlining possible macro structures and the performance of a skills audit. Whilst the process is ongoing, only critical positions were filled, contributing to the reduction in the staff complement at year end.

The staff complement as at the end of the financial period was 150 (2016/17: 163). Staff costs increased by 1.4 per cent year on year, amounting to R81.7 million (2016/17: R80.6m).

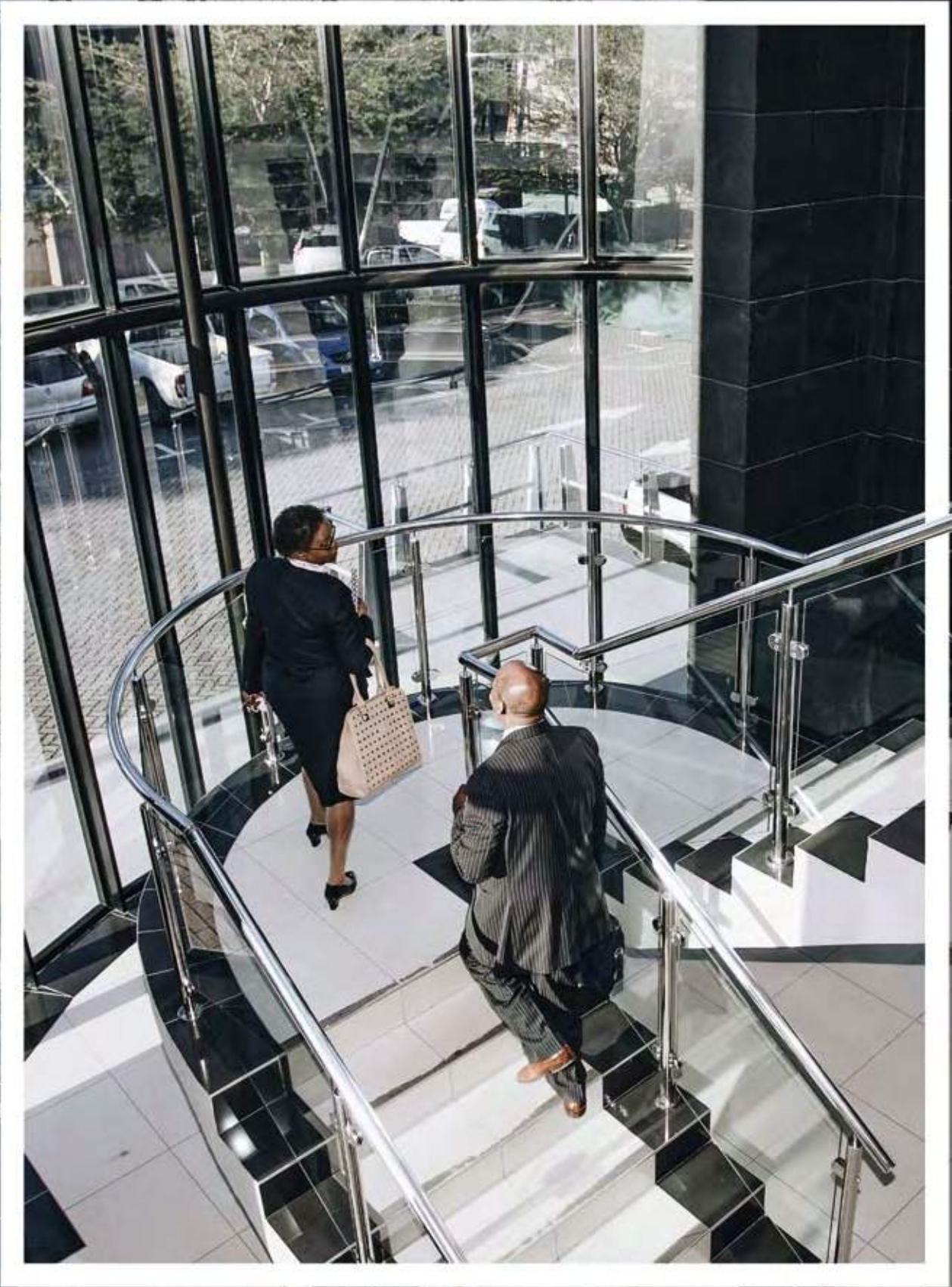
During the review period, the following structures were put in place:

- Joint Labour Management Forum, consisting of representatives of executive management, the National Education, Health and Allied Workers' Union (Nehawu) and the Food and Allied Workers Union (Fawu) to consult on matters relating to Labour
- Employment Equity Committee
- Occupational Health and Safety Committee
- Skills Development Committee

It is acknowledged that these committees and structures must be further developed to derive maximum value from these structures.

ECRDA strives to contribute to employee wellness and the annual wellness day included financial fitness and personal finance management presentations and individual health assessments, including blood pressure and blood sugar tests. Wellness also included the fun of organised events such as heritage day celebrations and an annual fun run.





# SECTION D: CORPORATE SERVICES

## 2. HR STATISTICS

### PERSONNEL COSTS BY PROGRAMME / ACTIVITY / OBJECTIVE

Programme	No of Employees	Personnel Cost Per Programme
CEO's Office	11	10,730,360
Strategy Unit	2	2,310,089
Corporate Services	36	14,478,212
Finance, SCM & Treasury	22	13,511,888
PMU	79	40,661,505
<b>TOTAL</b>	<b>150</b>	<b>81,692,053</b>

### EMPLOYMENT AND VACANCIES PER LEVEL

Level	Personnel Expenditure	% of personnel exp to total personnel costs	No of employees	Average personnel cost per employee
Top Management	13,829,204	16.93	7	1,975,601
Senior Management	19,772,171	24.20	19	1,040,641
Middle Management	4,099,044	5.02	6	683,174
Specialists	4,256,418	5.21	4	1,064,105
Professional Qualified / Semi-Skilled	35,168,405	43.05	92	382,265
Very Low Skilled	4,566,812	5.59	22	207,582
<b>TOTAL</b>	<b>81,692,053</b>		<b>150</b>	<b>544,614</b>

### PERFORMANCE REWARDS

No performance rewards were paid during the financial year

### TRAINING COSTS

Programme	Personnel expenditure	Training expenditure	Training expenditure as a % of personnel cost	No of employees trained	Avg training cost per employee
	R'000	R'000			R'000
	81,692,053	2,294,280	2.81	97	23,652



## EMPLOYMENT AND VACANCIES PER PROGRAMME

Programme	No of employees	Vacancies	% of vacancies
CEO's Office	11	2	15
Strategy Unit	2		0
Corporate Services	36		0
Finance, SCM & Treasury	22	1	5
PMU	79	1	1

## EMPLOYMENT AND VACANCIES PER LEVEL

**150                      4                      3**

Programme	No of employees	Vacancies	% of vacancies
Top Management	7	1	14
Senior Management	19	2	11
Middle Management	6		-
Specialists	4		-
Professional Qualified / Semi-Skilled	92	1	1
Very Low Skilled	22		-
<b>TOTAL</b>	<b>150</b>	<b>4</b>	<b>3</b>

## PERMANENT AND FULL-TIME CONTRACTED EMPLOYEES

	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
	Actual	Actual	Actual	Actual	Actual	Budget estimate	Budget estimate	Budget estimate	Budget estimate
Personnel Costs (R thousand)	49,656	57,736	58,686	80,561	81,692	93,310	97,114	102,940	109,118
Personnel Numbers (Head count)	133	140	155	164	150	164	164	164	153
<b>UNIT COST</b>	<b>373</b>	<b>412</b>	<b>379</b>	<b>491</b>	<b>545</b>	<b>569</b>	<b>592</b>	<b>628</b>	<b>713</b>

## VACANCIES IN THE ORGANOGRAM (NOT YET ADVERTISED AND NOT FUNDED)

Division	Post	Grade	Status
Finance	Management Accountant	16	Advertised
	Executive: Strategic Management	22	To be advertised
CEO's Office	Company Secretary	14	Advertised
PMU	Administrator: Chris Hani	7	Advertised

## EMPLOYMENT CHANGES

Salary band	Employment at beginning of period	Appointments / secondments	Integration	Terminations	Employment at end of period
Top Management	9			2	7
Senior Management	22			3	19
Middle Management	6				6
Specialists	4				4
Professional Qualified / Semi-Skilled	100			8	92
Very Low Skilled	22				22
<b>TOTAL</b>	<b>163</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>150</b>

## REASONS FOR STAFF LEAVING

Reason	Number	% of total no of staff leaving
Death	0	0
Service Terminations	3	23
Resignations	3	23
Retirements	4	31
Settlements	3	23
<b>TOTAL</b>	<b>13</b>	<b>100</b>

## LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION

STATUS	NR
Full Disciplinary Process Complete	3
Full Disciplinary Process with Outcome Pending	1
CCMA Cases Pending	4
Labour Court Case Pending	2
Pending Grievances	1

## EMPLOYMENT EQUITY STATUS

Levels	MALE				FEMALE			
	African	Coloured	Indian	White	African	Coloured	Indian	White
Top Management	5	0	0	1	0	0	0	1
Senior Management	13	0	0	0	4	0	0	2
Middle Management	4	0	0	0	2	0	0	0
Specialists	4	0	0	0	0	0	0	0
Professional Qualified / Semi-skilled	25	0	0	3	61	3	0	0
Very low skilled	6	0	0	0	16	0	0	0
<b>TOTAL</b>	<b>57</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>83</b>	<b>3</b>	<b>0</b>	<b>3</b>

Note: There was no specific targets set for the year

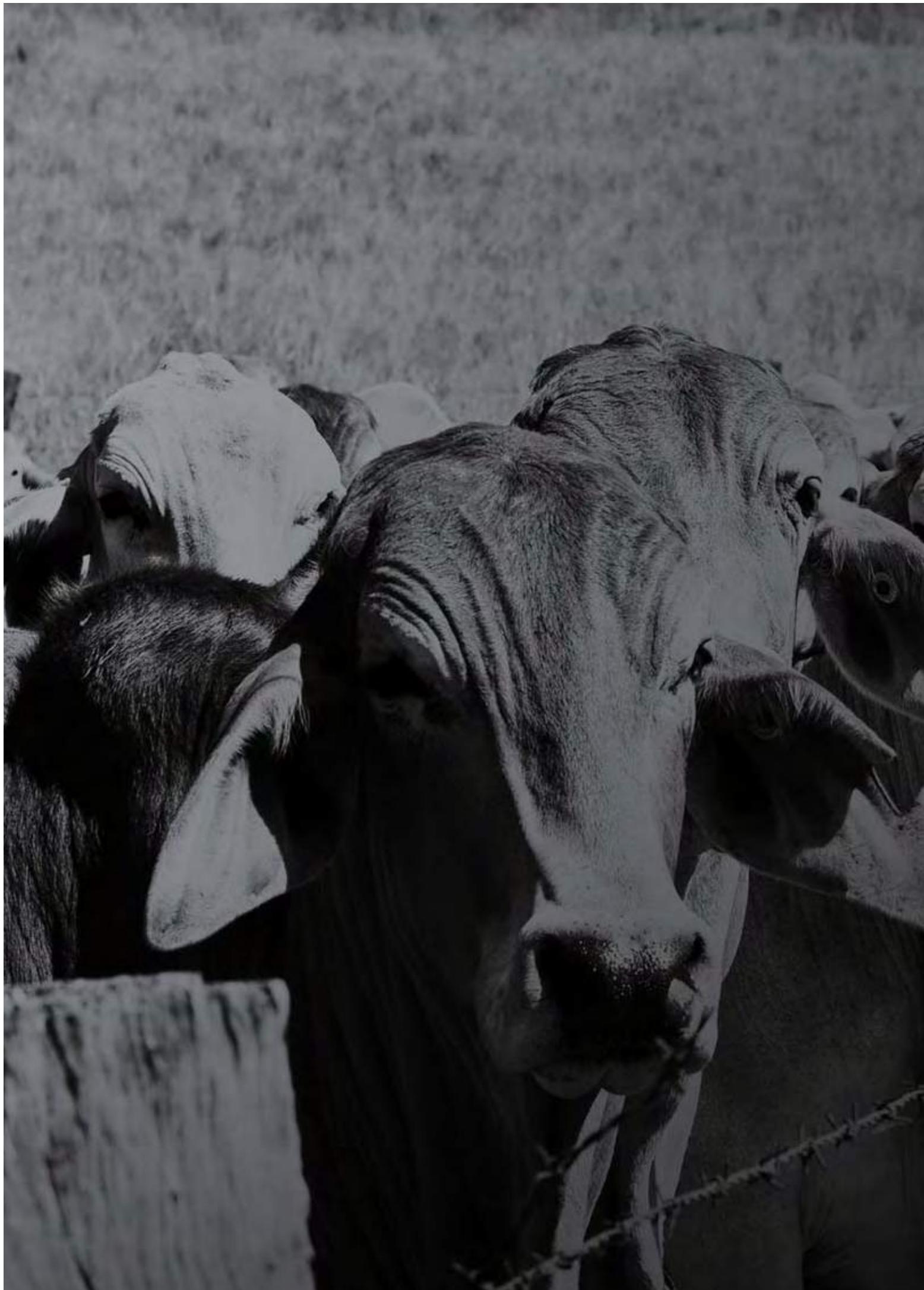
### DISABLED EMPLOYEES

0











EASTERN CAPE  
RURAL DEVELOPMENT AGENCY  
**ANNUAL REPORT**  
2017/2018

*Part E*  
**FINANCIAL  
INFORMATION**



The organisation's financial statements comply with the Provisions of the Public Finance Management Act (Act 1 of 1999) and in all material aspects with statements of Generally Recognised Accounting Practice (GRAP).

**EASTERN CAPE RURAL DEVELOPMENT AGENCY  
AUDIT REPORT  
FOR THE YEAR ENDED 31 MARCH 2018**

# REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE 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 (the group) set out on pages 91 to 159, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the 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 consolidated and separate financial position of the group as at 31 March 2018, and the group's financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA).

### EMPHASIS OF MATTERS

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

### MATERIAL LOSSES ON IMPAIRMENT OF LOANS

4. As disclosed in note 22.3 to the financial statements, material loss on impairment of loans of R20 million was incurred as a result of movement in provision for bad debts.

### IRREGULAR EXPENDITURE

5. As disclosed in note 26 to the financial statements, the entity incurred irregular expenditure of R8,5 million as it did not follow a proper tender process.

### RESTATEMENT OF CORRESPONDING FIGURES

6. As disclosed in note 35 to the financial statements, the corresponding figures for 31 March 2017 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2018.

### RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

7. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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.
8. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the 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

9. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

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

# REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

## INTRODUCTION AND SCOPE

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

12. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to 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.

13. 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 programmes presented in the annual performance report of the entity for the year ended 31 March 2018:

Programmes	Pages in the annual performance report
Programme 2 - High Impact Priority Projects	49 - 56
Programme 3 - Rural Finance	57

14. I performed procedures to determine whether the reported performance information 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.

15. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programmes:

- Programme 2 - High Impact Priority Projects
- Programme 3 - Rural Finance

## OTHER MATTERS

16. I draw attention to the matters below.

## ACHIEVEMENT OF PLANNED TARGETS

17. Refer to the annual performance report on pages 47 to 58 for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets.

## ADJUSTMENT OF MATERIAL MISSTATEMENTS

18. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 3 - High Impact Priority Projects. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

### INTRODUCTION AND SCOPE

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

20. The material finding on compliance with specific matters in key legislations are as follows:

### PROCUREMENT AND CONTRACT MANAGEMENT

21. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids as required by treasury regulation 16A6.1. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of treasury regulation 16A6.4.

## OTHER INFORMATION

22. The entity and its subsidiaries' accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.

23. 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 thereon.

24. 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.

25. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

26. 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 compliance with legislation included in this report.

27. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with laws and regulations.

28. As indicated by the non-compliance with laws and regulations identified during the audit, the entity did not have controls in place to ensure that compliance with laws and regulations are adequately implemented and monitored.

29. The financial and performance information submitted for audit had material misstatements which result from failure to monitor and ensure compliance with applicable laws and regulations.

**AUDITOR - GENERAL**

EAST LONDON

31 JULY 2018



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*



## 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 board of directors, which constitutes the accounting authority
  - conclude on the appropriateness of the Board of Directors, which constitutes 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 related to events or conditions that may cast significant doubt on the Eastern Cape Rural Development Agency and its subsidiaries ability 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 the 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 continuing as a going concern

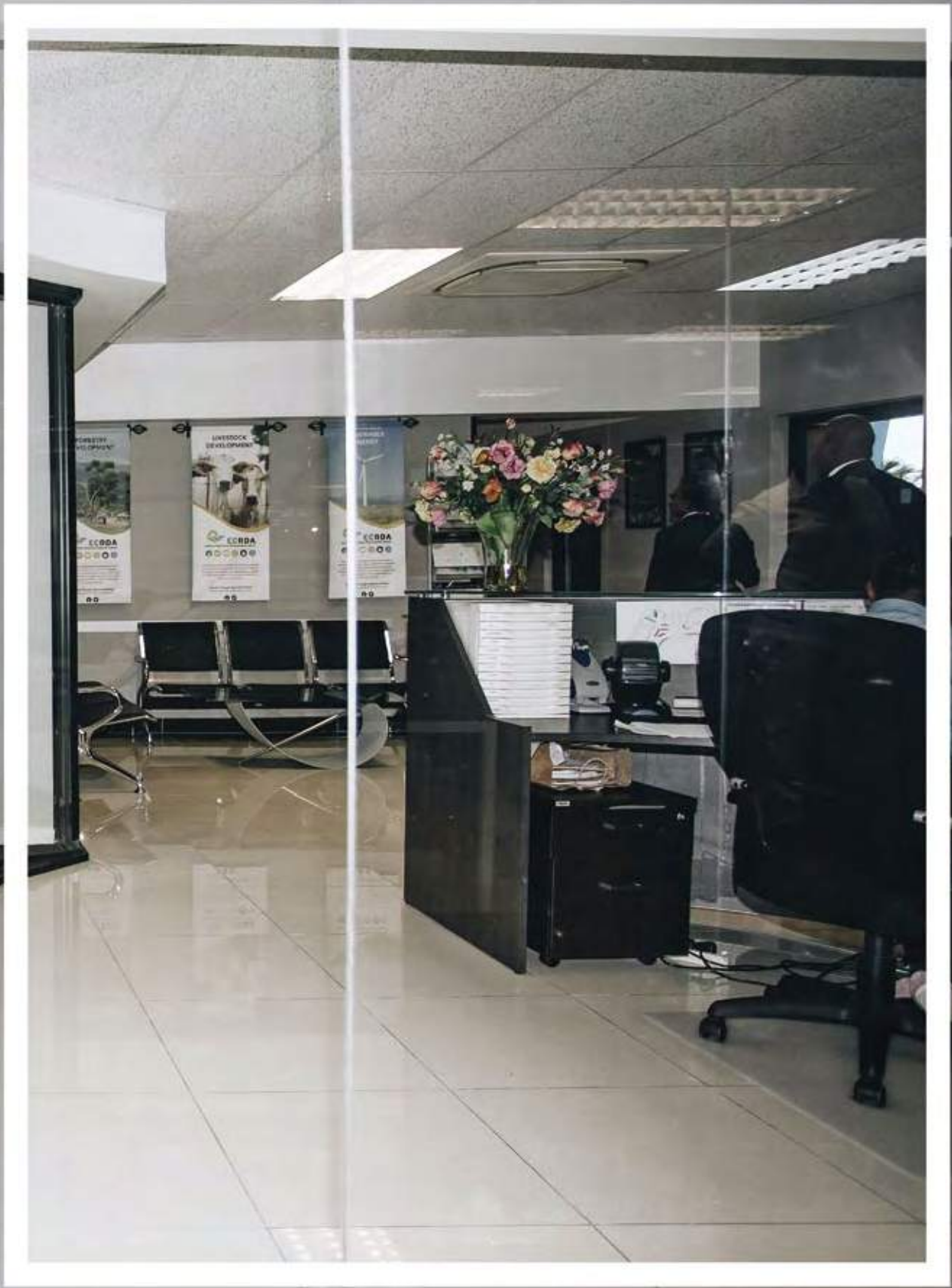
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding 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 the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.







## | EASTERN CAPE RURAL DEVELOPMENT AGENCY

**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 MARCH 2018

**EASTERN CAPE RURAL DEVELOPMENT AGENCY**  
**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 MARCH 2018

# TABLE OF CONTENTS

	<b>Page</b>
Statement of Board Members' Responsibility for Financial Reporting	089
Consolidated Statement of Financial Position	091
Consolidated Segment Report on Financial Position	093 - 098
Consolidated Statement of Financial Performance	099
Consolidated Segment Report of Financial Performance	101 - 104
Consolidated Statement of Changes in Net Assets	105
Statement of Comparison of Budget and Actual Amounts	106 - 107
Consolidated Cash Flow Statement	108
Notes to the Consolidated Cash Flow Statement	109 - 110
Notes to the Consolidated Annual Financial Statements	111 - 156
 Supplementary Schedule not Forming Part of the Audited Consolidated Annual Financial Statements	
Detailed Consolidated Statement of Financial Performance	157 - 159





# STATEMENT OF BOARD MEMBERS





# STATEMENT OF BOARD MEMBERS' RESPONSIBILITY FOR FINANCIAL REPORTING FOR THE YEAR ENDED 31 MARCH 2018

The Board members are required by the Public Finance Management Act (Act 1 of 1999) (as amended by Act 29 of 1999) and the Eastern Cape Rural Finance Corporation Amendment Act (Act 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 2018 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 loss for the year and the Eastern Cape Provincial Government has confirmed funding for the Eastern Cape Rural Development Agency for the 2018/19 financial year.

The consolidated Annual Financial Statements set out on pages 91 to 159, which have been prepared on the going concern basis, were approved by the Board members on 31 May 2018 and were signed on its behalf by:



**Dr. V. Mkosana**  
Chairperson of the Board

“Board members set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner”

## | EASTERN CAPE RURAL DEVELOPMENT AGENCY

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018</b>
---

		Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>ASSETS</b>	<b>Notes</b>				
<b>Current Assets</b>					
Cash and cash equivalents	6	42,955,041	74,642,220	56,702,249	74,649,434
Trade and other receivables	8.1	21,265,349	12,667,371	37,950,504	13,470,961
Inventories	9	91,118	123,971	91,118	512,563
Biological assets and agricultural produce	10	-	-	-	7,602,369
Loans and advances to customers	7	58,959,511	50,932,563	45,784,511	50,932,563
		<b>123,271,019</b>	<b>138,366,125</b>	<b>140,528,382</b>	<b>147,167,891</b>
<b>Non-current assets</b>					
Deferred tax	23	-	-	1,150,859	60,862
Biological assets and agricultural produce	10	-	-	21,890,000	15,947,000
Investment under contingency policy	12	9,839,802	9,216,355	9,839,802	9,216,355
Receivable from Arengo 316 (Pty) Ltd	8.2	-	-	-	-
Unsecured loans receivable by Kangela Citrus Farms (Pty) Ltd	8.3	-	-	-	124,791
Investment property	13.1	1,725,499	1,763,716	1,725,499	1,763,716
Property, plant and equipment	13.2	13,351,002	15,323,906	19,834,246	22,992,840
Intangible assets	13.3	422,188	265,596	600,688	444,096
		<b>25,338,491</b>	<b>26,569,573</b>	<b>55,041,094</b>	<b>50,549,660</b>
<b>Total assets</b>		<b>148,609,510</b>	<b>164,935,697</b>	<b>195,569,476</b>	<b>197,717,550</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Finance lease obligations	19	1,191,126	595,508	1,191,126	595,508
Deferred grant income arising from non-exchange transactions	15	15,365,872	12,149,079	15,365,872	12,149,079
Trade and other payables	14	15,974,932	22,402,452	18,425,751	26,460,993
Loan from South African Fruit Exporters	17	-	-	21,701,418	-
Liabilities arising from non-exchange transactions	18	6,887,507	13,827,551	6,887,507	13,827,551
		<b>39,419,437</b>	<b>48,974,589</b>	<b>63,571,674</b>	<b>53,033,131</b>
<b>Non-current liabilities</b>					
Finance lease obligations	19	563,143	619,484	563,143	619,484
Deferred tax	23	-	-	1,779,935	2,365,431
		<b>563,143</b>	<b>619,484</b>	<b>2,343,078</b>	<b>2,984,915</b>
<b>Total liabilities</b>		<b>39,982,580</b>	<b>49,594,073</b>	<b>65,914,752</b>	<b>56,018,046</b>
<b>Total assets less total liabilities</b>		<b>108,626,930</b>	<b>115,341,624</b>	<b>129,654,724</b>	<b>141,699,504</b>
<b>NET ASSETS</b>					
Capital contributed	20	41,989,046	41,989,046	41,989,046	41,989,046
Accumulated surplus		66,637,884	73,352,578	87,665,679	99,710,458
Attributable to the minority shareholders		-	-	(10,347,351)	12,915,363
Attributable to net asset holder of the Agency		108,626,930	115,341,624	140,002,076	128,784,141
<b>Total net assets</b>		<b>108,626,930</b>	<b>115,341,624</b>	<b>129,654,724</b>	<b>141,699,504</b>
Total of Kangela Citrus (Pty) Ltd ('R)					
Total assets		69,430,058			
Total liabilities		(48,313,015)			
Total net assets		(21,117,043)			
			Attributable to the ECRDA (51%)	Attributable to the minority share (49%)	Total of the ECRDA group (exc Minority)
			35,409,329	34,020,728	161,548,748
			(24,639,638)	(23,673,377)	(42,241,375)
			(10,769,692)	(10,347,351)	140,002,075
					Total of the ECRDA group (inc Minority)
					195,569,476
					(65,914,752)
					129,654,724





## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### CONSOLIDATED SEGMENT REPORT OF FINANCIAL POSITION AS AT 31 MARCH 2018

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

	2018					
	Head Office - Admin (non- segment)	East London Head Office - Project management	Branches Rural Finance	Segments total	Subsidiaries Kangela Citrus	Statement of financial position
	R	R	R	R	R	R
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	1,854,541	8,608,310	32,492,190	41,100,500	13,747,208	56,702,249
Trade and other receivables	2,986,355	18,220,617	58,377	18,278,994	16,685,155	37,950,504
Inventories	91,118	-	-	-	-	91,118
Biological assets and agricultural produce	-	-	-	-	-	-
Loans and advances to customers	-	-	182,414,927	182,414,927	(13,175,000)	169,239,927
Less: Credit impairments on loans	-	-	(123,455,417)	(123,455,417)	-	(123,455,417)
Net loans and advances to customers	-	-	58,959,511	58,959,511	(13,175,000)	45,784,511
	<b>4,932,013</b>	<b>26,828,928</b>	<b>91,510,078</b>	<b>118,339,005</b>	<b>17,257,363</b>	<b>140,528,382</b>
<b>Non-current assets</b>						
Deferred tax	-	-	-	-	1,150,859	1,150,859
Biological assets and agricultural produce	-	-	-	-	21,890,000	21,890,000
Investment under contingency policy	9,839,802	-	-	-	-	9,839,802
Receivable from Arengo 316 (Pty) Ltd	-	-	-	-	-	-
Unsecured loans receivable by Kangela Citrus Farms (Pty) Ltd	-	-	-	-	-	-
Investment property	-	-	1,725,499	1,725,499	-	1,725,499
Property, plant and equipment	7,541,314	-	5,809,689	5,809,689	6,483,243	19,834,246
Intangible assets	422,188	-	-	-	178,500	600,688
	<b>17,803,304</b>	<b>-</b>	<b>7,535,188</b>	<b>7,535,188</b>	<b>29,702,602</b>	<b>55,041,094</b>
<b>Total assets</b>	<b>22,735,317</b>	<b>26,828,928</b>	<b>99,045,266</b>	<b>125,874,193</b>	<b>46,959,965</b>	<b>195,569,476</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Finance lease obligations	966,654	-	224,472	224,472	-	1,191,126
Deferred grant income arising from non-exchange transactions	-	-	15,365,872	15,365,872	-	15,365,872
Trade and other payables	15,898,065	-	76,867	76,867	2,450,820	18,425,751
Loan from South African Fruit Exporters	-	-	-	-	21,701,418	21,701,418
Liabilities arising from non- exchange transactions	-	6,322,107	565,400	6,887,507	-	6,887,507
	<b>16,864,719</b>	<b>6,322,107</b>	<b>16,232,611</b>	<b>22,554,719</b>	<b>24,152,238</b>	<b>63,571,674</b>
<b>Non-current liabilities</b>						
Finance lease obligations	392,468	-	170,675	170,675	-	563,143
Deferred tax	-	-	-	-	1,779,935	1,779,935
	<b>392,468</b>	<b>-</b>	<b>170,675</b>	<b>170,675</b>	<b>1,779,935</b>	<b>2,343,078</b>
<b>Total liabilities</b>	<b>17,257,187</b>	<b>6,322,107</b>	<b>16,403,286</b>	<b>22,725,394</b>	<b>25,932,173</b>	<b>65,914,752</b>
<b>Total assets less total liabilities</b>	<b>5,478,131</b>	<b>20,506,820</b>	<b>82,641,979</b>	<b>103,148,800</b>	<b>21,027,792</b>	<b>129,654,724</b>
<b>NET ASSETS</b>						
Capital contributed	41,989,046	-	-	-	-	41,989,046
Accumulated surplus	66,637,884	-	-	-	21,027,794	87,665,679
Attributable to net asset holder	108,626,930	-	-	-	21,027,794	129,654,724
<b>Total net assets</b>	<b>108,626,930</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,027,794</b>	<b>129,654,724</b>



<b>2017</b>						
	Head Office - Admin (non- segment)	<b>East London</b> Head Office - Project management	<b>Branches</b> Rural Finance	Segments total	<b>Subsidiaries</b> Kangela Citrus	Statement of financial position
	R	R	R	R	R	R
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	15,940,730	17,357,602	41,343,889	58,701,491	7,214	74,649,434
Trade and other receivables	2,458,168	10,140,543	68,659	10,209,202	803,591	13,470,961
Inventories	123,971	-	-	-	388,592	512,563
Biological assets and agricultural produce	-	-	-	-	7,602,369	7,602,369
Loans and advances to customers	-	-	154,039,429	154,039,429	-	154,039,429
Less: Credit impairments on loans	-	-	(103,106,866)	(103,106,866)	-	(103,106,866)
Net loans and advances to customers	-	-	50,932,563	50,932,563	-	50,932,563
	<b>18,522,869</b>	<b>27,498,145</b>	<b>92,345,111</b>	<b>119,843,256</b>	<b>8,801,766</b>	<b>147,167,891</b>
<b>Non-current assets</b>						
Deferred tax	-	-	-	-	60,862	60,862
Biological assets and agricultural produce	-	-	-	-	15,947,000	15,947,000
Investment under contingency policy	9,216,355	-	-	-	-	9,216,355
Receivable from Arengo 316 (Pty) Ltd	-	-	-	-	-	-
Unsecured loans receivable by Kangela Citrus Farms (Pty) Ltd	-	-	-	-	124,791	124,791
Investment property	-	-	1,763,716	1,763,716	-	1,763,716
Property, plant and equipment	9,582,032	-	5,741,871	5,741,871	7,668,935	22,992,839
Intangible assets	265,596	-	-	-	178,500	444,096
	<b>19,063,983</b>	<b>-</b>	<b>7,505,587</b>	<b>7,505,587</b>	<b>23,980,088</b>	<b>50,549,659</b>
<b>Total assets</b>	<b>37,586,852</b>	<b>27,498,145</b>	<b>99,850,698</b>	<b>127,348,843</b>	<b>32,781,854</b>	<b>197,717,550</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Finance lease obligations	371,036	-	224,472	224,472	-	595,508
Deferred grant income arising from non-exchange transactions	-	-	12,149,079	12,149,079	-	12,149,079
Trade and other payables	22,284,046	45,742	72,665	118,407	4,058,539	26,460,992
Loan from South African Fruit Exporters	-	-	-	-	-	-
Liabilities arising from non- exchange transactions	-	13,250,731	576,820	13,827,551	-	13,827,551
	22,655,082	13,296,473	13,023,036	26,319,509	4,058,539	<b>53,033,130</b>
<b>Non-current liabilities</b>						
Finance lease obligations	404,924	-	214,560	214,560	-	619,484
Deferred tax	-	-	-	-	2,365,431	2,365,431
	<b>404,924</b>	<b>-</b>	<b>214,560</b>	<b>214,560</b>	<b>2,365,431</b>	<b>2,984,915</b>
<b>Total liabilities</b>	<b>23,060,006</b>	<b>13,296,473</b>	<b>13,237,596</b>	<b>26,534,069</b>	<b>6,423,970</b>	<b>56,018,046</b>
<b>Total assets less total liabilities</b>	<b>14,526,846</b>	<b>14,201,672</b>	<b>86,613,102</b>	<b>100,814,774</b>	<b>26,357,884</b>	<b>141,699,504</b>
<b>NET ASSETS</b>						
Capital contributed	41,989,046	-	-	-	-	41,989,046
Accumulated surplus	73,352,578	-	-	-	26,357,880	99,710,458
Attributable to net asset holder	115,341,624	-	-	-	26,357,880	141,699,504
<b>Total net assets</b>	<b>115,341,624</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,357,880</b>	<b>141,699,504</b>

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### CONSOLIDATED SEGMENT REPORT OF FINANCIAL POSITION AS AT 31 MARCH 2018

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

	<b>2018</b>					
	<b>Rural Finance Segment Breakdown</b>					
	King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha & Lusikisiki	Queenstown & Engcobo	Kokstad
	<b>Amathole</b>	<b>Nelson Mandela Metro</b>	<b>Karoo</b>	<b>OR Tambo</b>	<b>Chris Hani</b>	<b>Alfred Nzo</b>
	R	R	R	R	R	R
<b>ASSETS</b>						
Current Assets	11,124,736	4,620,155	74,653	4,815,174	5,738,374	6,119,098
Cash and cash equivalents	-	-	-	58,377	-	-
Trade and other receivables	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Biological assets and agricultural produce	-	-	-	-	-	-
Loans and advances to customers	62,455,558	25,938,088	419,112	27,032,945	32,215,898	34,353,326
	(42,269,026)	(17,554,442)	(283,648)	(18,295,421)	(21,803,153)	(23,249,727)
Less: Credit impairments on loans	20,186,532	8,383,646	135,464	8,737,523	10,412,745	11,103,599
Net loans and advances to customers	31,311,268	13,003,802	210,118	13,611,074	16,151,119	17,222,697
<b>Non-current assets</b>						
Deferred tax	-	-	-	-	-	-
Biological assets and agricultural produce	-	-	-	-	-	-
Investment under contingency policy	-	-	-	-	-	-
Receivable from Arengo 316 (Pty) Ltd	-	-	-	-	-	-
Unsecured loans receivable by Kangela Citrus Farms (Pty) Ltd	-	-	-	-	-	-
Investment property	-	-	-	1,725,499	-	-
Property, plant and equipment	3,260,132	356,369	925,410	490,347	264,893	512,538
Intangible assets	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-
	3,260,132	356,369	925,410	2,215,846	264,893	512,538
<b>Total assets</b>	<b>34,571,400</b>	<b>13,360,171</b>	<b>1,135,527</b>	<b>15,826,920</b>	<b>16,416,012</b>	<b>17,735,235</b>



<b>2017</b>						
<b>Rural Finance Segment Breakdown</b>						
	King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha & Lusikisiki	Queenstown & Engcobo	Kokstad
	<b>Amathole</b>	<b>Nelson Mandela Metro</b>	<b>Karoo</b>	<b>OR Tambo</b>	<b>Chris Hani</b>	<b>Alfred Nzo</b>
	R	R	R	R	R	R
<b>ASSETS</b>						
Current Assets	7,201,266	15,776,475	7,323,108	233,317	3,732,973	7,076,750
Cash and cash equivalents	-	-	-	68,659	-	-
Trade and other receivables	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Biological assets and agricultural produce						
Loans and advances to customers	26,868,333	58,862,920	27,322,930	653,559	13,927,933	26,403,755
	(17,984,418)	(39,400,115)	(18,288,705)	(437,462)	(9,322,714)	(17,673,452)
Less: Credit impairments on loans	8,883,915	19,462,805	9,034,225	216,097	4,605,219	8,730,303
Net loans and advances to customers	16,085,181	35,239,280	16,357,333	16,357,333	8,338,192	15,807,053
<b>Non-current assets</b>						
Deferred tax	-	-	-	-	-	-
Biological assets and agricultural produce	-	-	-	-	-	-
Investment under contingency policy	-	-	-	-	-	-
Receivable from Arengo 316 (Pty) Ltd	-	-	-	-	-	-
Unsecured loans receivable by Kangela Citrus Farms (Pty) Ltd	-	-	-	-	-	-
Investment property				1,763,716		
Property, plant and equipment	3,908,016	338,100	1,034,148	227,802	86,824	146,980
Intangible assets	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-
	3,908,016	338,100	1,034,148	1,991,518	86,824	146,980
<b>Total assets</b>	<b>19,993,197</b>	<b>35,577,380</b>	<b>17,391,481</b>	<b>2,509,591</b>	<b>8,425,017</b>	<b>15,954,033</b>







## | EASTERN CAPE RURAL DEVELOPMENT AGENCY

<b>CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 31 MARCH 2018</b>
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	Notes	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>INCOME</b>		<b>259,374,954</b>	213,823,954	<b>286,615,096</b>	267,640,303
<b>Revenue from non-exchange transactions</b>		<b>244,748,492</b>	200,100,878	<b>244,769,246</b>	200,273,790
Government grant from the Eastern Cape Department of Rural Development and Agrarian Reform - operational		<b>166,089,000</b>	186,267,000	<b>166,089,000</b>	186,267,000
Government funding for additional specified transfers and payments		<b>70,246,170</b>	12,319,431	<b>70,246,170</b>	12,319,431
National Skills Fund		<b>179,447</b>	160,395	<b>179,447</b>	160,395
Other income	22.1	<b>8,233,875</b>	1,354,052	<b>8,254,629</b>	1,526,964
<b>Revenue from exchange transactions</b>		<b>14,626,462</b>	13,723,076	<b>41,845,850</b>	67,366,513
Interest income on cash and investments		<b>2,328,736</b>	3,222,450	<b>2,342,615</b>	3,276,447
Interest income on loans and advances		<b>5,179,815</b>	2,561,391	<b>5,179,815</b>	2,561,391
Interest income on concessionary loans		<b>1,303,181</b>	1,653,881	<b>1,303,181</b>	1,653,881
Commission fees for managing projects		<b>3,008,497</b>	3,507,396	<b>3,008,497</b>	3,507,396
Fair value adjustments		<b>1,253,374</b>	1,021,235	<b>2,936,935</b>	20,677,348
Gain on disposal of property, plant and equipment		-	256,440	-	256,440
Loan initiation fees		<b>144,144</b>	51,200	<b>144,144</b>	51,200
Provisions for bad debts on loans reversed		-	235,152	-	235,153
Rental income from investment property		<b>1,408,715</b>	1,213,932	<b>1,408,715</b>	1,213,932
Revenue from non-exchange transactions		-	-	-	1,636,201
Sale of goods - produce		-	-	<b>25,521,947</b>	32,297,125
<b>EXPENSES</b>		<b>265,715,489</b>	213,227,409	<b>299,961,209</b>	260,479,874
Administrative expenses	22.2	<b>12,061,452</b>	11,282,199	<b>12,256,788</b>	11,865,302
Audit fees		<b>3,775,323</b>	3,414,480	<b>3,905,182</b>	3,576,856
Cost of sales		-	-	<b>28,288,569</b>	43,088,695
Fee - MAFISA Scheme		<b>421,046</b>	496,500	<b>421,046</b>	496,500
Finance costs		<b>17,388</b>	16,613	<b>138,835</b>	74,591
Marketing and social facilitation		<b>1,701,878</b>	838,628	<b>1,701,878</b>	838,628
Other operating expenses	22.3	<b>71,832,835</b>	54,927,728	<b>76,999,279</b>	57,402,229
Project expenses		<b>36,113,282</b>	30,653,876	<b>36,113,282</b>	30,653,876
Skills levy		<b>681,315</b>	835,468	<b>681,315</b>	835,468
Staff costs	22.4	<b>81,692,053</b>	80,558,410	<b>82,036,118</b>	81,444,222
Transfer payments		<b>56,559,000</b>	24,064,000	<b>56,559,000</b>	24,064,000
- Majola Tea		<b>5,644,000</b>	1,800,000	<b>5,644,000</b>	1,800,000
- Ncera Macadamia		<b>10,000,000</b>	16,700,000	<b>10,000,000</b>	16,700,000
- Chris Hani Development Agency		-	2,550,000	-	2,550,000
- Summerpride Pineapple Programme		<b>1,500,000</b>	-	<b>1,500,000</b>	-
- Magwa Tea		<b>39,415,000</b>	3,014,000	<b>39,415,000</b>	3,014,000
Social benefit from concessionary loans		<b>853,331</b>	553,308	<b>853,331</b>	553,308
Write off of irrecoverable debts		<b>6,586</b>	5,586,200	<b>6,586</b>	5,586,200
NET SURPLUS/(DEFICIT)		<b>(6,340,535)</b>	596,545	<b>(13,346,113)</b>	7,160,429
Sale and scrapping of property, plant and equipment		<b>(374,159)</b>	-	<b>(374,159)</b>	-
SURPLUS/(DEFICIT) BEFORE TAXATION		<b>(6,714,694)</b>	596,545	<b>(13,720,272)</b>	7,160,429
Taxation		-	-	<b>1,675,493</b>	(1,534,489)
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(6,714,694)</b>	596,545	<b>(12,044,779)</b>	5,625,940
Profit/(Loss) of subsidiary attributable to: ECRDA (51%)		<b>(6,714,694)</b>	596,545	<b>(2,718,343)</b>	2,564,992
Minority Share (49%)		-	-	<b>(2,611,742)</b>	<b>2,464,404</b>





## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### CONSOLIDATED SEGMENT REPORT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2018

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

	2018					
	Head Office - Admin (non- segment)	East London	Branches	Segments total	Subsidiaries	Statement of financial performance
	R	Head Office - Project management R	Rural Finance R	R	Kangela Citrus R	R
<b>INCOME</b>	<b>173,525,242</b>	<b>76,743,905</b>	<b>9,105,807</b>	<b>85,849,712</b>	<b>27,240,142</b>	<b>286,615,096</b>
<b>Revenue from non-exchange transactions</b>	167,625,453	76,721,635	401,404	77,123,040	20,754	244,769,246
Government funding	166,089,000	70,246,170	-	70,246,170	-	236,155,723
National Skills Fund	179,447	-	-	-	-	179,447
Other income	1,357,005	6,475,465	401,404	6,876,870	20,754	8,254,629
<b>Revenue from exchange transactions</b>	5,899,789	22,270	8,704,402	8,726,672	27,219,388	41,845,850
Interest income on cash and investments	1,553,459	22,270	753,007	775,277	13,880	2,342,615
Interest income on loans and advances	84,460	-	5,095,355	5,095,355	-	5,179,815
Interest income on concessionary loans	-	-	1,303,181	1,303,181	-	1,303,181
Commission fees for managing projects	3,008,497	-	-	-	-	3,008,497
Fair value adjustments	1,253,374	-	-	-	1,683,562	2,936,935
Loan initiation fees	-	-	144,144	144,144	-	144,144
Provisions for bad debts on loans reversed	-	-	-	-	-	-
Rental income from investment property	-	-	1,408,715	1,408,715	-	1,408,715
Gain on disposal of property, plant and equipment	-	-	-	-	-	-
Revenue from non-exchange transactions	-	-	-	-	-	-
Sale of goods - produce	-	-	-	-	25,521,947	25,521,947
<b>EXPENSES</b>	<b>128,197,645</b>	<b>78,630,211</b>	<b>58,887,633</b>	<b>137,517,844</b>	<b>34,245,720</b>	<b>299,961,209</b>
Administrative expenses	9,948,629	313,365	1,799,458	2,112,823	195,336	12,256,788
Audit fees	2,024,048	447,134	1,304,141	1,751,274	129,859	3,905,182
Cost of sales	-	-	-	-	28,288,569	28,288,569
Fee - MAFISA Scheme	-	-	421,046	421,046	-	421,046
Finance costs	7,637	2,530	7,221	9,751	121,447	138,835
Marketing and social facilitation	967,655	715,935	18,288	734,223	-	1,701,878
Other operating expenses	21,536,103	21,121,786	29,174,945	50,296,732	5,166,444	76,999,279
Project expenses	15,000	36,098,282	-	36,098,282	-	36,113,282
Skills levy	681,315	-	-	-	-	681,315
Staff costs	36,458,257	19,931,179	25,302,617	45,233,796	344,066	82,036,118
Subsidiaries and transfer payments	56,559,000	-	-	-	-	56,559,000
Social benefit from concessionary loans	-	-	853,331	853,331	-	853,331
Write off of irrecoverable debts	-	-	6,586	6,586	-	6,586
NET (DEFICIT)/SURPLUS	45,327,597	(1,886,306)	(49,781,826)	(51,668,132)	(7,005,578)	(13,346,113)
Sale and scrapping of property, plant and equipment	(149,152)	(225,007)	-	(225,007)	-	(374,159)
(DEFICIT)/SURPLUS BEFORE TAXATION	45,178,445	(2,111,313)	(49,781,826)	(51,893,139)	(7,005,578)	(13,720,272)
Taxation	-	-	-	-	1,675,493	1,675,493
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>45,178,445</b>	<b>(2,111,313)</b>	<b>(49,781,826)</b>	<b>(51,893,139)</b>	<b>(5,330,085)</b>	<b>(12,044,779)</b>

2017						
	Head Office - Admin (non- segment)	East London Head Office - Project management	Branches Rural Finance	Segments total	Subsidiaries Kangela Citrus	Statement of financial performance
	R	R	R	R	R	R
<b>INCOME</b>	188,820,311	18,356,981	6,646,662	25,003,643	53,816,348	267,640,302
<b>Revenue from non-exchange transactions</b>	181,484,615	18,299,431	316,832	18,616,263	172,912	200,273,790
Government funding	180,317,000	18,269,431	-	18,269,431	-	198,586,431
National Skills Fund	160,395	-	-	-	-	160,395
Other income	1,007,220	30,000	316,832	346,832	172,912	1,526,964
<b>Revenue from exchange transactions</b>	7,335,696	57,550	6,329,830	6,387,380	53,643,436	67,366,512
Interest income on cash and investments	2,509,628	25,653	687,169	712,822	53,997	3,276,447
Interest income on loans and advances	72,895	-	2,488,496	2,488,496	-	2,561,391
Interest income on concessionary loans	-	-	1,653,881	1,653,881	-	1,653,881
Commission fees for managing projects	3,475,498	31,897	-	31,897	-	3,507,396
Fair value adjustments	1,021,235	-	-	-	19,656,113	20,677,348
Loan initiation fees	-	-	51,200	51,200	-	51,200
Provisions for bad debts on loans reversed	-	-	235,152	235,152	-	235,152
Rental income from investment property	-	-	1,213,932	1,213,932	-	1,213,932
Gain on disposal of property, plant and equipment	256,440	-	-	-	-	256,440
Revenue from non-exchange transactions	-	-	-	-	1,636,201	1,636,201
Sale of goods - produce	-	-	-	-	32,297,125	32,297,125
<b>EXPENSES</b>	104,880,608	65,516,786	42,830,014	108,346,800	47,252,464	260,479,873
Administrative expenses	8,780,699	1,063,804	1,437,698	2,501,501	583,104	11,865,304
Audit fees	1,561,788	376,822	1,475,870	1,852,692	162,375	3,576,855
Cost of sales	-	-	-	-	43,088,695	43,088,695
Fee - MAFISA Scheme	-	-	496,500	496,500	-	496,500
Finance costs	16,058	528	28	555	57,978	74,591
Marketing and social facilitation	812,674	-	25,954	25,954	-	838,628
Other operating expenses	32,917,511	14,373,142	7,637,075	22,010,217	2,474,501	57,402,229
Project expenses	24,500	30,629,376	-	30,629,376	-	30,653,876
Skills levy	835,468	-	-	-	-	835,468
Staff costs	35,788,332	19,073,115	25,696,962	44,770,076	885,811	81,444,219
Subsidiaries and transfer payments	24,064,000	-	-	-	-	24,064,000
Social benefit from concessionary loans	-	-	553,308	553,308	-	553,308
Write off of irrecoverable debts	79,579	-	5,506,621	5,506,621	-	5,586,200
NET (DEFICIT)/SURPLUS	83,939,702	(47,159,805)	(36,183,352)	(83,343,157)	6,563,884	7,160,429
Sale and scrapping of property, plant and equipment	-	-	-	-	-	-
(DEFICIT)/SURPLUS BEFORE TAXATION	83,939,702	(47,159,805)	(36,183,352)	(83,343,157)	6,563,884	7,160,429
Taxation	-	-	-	-	(1,534,489)	(1,534,489)
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>83,939,702</b>	<b>(47,159,805)</b>	<b>(36,183,352)</b>	<b>(83,343,157)</b>	<b>5,029,395</b>	<b>5,625,940</b>

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### CONSOLIDATED SEGMENT REPORT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2018

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

	2018					
	Rural Finance Segment Breakdown					
	King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha & Lusikisiki	Queenstown & Engcobo	Kokstad
	Amathole	Nelson Mandela Metro	Karoo	OR Tambo	Chris Hani	Alfred Nzo
	R	R	R	R	R	R
<b>INCOME</b>	<b>3,760,592</b>	<b>131,417</b>	<b>265,945</b>	<b>2,385,135</b>	<b>1,509,733</b>	<b>1,052,985</b>
<b>Revenue from non-exchange transactions</b>	256,420	-	-	88,679	-	56,305
Other income	256,420	-	-	88,679	-	56,305
<b>Revenue from exchange transactions</b>	<b>3,504,171</b>	<b>131,417</b>	<b>265,945</b>	<b>2,296,456</b>	<b>1,509,733</b>	<b>996,680</b>
Interest income on cash and investments	753,007	-	-	-	-	-
Interest income on loans and advances	1,305,040	131,117	265,945	887,441	1,509,433	996,380
Interest income on concessionary loans	1,303,181	-	-	-	-	-
Commission fees for managing projects	-	-	-	-	-	-
Loan initiation fees	142,944	300	-	300	300	300
Provisions for bad debts on loans reversed	-	-	-	-	-	-
Rental income from investment property	-	-	-	1,408,715	-	-
<b>EXPENSES</b>	<b>31,298,166</b>	<b>4,783,947</b>	<b>5,197,203</b>	<b>6,601,843</b>	<b>5,905,931</b>	<b>5,100,543</b>
Administrative expenses	755,354	210,136	136,934	224,178	235,634	237,221
Audit fees	298,089	186,306	298,089	223,567	298,089	-
Fee - MAFISA Scheme	421,046	-	-	-	-	-
Finance costs	-	-	7,221	-	-	-
Marketing and social facilitation	914	1,984	-	-	-	15,390
Other operating expenses	22,016,603	1,226,596	806,986	2,369,840	1,495,375	1,259,544
Project expenses	-	-	-	-	-	-
Skills levy	-	-	-	-	-	-
Staff costs	6,951,842	3,158,880	3,947,972	3,782,584	3,873,735	3,587,604
Social benefit from concessionary loans	853,331	-	-	-	-	-
Write off of irrecoverable debts	987	45	-	1,674	3,098	784
NET (DEFICIT)/SURPLUS	(27,537,574)	(4,652,530)	(4,931,258)	(4,216,708)	(4,396,198)	(4,047,558)
Sale and scrapping of property, plant and equipment	-	-	-	-	-	-
(DEFICIT)/SURPLUS BEFORE TAXATION						
Taxation	(27,537,574)	(4,652,530)	(4,931,258)	(4,216,708)	(4,396,198)	(4,396,198)
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>(27,537,574)</b>	<b>(4,652,530)</b>	<b>(4,931,258)</b>	<b>(4,216,708)</b>	<b>(4,396,198)</b>	<b>(4,047,558)</b>



2017						
Rural Finance Segment Breakdown						
	King Williams Town & Butterworth	Port Elizabeth	Cradock	Mthatha & Lusikisiki	Queenstown & Engcobo	Kokstad
	Amathole	Nelson Mandela Metro	Karoo	OR Tambo	Chris Hani	Alfred Nzo
	R	R	R	R	R	R
<b>INCOME</b>	<b>3,671,130</b>	<b>110,010</b>	<b>307,103</b>	<b>2,289,918</b>	<b>99,466</b>	<b>169,036</b>
<b>Revenue from non-exchange transactions</b>	306,895	-	-	9,900	38	-
Other income	306,895	-	-	9,900	38	-
<b>Revenue from exchange transactions</b>	<b>3,364,235</b>	<b>110,010</b>	<b>307,103</b>	<b>2,280,018</b>	<b>99,428</b>	<b>169,036</b>
Interest income on cash and investments	687,169	-	-	-	-	-
Interest income on loans and advances	775,433	107,910	303,303	1,050,686	91,128	160,036
Interest income on concessionary loans	1,653,881	-	-	-	-	-
Commission fees for managing projects	-	-	-	-	-	-
Loan initiation fees	12,600	2,100	3,800	15,400	8,300	9,000
Provisions for bad debts on loans reversed	235,152	-	-	-	-	-
Rental income from investment property	-	-	-	1,213,932	-	-
<b>EXPENSES</b>	<b>13,985,280</b>	<b>4,446,206</b>	<b>4,708,536</b>	<b>7,174,283</b>	<b>5,739,914</b>	<b>6,775,796</b>
Administrative expenses	732,198	167,392	73,670	128,990	200,710	134,736
Audit fees	319,116	194,476	277,618	155,881	290,411	238,368
Fee - MAFISA Scheme	496,500	-	-	-	-	-
Finance costs	-	-	28	-	-	-
Marketing and social facilitation	-	12,769	-	-	-	13,185
Other operating expenses	1,737,151	1,187,357	640,640	1,702,160	1,327,148	1,042,619
Project expenses	-	-	-	-	-	-
Skills levy	-	-	-	-	-	-
Staff costs	7,806,646	2,884,213	3,716,580	3,868,160	3,920,809	3,500,554
Social benefit from concessionary loans	553,308	-	-	-	-	-
Write off of irrecoverable debts	2,340,361	-	-	1,319,092	836	1,846,333
NET (DEFICIT)/SURPLUS	(10,314,150)	(4,336,196)	(4,401,433)	(4,884,365)	(5,640,448)	(6,606,760)
Sale and scrapping of property, plant and equipment						
(DEFICIT)/SURPLUS BEFORE TAXATION						
Taxation	(10,314,150)	(4,336,196)	(4,401,433)	(4,884,365)	(5,640,448)	(6,606,760)
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>	<b>(10,314,150)</b>	<b>(4,336,196)</b>	<b>(4,401,433)</b>	<b>(4,884,365)</b>	<b>(5,640,448)</b>	<b>(6,606,760)</b>

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2018

<b>AGENCY</b>			
<b>Attributable to net asset holder of the Agency</b>			
	<b>Capital contributed</b>	<b>Accumulated surplus</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>
<b>Balance as at 31 March 2016</b>	41,989,046	75,827,396	117,816,442
Surplus for the year	-	596,545	596,545
North Pondoland Sugar merger	-	47,637	47,637
Surrender to Treasury	-	(3,119,000)	(3,119,000)
<b>Balance as at 31 March 2017</b>	41,989,046	73,352,578	115,341,624
Surplus for the year	-	(6,714,694)	(6,714,694)
<b>Balance as at 31 March 2018</b>	<b>41,989,046</b>	<b>66,637,884</b>	<b>108,626,930</b>
<b>GROUP</b>			
<b>Attributable to net asset holder of the Agency</b>			
	<b>Capital contributed</b>	<b>Accumulated surplus</b>	<b>Total</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Balance at 31 March 2010	41,989,046	85,960,029	127,949,075
Surplus for the year as previously reported	-	129,868,861	129,868,861
<b>Balance at 31 March 2011 as previously report</b>	41,989,046	215,828,890	257,817,936
Effect of prior year adjustments:			
North Pondoland Sugar (Proprietary) Limited	-	73,023	73,023
AsgiSA - Eastern Cape (Proprietary) Limited	-	(1,944,854)	(1,944,854)
Kangela Citrus Farm (Proprietary) Limited	-	(87,539)	(87,539)
<b>Restated balance at 31 March 2011</b>	41,989,046	213,869,520	255,858,566
Prior year adjustment: Surrender of funds to Treasury	-	(79,169,829)	(79,169,829)
Deficit for the year	-	(100,053,694)	(100,053,694)
<b>Balance at 31 March 2012</b>	41,989,046	34,645,997	76,635,043
Prior year adjustments by Kangela Citrus Farm	-	(327,198)	(327,198)
<b>Restated balance at 31 March 2012</b>	41,989,046	34,318,799	76,307,845
Revaluation adjustment by Kangela Citrus Farm	-	(4,245)	(4,245)
Surplus for the year	-	27,957,856	27,957,856
Reserve of ARDA for Arengo from sale of assets	-	(30,015)	(30,015)
Prior year adjustments	-	22,743,042	22,743,042
<b>Restated balance at 31 March 2013</b>	41,989,046	84,985,437	126,974,483
Kangela Citrus Farms revaluation reserve	-	(29,750)	(29,750)
Shares of NPL and reserves account	-	319,080	319,080
Surplus for the year	-	3,428,439	3,428,439
Derecognise prescribed liability	-	5,227,093	5,227,093
Prior year adjustments	-	1,226,492	1,226,492
<b>Balance as at 31 March 2014</b>	41,989,046	95,156,791	137,145,837
Revaluations and shares	-	(3,195,387)	(3,195,387)
Prior year adjustments	-	80,264	80,264
Surplus for the year	-	30,874,137	30,874,137
<b>Balance as at 31 March 2015</b>	41,989,046	122,915,805	164,904,851
Surplus for the year	-	(18,567,290)	(18,567,290)
Prior year adjustments	-	14,197	14,197
Surrender to Treasury	-	(22,547,000)	(22,547,000)
Kangela Citrus Farms non-exchange transactions	-	1,920,458	1,920,458
ARDA merger	-	13,456,622	13,456,622
<b>Balance as at 31 March 2016</b>	41,989,046	97,192,792	139,181,838
Surplus for the year	-	5,625,941	5,625,941
North Pondoland Sugar merger	-	10,725	10,725
Surrender to Treasury	-	(3,119,000)	(3,119,000)
<b>Balance as at 31 March 2017</b>	41,989,046	99,710,458	141,699,504
Surplus for the year	-	(12,044,779)	(12,044,779)
<b>Balance as at 31 March 2018</b>	<b>41,989,046</b>	<b>87,665,679</b>	<b>129,654,725</b>

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2018

The Eastern Cape Rural Development Agency (ECRDA) publicly disclosed budget is prepared on the cash basis whilst the financial statements are 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 are based per income and expenditure line items. Both the financial statements and the budget covers the period 1 April 2017 to 31 March 2018. The comparison of budget and actual amounts are based on the MTEF Budget narrative as presented to the Department of Rural Development and Agrarian Reform and the Eastern Cape Provincial Treasury, thus budgets that are publicly available.

	Actual 2016/17	Actual 2017/18	Budget 2017/18	Over / (Under) Budget
<b>Revenue</b>	<b>204,171,724</b>	<b>248,088,068</b>	<b>231,231,000</b>	<b>16,857,068</b>
Interest, dividends and rentals (a)	4,436,382	3,737,451	4,480,000	(742,549)
Other non-tax revenue (b)	1,148,911	8,015,447	5,603,000	2,412,447
Government Grants (c)	168,140,000	221,148,000	221,148,000	-
Government Transfers & Payments received (d)	30,446,431	15,187,170	-	15,187,170
	Actual 2016/17	Actual 2017/18	Budget 2017/18	(Over) / Under Budget
<b>Expenses</b>	<b>179,066,907</b>	<b>224,521,773</b>	<b>218,746,000</b>	<b>(6,052,083)</b>
Compensation of employees (e)	80,558,410	81,692,053	85,625,000	3,656,638
Goods and services (f)	67,332,196	79,125,785	70,377,000	(8,748,785)
Interest, dividends and rentals (g)	7,112,301	7,144,936	7,685,000	540,064
Transfer Payments Made (h)	24,064,000	56,559,000	55,059,000	(1,500,000)
<b>Surplus / (Deficit) Excluding Items of Capital Nature &amp; Results from Lending Activities</b>	<b>25,104,817</b>	<b>23,566,295</b>	<b>12,485,000</b>	<b>10,804,985</b>
	Actual 2016/17	Actual 2017/18	Budget 2017/18	(Over) / Under Budget
<b>Budgeted Items of a Statement of Financial Position Nature</b>				
<b>Items of Capital Nature</b>	<b>19,140,815</b>	<b>25,621,956</b>	<b>12,485,000</b>	<b>(13,136,956)</b>
Capital Expenditure, including intangibles (i)	3,411,633	2,889,152	4,219,000	1,329,848
Loans Disbursed (j)	15,729,182	22,732,803	8,266,000	(14,466,803)

#### 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 as no additional administered funds or projects were secured during the year from which the ECRDA could earn interest.
- (b) Other non-tax revenue exceeded the budget expectations due to the recovery of expenses incurred by ECRDA on Jobs Fund projects.
- (c) Transfers received were in line with voted funds after the November 2017 Adjustments Estimates
- (d) Government transfers and payments not originally included in the MTEF budget included project implementation funding from OTP (R2,8m), transfer funding for the Summerpride Pineapple Project by DRDAR (R1,5m) and Jobs Fund contributions received (R10,8m)
- (e) Compensation of employees (COE) were less than expected due to the decline in staff numbers and the decision of ECRDA only to fill critical positions whilst the review of the organisational structure is underway.
- (f) The expenditure on goods and services were more than what was budgeted for, funded by the additional income generated.



- (g) The expenditure on rentals was less than budgeted for as part of cost containment measures by ECRDA to manage escalation clauses and using the same premises as DRDAR for the Butterworth satellite office (rent-free)
- (h) Transfers payments made include the transfers paid to Magwa and Majola Tea Estates which are under business rescue (R45m), the Ncera Macadamia project (R10m) and the Summerpride Pineapple Project (R1,5m). An additional transfer payment was received from DRDAR for the said pineapple project. The ECRDA allocates expenditure on project and programme implementation as goods and services and not as transfer payments paid out to other companies/individuals to ensure alignment to DRDAR and OTP.
- (i) Capital expenditure to support ECRDA's own operations are included. Improvements to investment property was delayed due to prior year intervention from Provincial Treasury and own funds cash flow management.
- (j) Loans disbursed exceeded the annual allocation for the year and the additional loans disbursed were funded from additional revenue generated. ECRDA made a R13m working capital loan to its subsidiary, Kangela Citrus (Pty), necessitated by operational requirements and the exit of SAFE as the management company of Kangela

### RECONCILIATION BETWEEN THE DETAILED INCOME STATEMENT AND THE BUDGET VERSUS ACTUAL COMPARISON:

	Actual 2017/18	Actual 2016/17
<b>Total Income as per Income Statement</b>	259,368,367	208,237,754
Results from Lending activities	(7,018,428)	954,193
Fair value adjustments and Reversal of impairments and provisions	(1,253,374)	(1,256,387)
Commission fees for managing projects (accrued)	(3,008,497)	(3,507,396)
Gain on disposal of assets	-	(256,440)
<b>Total Income for comparison of budget and actual income</b>	<b>248,088,068</b>	<b>204,171,724</b>
<b>Total Expenses as per Income Statement</b>	266,083,061	207,641,209
Add:		
Depreciation	(3,892,990)	(3,766,580)
Bad debts - rental and other income	-	(665)
Bad debts - Loans	(20,348,347)	-
Fair value adjustment on sale of biological assets	-	-
Fee - MAFISA Scheme	(421,046)	(496,500)
Impairment loss	(391,189)	(7,172,446)
Fair value adjustments and impairments	(1,584,621)	(142,649)
Scrapping of obsolete property, plant and equipment	(374,159)	-
Minor assets expensed	(8,435)	(12,324)
Project implemented on behalf of funders (DRDAR & OTP)	(13,687,171)	(16,429,831)
Social benefit from concessionary loans	(853,331)	(553,307)
<b>Total Expenses for comparison of budget and actual income</b>	<b>224,521,773</b>	<b>179,066,907</b>
<b>Net result</b>	<b>23,566,295</b>	<b>25,104,817</b>

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

#### CASH FLOWS FROM OPERATING ACTIVITIES

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts	<b>228,496,720</b>	262,652,096	<b>228,531,354</b>	264,515,206
Grants received	<b>166,089,000</b>	186,267,000	<b>166,089,000</b>	186,267,000
Interest received on cash and cash equivalents (both on own funds and on liabilities arising from non-exchange transactions)	<b>7,508,551</b>	5,783,841	<b>7,522,430</b>	5,837,838
Non-exchange transfers arising from administered funds	<b>69,964,758</b>	61,175,020	<b>69,964,758</b>	61,175,020
Net movement in loans and advances to customers before credit impairments	<b>(27,896,123)</b>	3,190,461	<b>(27,896,123)</b>	3,190,461
Other receipts from commission and fees	<b>12,830,535</b>	6,235,774	<b>12,851,289</b>	8,044,887
Less: Payments	<b>257,190,141</b>	298,395,602	<b>242,818,027</b>	290,929,786
Employee costs	<b>81,692,053</b>	80,558,410	<b>82,036,118</b>	81,444,222
Disbursements of non-exchange transactions from administered funds	<b>86,743,122</b>	88,565,199	<b>86,743,122</b>	88,565,199
Payments to suppliers	<b>88,754,966</b>	129,271,993	<b>74,038,787</b>	120,920,365
Cash (outflows) / inflows from operating activities	<b>A (28,693,420)</b>	(35,743,506)	<b>(14,286,673)</b>	(26,414,580)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition and transfer of property, plant and equipment	<b>(2,585,109)</b>	(3,268,163)	<b>(3,087,314)</b>	(3,463,519)
Proceeds on disposal of property, plant and equipment and	-	256,440	-	256,440
Acquisition of intangible assets	<b>(304,043)</b>	(143,470)	<b>(304,043)</b>	(143,470)
Cash invested under contingency policy and related admin fees on policy	<b>(623,447)</b>	(636,525)	<b>(623,447)</b>	(636,525)
Cash (outflows) / inflows from investing activities	<b>(3,512,599)</b>	(3,791,718)	<b>(4,014,803)</b>	(3,987,074)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Decrease in finance lease obligations	<b>539,277</b>	(854,962)	<b>496,175</b>	(898,064)
Loan repayment (SAFE)	-	-	-	(8,801,281)
Finance costs	<b>(17,388)</b>	(16,613)	<b>(138,835)</b>	(74,591)
Penalties and Fines	<b>(3,048)</b>	-	<b>(3,048)</b>	(281,430)
Cash (outflows) / inflows from financing activities	<b>518,840</b>	(871,575)	<b>354,292</b>	(10,055,366)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(31,687,179)</b>	(40,406,799)	<b>(17,947,185)</b>	(40,457,020)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>6 74,642,220</b>	115,049,019	<b>74,649,434</b>	115,106,454
<b>Cash and cash equivalents at the end of the year</b>	<b>6 42,955,041</b>	<b>74,642,220</b>	<b>56,702,249</b>	<b>74,649,434</b>

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>A. RECONCILIATION OF NET CASH FLOWS FROM OPERATING</b>				
<b>activities to surplus before taxation</b>				
<b>Surplus (Deficit) before taxation</b>	<b>(6,714,694)</b>	596,545	<b>(13,720,272)</b>	7,160,430
Adjusted for:				
Non cash flow items in surplus / (deficit) before taxation				
- Depreciation of investment property and property, and plant equipment	<b>3,892,990</b>	3,766,580	<b>5,116,077</b>	5,008,015
- Loan written off to income	-	(2,800)	-	(2,800)
- Discount received	-	(294)	-	(294)
- Movement in bad debt impairment (non-loans)	-	665	-	665
- Loss / (Gain) on scrapping of obsolete property, plant and equipment	-	20	-	20
- Gain on sale of property, plant and equipment	<b>374,159</b>	(256,440)	<b>374,159</b>	(256,440)
- Fair value adjustment on biological assets	-	-	<b>1,659,369</b>	805,237
- Fair value adjustments and impairments	<b>730,806</b>	6,293,860	<b>(952,756)</b>	(12,700,607)
- Cost of sales arising from a transfer from biological assets (harvesting)	-	-	-	19,846,043
- decrease in credit impairments	<b>20,348,347</b>	(235,152)	<b>20,348,347</b>	(235,152)
- Movement in allowance for bad debt impairment of loans and staff debtors, and impairment of subsidiaries	<b>6,586</b>	5,586,200	<b>6,586</b>	5,586,200
- Social benefit from concessionary loans (Subsidy cost fair value adjustment)	<b>853,331</b>	553,308	<b>853,331</b>	553,308
- Unwinding of subsidy cost / Concessionary loans interest	<b>(1,303,181)</b>	(1,653,881)	<b>(1,303,181)</b>	(1,653,881)
- Interest received on loan book and staff debtors	<b>(5,179,815)</b>	(2,561,391)	<b>(5,179,815)</b>	(2,561,391)
- Net of interest capitalised and expenses / fees on investment under contingency policy (non-cash)	<b>(623,447)</b>	(636,525)	<b>(623,447)</b>	(636,525)
- Penalties and fines	<b>3,048</b>	-	<b>3,048</b>	281,430
- Interest expense	<b>17,388</b>	16,613	<b>138,835</b>	74,591
<b>Surrender to Treasury</b>	<b>3,119,000</b>	(25,666,000)	<b>3,119,000</b>	(25,666,000)
<b>Operating cash flows before items on following page</b>	<b>15,524,519</b>	(14,198,692)	<b>9,839,282</b>	(4,397,151)



## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2018

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>A. RECONCILIATION OF NET CASH FLOWS FROM</b>				
<i>Operating cash flows carried forward from previous page</i>	<b>15,524,519</b>	(14,198,692)	<b>9,839,282</b>	(4,397,151)
Working capital changes				
- Increase / (decrease) in deferred grant income	<b>3,216,793</b>	3,375,594	<b>3,216,793</b>	3,375,594
- Increase in deferred taxes	-	-	<b>(121,724)</b>	(306,435)
- Increase / (Decrease) in payables	<b>(6,701,818)</b>	3,580,001	<b>(8,309,538)</b>	5,390,443
- (Decrease) / Increase in Arengo receivable	-	(7,097,346)	-	(7,097,346)
- Increase / (Decrease) in Work In Progress assets	-	-	-	(4,416,888)
- Increase / (Decrease) in administered fund liabilities from non-exchange transfers	<b>(6,940,044)</b>	(26,421,425)	<b>(6,940,044)</b>	(26,421,425)
- (Increase) / Decrease in trade and other receivables	<b>(8,597,978)</b>	1,349,061	<b>(24,479,543)</b>	3,909,094
- Decrease in Sundays River receivable	-	-	<b>124,791</b>	(29,850)
- Increase in SAFE Farm Exports Proprietary Limited	-	-	<b>21,701,418</b>	(167,886)
- Increase / decrease in loans with credit balances	<b>274,297</b>	(39,100)	<b>274,297</b>	(39,100)
- (Increase) / decrease in inventories	<b>32,853</b>	(33,407)	<b>421,445</b>	44,562
Cash flows from operating activities before:	<b>(3,191,378)</b>	(39,485,314)	<b>(4,272,823)</b>	(30,156,388)
Lending cash flow movements				
- New loans granted during the year	<b>(41,941,591)</b>	15,729,182	<b>(28,766,591)</b>	15,729,182
- Loans repaid by customers	<b>16,439,549</b>	(11,987,374)	<b>18,752,741</b>	(11,987,374)
Cash (outflows) / inflows from operating activities	<b>(28,693,420)</b>	(35,743,506)	<b>(14,286,673)</b>	(26,414,580)

#### B. NON-CASH TRANSACTIONS

Aside from:

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

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

## 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 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. 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.

The following standards, amendments to standards and interpretations, with their estimated effect on the consolidated Annual Financial Statements, have been issued but are not yet effective as at 31 March 2018:

#### GRAP 20 - Related party disclosures

ASB Issue date: June 2011

Effective Date: To be determined by the Minister

The standard guides the disclosure of related party transactions and has been considered in the preparation of the financial statements, although not yet effective.

#### GRAP 32 - Service concession arrangements: Grantor

ASB Issue date: August 2013

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles for reporting on the service concession arrangements where a mandated function is performed on behalf of the grantor. The impact of implementing this standard is expected to be immaterial in the context of this agency's operations as the Agency already report on the administered funds.

#### GRAP 34 - Separate financial statements

ASB Issue date: March 2017

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles for reporting on the investments in controlled entities, joint ventures and associates when it elects, or is required by legislation or similar means, to present separate financial statements.

#### GRAP 35 - Consolidated financial statements

ASB Issue date: March 2017

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles for presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

GRAP 36 - Investments in associates and joint ventures

ASB Issue date: March 2017

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles for reporting by all entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.

GRAP 37 - Joint arrangements

ASB Issue date: March 2017

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles to determine the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.

GRAP 38 - Disclosure of interests in other entities

ASB Issue date: March 2017

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles for reporting on the disclosure of information about its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated.

GRAP 108 - Statutory receivables

ASB Issue date: September 2013

Effective Date: To be determined by the Minister

The new standard of Generally Recognised Accounting Practice establishes principles for additional reporting on exchange and non-exchange revenue when it relates to statutory receivables, being a receivable arising from legislation or supporting regulations. The impact of implementing this standard is expected to be immaterial in the context of this agency's operations as the Agency already report on the receivables due and currently does not have any receivables accruing to the Agency due to legislation.

GRAP 109 - Accounting by principles and agents

ASB issue date: July 2015

Effective date: To be determined by the Minister

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The agency already reports on funds administered on behalf of third parties.

GRAP 110 - Living and non-living resources

ASB issue date: March 2017

Effective date: To be determined by the Minister

The objective of this Standard is to outline principles to be used by an entity to report on living and non-living resources other than plants and animals used in agricultural activities (reported under GRAP 27).

## 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 arise from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the surplus for the year.

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

## 2.6 REVENUE

Income is recognised to the extent that the economic benefits will flow to the group and the income can be reliably measured. Income is measured at the fair value of 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. In accordance with GRAP 9, Revenue from exchange transactions, these origination fees are considered an integral part of the loan agreement and therefore recognised as an integral part of the effective interest rate and are accounted for over the shorter of the original contractual term and the actual term of the loan using the effective interest rate method. The deferred portion of the fees is recorded in the statement of financial position as a provision for deferred administration fees. The group does not defer any related operating costs, as these are all internal costs which are not directly attributable to individual transactions and as such are primarily absorbed infrastructure costs.

### 2.6.4 Commission income

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

### 2.6.5 Rental income

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

### 2.6.6 Fees from administered funds

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

### 2.6.7 Sale of goods

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

### 2.6.8 Insurance contracts

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

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

#### **Premiums**

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

#### **Benefits and claims**

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

#### **Movement in the provision for insurance contracts**

The agency carries a provision for insurance contracts 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 depreciation 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, change the 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 BIOLOGICAL ASSETS****Initial recognition**

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

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

**Subsequent measurement**

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

The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

A biological asset or agricultural produce is derecognised when the asset is disposed of or when there is no further economic benefits or service potential expected from the use 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/purchased licensing 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 performance.

## 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 deliver 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.

### **Fair value**

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 are members of the Metropolitan Rainmaker Provident Fund and Sanlam. The agency contributes a fixed percentage of each employee's basic salary cost to the retirement benefit scheme to fund the benefits. Payments to this defined contribution retirement plan are expensed when they fall due.

## 2.18 ADMINISTERED FUNDS

Amounts received under service level agreements (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.

Senior (executive) management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the group. All individuals from the level of executive management up to the Board of directors are regarded as key management per the definition of the standard. Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, key management individuals in their dealings with the group. Other related party transactions are also disclosed in terms of the requirements of the standard.

## 2.21 CONTINGENT LIABILITIES AND COMMITMENTS

### **Contingent liabilities**

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

### **Commitments**

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

## 2.22 CONTINGENT ASSETS

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

### When the Agency is the acquirer:

As of the transfer date, the Agency recognises the purchase consideration paid (if any) to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts per the transferor's accounting records. The difference between the carrying amounts of the assets acquired, the liabilities assumed 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 generate 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.

##### 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 require 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 21:	Impairment of non-cash generating assets
GRAP 23:	Revenue from non-exchange transactions
GRAP 24:	Presentation of budget information in financial statements
GRAP 25:	Employee benefits
GRAP 26:	Impairment of cash-generating assets
GRAP 27:	Agriculture
GRAP 31:	Intangible assets
GRAP 100:	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

IAS 12 Income Tax

### Directives issued and effective:

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



## 6. CASH AND CASH EQUIVALENTS

	Agency 2018	Agency 2017	Group 2018	Group 2017
	R	R	R	R
Cash on call and deposits at commercial banks	<b>30,171,799</b>	37,659,842	<b>30,171,799</b>	37,659,842
Cash on current accounts at commercial banks	<b>12,772,752</b>	36,971,994	<b>26,519,960</b>	36,977,975
Cash on hand	<b>10,489</b>	10,384	<b>10,489</b>	11,617
	<b>42,955,041</b>	74,642,220	<b>56,702,249</b>	74,649,434

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 2018 were 5,5% (2017: 6%) for funds on call and 4,5% - 4,9% (2017: 5%) for funds on deposit. Kangela Citrus Farms (Pty) Ltd has limited cash resources.

**Proprietary composition of cash and cash equivalents:**

Unspent funds received under non-exchange transactions (refer to Note 18)	<b>6,887,507</b>	13,827,551	<b>6,887,507</b>	13,827,551
Funds committed under conditional grants (refer to Note 15)	<b>15,365,872</b>	12,149,079	<b>15,365,872</b>	12,149,079
Funds at commercial banks and on hand for own commitments and onlending	<b>20,701,662</b>	48,665,590	<b>34,448,870</b>	48,672,803
	<b>42,955,041</b>	74,642,220	<b>56,702,249</b>	74,649,434

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liability.

The group does not have any overdraft or other loan facilities with any bank or other financial institution.

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 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 2018 R	Agency and Group 2017 R
Loans and advances to customers	181,955,618	154,333,792
Customers with credit balances	2,642,143	2,367,846
Gross loans and advances to customers	<b>184,597,761</b>	156,701,638
Less: Fair value adjustments arising on concessionary loans	(1,900,525)	(2,350,376)
Less: Specific credit impairments	(123,455,214)	(103,106,867)
	<b>59,242,022</b>	51,244,396
Less: Unallocated loan repayments	(282,511)	(311,833)
<b>Net carrying amount for ECRDA</b>	<b>58,959,511</b>	50,932,563
Less: Group loan	<b>(13,175,000)</b>	-
<b>Net carrying amount for the ECRDA Group</b>	<b>45,784,511</b>	<b>50,932,563</b>

Detailed loans and advances granted to customers per type of loan	ECRDA	Mafisa	Uvimba
Loans granted at 31 March 2017	38,596,936	52,405,603	65,699,099
Less: Fair value adjustments arising on concessionary loans	(604,259)	(2,089)	(1,744,028)
Less: Specific credit impairments	(21,027,708)	(51,787,535)	(30,291,624)
Less: Unallocated loan repayments	(238,116)	(46,897)	(26,820)
<b>Net granted balance at 31 March 2017</b>	<b>16,726,854</b>	<b>569,082</b>	<b>33,636,627</b>
Loans granted at 31 March 2018	53,220,502	67,418,119	63,959,141
Less: Fair value adjustments arising on concessionary loans	(518,049)	(41,337)	(1,341,139)
Less: Specific credit impairments	(30,314,818)	(55,572,861)	(37,567,535)
Less: Unallocated loan repayments	(101,009)	(47,597)	(133,905)
<b>Net granted balance at 31 March 2018</b>	<b>22,286,626</b>	<b>11,756,324</b>	<b>24,916,562</b>
<b>Movement in specific credit impairments:</b>			
Balance at the beginning of the year		103,106,867	103,342,019
New impairments created		<b>20,348,347</b>	<b>(235,152)</b>
<b>Balance at the end of the year</b>		123,455,214	103,106,867
Balance at the end of the year expressed as a percentage of gross loans (iii/i) and advances to customers		<b>67%</b>	<b>66%</b>
<b>Contractual maturity analysis:</b>			
Repayable within 1 year and overdue		148,347,650	114,365,856
Repayable later than 1 year		36,250,111	42,335,782
		<b>184,597,761</b>	<b>156,701,638</b>

In terms of GRAP 1.67, 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	155,024,206	126,863,935
Non-agricultural	29,573,555	29,837,703
	<b>184,597,761</b>	<b>156,701,638</b>

**Exposure to credit risk (A):**

Loans and advances neither past due nor impaired	36,962,109	2,664,201
Loans and advances past due but not impaired	22,218	2,842,222
Loans and advances individually assessed as impaired	147,613,433	151,195,216
	<b>184,597,761</b>	<b>156,701,638</b>

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 Asgi SA-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.

	<b>Agency and Group 2018 R</b>	<b>Agency and Group 2017 R</b>
<b>Collateral held against loans and advances (limited to customer balance outstanding) (B):</b>		
Loans and advances neither past due nor impaired	8,470,600	2,664,201
Loans and advances past due but not impaired	-	2,842,222
Loans and advances individually assessed as impaired	30,001,091	50,856,223
B	<b>38,471,691</b>	<b>56,362,645</b>
Expressed as a percentage of the loan book (B/A)	<b>20.84%</b>	<b>35.97%</b>

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 2018 (2017: Nil).

**Net exposure to credit risk after deducting collateral held (A - B):**

Loans and advances neither past due nor impaired	28,491,509	-
Loans and advances past due but not impaired	22,218	-
Loans and advances individually assessed as impaired	117,612,342	100,338,993
	<b>146,126,070</b>	<b>100,338,993</b>

**Net exposure after specific impairments:**

Loans and advances neither past due nor impaired	-	-
Loans and advances past due but not impaired	22,218	-
Loans and advances individually assessed as impaired	-	-
	<b>22,218</b>	-

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. Impairment was not done as the fair valued collateral held at reporting date on these loans amounted to R5 076 635. All loans were considered for specific impairment in 2018. whereas at 31 March 2017 a total of 34 loans, with a total outstanding balance of R3 059 685, have expired (average 64 days past expiry) which have not been impaired.

All loans and advances are of one type of product, being loans, but with different repayment periods, collateral, interest rates and other terms. None of the loans and advances carry a credit rating from an external credit rating agency. There are no renegotiated loans and advances. The group does not have a credit quality grading system. The payment status is used as the grading indicator. The group's maximum credit exposure is the gross advances stated above, before taking into account the credit impairments and value of collateral held against such exposures. Included in loans and advances are revolving loans to staff of R54 527 (2017: R275 426).

**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.

**8. RECEIVABLES**

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>8.1 TRADE AND OTHER RECEIVABLES</b>				
Interest accrued	197,756	261,096	197,756	261,096
Deposits	104,328	104,885	104,328	277,658
Rent receivable	845,978	465,071	845,978	465,071
Trade receivables	213,892	-	1,319,283	146,529
Funds owed by the Departments for Administered Functions	8,800,883	10,140,546	8,800,883	10,140,546
- Department of Agriculture, Forestry and Fisheries	8,619,464	10,140,546	8,619,464	10,140,546
- Department of Rural Development and Agrarian Reform	181,419	-	181,419	-
Staff and other debtors	1,575,623	958,157	1,575,623	1,197,899
Farm sales receivable from SAFE	-	-	24,785,607	-
Kangela Citrus Farms (Pty) Ltd - Liabilities arising from non-exchange transactions with debit balance	9,205,842	-	-	-
Prepaid expenses	1,108,646	1,134,029	1,108,646	1,134,029
Value Added Tax	-	-	-	244,547
	22,052,948	13,063,783	38,738,103	13,867,373
Less: impairment of rent	(787,601)	(396,412)	(787,601)	(396,412)
Net carrying amount	21,265,349	12,667,371	37,950,504	13,470,961

Not any of the terms and conditions attached to the financial assets were re-negotiated during the period under review.

The agency's management considers that all the above trade and other receivables, that are not past due or impaired for each of the Agency's reporting dates under review, to be of a good credit quality.

There are no trade and other receivables arising from non-exchange transactions at 31 March 2018 other than that disclosed in note 8.1

	0 - 30 days R	30 - 60 days R	60 - 90 days R	over 90 days R	Total R
<b>Rent receivable is aged as follows:</b>					
Agency - 2018	58 381	51 008	48 159	688 430	845 977
Agency - 2017	68 659	34 260	33 504	328 648	465 071
<b>Impairment of rent receivable</b>					
Agency - 2018					( 787 601)
Agency - 2017					( 396 412)

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



## 8.2 RECEIVABLE FROM ARENGO 316 (PROPRIETARY) LIMITED

The receivable from Arengo 316 (Proprietary) Limited comprises: Initial subscription for shares in the company and linked shareholder

Expenses borne on behalf of the company and intended to be settled through additional investment in the company.

Impairment of receivable - current year

<b>Agency and Group 2018</b>	Group 2017
-	5 000 000
-	2 469 957
-	(7 469 957)
-	-

The operational payment relates to expenses paid on behalf of Arengo 316 Investments (Pty) Ltd, which will be converted to shares in the future once specific terms and conditions have been met. The amount is unsecured, does not bear interest and has no fixed terms of payment. The shares have not been issued to the merged Agrarian Research and Development Agency (Proprietary) Limited as at 31 March 2018.

The mandate of Arengo 316 Investments (Pty) Ltd was to develop the business case for and manage the implementation of the Cradock Ethanol Project. The expected economic benefit to be derived from the shareholding in Arengo 316 Investments (Pty) Ltd has been impaired to nil as the Promulgation of the Bio-fuels Regulatory Framework and the National Bio-Fuels Feedstock Protocol have not yet taken place which impacts negatively on the prospective investor confidence.

## 8.3 UNSECURED LOANS RECEIVABLE BY KANGELA CITRUS FARMS (PTY) LTD

<b>Group 2018</b>	Group 2017
-	124 791
-	<b>124 791</b>

A loan of R124 791 from Sundays River Citrus Company is unsecured, bears interest at CPI plus 2% and is payable on or before 3 April 2018.

## 9. INVENTORIES

Inventories comprise:

Consumables and stationery

<b>Agency 2018</b>	Agency 2017	<b>Group 2018</b>	Group 2017
R	R	R	R
<b>91 118</b>	123 971	<b>91 118</b>	512 563
<b>91 118</b>	<b>123 971</b>	<b>91 118</b>	<b>512 563</b>

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

<b>Reconciliation of inventory</b>	<b>Agency 2018</b>	Agency 2017	<b>Group 2018</b>	Group 2017
	R	R	R	R
Total carrying value of inventory valued at the lower of cost or NRV	<b>91,118</b>	<b>123,971</b>	<b>91,118</b>	<b>512,563</b>
Opening balance of consumable inventory	123,971	90,564	512,563	557,125
Inventory recognised as an expense during the financial year	657,101	(225,090)	662,957	(225,090)
Fair value of harvested crop	-	-	-	-
Sale of harvested crop	-	-	-	-
Inventory purchased during the financial year	(689,955)	258,497	(1,084,402)	180,528

## 10. BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE

	Group 2018 R	Group 2017 R
<b>Biological assets and agricultural produce comprise:</b>		
Citrus trees (non-current biological asset)	21,890,000	15,947,000
Crop/Fruits from trees (current biological asset)	-	7,602,369
	<u>21,890,000</u>	<u>23,549,369</u>

### Reconciliation of biological assets - 2018

	Opening balance	Additions	Gains or losses arising from changes in fair value	Cultivated during the year	Transfer from property, plant and equipment	Total
Citrus trees	15,947,000	-	5,943,000	-	-	21,890,000
Crop/Fruits from trees	7,602,369	-	-	(7,602,369)	-	-
	<u>23,549,369</u>	-	<u>5,943,000</u>	<u>(7,602,369)</u>	-	<u>21,890,000</u>

### Reconciliation of biological assets - 2017

	Opening balance	Additions	Gains or losses arising from changes in fair value	Cultivated during the year	Transfer from property, plant and equipment	Total
Citrus trees	9,518,352	-	805,237	-	5,623,411	15,947,000
Crop/Fruits from trees	8,597,536	-	18,850,876	(19,846,043)	-	7,602,369
	<u>18,115,888</u>	-	<u>19,656,113</u>	<u>(19,846,043)</u>	<u>5,623,411</u>	<u>23,549,369</u>

### Non- financial information based on latest available valuation information (2018)

Quantities of Citrus trees:	Output: Agricultural produce (Citrus)	
Lemons - 40 533 (2017: 45 094)	Lemon	58,23 (tons per Ha)
Oranges - 62 103 (2017: 57 490)	Oranges	30,72 (tons per Ha)
Other - 6 923 (2017: 6 429)	Other	38,96 (tons per Ha)

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

Assumption	2018	2017
Expected area to harvest	148	94.4
Estimated yields	1 800 cartons/ha	1 821 cartons/ha
Average maturity of crop at 31 March	80%	80%
Estimated price per carton	R150.00	R144.42

Biological assets represent citrus fruit trees. Kangela Citrus Farms (Pty) Ltd is engaged in citrus production for the supply to mainly the export market.

The losses on the biological assets (fair value adjustments) is the variance between the fair value of the biological asset and the actual value realised from the sale of the biological assets. The losses as per the accounting standards should be considered in context with the group's mandate and schedule 3C listing status (thus implying a non-profit orientated focus). The group

focuses on rural development and community participation thus entrenching cooperative, sustainable and forward-looking attitudes towards agriculture, not the profitability of the group, or its projects per se.

The non-current biological assets refer to the citrus fruit trees on the Kangela Citrus Farms. At 31 March 2018 the company farmed 173,0 hectares (2017: 161,32ha) of planted citrus fruit trees of which 148,0 hectares (2017: 103,05ha) were bearing hectares.

The current biological assets are the citrus crop. The company produced 171 924 (2017: 175 534) cartons of citrus fruit with a fair value

less costs to sell of R24 785 606 (2017: R19 846 043) at the time of harvest during the year ended 31 March 2018.

The estimated productive life of the biological assets are 30 years and an average market value per hectare of R100 000 (2017: R80 000 exist. The costs of additions during the financial year approximates fair value changes attributable to physical and price changes to the biological assets.

Citrus trees at the Kangela Estate have been valued by M. Swart, Agricultural Valuer (Professional Associate Valuer #4915 M. Agric, Nat Dip Property Valuation Registered Associate Valuer in terms of Act 47/2000), during April 2018 and has been carried at this value in the consolidated Annual Financial Statements. The citrus trees are not insured. Management have not identified any change in legislation, market related demands, disasters or an improvement or deterioration of the trees to indicate a change in the fair value of the biological assets.

The biological assets held at 31 March 2018 by the ECRDA and its subsidiaries consist of the fruit trees at the Kangela Citrus Estate only. These biological assets are held in the normal operations of the company. The title to these biological assets is restricted as Kangela Citrus Farms (Pty) Ltd cannot sell any of its non-current biological assets.

## 11. INVESTMENTS IN SUBSIDIARIES

<b>Subsidiaries of the Eastern Cape Rural Development Agency</b>	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>

The following are the subsidiary companies of the group at the reporting date and the groups effective holding therein.

Kangela Citrus Farms (Proprietary) Limited	51	51
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### 11.1 KANGELA CITRUS FARMS (PROPRIETARY) LIMITED

On 29 May 2009 the Eastern Cape Department of Rural Development and Agrarian Reform transferred its 51% interest in Kangela Citrus Farms (Proprietary) Limited to the Agency. The balance of the shares are held by a workers' empowerment trust, which also owns the land on which the subsidiary company operates. This company is the farming operator of the citrus orchards and vegetable plantations. This transfer is a common control transaction. The company has outsourced the management of the business to South African Fruit Exporters (SAFE) until October 2017 whereafter the ECRDA took over the management functions.

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

A fair value of Nil has been placed on this investment at acquisition, given that the liabilities exceeded the assets of the company and the company had sustained losses for years.

## 12. INVESTMENT UNDER CONTINGENCY POLICY

This represents accumulated amounts paid to Guard Risk Insurance Company Limited under a contingency policy. The investment earns interest at wholesale money market rates of 8,68% as at March 2018 (8,67% at 31 March 2017). In terms of the policy while in force, the Agency may only access the funds through lodging claims incurred under its contracts of insurance. The agency has not claimed against this fund as it has been settling any obligations to date out of its own cash resources, given that it intends building this fund to an acceptable level to meet future obligations for performance under its contracts of insurance. The carrying amount of the investment at 31 March 2018 was R9 839 802 (2017: R9 216 355).

	<b>Agency and group 2018</b>	Agency and group 2017
	<b>R</b>	R
Investment under contingency policy	<b>9 839 802</b>	9 216 355
	<b>9 839 802</b>	9 216 355



### 13. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

	<b>Agency 2018</b>	Agency 2017	<b>Group 2018</b>	Group 2017
	<b>R</b>	R	<b>R</b>	R
<b>13.1 INVESTMENT PROPERTY</b>				
<b>Carrying amount at beginning of the year</b>	<b>1 763 716</b>	1 802 040	<b>1 763 716</b>	1 802 040
Cost	<b>2 388 564</b>	2 388 564	<b>2 388 564</b>	2 388 564
Accumulated depreciation	<b>( 624 848)</b>	( 586 524)	<b>( 624 848)</b>	( 586 524)
Depreciation charge	<b>( 38 217)</b>	( 38 325)	<b>( 38 217)</b>	( 38 325)
<b>Carrying amount at end of the year</b>	<b>1 725 499</b>	1 763 716	<b>1 725 499</b>	1 763 716
Cost	<b>2 388 564</b>	2 388 564	<b>2 388 564</b>	2 388 564
Accumulated depreciation	<b>( 663 065)</b>	( 624 848)	<b>( 663 065)</b>	( 624 848)
Accumulated impairment	-	-	-	-

#### Investment property consists of:

The commercial office building (situated at 52 Sprigg Street, Erf 1997 Mthatha Magisterial District) was acquired on 25 October 2000 for R2 388 564. Title to the property was transferred to the Agency on 22 August 2001.

The Eastern Cape Rural Development Agency (ECRDA) applies the cost model to measure and report on the Investment Property.

The Investment Property is distinguished from the other assets (Property, Plant and Equipment) held by the ECRDA as:

- (a) The most significant use and main purpose of the property is to earn rentals from the tenants who entered into operating leases with the ECRDA;
- (b) The renting of the office space is not incidental to the use of the building but planned as the building is held for the operational requirements of a branch/district office, where the intention is to provide office space to external parties;
- (c) An insignificant portion of the building is used for administrative purposes by the OR Tambo Branch of the ECRDA;
- (d) The rented space and the office space occupied for administrative purposes cannot be sold separately as there is one title deed to the building and it is regarded as one property/asset.

The latest valuation was performed in March 2018 by P. Lindstrom, a registered valuator holding a recognised and relevant professional qualification, who valued the investment property at R13 750 000 (March 2015: R11 900 000), using the discounted cash flow method on potential rent based on her experience in the location and category of similar investment properties. The property earns income from renting out office space.

Included in the profit for the year is operating expenditure, inclusive of repairs and maintenance of R667 241 (2017: R91 542) which arose from investment property that generated rental revenue of R1 408 715 (2017: R1 213 932) during the period. The direct operating expenditure incurred on the Investment Property did not directly generate rental revenue during the financial period. No expenses that directly generated rental revenues were incurred.

#### **Pledged as security:**

No assets are pledged as security.

#### **Restrictions:**

There are no restrictions of Investment Properties on the remittance of revenue and proceeds of disposals.

#### **Contractual obligations:**

There are no contractual obligations to purchase, construct or develop the Investment Property or for repairs, maintenance or enhancement.

## 13.2 PROPERTY, PLANT AND EQUIPMENT

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
<b>13.2.1 Land</b>				
<b>Carrying amount at beginning of the year</b>	<b>715 000</b>	715 000	<b>715 000</b>	715 000
Cost	<b>715 000</b>	715 000	<b>715 000</b>	715 000
Additions/Merger	-	-	-	-
Disposal	-	-	-	-
<b>Carrying amount at end of the year</b>	<b>715 000</b>	715 000	<b>715 000</b>	715 000
Cost	<b>715 000</b>	715 000	<b>715 000</b>	715 000

Land consists of the cost of erven in King William's Town and Cradock.

**Restrictions** on the title of the land: None

**Land pledged** as security: None

**Contractual commitments** for the acquisition of land: None

**Compensation** from third parties for land that was impaired, lost or given up that is included in the surplus/deficit: None

	<b>R</b>	R	<b>R</b>	R
<b>13.2.2 Buildings</b>				
<b>Carrying amount at beginning of the year</b>	<b>2 843 246</b>	2 919 186	<b>2 843 247</b>	2 919 186
Cost	<b>3 786 375</b>	3 786 375	<b>3 786 375</b>	3 865 547
Accumulated depreciation	<b>( 943 128)</b>	( 867 189)	<b>( 943 128)</b>	( 946 361)
Accumulated impairment	-	-	-	-
Additions/Merger	-	-	<b>464 806</b>	-
Disposal	-	-	-	-
Depreciation charge	<b>( 75 728)</b>	( 75 940)	<b>( 101 432)</b>	( 75 940)
Accumulated depreciation on disposal	-	-	-	-
Accumulated depreciation on merger	-	-	-	-
Impairment (recognised)/reversed	-	-	-	-
<b>Carrying amount at end of the year</b>	<b>2 767 519</b>	2 843 246	<b>3 206 622</b>	2 843 247
Cost	<b>3 786 375</b>	3 786 375	<b>4 251 181</b>	3 786 375
Accumulated depreciation	<b>(1 018 856)</b>	( 943 128)	<b>(1 044 560)</b>	( 943 128)

**Land and buildings consist of:**

- (1) An office building situated at 128 Alexandra Road, Erf 893 King William's Town was acquired on 30 July 2004 at a cost of R3 761 375 (allocated to land of R555 000 and buildings of R3 206 375). The property was valued at R6 200 000 (March 2015: R4 650 000) by a registered valuator, P. Lindstrom in March 2018, using the Comparative Market Analysis of rentals achieved with the discounted cash flow method.
- (2) Property on Erf 327 and Erf 328 situated in the Cradock magisterial district purchased on 23 June 2004. The property was transferred to the ECRDA in the merger on 1 April 2015 (allocated to R160 000 to land and R580 000 to buildings). The property was valued in March 2018 by P. Lindstrom, registered valuator, at R1 100 000 (March 2015: R850 000), using the comparable market sales method.

**Restrictions** on the title of the buildings: None

**Buildings pledged** as security: None

**Contractual commitments** for the acquisition of buildings: None

**Compensation** from third parties for buildings that were impaired, lost or given up that is included in the surplus/deficit: None

## 13.2 PROPERTY, PLANT AND EQUIPMENT

	<b>Agency 2018</b>	Agency 2017	<b>Group 2018</b>	Group 2017
	<b>R</b>	R	<b>R</b>	R
<b>13.2.3 Plant and equipment (including all farming equipment)</b>				
<b>Carrying amount at beginning of the year</b>	<b>976 926</b>	1 220 099	<b>2 570 039</b>	3 186 286
Cost	<b>4 788 513</b>	5 554 712	<b>8 483 216</b>	9 249 415
Accumulated depreciation	<b>(3 811 588)</b>	(4 334 613)	<b>(5 913 177)</b>	(6 063 129)
Additions and Merger	<b>74 554</b>	135 081	<b>89 074</b>	135 081
Disposal - cost	<b>(2 614 531)</b>	( 901 280)	<b>(2 614 531)</b>	( 901 280)
Depreciation charge	<b>( 306 395)</b>	( 307 513)	<b>( 679 590)</b>	( 680 586)
Accumulated depreciation on disposal/transfer	<b>2 372 970</b>	830 538	<b>2 372 970</b>	830 538
<b>Carrying amount at end of the year</b>	<b>503 524</b>	976 926	<b>1 737 962</b>	2 570 039
Cost	<b>2 248 537</b>	4 788 513	<b>5 957 759</b>	8 483 216
Accumulated depreciation	<b>(1 745 013)</b>	(3 811 588)	<b>(4 219 797)</b>	(5 913 177)

Plant and machinery of R225 007 was scrapped from the asset register and action was implemented against the former custodians thereof (former ARDA farmers) as the individuals refused to return the ECRDA assets and did not allow the Agency access thereto.

**Restrictions** on the title of the plant and equipment: None

**Plant and equipment pledged** as security: None

**Contractual commitments** for the acquisition of plant and equipment: None

**Compensation** from third parties for plant and equipment that were impaired, lost or given up that is included in the surplus/deficit: None

	<b>R</b>	R	<b>R</b>	R
<b>13.2.4 Equipment under finance leases</b>				
<b>Carrying amount at beginning of the year</b>	<b>131 749</b>	12 186	<b>131 749</b>	12 186
Cost	<b>785 424</b>	637 225	<b>785 425</b>	637 225
Accumulated depreciation	<b>( 653 676)</b>	( 625 039)	<b>( 653 676)</b>	( 625 039)
Additions	<b>1 792 651</b>	148 200	<b>1 792 651</b>	148 200
Write -off/scrapping of obsolete assets	<b>( 637 225)</b>	-	<b>( 637 225)</b>	-
Depreciation charge	<b>( 529 333)</b>	( 28 637)	<b>( 529 333)</b>	( 28 637)
Accumulated depreciation on disposal/transfer	<b>637 210</b>	-	<b>637 210</b>	-
<b>Carrying amount at end of the year</b>	<b>1 395 052</b>	131 749	<b>1 395 052</b>	131 749
Cost	<b>1 940 851</b>	785 424	<b>1 940 851</b>	785 425
Accumulated depreciation	<b>( 545 799)</b>	( 653 676)	<b>( 545 800)</b>	( 653 676)
Accumulated impairment	-	-	-	-

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

**Restrictions** on the title of the equipment under finance lease: None

**Equipment under finance lease pledged** as security: None

**Contractual commitments** for the acquisition of equipment under finance lease: None

**Compensation** from third parties for equipment under finance lease that were impaired, lost or given up that is included in the surplus/deficit: None



**13.2.5 Vehicles**

	R	R	R	R
<b>Carrying amount at beginning of the year</b>	<b>3 124 037</b>	1 327 052	<b>8 173 224</b>	6 844 102
Cost	<b>7 497 313</b>	6 474 866	<b>15 593 219</b>	14 227 214
Accumulated depreciation	<b>(4 373 276)</b>	(5 147 814)	<b>(7 419 995)</b>	(7 383 112)
Additions and merger	-	2 240 422	-	2 583 980
Disposal - cost	<b>(1 922 205)</b>	(1 217 975)	<b>(1 922 205)</b>	(1 217 975)
Depreciation charge	<b>( 602 055)</b>	( 287 040)	<b>(1 393 948)</b>	(1 098 461)
Accumulated depreciation on disposal/transfer	<b>1 710 596</b>	1 061 578	<b>1 710 596</b>	1 061 578
<b>Carrying amount at end of the year</b>	<b>2 310 373</b>	3 124 037	<b>6 567 667</b>	8 173 224
Cost	<b>5 575 108</b>	7 497 313	<b>13 671 014</b>	15 593 219
Accumulated depreciation	<b>(3 264 735)</b>	(4 373 276)	<b>(7 103 347)</b>	(7 419 995)

**Restrictions** on the title of the vehicles: None

**Vehicles pledged** as security: None

**Contractual commitments** for the acquisition of vehicles: None

**Compensation** from third parties for vehicles that were impaired, lost or given up that is included in the surplus/deficit: None

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>13.2.6 Computer equipment</b>				
<b>Carrying amount at beginning of the year</b>	<b>2 792 285</b>	3 194 768	<b>2 792 285</b>	3 194 768
Cost	<b>7 056 669</b>	7 850 586	<b>7 056 669</b>	7 850 586
Accumulated depreciation	<b>(4 264 384)</b>	(4 655 818)	<b>(4 264 384)</b>	(4 655 818)
Additions/merger	<b>698 252</b>	691 754	<b>721 130</b>	691 754
Write -off/scrapping of obsolete assets	<b>(1 541 722)</b>	(1 485 671)	<b>(1 541 722)</b>	(1 485 671)
Depreciation charge	<b>(1 066 711)</b>	(1 063 025)	<b>(1 069 307)</b>	(1 063 025)
Accumulated depreciation on disposal/transfer	<b>1 213 457</b>	1 454 459	<b>1 213 457</b>	1 454 459
<b>Carrying amount at end of the year</b>	<b>2 095 561</b>	2 792 285	<b>2 115 843</b>	2 792 285
Cost	<b>6 213 198</b>	7 056 669	<b>6 236 076</b>	7 056 669
Accumulated depreciation	<b>(4 117 637)</b>	(4 264 384)	<b>(4 120 233)</b>	(4 264 384)

**Restrictions** on the title of the computer equipment: None

**Computer equipment pledged** as security: None

**Contractual commitments** for the acquisition of computer equipment: None

**Compensation** from third parties for computer equipment that were impaired, lost or given up that is included in the surplus/deficit: None

**13.2.7 Office furniture and fittings**

	R	R	R	R
<b>Carrying amount at beginning of the year</b>	<b>3 636 125</b>	4 187 131	<b>3 636 125</b>	4 188 669
Cost	<b>6 137 528</b>	6 111 865	<b>6 249 700</b>	6 224 035
Accumulated depreciation	<b>(2 501 403)</b>	(1 924 734)	<b>(2 613 575)</b>	(2 035 366)
Additions and merger	<b>19 653</b>	52 706	<b>19 653</b>	52 706
Write -off/scrapping of obsolete assets	<b>( 263 654)</b>	( 27 041)	<b>( 263 654)</b>	( 27 041)
Depreciation charge	<b>( 595 932)</b>	( 595 660)	<b>( 595 932)</b>	( 597 198)
Accumulated depreciation on disposal/scrap	<b>195 252</b>	18 989	<b>195 252</b>	18 989
<b>Carrying amount at end of the year</b>	<b>2 991 444</b>	3 636 125	<b>2 991 444</b>	3 636 125
Cost	<b>5 893 527</b>	6 137 528	<b>6 005 699</b>	6 249 700
Accumulated depreciation	<b>(2 902 083)</b>	(2 501 403)	<b>(3 014 255)</b>	(2 613 575)

**Restrictions** on the title of the office furniture and fittings: None

**Office furniture and fittings pledged** as security: None

**Contractual commitments** for the acquisition of office furniture and fittings: None

**Compensation** from third parties for office furniture and fittings that were impaired, lost or given up that is included in the surplus/deficit: None

<b>13.2.8 Leasehold</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>Carrying amount at beginning of the year</b>	<b>1 104 538</b>	1 781 005	<b>2 131 170</b>	2 863 041
Cost	<b>2 817 623</b>	2 817 623	<b>3 925 696</b>	3 925 696
Accumulated depreciation	<b>(1 713 085)</b>	(1 036 618)	<b>(1 794 526)</b>	(1 062 655)
Additions	-	-	-	-
Write -off/scraping of obsolete assets	<b>( 945 208)</b>	-	<b>(1 459 281)</b>	-
Depreciation charge	<b>( 532 008)</b>	( 676 468)	<b>( 561 708)</b>	( 731 871)
Accumulated depreciation on disposal/transfer	<b>945 208</b>	-	<b>994 474</b>	-
<b>Carrying amount at end of the year</b>	<b>572 530</b>	1 104 538	<b>1 104 655</b>	2 131 170
Cost	<b>1 872 415</b>	2 817 623	<b>2 466 415</b>	3 925 696
Accumulated depreciation	<b>(1 299 885)</b>	(1 713 085)	<b>(1 361 760)</b>	(1 794 526)

**Restrictions** on the title of the leasehold assets: None

**Leasehold assets pledged** as security: None

**Contractual commitments** for the acquisition of leasehold assets: None

**Compensation** from third parties for leasehold assets that were impaired, lost or given up that is included in the surplus/deficit: None

	<b>Agency 2018</b>	Agency 2017	<b>Group 2018</b>	Group 2017
	<b>R</b>	R	<b>R</b>	R
<b>13.2.9 Total property, plant and equipment</b>				
<b>Carrying amount at beginning of the year</b>	<b>15 323 906</b>	15 356 427	<b>22 992 839</b>	23 923 238
Cost	<b>33 584 446</b>	33 948 252	<b>46 595 300</b>	46 694 718
Accumulated depreciation	<b>(18 260 540)</b>	(18 591 825)	<b>(23 602 461)</b>	(22 771 480)
Accumulated impairment	-	-	-	-
Additions and merger with ARDA	<b>2 585 109</b>	3 268 163	<b>3 087 314</b>	3 611 721
Write -off/scraping of obsolete assets	<b>(3 387 809)</b>	(1 512 712)	<b>(3 901 882)</b>	(1 512 712)
Disposal - cost	<b>(4 536 736)</b>	(2 119 256)	<b>(4 536 736)</b>	(2 119 255)
Transfers	-	-	-	-
Depreciation charge	<b>(3 708 161)</b>	(3 034 283)	<b>(4 931 249)</b>	(4 275 719)
Accumulated depreciation on merger	-	-	-	-
Accumulated depreciation on disposal/transfer	<b>7 074 693</b>	3 365 564	<b>7 123 959</b>	3 365 564
<b>Carrying amount at end of the year</b>	<b>13 351 002</b>	15 323 906	<b>19 834 246</b>	22 992 838
Cost	<b>28 245 011</b>	33 584 446	<b>41 243 996</b>	46 595 300
Accumulated depreciation	<b>(14 894 008)</b>	(18 260 540)	<b>(21 409 751)</b>	(23 602 461)

No estimated useful lives were changed during the financial year (2017: None).

The cost of agency owned property, plant and equipment that has been fully depreciated, but is still in use (i.e. excluding scrapped items) at 31 March 2018 is R6 675 288 (2017: R5 396 933). All property, plant and equipment acquired during the year was purchased out of the group's own funds (excluding the transfer payments for operations) or through finance lease arrangements, not from a specific asset grant. Fully depreciated assets still in use by the subsidiaries amounts to R267 895 (2017: R212 495).

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

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

Expenses to the value of R1 044 051 (2017: R306 538) was incurred to repair and maintain the property, plant and equipment of the ECRDA (excluding the Investment Property repairs detailed in 13.1). Repairs and maintenance includes amounts paid to service providers and monies spent on materials. Time spent by employees in repairing and maintaining the assets are not regarded as such costs as it is reported as staff costs in note 23.

### 13.3 INTANGIBLE ASSETS

	R	R	R	R
Computer software				
<b>Carrying amount at beginning of the year</b>	<b>265 596</b>	816 122	<b>444 096</b>	994 622
Cost	<b>4 989 248</b>	4 971 140	<b>5 477 416</b>	5 459 308
Accumulated depreciation	<b>(4 723 652)</b>	(4 155 018)	<b>(5 033 320)</b>	(4 464 686)
Additions	<b>304 043</b>	143 470	<b>304 043</b>	143 470
Write -off/scrapping of obsolete assets	<b>(1 020 838)</b>	( 125 362)	<b>(1 020 838)</b>	( 125 362)
Depreciation charge	<b>( 146 612)</b>	( 693 976)	<b>( 146 612)</b>	( 693 976)
Accumulated depreciation on disposal/transfer	<b>1 019 999</b>	125 342	<b>1 019 999</b>	125 342
<b>Carrying amount at end of the year</b>	<b>422 188</b>	265 596	<b>600 688</b>	444 096
Cost	<b>4 272 453</b>	4 989 248	<b>4 760 621</b>	5 477 416
Accumulated depreciation	<b>(3 850 265)</b>	(4 723 652)	<b>(4 159 933)</b>	(5 033 320)

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

The intangible assets held by the Eastern Cape Rural Development Agency have not been considered to be assets held with an indefinite life.

### 14. TRADE AND OTHER PAYABLES

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
South African Revenue Service - Tax and VAT	-	-	-	2,753,364
Amounts due to customers with credit balances	<b>2,642,143</b>	2,367,846	<b>2,642,143</b>	2,367,846
Funds payable to Treasury (surrender)	-	3,119,000	-	3,119,000
Rent received in advance	<b>26,812</b>	25,111	<b>26,812</b>	25,111
Other payables	<b>5,328,954</b>	8,943,215	<b>7,683,162</b>	9,839,949
Accruals	<b>217,909</b>	45,742	<b>217,909</b>	236,820
Leave Pay Accrual	<b>5,603,705</b>	5,862,268	<b>5,700,316</b>	6,079,631
Bonus Accrual	<b>1,513,530</b>	1,678,424	<b>1,513,530</b>	1,678,424
Operating lease straight line adjustments	<b>641,878</b>	360,846	<b>641,878</b>	360,846
	<b>15,974,932</b>	22,402,452	<b>18,425,751</b>	26,460,992

The budgeted funds allocated to Kangela Citrus Farms (Pty) Ltd has not been utilised in full in the 2017 year. The payable relating to non-exchange transactions of Kangela at 31 March 2017 amounts to R326 125 and is included in Note 18 on the liabilities from non-exchange transactions. Budgeted funds were not allocated to Kangela Citrus Farms (Pty) Ltd in the 2018 year.

There are no trade and other payables with extended payment terms at 31 March 2018 (2017: Nil).

None of the repayment terms attached to contracts have been renegotiated in the last year.

Refer to Note 18 for liabilities on the administered funds.



## 15. DEFERRED GRANT INCOME ARISING FROM NON-EXCHANGE TRANSACTIONS

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
MAFISA grant	<b>15 365 872</b>	12 149 079	<b>15 365 872</b>	12 149 079
Liability for an equitable 1/8th share in interest earned on MAFISA loans	<b>3 661 991</b>	3 240 945	<b>3 661 991</b>	3 240 945
Liability arising from interest earned on cash deposits on unspent funds	<b>11 703 881</b>	8 908 134	<b>11 703 881</b>	8 908 134
	<b>15 365 872</b>	12 149 079	<b>15 365 872</b>	12 149 079
<b>Comprised of the following assets:</b>				
Cash and cash equivalents (Refer to Note 6)	15 365 872	12 149 079	15 365 872	12 149 079
	<b>15 365 872</b>	12 149 079	<b>15 365 872</b>	12 149 079

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

## 16. COMMITMENTS AND CONTINGENCIES

### Commitments

At the reporting date the Agency and group had commitments amounting to R11 139 149 (2017: R10 670 547) which

relates to projects implementation for which orders have been issued. Operational commitments of R2 418 149 (2017: R2

343 767) existed at 31 March 2018. Kangela Citrus Farms Proprietary Limited had commitments of R9 149 (2017: R452

500) at the reporting date.

### Contingent liabilities and contingent assets

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

The timing, outcome and legal costs to the following cases are unknown at reporting date:

An employee is challenging dismissal at the CCMA. The case has been finalised during the 2018 year and the CCMA has found in favour of the employee. The Agency is however pursuing the matter in the labour court, where the attorneys calculated the Agency's exposure at 31 March 2018 to amount to R620 713.

The ECRDA has taken over a case from ARDA where ARDA was sued for in the amount of R245 027 with interest for payment of purchases of agricultural supplies from the plaintiff. The claim has been settled for an amount of R 260,000 which included the interest portion during the 2018 year. The court has ordered that the Agency shall pay the plaintiff's cost of suit, this amount is unknown as at reporting date.

The ECRDA was sued in the Mthatha Magistrate Court for an amount of R30 234 being for a motor vehicle damages claim due to an accident that occurred between the plaintiff's vehicle and that driven by an employee of the ECRDA. The attorneys estimated ECRDA's exposure at R70 000.

In terms of the Treasury Regulations, at each reporting date, the Agency is required to surrender or to apply for a roll over of unspent grants to the relevant Treasury. Refer to Note 18 for Administered Funds as at 31 March 2018. Approval will be requested from the relevant Treasury to retain surpluses.

Upon the implementation of the Cradock Biofuel Plant by Arengo 316 Investments (Pty) Ltd and the conclusion of the IDC's verification of the R12 530 043 incurred on the grant for the furtherance of biofuel received from the Department of Rural Development and Agrarian Reform (by the former ARDA), a receivable can be recognised. The receivable is dependent on the occurrence of factors not within the control of the ECRDA.

The ECRDA has taken a case over from ARDA where ARDA sued Slabbert Boerdery for non-payment of Lucerne feedstock supplied to Slabbert Boerdery for an amount of R 437 253 and Slabbert Boerdery sued for a counter claim as well and the two cases were consolidated. At year-end the attorneys estimated the exposure/contingent asset to amount to R874 506. The legal fees related to this case cannot be estimated at reporting date.

## 17. LOANS

### Loan from South African Fruit Exporters (SAFE)

The loan from South African Fruit Exporters (SAFE) (2017: Nil) is interest free, unsecured and operated on a current account basis. South African Fruit Exporters is the managing agent of the Kangela Citrus estate and has been funding the operations of the estate pending seasonal harvesting. South African Fruit Exporters takes cession of the produce once harvested. The loan is repayable by Kangela Citrus Farms (Pty) Ltd at year-end as the management contract with SAFE ended during the 2017/2018 financial year.

	<b>Group 2018 R</b>	Group 2017 R
South African Fruit Exporters (SAFE)	21,701,418	-

## 18. LIABILITIES ARISING FROM NON-EXCHANGE TRANSACTIONS

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
Total funds under administration and cash and cash equivalents belonging to administered funds (refer to note 6)	<b>6,887,507</b>	13,827,551	<b>6,887,507</b>	13,827,551
<b>Reconciliation of total funds under administration:</b>				
Balance at beginning of the year	<b>13,827,551</b>	40,248,976	<b>13,827,551</b>	40,248,976
Receipts from fund owners	<b>69,964,758</b>	61,175,020	<b>69,964,758</b>	61,175,020
Reclassify liabilities with debit balances to debtors (note 8)	<b>9,205,842</b>	-	<b>9,205,842</b>	-
Interest capitalised on administered funds	<b>632,478</b>	968,754	<b>632,478</b>	968,754
Funds disbursed	<b>(86,743,122)</b>	(88,565,199)	<b>(86,743,122)</b>	(88,565,199)
Total administered funds	<b>6,887,507</b>	13,827,551	<b>6,887,507</b>	13,827,551
<b>Comprising:</b>				
Department of Rural Development and Land Reform - National Job's Fund	-	-	-	-
Other administered funds:	<b>1,010,687</b>	7,148,374	<b>1,010,687</b>	7,148,374
- Oxfam	<b>5,876,820</b>	6,679,178	<b>5,876,820</b>	6,679,178
- Other miscellaneous funds	565,400	576,820	565,400	576,820
- Office of the Premier Youth Project	-	414,640	-	414,640
- Department of Rural Development and Agrarian Reform Infrastructure Programme	3,100,941	2,906,448	3,100,941	2,906,448
	2,210,479	2,781,269	2,210,479	2,781,269
	6,887,507	13,827,551	<b>6,887,507</b>	13,827,551
<b>Department of Rural Development and Land Reform National</b>				
Balance of funds held to administer			<b>2018</b>	2017
Funds received to administer			-	639,198
Funds disbursed			-	200,000
Interest earned on ring-fenced funds			-	(858,821)
Balance of administered fund at 31 March			-	19,623
			-	-
<b>Job's Fund programme</b>				
	<b>Forestry</b>	<b>Agro Processing</b>	<b>Total</b>	
Balance of administered fund at 31 March 2016	<b>33,796,898</b>	<b>3,489,383</b>	37,286,281	
Contribution: Department of National Treasury	18,476,094	7,736,807	26,212,901	
Other income			-	
Disbursements for the year	(50,031,746)	(7,172,008)	(57,203,754)	
Interest earned on ring-fenced funds	800,425	52,520	852,945	
Balance of administered fund at 31 March 2017	<b>3,041,671</b>	<b>4,106,703</b>	<b>7,148,374</b>	
Contribution: Department of National Treasury	-	-	-	
Other income	-	10,852,170	10,852,170	
Disbursements for the year	(2,193,429)	(15,164,731)	(17,358,160)	
Interest earned on ring-fenced funds	93,425	274,878	368,303	
Balance of administered fund at 31 March 2018	<b>941,667</b>	<b>69,019</b>	<b>1,010,687</b>	

**Oxfam and the Small Projects Foundation (SPF)**

A pilot project was launched where Oxfam Italia transferred R627 516 to the ECRDA in September 2014. The funds are ring-fenced and used to disburse micro loans to beneficiaries, based on conditions and qualifying criteria determined by Oxfam and SPF. The loans are included in the total loans advanced per note 7. At 31 March 2018 the administered fund amounted to R565 400 (2017: R576 820).

**Other liabilities arising from non-exchange transactions**

The agency acted as a warehousing agent for the Eastern Cape Department of Rural Development and Agrarian Reform in respect of a farming project known as Shortland's Farm. The Eastern Cape Department of Rural Development and Agrarian Reform identified a farm to be purchased for a local community, who approached the government for support in acquiring a farm to further develop in the Grahamstown area. In order to do this,

an entity was established to own and operate the farm for the community. As at the date of sale of the farm from the vendor, this entity was not appropriately established and the Eastern Cape Department of Rural Development and Agrarian Reform instructed the Eastern Cape Rural Development Agency to take transfer pending final transfer to the entity. This was done to accommodate the strict timeframes for the implementation of the project. The farm has since transfer, been under the control of the ultimate beneficiary community who have the risks and rewards of ownership. The R3.2 million purchase price was funded by the Eastern Cape Department of Rural Development and Agrarian Reform. The purchase agreement was dated 27 September 2007.

At 31 March 2018 (since 31 March 2009), the transfer of the farm to the entity is in progress, but not complete. The agency has accounted for this transaction as an administered fund and has not recognised the farm in its statement of financial position, but as an asset of the fund administered on behalf of the Eastern Cape Department of Rural Development and Agrarian Reform.

**19. FINANCE LEASE OBLIGATIONS**

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
<b>Finance lease liabilities</b>				
Capitalised finance lease liability	<b>1,754,269</b>	1,214,992	<b>1,754,269</b>	1,214,992
Less: Current portion	<b>(1,191,126)</b>	(595,508)	<b>(1,191,126)</b>	(595,508)
Non-current portion	<b>563,143</b>	619,484	<b>563,143</b>	619,484

**Reconciliation of future minimum lease payments to their present value**

	<b>Agency</b>			
	Minimum lease payments		Present value of minimum lease payments	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>R</b>	R	<b>R</b>	R
No later than 1 year	<b>1,191,126</b>	595,508	<b>1,191,126</b>	595,508
Later than 1 year and not later than 5 years	<b>563,143</b>	619,484	<b>563,143</b>	619,484
	<b>1,754,269</b>	1,214,992	<b>1,754,269</b>	1,214,992
Less: future finance charges	<b>(259,970)</b>	(123,764)	<b>(259,970)</b>	(123,764)
Present value of minimum lease payments	<b>1,494,299</b>	1,091,228	<b>1,494,299</b>	1,091,228

**Fair value**

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

**Security**

The agency's obligations under finance leases are secured by the lessor's title to the leased assets.

**Terms**

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

The 1% increase in VAT, effective 1 April 2018 will result in an increase in the finance lease liability of R17 669 (Long-term liability: R6 045; Short-term liability: R11 623).

**Finance lease agreements**

The approximate aggregate monthly instalment on finance leases is R26 340 (2017: R30 372) for the Konica Minolta equipment contracts covering a period of 2 years.

The Vodacom contracts are capitalised for a period of 2 years and the aggregate monthly instalment on the finance leases is R61 215 (2017: R53 516).

**Communication equipment other than above (i.e. PABX and mobile technology)**

The agency has capitalised arrangements at the ruling Prime Overdraft Rate at inception of each lease with Telkom. The contracts were renewed in the 2015 financial year. The approximate aggregate monthly instalment is R35 742 (2017: R35 742). The new Telkom contracts covers a period of 5 years.



## 20. CAPITAL CONTRIBUTED

	<b>Agency and Group 2018</b>	Agency and Group 2017
	<b>R</b>	R
Capital consists of the value of the net of assets taken over from the Agricultural Bank of Transkei and the Ciskeian Agricultural Bank on 1 July 2000.	<b>25,232,691</b>	25,232,691
The equity contribution relates to the funds received from the Eastern Cape Department of Rural Development and Agrarian Reform utilised to fund the advance to Kangela Citrus Farms (Proprietary) Limited.	<b>15,680,000</b>	15,680,000
This contribution was acquired prior to the formal establishment of the corporation and relates to an amount transferred from trade payables previously owing to the Department of Internal Affairs for farms purchased by clients of the former Ciskeian Agricultural Bank approximately 18 years ago.	<b>1,076,355</b>	1,076,355
	<b><u>41,989,046</u></b>	<u>41,989,046</u>

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

### Restriction on distributions

In terms of the above Act, whilst the government is the sole shareholder, the Agency may not distribute any of its profits or gains to any other person and must use its funds solely for the furtherance of its objectives.

No distributions were made during the financial year ending 31 March 2018 (2017: nil).

## 21. RISK MANAGEMENT

### 21.1 CAPITAL RISK MANAGEMENT

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

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

The above is evidence of the under capitalisation of the group.

### 21.2 CREDIT RISK

Credit risk is the risk that the counterparties will not repay obligations on time and in full as expected or contracted, resulting in a financial loss to the group. The agency manages credit risk through a credit committee and credit policy.

The core business of the Agency is to support rural development within the Eastern Cape. The target market is at the upper end of credit risk fragility in the agricultural sector and small business sectors with high sensitivity to climatic conditions and unpredictable agricultural commodity prices.

The lending activities of the group are regulated by the National Credit Regulator.

The default rate on loan obligations is higher in this industry and, to mitigate this, the group encourages mentorship programmes to assist farmers in managing their crops and markets for their harvests and finances.

The group uses various techniques to reduce credit risk. The most fundamental is performing an assessment on the borrower's ability to service the amount advanced and obtaining collateral (i.e. security-based lending).

In line with its mandate, the group has a concentration risk in its credit profile, given that its loan book is in the Eastern Cape only and largely in the agricultural sector.

### 21.3 FINANCIAL GUARANTEE CONTRACTS

Apart from the provision of credit facilities in the normal course of business which have been granted, but not to date been disbursed, the group does not issue any guarantees or commitments neither in relation to its lending activities nor in any other capacity, save for the insurance contracts set out in the accounting policies and save for the cession of deposits. The agency monitors the level of security exposure. Such exposure is typically limited given that cover falls away when the borrower's account is in arrears.

## 21.4 MARKET RISK

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

The group does not have exposure to currency risk or other price risk.

The group has little exposure to market risk, other than interest rate risk, but to a limited extent. Agricultural loans are largely advanced on fixed interest rates. For this reason, the group is not significantly exposed to interest rate risk.

Refer to Note 7 for certain sensitivity analyses.

## 21.5 LIQUIDITY RISK

Liquidity risk is the risk that an agency will encounter difficulty in meeting obligations associated with financial liabilities.

As a result of a significant increase in loans and advances to customers over the past few years and an increase in overhead expenses, the group has been placed under heavy liquidity strain. Repayment of agricultural loans tend to follow a seasonal trend rather than scheduled dates, hampering reliance on repayments to fund further advances. The majority of the loans are prescribed. Also refer to Note 12.

As at 31 March 2018, approximately 80% (2017: 58%) of the Agency's cash and cash equivalents was deposited at The

Standard Bank of South Africa Limited. Standard Bank's local currency deposit ratings at 31 March 2018 were: Moody's

Baa3/P-3 and Fitch BB+, both with negative investors outlook (2017: Moody's Baa2/P-2; Fitch Ratings BBB-/negative/A-3, both with a negative investors outlook). The remaining 20% (2017: 42%) was deposited at First National Bank, with the same deposit rating as Standard Bank.

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

## 21.6 OTHER RISKS

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



## 22. OTHER INCOME AND EXPENSE ANALYSIS

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
22.1 OTHER INCOME				
Discount received	-	294	-	294
Recovery of loans and advances previously written off	<b>397,874</b>	365,536	<b>397,874</b>	365,536
Sundry income - Insurance income	<b>8,035</b>	592,473	<b>8,035</b>	625,212
Sundry income - other	<b>7,827,966</b>	395,749	<b>7,848,719</b>	535,922
	<b>8,233,875</b>	1,354,052	<b>8,254,629</b>	1,526,964

## 22.2 ADMINISTRATIVE EXPENSES

Accounting fees - internal audit	<b>309,500</b>	288,200	<b>309,500</b>	288,200
Accounting fees - subsidiaries	-	13,566	-	13,566
Administration costs	16,515	15,926	<b>16,515</b>	15,926
Bank charges	<b>318,475</b>	268,495	<b>318,475</b>	276,726
Contingent insurance policy administration fee	<b>42,000</b>	-	<b>42,000</b>	-
Directors' remuneration - fees	<b>3,769,307</b>	3,578,135	<b>3,769,307</b>	3,578,135
Directors' travelling and subsistence	2,018,775	1,341,990	<b>2,018,775</b>	1,341,990
Entertainment	<b>80,020</b>	15,727	<b>80,020</b>	24,716
Fines and Penalties	<b>3,048</b>	-	<b>3,048</b>	281,430
General expenses	<b>140,505</b>	125,491	<b>140,505</b>	125,491
Insurance	347,685	364,545	<b>525,009</b>	529,794
Legal expenses	<b>1,290,098</b>	355,330	<b>1,290,098</b>	442,975
Printing and stationery	<b>657,101</b>	726,855	<b>662,957</b>	733,497
Relocation - staff	<b>316,184</b>	333,540	<b>316,184</b>	333,540
Staff recruitment	29,815	11,970	<b>29,815</b>	11,970
Staff refreshments	<b>86,794</b>	108,823	<b>86,794</b>	108,823
Staff training	<b>2,294,280</b>	2,517,037	<b>2,295,171</b>	2,519,704
Staff ancillary costs	<b>134,632</b>	113,904	<b>134,632</b>	126,265
Subscriptions	93,216	124,923	<b>104,481</b>	134,813
Workers forum	<b>113,502</b>	30,932	<b>113,502</b>	30,932
Workmen's compensation	-	946,807	-	946,807
	<b>12,061,452</b>	11,282,198	<b>12,256,788</b>	11,865,302



## 22.3 OTHER OPERATING EXPENSES

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
Bad debts - rental and other income	-	665	-	665
Bad debts - Loans / movement in provision	<b>20,348,347</b>	-	<b>20,348,347</b>	-
Cleaning	<b>253,023</b>	187,234	<b>253,023</b>	187,234
Community capacity development	<b>224,708</b>	528,497	<b>224,708</b>	528,497
Computer maintenance	<b>2,552,894</b>	2,325,132	<b>2,552,894</b>	2,325,132
Debt collection service fees	<b>889</b>	1,446	<b>889</b>	1,446
Depreciation of investment property and property, plant	<b>3,892,990</b>	3,766,580	<b>5,116,077</b>	5,008,015
Donations	-	-	-	22,000
DRDAR funded programme: Female Awards	<b>889,000</b>	892,000	<b>889,000</b>	892,000
DRDAR - Funded Sundry Expenditure	<b>212,892</b>	-	<b>212,892</b>	-
DRDAR Funded Infrastructure Project	-	7,000,000	-	7,000,000
National Treasury Funded Jobs Fund Agro-	<b>10,852,170</b>	7,829,831	<b>10,852,170</b>	7,829,831
OTP Funded Youth Project	<b>2,835,000</b>	1,600,000	<b>2,835,000</b>	1,600,000
ECRDA Establishment cost	-	44,689	-	44,689
Fair value adjustments (Receivables and Guardrisk)	<b>1,592,991</b>	142,649	<b>1,592,991</b>	142,649
Fair value adjustment: Biological assets	-	-	<b>1,659,369</b>	-
Impairment loss	<b>391,189</b>	7,172,446	<b>391,189</b>	7,172,446
Leasing charges - operating lease for equipment	<b>327,052</b>	409,191	<b>411,682</b>	421,382
Loan application screening/Enquiry cost	<b>68,992</b>	65,722	<b>68,992</b>	65,722
Minor assets expensed and write off of insured assets stolen/ damaged	<b>8,435</b>	12,324	<b>8,435</b>	12,324
Motor vehicles: fuel and maintenance	<b>1,046,206</b>	1,020,875	<b>1,046,206</b>	1,020,875
Municipal services - rates, water and electricity	<b>2,244,220</b>	1,958,348	<b>2,457,440</b>	2,135,877
Postages	<b>5,629</b>	8,491	<b>5,629</b>	9,010
Professional fees	<b>2,378,261</b>	624,287	<b>2,468,759</b>	675,131
Protective clothing and uniforms	<b>27,606</b>	37,241	<b>29,194</b>	62,972
Rental charges on land and buildings	<b>7,127,548</b>	7,127,548	<b>7,127,548</b>	7,095,688
Repairs and maintenance - buildings	<b>1,175,807</b>	91,542	<b>1,175,807</b>	91,542
Repairs and maintenance - general	<b>535,485</b>	306,538	<b>2,197,981</b>	1,049,135
Rural finance roadshow	<b>175,330</b>	197,429	<b>175,330</b>	197,429
Security	<b>608,788</b>	624,483	<b>693,322</b>	664,808
Stakeholder management	<b>1,184,371</b>	2,016,424	<b>1,184,371</b>	2,016,424
Telephone calls and data lines	<b>3,400,893</b>	3,238,920	<b>3,401,847</b>	3,240,049
Travelling and subsistence	<b>7,472,121</b>	5,729,055	<b>7,618,188</b>	5,889,256
	<b><u>71,832,835</u></b>	<u>54,927,728</u>	<b><u>76,999,279</u></b>	<u>57,402,229</u>

## 22.4 STAFF COSTS

Salaries - medical aid contributions	<b>3,120,888</b>	2,826,338	<b>3,120,888</b>	2,826,338
Salaries - provident fund contributions	<b>0</b>	3,937,108	<b>0</b>	3,937,108
Salaries and wages	<b>78,571,164</b>	73,794,964	<b>78,915,230</b>	74,680,775
	<b><u>81,692,053</u></b>	<u>80,558,410</u>	<b><u>82,036,118</u></b>	<u>81,444,221</u>

## 23. TAXATION

In terms of section 10(1)(cA)(i) of the Income Tax Act, 1962, the Commissioner for the South African Revenue Service (SARS) has granted the Eastern Cape Rural Development Agency exemption from income taxation. In terms of Treasury Regulations and agreement with SARS, the Agency is also exempt from registration for Value Added Taxation.

Management of Kangela Citrus Farms (Proprietary) Limited recognised a tax refund of R1 675 493 (2017: expense of R1 534 489) for the financial year ended 31 March 2018. The company recognised a deferred tax asset of R1 150 859 (2017: R60 862) and a deferred tax liability of R1 779 936 (2017: R2 365 431).

	<b>Group 2018 R</b>	Group 2017 R
<b>Income Tax</b>		
Current year - normal taxation	(1,675,493)	1,534,489
<b>Deferred tax</b>		
Balance at the beginning of the year	<b>(2,304,569)</b>	(2,649,088)
Increase (decrease) in tax losses available for set off against future taxable income	<b>1,123,807</b>	-
Temporary differences on tangible fixed assets	<b>44,747</b>	38,026
Temporary differences on biological assets	<b>545,823</b>	278,647
Temporary differences on provisions	<b>(33,810)</b>	19,042
Temporary difference on finance leased assets	<b>(5,075)</b>	8,804
Balance at end of the year	<b>(629,077)</b>	(2,304,569)
<b>Comprising:</b>		
Deferred tax asset	<b>1,150,859</b>	60,862
Deferred tax liability	<b>(1,779,936)</b>	(2,365,431)
	<b>(629,077)</b>	(2,304,569)

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

	<b>Group 2018 R</b>	Group 2017 R
<b>Current income tax</b>		
Charge for the year	(1,961,562)	1,837,888
Adjustments - fair value biological assets	464,623	(225,466)
Adjustments - penalties and interest	1,215	89,703
Adjustments - revenue from non-exchange transactions	-	(458,136)
Adjustments - expenses relating to non-exchange revenue	292,321	292,321
Adjustments - donations	-	6,160
Adjustments - fair value payables	(471,397)	-
Adjustments - legal fees	-	24,780
Adjustments - prior year over adjustment	-	(32,679)
Adjustments - other	(693)	(82)
Balance at end of the year	<b>(1,675,493)</b>	1,534,489
<b>Comprising:</b>		
Assets in Kangela Citrus Farms (Proprietary) Limited	<b>(1,675,493)</b>	1,534,489
	<b>(1,675,493)</b>	1,534,489

## 24. OPERATING LEASE ARRANGEMENTS

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

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
<b>Operating leases where the Agency/group is the lessee</b>				
Lease of office premises	<b>10,378,846</b>	16,923,675	<b>10,378,846</b>	16,923,675
Up to 1 year	<b>7,528,919</b>	6,714,155	<b>7,528,919</b>	6,714,155
1 to 5 years	<b>2,849,927</b>	10,209,520	<b>2,849,927</b>	10,209,520
More than 5 years	-	-	-	-

The statement of financial performance details the expenditure incurred by the Agency on the operating leases. A total of R7 127 548 (2017: R7 095 688) was paid during the financial year in respect of all lease expenses. A net straight lined operating lease liability of R641 878 (2017: R360 846) existed at reporting date.

The 1% increase in VAT, effective 1 April 2018, will result in an increase of the expected lease payments to be made within the next year of R66 043 and an additional R24 999 on the payables later than one year.

The East London office lease contributes 81% (2017: 83%) of the lease expense for the next 12 months, with 18% (2017: 65%) for the period thereafter. This lease was signed for a fixed term and does have 10% per annum escalation impacts. The lease expires 30 April 2019 and the Agency has an option to renew the lease for a further 2,5 years.

### Operating leases where the Agency is the lessor

The agency earns income from the lease of office premises at the investment property at 52 Sprigg Street, Mthatha. All lease agreements are for a 12-month period. Income from office lease rentals for the 12 months from 1 April each year will approximate the rentals earned for the previous year. At reporting date lease contracts generating income of R130 609 (2017: R95 234) per month were entered into. The contracts are entered into for a period of 12 months in which any party can cancel the contract with appropriate notice.

## 25. FRUITLESS AND WASTEFUL EXPENDITURE

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
Interest/Finance costs paid	<b>6,494</b>	1,494	<b>6,494</b>	1,494
No-show charges/accommodation	-	-	-	-
Fines and penalties	<b>9,889</b>	-	<b>9,889</b>	-
Total fruitless and wasteful expenditure for the year	<b>16,383</b>	1,494	<b>16,383</b>	1,494
Less: condoned by the Board	-	-	-	-
Expenditure recovered	-	(343)	-	(343)
- Receivable at year-end (invoiced)	<b>(6,568)</b>	-	<b>(6,568)</b>	-
- Disciplinary action taken against employee; dismissed	<b>(7,165)</b>	-	<b>(7,165)</b>	-
- Ongoing consultation with suppliers to reverse interest as invoices were received late	<b>(2,650)</b>	-	<b>(2,650)</b>	-
Expenditure not condoned by the Board - carried forward	<b>1,150</b>	5,972	<b>1,150</b>	5,972
Expenditure condoned in current year for prior year	-	(5,972)	-	(5,972)
Expenditure not condoned by the Board - brought forward	<b>1,150</b>	1,150	<b>1,150</b>	1,150



**26. IRREGULAR EXPENDITURE/PAYMENTS (OWN FUNDS)**

	<b>Agency 2018 R</b>	Agency 2017 R	<b>Group 2018 R</b>	Group 2017 R
Opening balance	-	-	-	-
Add: Irregular expenditure incurred in current year	<b>8,576,217</b>	-	<b>8,576,217</b>	-
Add: Irregular expenditure incurred in prior year but identified in current year	-	-	-	-
Less: Irregular expenditure written off	-	-	-	-
Less: Irregular expenditure recovered	-	-	-	-
Less: Irregular expenditure condoned by the relevant authority	-	-	-	-
<b>Total</b>	<b>8,576,217</b>	-	<b>8,576,217</b>	-

**Details of Irregular Expenditure:**

- (1) ECRDA, into the Tshabo Red Hub project, approved business plans for implementation without following an open market bid process which is in contravention of s16A3 of the Treasury Regulations. As such, expenditure resulting from the approval of the business plan is irregular.

Details of expenditure, following from the business plans are as follows:

- (a) Procurement of protea stems and cuttings from a nursery located in the Amahlati Local Municipality. Cost of stems is R5 507 283.
- (b) Procurement of snail breeding stock to the value of R758 747. The supplier is an Eastern Cape based company and the holder of a licence to import Helix Aspersa Muller snails.

- (c) Sundry expenses incurred by means of 3 quotations such as portable toilets, cement mixer etc to the value of R59 513 relating to the Tshabo Red Hub.

- (2) The ECRDA contracted a related party, Ncera Macadamia Farming to conduct feasibility studies and prepare business plans in furtherance of the macadamia outgrowers initiative. 2017/18 expenditure amounted to R1m.

- (3) Deviation for the development of RED Hub business plans to the amount of R495 000 by a supplier without obtaining 3 quotations.

- (4) A deviation where a supplier was appointed for the development of a Human Resources Development Strategy for R462 802 (spent R333 058).

- (5) Expenditure of R422 616 relating to the contract for fencing at the Mqanduli Red Hub as the supplier did not sign the local content declaration.

**27. BOARD MEMBERS' AND SENIOR MANAGEMENT REMUNERATION****27.1 BOARD MEMBER REMUNERATION**

	<b>Fees 2018 R</b>	<b>Claims 2018 R</b>	Fees 2017 R	Claims 2017 R
<b>Board committee members *</b>				
Kali B., Ms (appointed 1 January 2010)	<b>299,604</b>	-	299,604	-
Pietersen C.J., Mr (appointed 1 January 2010)	<b>357,816</b>	<b>42,732</b>	357,816	53,998
Mkile F.F., Ms (appointed 20 January 2010)	<b>365,220</b>	<b>8,656</b>	365,220	40,594
Mkosana V.M., Dr (appointed 15 November 2012)	<b>386,352</b>	<b>1,870</b>	386,352	2,918
George X., Mr (appointed 15 November 2012)	<b>306,456</b>	<b>1,296</b>	306,456	2,974
Jarana V. Mr (appointed 15 November 2012; resigned 1 March 2018)	<b>280,918</b>	-	306,456	2,096
Le Roux A., Mr (appointed 15 November 2012)	<b>299,604</b>	<b>4,384</b>	299,604	33,655
Mbalekwa S.W., Mr (appointed 15 November 2012)	<b>357,816</b>	<b>3,553</b>	357,816	5,800
Semane Z., Ms (appointed 15 November 2012)	<b>299,604</b>	-	299,604	1,216
Sogoni M., Mr (appointed 1 February 2016)	<b>299,604</b>	<b>4,787</b>	299,604	12,417
Ncwadi M., Mr (appointed 1 February 2016)	<b>299,604</b>	<b>1,672</b>	299,604	2,772
Fees for services rendered	<b>3,552,598</b>	<b>68,950</b>	3,578,135	158,440

\* The Chief Executive Officer, Mr. T.T. Gwanya is also a member of the Board.

## 27.2 SENIOR MANAGEMENT REMUNERATION

<b>Agency - 2018</b>	<b>Salary &amp; Bonus R</b>	<b>Provident fund R</b>	<b>Other benefits R</b>	<b>Total R</b>
Gwanya T.T., Mr - Chief Executive Officer	2,374,747	-	51,554	<b>2,426,301</b>
Simukonda N., Mr - Chief Operations Officer	1,893,316	-	130,684	<b>2,023,999</b>
Baxter J., Mrs - Chief Financial Officer	1,794,974	-	32,492	<b>1,827,466</b>
Ntshanga G., Mr - Chief Strategy Officer	1,423,773	-	15,578	<b>1,439,351</b>
Mavuso N., Mrs - Executive Corporate Services (service terminated during the financial year)	952,304	-	651	<b>952,955</b>
Koyana G., Mrs - Executive Legal Manager (service terminated during the financial year)	852,597	-	-	<b>852,597</b>
Velani C., Mr - Executive Office Manager	1,126,569	-	39,090	<b>1,165,659</b>
Wobiya N., Mr - Internal Audit Manager	1,239,227	-	9,542	<b>1,248,769</b>
Crew R., Mr - Executive Renewable Energy	1,805,077	-	87,030	<b>1,892,107</b>
	<b>13,462,584</b>	<b>-</b>	<b>366,620</b>	<b>13,829,204</b>

<b>Agency - 2017</b>	<b>Salary &amp; Bonus R</b>	<b>Provident fund R</b>	<b>Other benefits R</b>	<b>Total R</b>
Gwanya T.T., Mr - Chief Executive Officer	2,089,127	115,296	20,573	<b>2,224,996</b>
Simukonda N., Mr - Chief Operations Officer	1,587,894	117,595	85,238	<b>1,790,727</b>
Baxter J., Mrs - Chief Financial Officer	1,666,233	-	31,693	<b>1,697,925</b>
Ntshanga G., Mr - Chief Strategy Officer	1,321,653	-	13,820	<b>1,335,473</b>
Mavuso N., Mrs - Executive Corporate Services	1,356,770	23,878	-	<b>1,380,648</b>
Koyana G., Mrs - Executive Legal Manager	1,042,772	78,881	570	<b>1,122,223</b>
Velani C., Mr - Executive Office Manager	964,761	79,673	44,900	<b>1,089,334</b>
Wobiya N., Mr - Internal Audit Manager	1,061,237	87,641	575	<b>1,149,452</b>
Crew R., Mr - Executive Renewable Energy	1,673,475	-	73,417	<b>1,746,892</b>
	<b>12,763,922</b>	<b>502,963</b>	<b>270,786</b>	<b>13,537,671</b>

## 28. RELATED PARTY TRANSACTIONS

### 28.1 SUMMARY OF TRANSACTIONS DURING THE YEAR

	<b>Agency 2018 R</b>	Agency 2017 R
Department of Rural Development and Agrarian Reform (operating grant and transfer payments)	<b>221,148,000</b>	165,021,000
Department of Rural Development and Agrarian Reform (reimbursement of instructed payments, projects for implementation and increased transfer payments)	<b>2,460,450</b>	22,182,600
Department of Rural Development and Agrarian Reform (receivable at fair value)	<b>181,419</b>	-
Department of Agriculture, Forestry and Fisheries (receivable at fair value)	<b>8,619,464</b>	10,140,546
Ncera Macadamia (transfer)	<b>10,000,000</b>	16,700,000
Ncera Macadamia Farming (loan granted)	<b>3,000,000</b>	-
Ncera Macadamia Farming (loan repayments)	<b>1,572,020</b>	3,129,082
Ncera Macadamia Farming (services rendered)	<b>1,000,000</b>	-
North Pondoland Sugar (payments on behalf of entity)	-	13,566
Kangela Citrus Farms (receivable at fair value)	<b>22,380,842</b>	-
Kangela Citrus Farms (payable at reporting date)	-	326,125
Magwa Tea - budget allocation and additional funds transferred	<b>39,415,000</b>	2,936,585
Magwa Tea - own funds paid to suppliers	<b>200,246</b>	-
Magwa Tea - payable at reporting date	-	77,415
Majola Tea - budget allocation and additional funds transferred	<b>5,644,000</b>	1,800,000
Office of the Premier (project receipts)	<b>2,835,000</b>	3,553,000
National Treasury (Job's fund project contribution)	<b>10,852,170</b>	26,305,925

Transactions with Board members and management are detailed in note 27. Note 7 contains staff loan disclosures.

### 28.2 TRANSACTIONS WITH THE EASTERN CAPE PROVINCIAL GOVERNMENT DURING THE YEAR

The agency received (and accrued) a grant of R221 148 000 (2017: R165 021 000) from the Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR) during the year for operating activities. This amount includes transfer payments. Additional funding for disbursements on behalf of the Department to the value of R2 460 450 (2017: R22 182 600) was paid to the Agency. At 31 March 2018 a balance of R181 419 (2017: nil) is due to the Agency.

The agency implements projects and administer the expenses of the allocated project on behalf of Departments. The following projects were managed and implemented during the financial year and expenses were incurred on behalf of these Departments:

#### **Department of Forestry and Fisheries**

Project implementation and cropping expenditure of R22 205 303 was incurred by the Agency on behalf of the Department in prior years. A total of R11 000 000 was repaid by the Department during the 2016 financial year. The fair value of the debt as at 31 March 2018 amounts to R8 619 464 (2017: R10 114 328). Also refer to note 8.1

#### **Development Bank of South Africa (DBSA)/National Treasury**

The DBSA/National Treasury is the primary co-funder of the Job's Fund programme. The contribution received during the financial year amounted to R10 852 170 (2017: R26 305 925). Refer to note 18 for the split of the programme funding.

#### **Office of the Premier**

Office of the Premier appointed the Agency to implement projects on its behalf. R2 835 000 (2017: R3 553 000) was received

by the Agency and programme expenditure of R2 759 959 (2017: R731 134) was incurred.

#### **Ncera Macadamia**

A total of R10 000 000 (2017: R16 700 000) was allocated and paid to the programme as per the Provincial budget allocation.

Loan of R3 000 000 (2017: Nil) was granted to Ncera Macadamia Farming and repayments received amounted to R1 572 020 (2017: R3 129 082). Ncera Macadamia was appointed for the undertaking of feasibility studies and business plan development relating to the ECRDA's Macadamia Outgrower Scheme Initiative to the amount of R1 000 000 in 2017/18 with the remainder due in 2018/19.



**Magwa Tea Enterprise (MTE)**

A total of R39 415 000 (2017: R3 014 000) was allocated to the MTE as per the Provincial Budget allocation from the Department of Rural Development and Agrarian Reform (DRDAR). Disbursements to the estate amounted to R39 615 246 (2017: R2 936 585).

**Majola Tea**

A total of R5 644 000 (2017: R1 800 000) was received and paid to the tea estate as per the provincial budget allocation.

**28.3 ADMINISTERED FUNDS**

The agency administers funds on behalf of various departments (mainly the Department of Rural Development and Agrarian Reform) of the Eastern Cape Government. Refer to the note on non-exchange transactions for further details (note 18). The agency is also entitled to an administration fee levied as a percentage of the fund administered and/or to invest the funds and receive the interest on such funds until disbursed in terms of the specific agreements. Refer to the Statement of Financial Performance for commission fee income and to Note 8.1 for amounts due for commission fees receivable at the reporting date (and comparative information).

**28.4 TRANSACTIONS BETWEEN THE AGENCY AND KANGELA CITRUS FARMS (PROPRIETARY) LIMITED**

No voted funds were received from the Department as part of the operational grant of the Agency for either the 2017 or the 2018 financial years. Transfers were not processed to Kangela as payments was made on their behalf. The agency has a 51% shareholding in the subsidiary and considers Kangela Citrus Farms as a Rural Enterprise Development Hub. A receivable of R9 205 842 for operational expenses incurred on behalf of the company and a loan of R13 175 000 is due to the Agency at year-end (2017: Agency owes Kangela R326 125). The total receivable due to the Agency by Kangela at reporting date is R22 380 842.

**28.5 TRANSACTIONS BETWEEN THE AGENCY AND NORTH PONDOLAND SUGAR (PROPRIETARY) LIMITED**

Payments to a supplier for the completion of statutory documentation on behalf of the company was paid by the Eastern Cape Rural Development Agency to the value of nil (2017: R13 566). The subsidiary was merged into the operations of the ECRDA on 1 April 2016.

**29. RETIREMENT FUNDING DEFINED CONTRIBUTION PLAN**

Employees of the Agency are members of either the non-contributory Discovery Fund, Rainmaker Provident Fund or the Sanlam Provident Fund. At 31 March 2017 the membership of the Eastern Cape Rural Development Agency's employees of the provident fund was as follows:

	<b>Agency 2018</b>		Agency 2017	
	<b>Number of employees</b>		Number of employees	
Members of Rainmaker Plus Provident Fund	<u>11</u>	<u>7%</u>	<u>18</u>	<u>11%</u>
Discovery Fund	<u>116</u>	<u>77%</u>	<u>117</u>	<u>72%</u>
Non-members	<u>23</u>	<u>15%</u>	<u>29</u>	<u>17%</u>
Total staff complement	<u>150</u>	<u>100%</u>	<u>164</u>	<u>100%</u>
	<b>2018</b>		2017	
The agency contributed as follows to the defined contribution plans during the financial year:	<u>Nil</u>		<u>3,937,108</u>	

**Retirement benefits**

Provident fund benefits are related to the member's fund credit at retirement. The fund credit consists of the employer's contribution plus declared yield on such contributions.

**Funding**

The provident fund is a defined contribution plan where contributions are made as a percentage of the total salary package of the employee. Contributions are part of the total cost to company of individuals.

The percentage contribution for the Rainmaker Plus Provident Fund is 15%. There is no defined percentage contribution for the Discovery fund as the contributions depends on the individual's package selection.

### 30. RECONCILIATION BETWEEN BUDGET SURPLUS WITH THE SURPLUS IN THE STATEMENT OF FINANCIAL PERFORMANCE

As the budgets that are approved by the Boards are not prepared on the same basis as set out in Note 2 to these consolidated Annual Financial Statements, the following reconciliation is provided:

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
Surplus/Deficit for the year (refer to the statement of financial performance)	<b>(6,714,694)</b>	596,545	<b>(12,044,779)</b>	5,625,941
Adjusted for:				
Initiation fees & net margin on loans	<b>(7,018,428)</b>	954,193	<b>(7,018,428)</b>	954,193
Subsidy costs on concessionary loans	<b>853,331</b>	553,308	<b>853,331</b>	553,308
Fair Value Adjustments & Reversal of Provisions	<b>(1,253,374)</b>	(1,256,387)	<b>(2,936,935)</b>	(2,061,625)
Profit / loss on disposal of property, plant and	<b>374,159</b>	(256,440)	<b>374,159</b>	(256,440)
Bad debts - rental and other income	-	665	-	665
Fair value adjustments - biological assets	-	-	-	(18,850,876)
Fee - MAFISA Scheme	<b>421,046</b>	496,500	<b>421,046</b>	496,500
Minor assets expensed	<b>8,435</b>	12,324	<b>8,435</b>	12,324
Impairment Loss - Arengo 316	<b>391,189</b>	7,172,446	<b>391,189</b>	7,172,446
Commission fees for managing projects (accrued)	<b>(3,008,497)</b>	(3,507,396)	<b>(3,008,497)</b>	(3,507,396)
Revenue from non-exchange transaction	-	-	-	-
Depreciation	<b>3,892,990</b>	3,766,580	<b>5,116,077</b>	5,008,015
Fair value adjustments	<b>1,584,621</b>	142,649	<b>1,584,621</b>	142,649
Bad debts - loans	20,348,347	-	20,348,347	-
Project implemented on behalf of funders (DRDAR &	<b>13,687,170</b>	16,429,831	<b>13,687,170</b>	16,429,831
Surplus per approved budgets	<b>23,566,295</b>	25,104,818	<b>17,775,735</b>	11,719,535

Also refer to the 'Statement of comparison of budget and actual amounts'.

Budget information is not included for North Pondoland Sugar (Proprietary) Limited and Kangela Citrus Farms (Proprietary) Limited as it is included under transfers.

The ECRDA compares its actual performance against the budgeted performance in the Medium Term Expenditure Framework based on a modified cash basis. The comparison of the estimated outcomes of the MTEF cash flow statement to the financial statement cash flow statement is as follows -

Comparison to Cash Flow Statement	2017/18	Basis	Agency	Timing
Net Cash Flows from Operating Activities Per AFS	(28,693,420)			
Per MTEF Budget estimated outcomes	51,647,367			
Difference	(80,340,787)	x		
Net Cash Flows from Investing Activities Per AFS	(3,512,599)			
Per MTEF Budget estimated outcomes	(3,971,000)			
Difference	458,401	x		
Net Cash Flows from Financing Activities Per AFS	518,840			
Per MTEF Budget estimated outcomes	-			
Difference	518,840	x		
<b>Total</b>	<b>(79,363,546)</b>			

### 31. POST REPORTING DATE EVENTS

Management has assessed the operations of the Agency, the ongoing business operations and all correspondence and contractual obligations that have been exercised during the financial year, the events between the financial year-end and the date of approving the financial statements and have not identified any subsequent events that impacts on the financial statements presented.

### 32. STANDARDS AND INTERPRETATION NOT YET EFFECTIVE AS AT 31 MARCH 2018

The following is a list of approved Standards of GRAP for which the Minister of Finance has not set the effective date. The standards will not have a significant impact on the reporting of the entity, apart from additional disclosures to be included for the users of the information.

Reference	Topic
GRAP 20	Related Party Disclosure
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 interest in other entities
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and non-living resources

The accounting policy detailed in Note 1 to the financial statements details the list of all GRAP Standards effective and adopted by the Agency.

The following International Accounting Standard is considered by the Agency:

IAS 12 Income Tax

### 33. GOING CONCERN

The directors believe that the Agency has adequate resources to continue operations in the foreseeable future based on the annual allocations voted to the Agency by the Eastern Cape Provincial Government over the medium term expenditure framework. As such the Annual Financial Statements has been prepared on a going concern basis.

The directors have satisfied themselves that the ECRDA in a sound financial position and has access to funds to meet its foreseeable future requirements. The directors are not aware of any material changes that may adversely impact the ECRDA.

The directors are also no aware of any material non-compliance with statutory and regulatory requirements or of any pending changes to legislation which may affect the ECRDA.





**34. FINANCIAL INSTRUMENTS PER CATEGORY****34.1 FINANCIAL LIABILITIES BY CATEGORY**

The accounting policies for financial instruments have been applied to the line items below

	<b>Agency 2018</b>	Agency 2017	<b>Group 2018</b>	Group 2017
	<b>Amortised Cost</b>	Amortised Cost	<b>Amortised Cost</b>	Amortised Cost
Trade and other payables	<b>15 974 932</b>	22 402 452	<b>18 425 751</b>	26 460 993
Loan from South African Fruit Exporters (SAFE)	-	-	<b>21 701 418</b>	-
	<b>15 974 932</b>	22 402 452	<b>40 127 169</b>	26 460 993

**34.2 FINANCIAL ASSETS BY CATEGORY**

The accounting policies for financial instruments have been applied to the line items below

	<b>Agency 2018</b>		
	<b>Fair Value</b>	<b>Amortised Cost</b>	<b>Cost</b>
Cash and cash equivalents	-	-	<b>42,955,041</b>
Trade and other receivables	<b>21,265,349</b>	-	-
Loans and advances to customers	-	<b>58,959,511</b>	-
Investments under contingency policy	-	<b>9,839,802</b>	-
	<b>21 265 349</b>	<b>68 799 313</b>	<b>42 955 041</b>
	<b>Agency 2017</b>		
	Fair Value	Amortised Cost	Cost
Cash and cash equivalents	-	-	74 642 220
Trade and other receivables	12 667 371	-	-
Loans and advances to customers	-	50,932,563	-
Investments under contingency policy	-	9,216,355	-
	12 667 371	60 148 918	74 642 220
	<b>Group 2018</b>		
	<b>Fair Value</b>	<b>Amortised Cost</b>	<b>Cost</b>
Cash and cash equivalents	-	-	<b>56 702 249</b>
Trade and other receivables	<b>37 950 504</b>	-	-
Loans and advances to customers	-	<b>45 784 511</b>	-
Investments under contingency policy	-	<b>9 839 802</b>	-
	<b>37 950 504</b>	<b>55 624 313</b>	<b>56 702 249</b>
	<b>Group 2017</b>		
	Fair Value	Amortised Cost	Cost
Cash and cash equivalents	-	-	74 649 434
Trade and other receivables	13 470 961	-	-
Loans and advances to customers	-	50 932 563	-
Investments under contingency policy	-	9 216 355	-
Receivable from Arengo 316 (Proprietary) Limited	-	-	-
	13 470 961	60 148 918	74 649 434

### 35. COMPARATIVE FIGURES

The following amendments were made to the comparative figures:

- (a) Provincial Treasury required that the Eastern Cape Rural Development Agency surrender R3 119 000 of the funds at hand as at 31 March 2017. The accumulated surplus of the 2017 year had to be restated accordingly, affecting the net result on the statement of financial position.
- (b) Invoices for services rendered in the 2017 financial year amounting to R74 294 were received after conclusion of the audit. The expenses had to be recognised against the other payables.
- (c) Corrections to depreciation on property, plant and equipment of R3 460 were posted against the relevant accumulated depreciation accounts in the asset modules.

#### STATEMENT OF FINANCIAL PERFORMANCE

	Balance previously reported		Restated balance		Error corrected
	Agency	Group	Agency	Group	
<b>Expenses</b>					
Depreciation of investment property and property, plant and equipment	3,770,040	5,011,475	3,766,580	5,008,015	-3,460
Skills levy	763,983	763,983	835,468	835,468	71,485
Worker's forum	28,122	28,122	30,932	30,932	2,810
(Deficit)/Surplus after taxation	664,702	<b>5,694,097</b>	<b>596,545</b>	<b>5,625,941</b>	-68,157

#### STATEMENT OF FINANCIAL POSITION

	Balance previously reported		Restated balance		Error corrected
	Agency	Group	Agency	Group	
<b>Non-current assets</b>					
Property, plant and equipment	15,320,446	22,989,380	15,323,906	22,992,840	3,460
<b>Current liabilities</b>					
Trade and other payables	19,209,157	23,267,696	22,402,452	26,460,993	3,193,295
<b>Equity</b>					
Accumulated Surplus	76,542,414	102,900,299	73,352,578	99,710,458	-3,189,836

## | EASTERN CAPE RURAL DEVELOPMENT AGENCY

**DETAILED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**  
**AS AT 31 MARCH 2018**  
*(UNAUDITED SCHEDULE TO FINANCIAL STATEMENTS)*

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>INCOME</b>				
Interest income on loans and advances	5,179,815	2,561,391	5,179,815	2,561,391
Net credit impairment charge	1,694,469	(3,566,784)	1,694,469	(3,566,784)
Write off of irrecoverable debts	(6,586)	(5,586,200)	(6,586)	(5,586,200)
Interest on concessionary loans	1,303,181	1,653,881	1,303,181	1,653,881
Recovery of loans and advances previously written off	397,874	365,536	397,874	365,536
Net interest margin on lending activities	6,874,284	(1,005,393)	6,874,284	(1,005,393)
Loan initiation fees	144,144	51,200	144,144	51,200
<b>Result from lending activities</b>	<b>7,018,428</b>	<b>(954,193)</b>	<b>7,018,428</b>	<b>(954,193)</b>
Interest income on loans and advances / Average gross loans and advances	0.76%	0.41%	0.76%	0.41%
<b>Other income</b>	<b>16,014,770</b>	<b>10,605,516</b>	<b>43,254,912</b>	<b>64,421,865</b>
Commission fees for managing projects	3,008,497	3,507,396	3,008,497	3,507,396
Discount received	-	294	-	294
Fair value adjustment: Guardrisk and other	-	18,073	1,683,562	823,310
Fair value adjustment: Biological assets	-	-	-	18,850,876
Fair value adjustment: Leased Equipment	1,253,374	1,003,162	1,253,374	1,003,162
Gain on disposal of property, plant and equipment	-	256,440	-	256,440
Interest income on cash and investments	2,328,736	3,222,450	2,342,615	3,276,447
National Skills Fund	179,447	160,395	179,447	160,395
Private telephone calls recovered	-	-	-	-
Rental income from investment property	1,408,715	1,213,932	1,408,715	1,213,932
Revenue from non-exchange transactions	-	-	-	1,636,201
Provision for bad debts on loans reversed	-	235,152	-	235,153
Sale of goods	-	-	25,521,947	32,297,125
Sundry income - Insurance Income	8,035	592,473	8,035	625,212
Sundry income - Other	7,827,966	395,749	7,848,719	535,922
<b>Government grant and additional program specific funding</b>	<b>236,335,170</b>	<b>198,586,431</b>	<b>236,335,170</b>	<b>198,586,431</b>
<b>TOTAL INCOME and balance carried forward</b>	<b>259 368 367</b>	<b>208 237 754</b>	<b>286 608 509</b>	<b>262 054 103</b>



## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### DETAILED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 MARCH 2018 (UNAUDITED SCHEDULE TO FINANCIAL STATEMENTS)

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>Balance brought forward</b>	<b>259,368,367</b>	208,237,754	<b>286,608,509</b>	262,054,103
<b>EXPENSES</b>				
Administration fee - Guardrisk	42,000	-	42,000	-
Administration Costs	16,515	15,926	16,515	15,926
Accounting fees - subsidiaries	-	13,566	-	13,566
Audit fees	3,775,323	3,414,480	3,905,182	3,576,855
Internal Audit Fees	309,500	288,200	309,500	288,200
Bad debts - rental and other income	-	665	-	665
Bad debts - Loans/movement in impairment	20,348,347	-	20,348,347	-
Bank charges	318,475	268,495	318,475	276,726
Cleaning	253,023	187,234	253,023	187,234
Community capacity development	224,708	528,497	224,708	528,497
Computer maintenance	79,570	77,982	79,570	77,982
Computer software maintenance	2,473,324	2,247,150	2,473,324	2,247,150
Cost of Sales	-	-	28,288,569	43,088,695
Donations	-	-	-	22,000
Debt collection service fees	889	1,446	889	1,446
Depreciation of investment property and property, plant and equipment	3,892,990	3,766,580	5,116,077	5,008,015
Directors' remuneration and fees	3,769,307	3,578,135	3,769,307	3,578,135
Directors' travelling and subsistence - non executive	2,018,775	1,341,990	2,018,775	1,341,990
DRDAR - Female Farmers Awards	889,000	892,000	889,000	892,000
DRDAR - Funded Sundry Expenditure	212,892	-	212,892	-
DRDAR Funded Infrastructure Project	-	7,000,000	-	7,000,000
National Treasury Funded Jobs Fund Agro-processing Project	10,852,170	7,829,831	10,852,170	7,829,831
OTP Funded Youth Project	2,835,000	1,600,000	2,835,000	1,600,000
ECRDA Establishment costs	-	44,689	-	44,689
Entertainment	80,020	15,727	80,020	24,716
Enquiry Fees	68,992	65,722	68,992	65,722
Fair value adjustment: Guardrisk	8,370	-	8,370	-
Fair value adjustment: Biological assets	-	-	1,659,369	-
Fair value adjustment on receivables and assets	1,584,621	142,649	1,584,621	142,649
Fee - MAFISA Scheme	421,046	496,500	421,046	496,500
Finance costs	17,388	16,613	138,835	74,591
General expenses	140,505	125,491	140,505	125,491
Insurance	347,685	364,545	525,009	529,794
Impairment loss	391,189	7,172,446	391,189	7,172,446
Leasing charges	327,052	409,191	411,682	421,382
Legal expenses	1,290,098	355,330	1,290,098	442,975
Scrapping of obsolete property, plant and equipment	374,159	-	374,159	-
Marketing and functional partnerships	1,701,878	838,628	1,701,878	838,628
Minor assets expensed	8,435	12,324	8,435	12,324
<b>Balance carried forward</b>	<b>59,073,244</b>	43,112,033	<b>90,757,528</b>	87,966,821

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### DETAILED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 MARCH 2018 (UNAUDITED SCHEDULE TO FINANCIAL STATEMENTS)

	Agency 2018 R	Agency 2017 R	Group 2018 R	Group 2017 R
<b>Balance Brought Forward</b>	<b>59,073,244</b>	43,112,033	<b>90,757,528</b>	87,966,821
Motor vehicles: fuel and maintenance	<b>1,046,206</b>	1,020,875	<b>1,046,206</b>	1,020,875
Municipal services - rates, water and electricity	<b>2,244,220</b>	1,958,348	<b>2,457,440</b>	2,135,877
Penalties and Fines	<b>3,048</b>	-	<b>3,048</b>	281,430
Postages	<b>5,629</b>	8,491	<b>5,629</b>	9,010
Printing and stationery	<b>657,101</b>	726,855	<b>662,957</b>	733,497
Professional Fees	<b>2,378,261</b>	624,287	<b>2,468,759</b>	675,131
Project expenses	<b>36,113,282</b>	30,653,876	<b>36,113,282</b>	30,653,876
Protective clothing and uniforms	<b>27,606</b>	37,241	<b>29,194</b>	62,972
Relocation - staff and offices	<b>316,184</b>	333,540	<b>316,184</b>	333,540
Rental charges on land and buildings	<b>7,127,548</b>	7,095,688	<b>7,127,548</b>	7,095,688
Repairs and maintenance - general	<b>535,485</b>	306,538	<b>2,197,981</b>	1,049,135
Repairs and maintenance - buildings	<b>1,175,807</b>	91,542	<b>1,175,807</b>	91,542
Rural finance roadshow	<b>175,330</b>	197,429	<b>175,330</b>	197,429
Transfer payments	<b>56,559,000</b>	24,064,000	<b>56,559,000</b>	24,064,000
Salaries - medical aid contributions	<b>3,120,888</b>	2,826,338	<b>3,120,888</b>	2,826,338
Salaries - provident fund contributions	<b>0</b>	3,937,108	<b>0</b>	3,937,108
Salaries and wages	<b>78,571,164</b>	73,794,964	<b>78,915,230</b>	74,680,775
Security	<b>608,788</b>	624,483	<b>693,322</b>	664,808
Skills levy	<b>681,315</b>	835,468	<b>681,315</b>	835,468
Staff recruitment	<b>29,815</b>	11,970	<b>29,815</b>	11,970
Staff refreshments	<b>86,794</b>	108,823	<b>86,794</b>	108,823
Staff training	<b>2,294,280</b>	2,517,037	<b>2,295,171</b>	2,519,704
Staff ancillary cost	<b>134,632</b>	113,904	<b>134,632</b>	126,265
Stakeholder management	<b>1,184,371</b>	2,016,424	<b>1,184,371</b>	2,016,424
Subscriptions	<b>93,216</b>	124,923	<b>104,481</b>	134,813
Social benefit from concessionary loans	<b>853,331</b>	553,308	<b>853,331</b>	553,308
Telephone calls and data lines	<b>3,400,893</b>	3,238,920	<b>3,401,847</b>	3,240,049
Travelling, accommodation and subsistence	<b>7,472,121</b>	5,729,055	<b>7,618,188</b>	5,889,256
Worker's forum	<b>113,502</b>	30,932	<b>113,502</b>	30,932
Workmen's compensation	<b>-</b>	946,807	<b>-</b>	946,807
<b>TOTAL EXPENSES</b>	<b>266,083,061</b>	207,641,209	<b>300,328,782</b>	254,893,673
<b>(DEFICIT) / SURPLUS BEFORE TAXATION</b>	<b>(6,714,694)</b>	596,545	<b>(13,720,272)</b>	7,160,430
<b>TAXATION</b>	<b>-</b>	-	<b>1,675,493</b>	(1,534,489)
<b>(DEFICIT) /SURPLUS AFTER TAXATION</b>	<b>(6,714,694)</b>	596,545	<b>(12,044,779)</b>	5,625,941
<b>Composition:</b>				
Eastern Cape Rural Development Agency			(6,714,694)	596,545
Agrarian Research and Development Agency (Pty) Ltd			-	-
Kangela Citrus Farms (Pty) Ltd			(5,330,085)	5,029,396
North Pondoland Sugar (Pty) Ltd			-	-
			<b>(12 044 779)</b>	<b>5 625 941</b>









