# ECRDA

Eastern Cape
Rural Development
Agency

# 2021–22

ANNUAL REPORT

ECRDA
Eastern Cape
Rural Development
Agency


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|---|---|
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| Email address | info@ecrda.co.za |
| Website | www.ecrda.co.za |
| External Auditors | Auditor-General of South Africa |
| Bank | FNB and Standard Bank |
| Company secretary | Vacant |
| Title of publication | ECRDA Annual Report 2021/2022 |
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# ECRDA 2021/22
# ANNUAL REPORT

## For attention: Honourable Nonkqubela Pieters

Member of the Executive Council for the Department of Rural Development and Agrarian Reform. The Board has the honour of submitting the Annual Report of the Eastern Cape Rural Development Agency (ECRDA) for the period 01 April 2021 to 31 March 2022.

**Nondumiso Maphazi**
Chairperson of the Board

# ABBREVIATIONS

| | |
|---|---|
| AIP | Audit Improvement Plan |
| AOP | Annual Operational Plan |
| AGSA | Auditor-General of South Africa |
| ARC | Audit, Risk and Compliance |
| B-BBEE | Broad-Based Black Economic Empowerment |
| CHIPS | Catalytic High Impact Priority Projects |
| DPSA | Department of Public Service and Administration |
| DRDAR | Department Rural Development and Agrarian Reform |
| EC | Eastern Cape |
| ECDC | Eastern Cape Development Corporation |
| ECRDA | Eastern Cape Rural Development Agency |
| ECRFC | Eastern Cape Rural Finance Corporation |
| EIA | Environmental Impact Assessment |
| ICT | Information Communications Technology |
| MEC | Member of the Executive Council |
| MoU | Memorandum of Understanding |
| MTEF | Medium Term Expenditure Framework |
| NUPSAW | National Union of Public Service and Allied Workers |
| PFMA | Public Finance Management Act |
| RED HUB | Rural Enterprise Development Hub |
| SCM | Supply Chain Management |
| SA | South Africa |

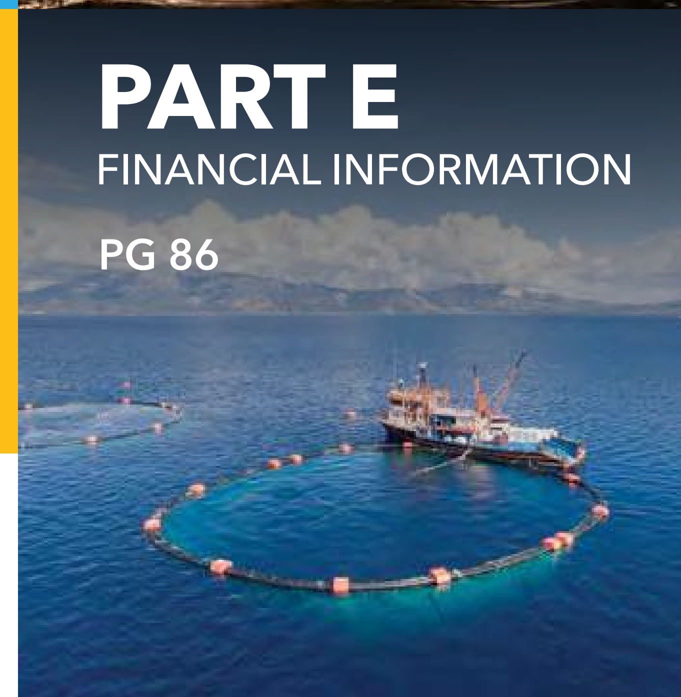


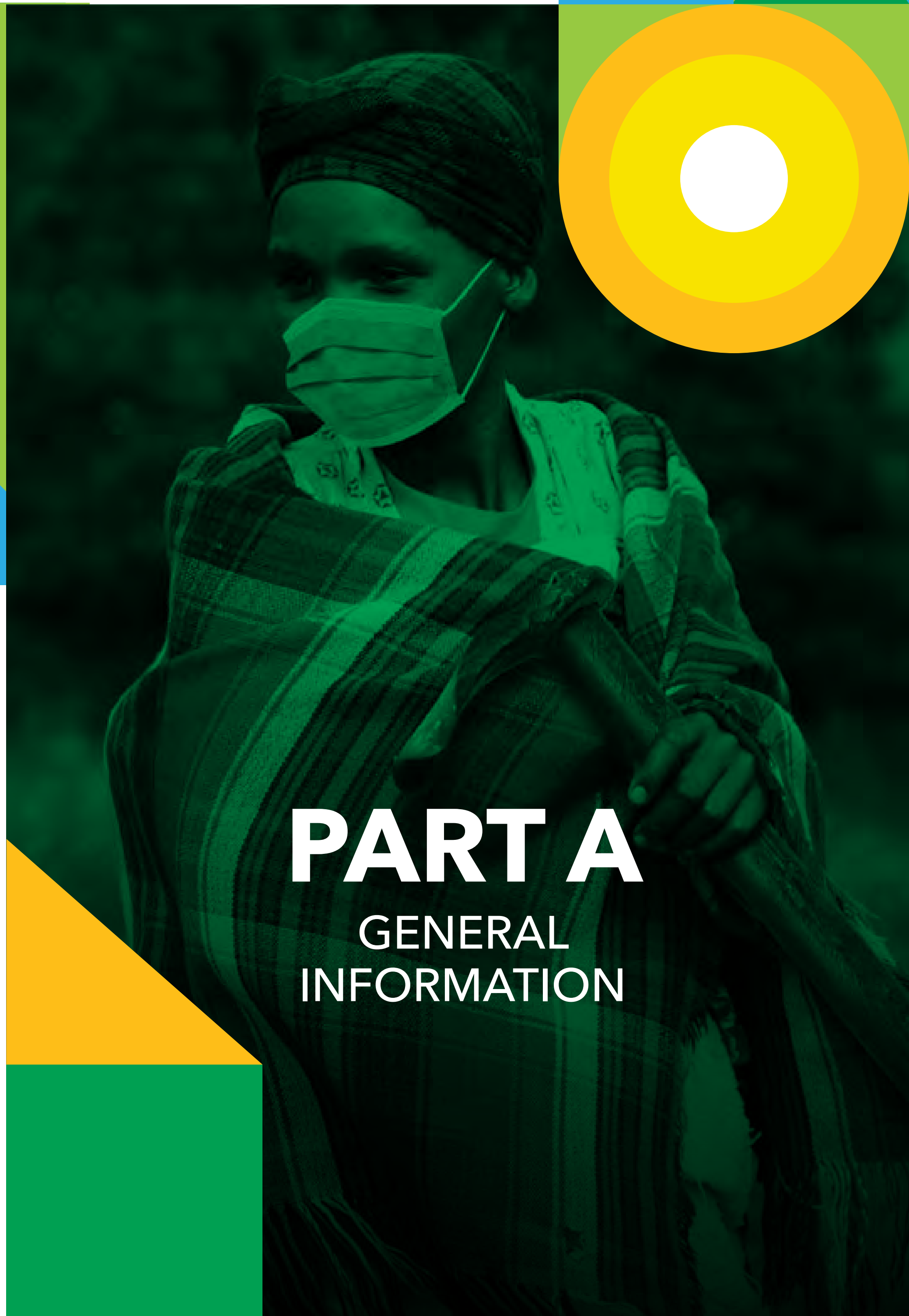












# PART A

## GENERAL INFORMATION



# ABOUT THE ECRDA

The ECRDA is a Schedule 3C entity in terms of the Public Finance Management Act (PFMA). It was established to promote, support and facilitate rural development in the Eastern Cape Province in a sustainable manner.

## Strategic Overview

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

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

## Legislative and other mandates

The ECRDA legislative mandate is to promote, support and facilitate rural development in the Eastern Cape.

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

## Legislative Framework

This mandate is also aligned, compliant and consistent with various other legislation which impact its operations.

- Eastern Cape Rural Finance Corporation Act No 9 of 1999
- Eastern Cape Rural Finance Corporation Amendment Act, 2012
- Basic Conditions of Employment Act No 75 of 1997
- Employment Equity Act No 55 of 1998
- Occupational Health and Safety Act No 85 of 1993
- Protection of Personal Information Act, 2021
- Preferential Procurement Policy Framework Act No 5 of 2000

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

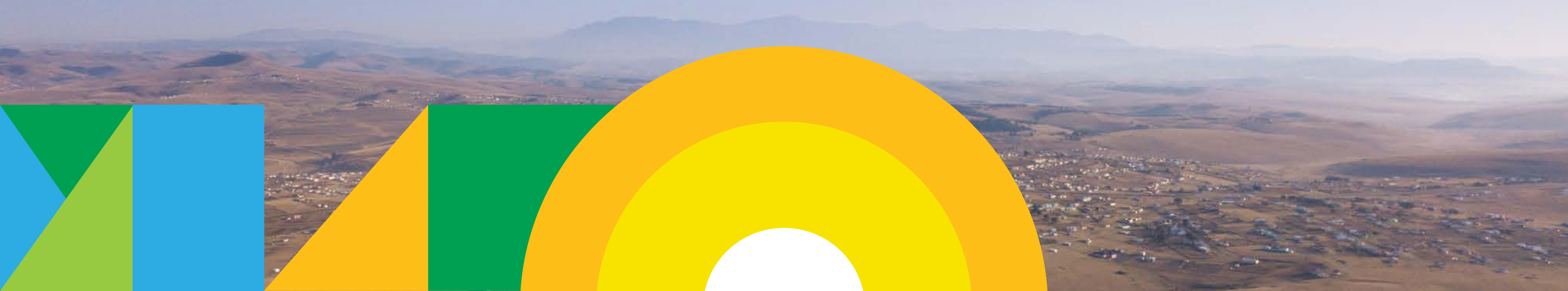
**Excellence**
We will build a competent, capable organisation which is best equipped to deliver quality services in all interventions and assignments within our mandate for rural development.

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

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

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

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



# ORGANISATIONAL STRUCTURE

**Chief Executive Officer**
n. dladla
Filled
(vacant wef 1/4/2022)

**Chief Financial Officer**
Financial Management
J. Baxter
Filled

**Corporate Services Executive**
Corporate Services
C. Gardner
Filled

**Executive Integrated Programme Management**
Vacant

**Executive Rural FInancial Services**
Vacant

**Executive Trade and Investment Promotion**
Vacant

**Regional Director**
**Regional Development and Support Centre: Southern Region**
L. Qongqo Filled

**Regional Director**
**Regional Development and Support Centre: Eastern Region**
C. Velani Filled

**Regional Director**
**Regional Development and Support Centre: Northern Region**
M. Zenzile Filled



# Statement of Responsibility and confirmation of accuracy for the annual report

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

All information and amounts disclosed in the annual report are 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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), standards applicable to the Public Entity.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.
The accounting authority is responsible for establishing and implementing a system of internal control 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 for the entity for the financial year ended 31 March 2022.

Yours faithfully

**Chairperson of the Board**
Nondumiso Maphazi

**Acting Chief Executive Officer**
Dr C Mnqeta

# ECRDA Board

**DR NONDUMISO MAPHAZI (Chairperson)**
**Appointed** May 2022
**Committees:**
Governance & Ethics (Chairperson).
Research, Projects & Stakeholder Management
Strategic Plan Implementation & Performance Monitoring

**THANDI MBETE (Deputy Chairperson)**
**Appointed** May 2022
**Committees:**
Strategic Plan Implementation & Performance Monitoring (Chairperson).
Governance & Ethics.
Finance & Investment.

**NOLITHA PIETERSEN**
**Appointed** May 2022
**Committees:**
Finance & Investment (Chairperson).
Audit & Risk.
Governance & Ethics.

**ADV. JOHN KORKIE**
**Appointed** May 2022
**Committees:**
Audit & Risk (Chairperson).
Human Capital & Remuneration.
Governance & Ethics.

**GCINUMZI QOTYWA**
**Appointed** May 2022
**Committees:**
Human Capital & Remuneration (Chairperson).
Audit & Risk.
Governance & Ethics.

**MXOLISI KOYO**
**Appointed** May 2022
**Committees:**
Research, Projects & Stakeholder Management (Chairperson).
Finance & Investment.
Governance & Ethics.

**ANDILE NONTSO**
**Appointed** May 2022
**Committees:**
Finance & Investment.
Human Capital & Remuneration.
Research, Projects & Stakeholder Management.

**Ntuthu Mbiko-Motshegoa**
**Appointed** May 2022
**Committees:**
Finance & Investment.
Strategic Plan Implementation & Performance Monitoring.
Research, Projects & Stakeholder Management.

**NOKHANYO MACEBA**
**Appointed** May 2022
**Committees:**
Human Capital & Remuneration.
Audit & Risk.
Research, Projects & Stakeholder Management.

**NONDUMISO NGONYAMA**
**Appointed** May 2022
**Committees:**
Human Capital & Remuneration.
Strategic Plan Implementation & Performance Monitoring
Research, Projects & Stakeholder Management.

**SENZENI ZOKWANA**
**Appointed** May 2022
**Committees:**
Strategic Plan Implementation & Performance Monitoring
Research, Projects & Stakeholder Management.
Human Capital & Remuneration.

# Chairperson's Foreword

This annual report is published on the back of an extremely challenging operating environment which tested the efficacy and resolve of the Eastern Cape Rural Development Agency (ECRDA). The organisation's performance was curtailed by the significant human and economic hardships visited by the COVID-19 pandemic.



These socio-economic challenges were further exacerbated by worsening fiscal and budgetary constraints. In response, the Board used the review period as an opportune moment to reassess organisational performance and to identify the levers it needs to pull to return an improved socio-economic dividend to the shareholder.

The Board reaffirmed its collective resolve to steer the ECRDA toward a future in which it positively contributes to job and food security. In this regard, the Board undertook a considered organisational diagnostic process which determined the inhibitors to effective mandate delivery. In particular, the Board was concerned with the need to cultivate and facilitate critical technical acumen among its people in order to improve organisational performance.

This diagnostic process involved various strategic engagements aimed at rallying stakeholder and employee resources as well as their collaborative energy toward a common purpose. Central to a renewed ECRDA, is the urgent need to develop a new organisational culture, in which each work-station makes a meaningful contribution to the attainment of the ECRDA mandate.

In crafting a new strategic path, the Board realigned the ECRDA mandate and its stated vision and mission in order to promote the attainment of a pronounced development impact. The resultant strategy is an outcome of a detailed consultative process which takes into cognisance the various inputs from the shareholder, ECRDA employees and the agency's stakeholder community.

The ECRDA subsequently finalised the strategy development process and the strategy recognises that employees are its greatest asset and the most powerful agents of socio-economic redress. This has resulted in the adoption of an organisational development exercise which seeks to align available skills to the core business. This process also involves the attraction of the best skills the sector has to offer.

A core element of the strategy is the cultivation of strategic alliances and high value partnerships which augment the ECRDA's limited resource pool. This is increasingly important in the face of an increasingly pressured fiscus which comes on the back of low economic growth, rising unemployment, ongoing budget cuts and an increasing demand for services. The ECRDA is thus primed to leverage on the resources of partner institutions in order to widen its development footprint.

The Board is also continuously engaged with the shareholder in order to raise the requisite financial injection for proper project design, packaging and execution. In addition, the Board is acutely aware that the ECRDA needs to maintain its proud financial management posture in order to galvanise partner and funder confidence. In this regard, I am pleased that the ECRDA has maintained an unqualified audit opinion in the 2021/22 financial year. This commitment to sound corporate governance and financial prudence dates back to the ECRDA's inception in 2013.

The ECRDA continues to deliver against its mandate in the face of all the economic challenges affecting the country. The process of transforming the Rural Enterprise Development (RED) Hubs into aggregators of agricultural produce is underway. The forestry development programme continues to provide high-value human resource expertise to the ECRDA-supported forestry enterprises. Harvesting at three community-owned forestry enterprises in Mkambathi, Izinini and Sinawo yielded 12,584 tons of timber valued at R10,5 million.

Three community-owned forestry enterprises yielded

**12,584 tons**

**R10,5 million**

The rural financial services function disbursed R2,8 million to 47 loan beneficiaries in the 2021/22 financial year. Loan approvals were affected by a poor credit history, lack of business records, lack of collateral, business managerial competence, loan affordability and negative cashflow. The ECRDA is reviving its Credit Policy and aftercare services to address these challenges. Important work is also being done to provide technical expertise for the wool and mohair industry in order to "green" and improve production to meet international sustainability standards.

The rural financial services function disbursed

**R2,8 million**

**47 beneficiaries**

Much work is being done to unlock the value of the marine tilapia industry programme which is at its infancy. During the review period, various studies and preparatory work were finalised to lay the building blocks for a thriving community-based marine tilapia industry.

Finally, the ECRDA has developed a framework for cannabis production which was subjected to detailed scrutiny. The framework has been tabled at the National Economic Development and Labour Council (NEDLAC) and it will be shared with various partners and stakeholders. This is an important deliverable which allows the ECRDA to influence the development of a conducive cannabis regulatory framework that takes into consideration the Eastern Cape's century-old indigenous knowledge in breeding, cultivation, processing and trading in cannabis.

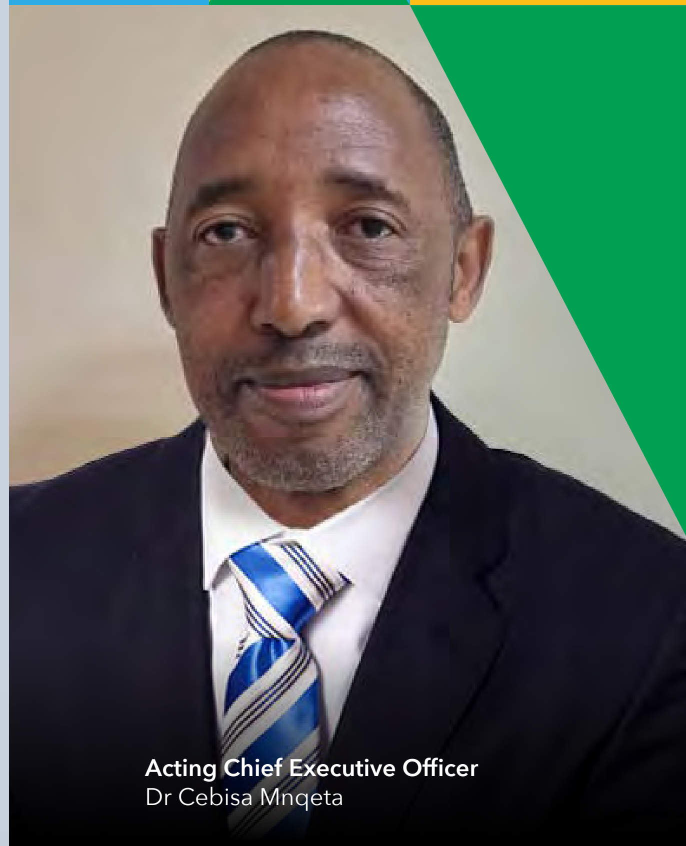
## Appreciation

The Board extends its sincere gratitude to the Honourable MEC Nonkqubela Pieters for her strategic guidance and continued support. I am grateful to the outgoing Board for its fortitude and wisdom in helping craft a sustainable growth trajectory for the ECRDA. I am grateful to the ECRDA's various partners for extending their resources in support of the agency's business and aspirations. I am equally thankful to management and staff for their collective resolve to effect the desired development returs under extremely challenging operating conditions.

Dr. Nondumiso Maphazi
**Chairperson of the Board**



# ECRDA EXECUTIVES



**Acting Chief Executive Officer**
Dr Cebisa Mnqeta

**Chief Operations Officer**
Navy Simukonda

**Chief Financial Officer**
Janine Baxter

**Corporate Services Executive**
Cello Gardner

# Acting Chief Executive Officer's Report

I am pleased to present the Eastern Cape Rural Development Agency's (ECRDA) performance report for the 2021/22 financial year. During this review period, the ECRDA was singularly focussed on the establishment and consolidation of appropriate channels, platforms, resources and infrastructure necessary to effect the desired socio-economic impact

The agency is driven by its overarching objective of establishing an inclusive, viable and sustainable rural economy characterised by improved rural incomes and vibrant economic activity. Over the years, the ECRDA has remained true to form, effecting inspired project design and execution systems which promote, support and facilitate job and food security, income generation and sustainable rural development.

The ECRDA executes its responsibilities driven by the current economic architecture and the prevailing financial constraints which inhibit the growth of the rural economy. As a special purpose vehicle of government, the ECRDA is thus required to do more with less and continued to deploy inspired project management and implementation which promotes sustainability while reducing the dependency on the fiscus. The idea is to create a rural economic landscape in which opportunity is met with high skill levels and capacitated human capital which is empowered to drive its own human and economic potential.

Emerging out of a bruising COVID-19 pandemic which further eroded the capital and economic base of rural economies, the ECRDA is intent on strengthening its project support role and aftercare services to ensure the sustainability of rural enterprises. The impact of the COVID-19 epidemic, ongoing droughts, a high-risk lending environment and the continued decline in economic growth in the country is reflected in the challenges experienced in honouring loan repayments by clients. ECRDA is reviving its Credit Policy and after-care services to counter these challenges.

## Organisational Design

Furthermore, the organisation is acutely aware that its efficacy in discharging its varied rural development mandate is greatly impacted by the quality of the human resources at its disposal. The ECRDA is thus engaged in a state of continuous improvement aimed at attracting and retaining the best talent possible in order to support its mandate delivery aspirations.

The existing budgetary and fiscal constraints have a direct effect on the ECRDA's ability to attract the technical expertise as well as the required implementation capital injection for development programmes. The demand for rural development support packages is on the rise. However, the reduction in the fiscus and budget allocations is not in line with rising demand for development support incentives. This has a severe impact on the ECRDA's ability to deliver on its catalytic high impact programmes.

In essence, world-class project design and management requires a reimagined skills offering and organisational structure. In this regard, the organisation is involved in an organisational reconfiguration exercise which is aimed at optimising the benefits derived from internal skills, augmentation of the available skills base and to address critical vacancies. This process is ongoing and it is expected to result in a demonstrable impact on the ECRDA's project implementation and management, administration and rural finance offering.

## Partnerships

Similarly, the organisation is aware that its effectiveness and efficiencies are significantly augmented by the shared skills and resources of partner institutions. The ECRDA relies on like-minded private and public sector partners who use their collaborative energy to effect the desired mandate outcomes. As a result, the organisation actively nurtures the development of strategic alliances and partnerships which ensure that the requisite socio-economic development is a lived experience for the populace which resides in the rural communities which we service. I am grateful to the shareholder representative, the Department of Rural Development and Agrarian Reform (DRDAR), and various other partners which extend their critical resources in order to support the ECRDA's programme offering.

## Capitalisation

In addition to improved sustainability and cost reduction, the ECRDA is focussed on its relevance and adding value to the shareholder. As such, projects and initiatives implemented on behalf of the shareholder do not attract management fees. The ECRDA's income is derived from the management of its rural finance loan books and rental income. The expenditure trends of the ECRDA are closely linked to its operating model and funding reductions invariably result in decreased expenditure.

It is worth noting that the management of the ECRDA's financial resources is affected by the need to maintain a balancing act between prudent financial management and those projects which serve the public good. Despite a decline in funding allocations to the agency, the ECRDA is committed to the maintenance of inspired stewardship of public resources, sound corporate governance principles and ethical leadership. In this regard, the ECRDA is proud of its track record of unqualified audit opinions from the Auditor-General since its inception in 2013. This is an indication of an ECRDA which is a trusted steward of public assets which is critical to maintaining funder and public confidence. In practice, the ECRDA's financial management posture should place it on solid ground to attract new investment and capital outlays.

I express my gratitude to the shareholder for the R252 364 000 budget allocation extended to the ECRDA in 2021/22. The budget funded the implementation of catalytic high impact projects. Many of these projects such as cannabis and hemp development, marine tilapia industry, district mechanisation centres as well as wool and mohair are in their start-up phases. Naturally, the budget for these new programmes was absorbed by a number of research projects such as feasibility studies, Environmental Impact Assessments (EIA's), planning, stakeholder management, roadshows and community mobilisation.

The organisation is thus continuously engaged with the shareholder for the capitalisation of the agency such that it is able to effect the desired economic outcomes.

## Financial Overview

I am pleased to report that the ECRDA is financially sound and it continues to maintain its going concern status. During the year under review, government grant funding decreased by R22m (9%) and revenue from exchange transactions decreased by R4m (26%). The ECRDA managed its available funding to reduce the risk of over-expenditure by year-end focusing on allocating funds to core business and projects, whilst decreasing discretionary operational expenditure as far as possible.

These cost containment measures will remain a focus area over the Medium-Term Expenditure Framework (MTEF). Administrative expenditure increased by 9% during the year, whilst staff costs decreased by 2%. Project funding focused on maintaining and strengthening forestry initiatives, the RED Hubs, supporting distressed entities and paving the way for the Eastern Cape Cannabis Initiative.

The ECRDA remained focused on its key activities of rural development facilitation, project management, the provision of rural finance and providing oversight as the 100% shareholder of Magwa Enterprise Tea (Pty) Ltd. The key activities of the ECRDA remained constant during the year, with no discontinued activities being envisaged in the short to medium term.

As a schedule 3C listed Public Entity, the ECRDA is required to surrender unspent funds (after allowing for accruals) to Provincial Treasury at the end of each financial year. This hampers the building up of reserves to reduce government dependency, long-term planning and, to an extent, participation in multi-year projects. The ECRDA has managed its budget and expenditure successfully for the financial year. The rollover request of own funds of R8m is supported by accruals, whilst a further rollover request of Economic Stimulus Funding of R9m was submitted to allow for an infrastructure project in Elundini.

The ECRDA is committed to clean governance and underpinning operations with compliant, transparent, and effective supply chain support. Supply chain management is undergoing an internal transformation to provide strategic support to the ECRDA which is expected to be highly successful if coupled with improved organisational planning and project management. There are sufficient processes and systems in place to promote compliant procurement practices and allowance is also made for the appropriate treatment of any deviations and/or non-compliance identified by well-established internal controls. No unsolicited bid proposals were concluded for the year under review. Focus areas in the audit improvement plan included the enhancing of ICT governance and general controls, strengthening supply chain management, reducing irregular expenditure and improving loan performance through the reduction of loan impairments and bad debt write-offs.

Government grant funding decreased by 9%
**R22 million**
**9%** Decr.

Exchange transactions decreased by 26%
**R4 million**
**26%** Decr.



### Discontinued activities / activities to be discontinued

The ECRDA will not be implementing the Marine Tilapia project or the Mechanisation project in the 2022/23 financial year and would only supply support if such is required in these projects.

### Supply chain management policies and systems

The ECRDA's supply chain management policy is in place. It is supported by applicable systems, processes and procedures.

### Audit report matters from the previous year

The ECRDA maintained its unqualified audit status and the matters for emphasis in the audit report related to impairments as a result of loans and advances to customers that were deemed uncollectable as well as irregular expenditure that has not been recovered, written off or condoned.

# OPERATIONAL PERFORMANCE

## AGROPROCESSING

In 2021/22, the ECRDA allocated R11,2 million for the four grain-producing Rural Enterprise Development Hubs (RED) aggregation centres. The funds went toward the construction of potato sorting infrastructure in at the Mbizana RED Hub. Tractor drivers at the mechanisation centres also received training with funding from the Department of Rural Development and Land Reform (DRDLR).

The budget for agriculture inputs was only made available at the end of October 2021 which meant it was too late to use them. The process to procure agricultural inputs was thus cancelled and only Mbizana and Ncora managed to secure the delivery of inputs.

A total of 280.3 tons of white maize were harvested from the 635 hectares planted at the Mqanduli and Mbizana RED Hubs in 2020/21.

**R11,2million**
Allocated for the four grain-producing Rural Enterprise Development Hubs (RED)

**635HA**
planted at Mqanduli and Mbizan produced 280.3 tons of white maize

**280.3** tons

During the review period, a total of R3,5 million was allocated to the Tshabo Red Hub. The Tshabo budget was used for the procurement of implements, servicing and maintenance of tractors and for site preparation for the vegetable tunnel.

**R3,5million**
Allocated to the Tshabo Red Hub

## FORESTRY DEVELOPMENT

The forestry development programme was allocated R1,9 million budget in the 2021/22 financial year. An additional amount of R2 million was secured much later in the year. This took the total budget for the year to R3,9 million.

The additional budget was used in the recruitment of a further 200 temporary jobs for a period of three months during the last part of the financial year. The remainder of the budget was used to buy two tractors and two laptops. A total of R2,54 million was used for employee costs at the enterprises, including the ECRDA forestry unit resources.

**R3,9m**
Allocated budget for the forestry development programme in the 2021/22 financial year

**R2,54m**
was used for employee costs at the enterprise

There was harvesting at Mkambathi, Izinini and a small portion at Sinawo. In 2021/22, the three community forestry enterprises delivered 12, 584 tons of timber to the commercial markets valued at R10,5 million. A total of 220, 187 person hours were recorded for the forestry enterprises. This amounts to an equivalent of 106 permanent jobs for the year.

**R10,5m**
in timber value delivered by three community forestry enterprises

**12,584** tons

**220K** hours
person hours were recorded by the forestry enterprises for the year

**106 permanent**
**200 temporary**



## RURAL FINANCIAL SERVICES

In the 2021/22 financial year, the ECRDA disbursed a total of R2,8 million was disbursed in loans. Of this amount, R2,3 million were 46 agency loans and R449,130 went to one Micro Agricultural Financial Institutions of South Africa (MAFISA) loan. A total of R1,2 million went to 28 agricultural loans, R1,1 million to 17 non-agricultural loans and R449,130 to a single MAFISA agricultural loan.

Loan approvals were affected by poor credit history, lack of business records, lack of collateral, business managerial competence, loan affordability and negative cashflow. A questionable ability to repay the loan leads to an unfavourable credit outcome.

In terms of geographic spread, 20 loans went to the Southern Region consisting of the Sarah Baartman and Amathole districts. The Southern Region accounted for R1,5 million of the loan disbursements. A total of 21 loans went to the Eastern Region comprised of the OR Tambo and Alfred Nzo districts. The Eastern Region accounted for R686,511.70 of the loan disbursements. Four loans went to the Northern Region made up of the Chris Hani and Karoo districts. A total of R155, 347.21 was disbursed to the Northern Region.

The ECRDA collected R6,3 million in agency loans in 2021/22 and R679,314.92 in MAFISA loans.

**R2,8m** loans

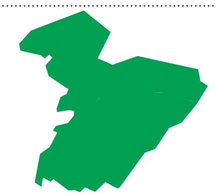
**46** agent loans

### Loans by geographic spread

**R1,5m**
Sarah Baartman and Amathole districts

**20** loans

**R686k**
OR Tambo and Alfred Nzo districts



**21** loans

**R155k**
Chris Hani and Karoo districts

**4** loans

### A total of R1,2m went to

**28** Agricultural loans valued at R1,2 million

**17** Non-agricultural loans valued at R1,1 million

**01** MAFISA agricultural loan valued at R449,130.10

## CANNABIS AND HEMP DEVELOPMENT

The ECRDA invested R4,5 million to the cannabis programmes in the 2021/22 financial year. A reputable law firm, Webber Wentzel, was engaged to undertake a feasibility study on applicable legislation used by different countries and to propose an alternative regulatory framework based on the Eastern Cape's comparative and competitive advantages. The firm developed an internationally-recognised framework for cannabis production which was subjected to detailed scrutiny going as far as being tabled at the National Economic Development and Labour Council (NEDLAC). This document will be shared with various partners and stakeholders. This was an important deliverable by the ECRDA to influence the development of a conducive cannabis regulatory framework that takes into consideration the Eastern Cape's century old indigenous knowledge in breeding, cultivation, processing and trading in cannabis.

In 2021/22, the organisation also worked on establishing a cannabis incubator. A decision was taken to establish a cannabis incubator at Magwa in the Pondoland area and at the Dohne research site. The refurbishment of the Magwa incubator had reached an advanced stage by the end of the 2021/22 financial year. The plan is to appoint operators that will apply for SAHPRA license to operationalise the facility.

The ECRDA also began a process to identify all the farmers that had the potential to participate in the cannabis industry. A database of more than 699 farmers from across the Eastern Cape was subsequently created. This is an ongoing exercise in which roadshows to all the districts were conducted to promote the programme.

**Finally, the 2021/22 financial year concluded on a high note with the facilitation of hemp permit applications. The process began in February 2022 and the ECRDA identified those farmers which had a potential to participate. A total of 273 farmers were assisted with their hemp applications by the end of the financial year.**



**699** farmers across the Eastern Cape have become part of the cannabis and Hemp database

## WOOL AND MOHAIR

In 2021/22 a Memorandum of Understanding (MoU) was concluded between the ECRDA, the Elundini Local Municipality and Fulirex in August 2021. It was signed by the Elundini Municipality and Fulirex in September 2021. The MoU concluded that the Elundini Local Municipality and the ECRDA would provide professional assistance and technical support services for the wool and mohair industry to "green" and improve production to meet emerging international sustainability standards.

Since July 2021, more than 1,000 farmers including 10 shearing sheds had received "on-farm greening" training with the aim of becoming compliant with the International Wool and Mohair standards (RWS & RMS).

## MARINE TILAPIA INDUSTRY

During 2021/22, a budget of R3,4 million was allocated to the marine tilapia industry programme. The budget was used to conduct orientation training to the local community and traditional leaders at the identified incubator site. The training extended to the local municipality.

Besides the training, a scoping study, production model, site acquisition (planning and structural design), construction drawings and a business plan were finalised in 2021/22. An Environmental Impact Assessment (EIA) was partially completed by the end of the 2021/22 financial year.

## FUTURE OUTLOOK

Moving forward, the organisation will pursue the further development of strategic alliances which are aimed at augmenting the ECRDA's resource pool. Partnerships will be pursued with other state entities at local, provincial and national level to enhance the ECRDA's service offering in order to broaden the development impact. In this regard, the ECRDA is already pursuing collaborations the Eastern Cape Development Corporation (ECDC), the National Agricultural Marketing Council and the Land Bank in order to strengthen rural development support at community level.

## APPRECIATION

I express my appreciation to the shareholder for the continued guidance and the Board for their support and strategic direction. I am grateful to the management and staff of the ECRDA who have pledged their commitment to making rural development a priority.

**Acting Chief Executive Officer**
Dr C Mnqeta

# OPERATIONS OVERVIEW

## AGROPROCESSING

During the period under review, the ECRDA took the initial steps toward entrenching its role in the processing, beneficiation and value addition of agricultural produce. In the previous year, the organisation took a considered decision to diversify the activities of its Rural Enterprise Development (RED) Hubs into those of aggregators of agricultural produce in the areas where the RED Hubs operate. In simple terms, this means each RED Hub will become a centre to receive all the agricultural products that are produced by farmers in the surrounding areas.

As a result, during 2021/22, the ECRDA's intention was to develop the required infrastructure to suit the various needs of the aggregation centres. These include the development of cold storage facilities as well as potato sorting and packaging facilities. Only the Mbizana RED Hub received funding to support the envisaged infrastructure upgrades for a potato sorting facility. Other activities included fencing to address pressing security concerns at Ncora. In addition, the ECRDA undertook a farmer identification exercise and related training activities in respect of commodity production. The organisation is acutely cognisant of the fact that its plans to transform these RED Hubs into aggregation centres are significantly curtailed due to funding constraints. The organisation is thus continuously engaging government in order to raise the required capital injection that should result in the development of appropriate infrastructure to support processing and beneficiation activities. Despite the funding constraints, the ECRDA is pleased that it is able to leverage on the existing infrastructure it has established at the RED Hubs to support value addition activities. The existing infrastructure includes the state-of-the-art milling plants that process maize feedstock into mealie meal, samp and animal feed. The organisation is already building and consolidating the required capacity to support the compliance of the RED Hubs with existing legislation in the form of food safety standards, occupational health, and the regular training of RED Hub workers on the same requirements. The ECRDA offers financial and technical support in respect of payment of wages for RED Hubs workers and technical training in financial management, human resource systems and policies as well as repairs to equipment.

More importantly, the organisation actively supports the RED Hubs by promoting and mobilising market access opportunities for the products produced at these centres by securing high value off-take agreements.



### RED HUB INFRASTRUCTURE

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

| | |
|---|---|
| Mqanduli<br>Ncora<br>Mbizana | **1 TON/HR** |
| Emalahleni | **2 TON/HR** |

All the RED Hubs except for the Emalahleni RED Hub have a one ton/hour milling capacity. Emalahleni has the potential to produce three tons per hour if upgraded. Lack of funds has prevented the ECRDA from upgrading the milling plants.

The grain-producing RED Hubs have a total of 48 active primary co-operatives. This is comprised of 20 co-operatives in Mbizana, 11 in Mqanduli, 12 in Ncora and five at Emalahleni. The primary co-operatives have more than 1,500 members combined.

**12**

There are a total of 12 grain storage silos with a total storage capacity of 11,259 tons at the four RED Hubs.

This is made up of five (5) silos in Ncora, three (3) in Mqanduli, and two (2) each at the Mbizana and Emalahleni RED Hubs.

**2,500 tons**
Mqaduli

**4,750 tons**
Ncora

**2,000 tons**
Mbizana and Emalahleni each

**11,250** total tons

The Tshabo Red Hub which focuses on Protea flowers and vegetables in Berlin outside East London has 12 active primary co-operatives. There are drip irrigation pipelines installed at the hub. The ECRDA has further installed 36 x 36 hydroponic tunnels for vegetable production.

## DISTRICT MECHANISATION CENTRES

Furthermore, the ECRDA has also played a pivotal role in ensuring that the famers have access to farming equipment and machinery that enhances primary production through the establishment of mechanisation centres. These centres are aimed at optimising agricultural productivity in the province by ensuring that all small-scale farmers have access to mechanisation services in their localities.

In 2021/22, equipment in the form of tractors, trailers and other farm machinery was procured and delivered to the Amathole, Sarah Baartman and OR Tambo regions. This is in addition to the already operational Elundini Farmers' Mechanisation Centre based in Maclear.

Access to mechanisation services ensures that small-scale farmers are able to plant their crops within the optimum planting season and that they can increase their hectarage. Mechanisation enhances agricultural productivity by improving the quality and volume of produce as well as preventing post-harvest losses which is common among subsistence farmers who use hand tools. Mechanisation centres will play a significant role in transforming the current RED Hubs into aggregation centres.

At these mechanisation centres, services are offered in the form of ploughing, discing, fertilising, and harvesting. Farmers can also transport their produce and inputs using the equipment and machinery in the mechanisation centres.

## OPERATIONAL PERFORMANCE

In 2021/22, a total of R11,2 million was allocated for the four grain-producing RED Hub aggregation centres. The funds were used to build potato sorting infrastructure at Mbizana and to support other operational expenses. In addition, training was provided for tractor drivers at the mechanisation centres. The training was conducted with funding from the Department of Agriculture, Land Reform and Rural Development (DALRRD).

The budget for agricultural inputs was only made available at the end of October 2021 which turned out to be too late to utilise the funds for primary production. The process to procure agricultural inputs was thus cancelled and only Mbizana and Ncora managed to secure the delivery of inputs.

During the period under review, a total of 280.3 tons of white maize were harvested at the Mbizana (252.7 tons) and Mqanduli (27.6 tons) RED Hubs from the maize planted in the 2020/21 cropping season. No harvesting was done during the 2021/22 cropping season at Emalahleni and Ncora. Farmers at the Mbizana RED Hub failed to deliver the maize to the RED Hub for processing. Farmers at the Mqanduli RED Hub only managed to deliver 5.9 tons for processing.

**252.7tons**
Harvested at Mbizana

**27.6tons**
Harvested at Mqanduli

**280.3** total tons

During the review period, a total of R3,5 million was allocated to the Tshabo RED Hub. The Tshabo budget was used for the procurement of implements, servicing and maintenance of tractors and for preparing the site for the vegetable tunnels.

No additional planting of flowers took place at Tshabo since the budget was allocated after the flora planting season. Despite the number of challenges encountered at Tshabo, the ECRDA has continued engaging the communities on many issues such as the payment of salaries for 41 workers, providing technical advice on flora production and in resolving social issues. This was done through a partnership with the team from the Dohne Research Institute. In addition, the ECRDA utilised the funds to service the machinery, procure spare parts for tractors, protective clothing, diesel and two bowsers, ridger and chipper for operations.

The ECRDA also worked on assessing the existing borehole at the site, clearing and levelling the site for vegetable tunnels.



## FUTURE PLANS

The future plans for the agro-processing programme are to enhance the transformation of the RED Hubs into aggregation centres linked to the mechanisation centres. The ECRDA will work with DRDAR to identify and train the farmers who will be supplying the aggregation centres with a wide range of agricultural produce. The ECRDA will work with the private sector and government departments to identify the market for the produce through off-take agreements and contract farming for the aggregation centres.

The ECRDA will also continue to upgrade the required infrastructure for each aggregation centre and mobilise resources for their business enterprise operations.

## FORESTRY DEVELOPMENT

The ECRDA is involved in the development of a forestry sector value chain which places community-based forestry enterprises at the centre of the commercialisation agenda. This posture is informed by the abundant potential for new afforestation projects in the rural communities of the Eastern Cape.

A government assessment conducted in 2006 identified the Eastern Cape as the only province holding the potential for new afforestation projects. The assessment identified a potential for 100 000 hectares of new afforestation and a further 130 000 hectares for the rehabilitation of existing plantation areas.

Therefore, special purposes vehicles of government such as the ECRDA are required to provide and mobilise the requisite financial, non-financial, technical and other resources necessary to ensure the optimum participation of these communities in the inherent economic spinoffs in the sector. For example, the areas with the most potential for further development are the Alfred Nzo and OR Tambo district municipalities and to a lesser extent, the Joe Gqabi and Amathole districts.

Already, the ECRDA is playing a meaningful role in promoting and entrenching community-based forestry development in the province. Over the years the ECRDA has embarked on various activities which have laid the building blocks for a vibrant and sustainable forestry sector. Currently, the agency supports five forestry projects in Sinawo (Joe Gqabi), Izinini (Joe Gqabi), Mkambathi (OR Tambo), Sixhotyeni (OR Tambo) and Gqukunqa (Alfred Nzo).

At these projects, the agency has identified suitable land for afforestation, detailed soil surveys were conducted, plantation plans and Environmental Impact Assessments were facilitated as well as stakeholder consultation. Legal entities were created except where land-claim structures were already in place. In addition, business plans were developed and funding for eight years at each of the projects was facilitated. Furthermore, project implementation was done, and partnership agreements were facilitated. Monitoring and oversight are still provided while keeping expenditure within reasonable bounds.

## SECTOR POTENTIAL

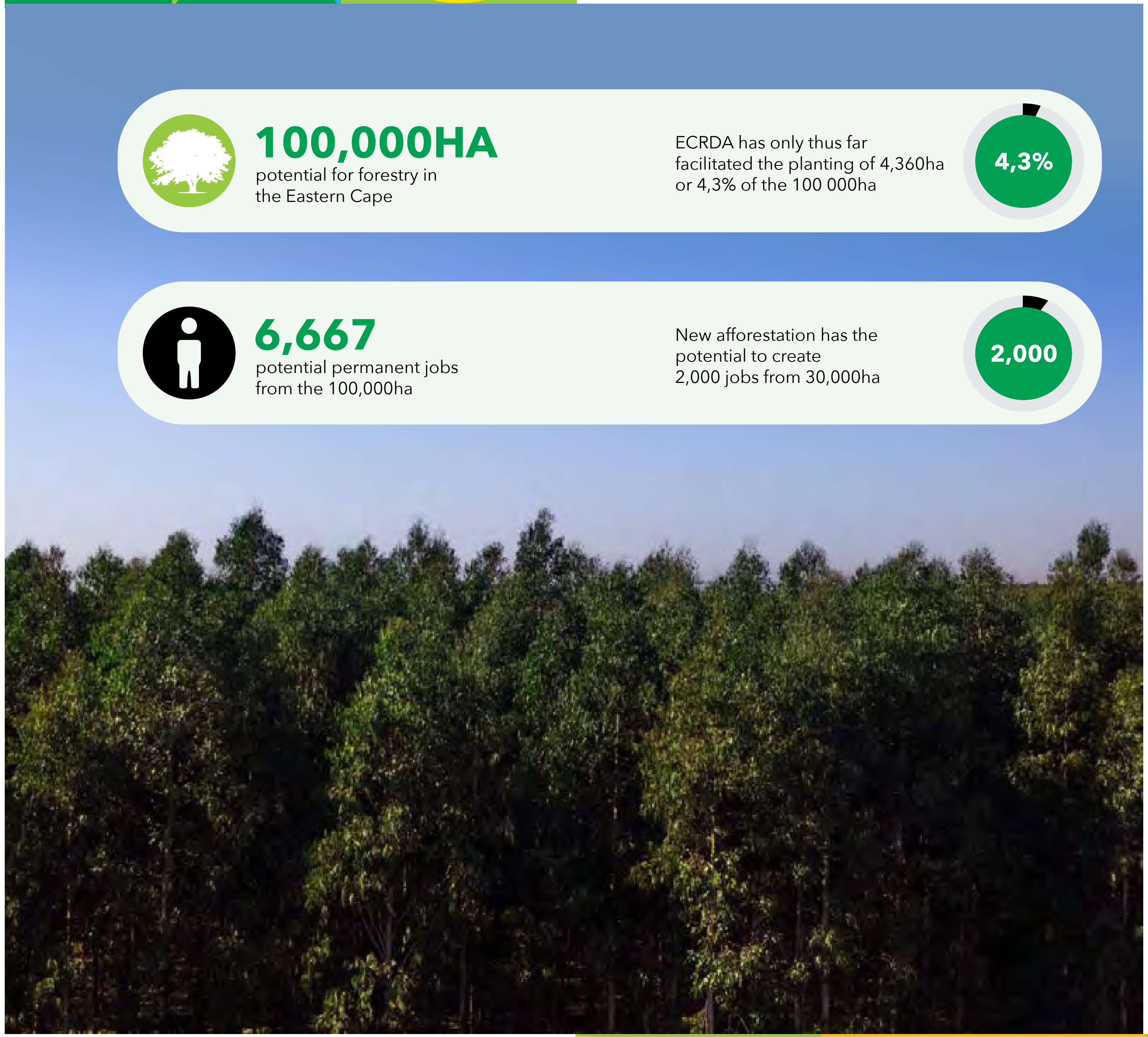
While the ECRDA has a strong focus on the processing and beneficiation of primary produce, in the case of forestry, it has not moved away from supporting primary production activities. This is informed by the fact that the ECRDA has only thus far facilitated the planting of 4,360ha or 4,3% of the 100 000ha with a potential for afforestation in the Eastern Cape. The demand for timber is ever- increasing whilst the supply is declining. As a result, it is critical that the ECRDA continues to promote primary production and provide mentorship to developing timber growers. There is currently no other government department or agency with the expertise and resources to take over the role that the ECRDA provides in the sector.

## BENEFICIATION

From a beneficiation and value addition perspective, it is in the interest of the ECRDA that timber processing facilities are established within the province. This is to avoid exporting round-form timber and to ensure that value addition is conducted within the Eastern Cape while unlocking the significant job creation potential in the processing value chain. As a general rule, a sustainable forestry enterprise creates one job for every 15 hectares planted. For example, for 100 000 hectares, the potential is for 6,667 permanent jobs. However, if a more realistic potential for new afforestation is used, such as 30,000 hectares, then 2,000 jobs could be created. These would be permanent jobs and a significant contribution toward current unemployment and poverty in the rural areas of the Eastern Cape.

Unfortunately, the current timber volumes produced in the Eastern Cape do not justify the establishment of a bigger timber processing facility similar to the SAICCOR plant in Umkomaas. Thus, the Eastern Cape small timber growers in the Pondoland region will continue exporting timber in round-form to uMkomaas until such time as primary production is increased.

The ECRDA is actively exploring opportunities for establishing other timber processing plants such as a pole treatment plant in Flagstaff as an alternative market to the SAICCOR SAPPI Plant.




## PROJECT IMPLEMENTATION SUPPORT

In pursuit of these stated objectives, the ECRDA provides a package of support initiatives aimed at consolidating the sustainability and profitability of the five community-owned forestry enterprises. In the period under review, the agency extended technical, administrative and social facilitation support to the projects. The support tools are aimed at a continuous improvement in financial, operational and human resources systems in order to augment efficiencies while reducing production costs and growing profit margins.

Monitoring and oversight are essential at these projects to ensure good governance, management, administration, and in transferring technical forestry expertise. In this regard, in 2021/22, the ECRDA participated in monthly management meetings in order to keep abreast of progress and prevailing challenges. The agency made its available for daily contact to provide management support and financial oversight.

With its outsourced staff, the forestry unit has daily contact with the Trusts/Communal Property Associations (CPAs), forestry managers, project administrators, and private sector foresters to provide technical administrative and conflict resolution support through the continuous improvement of the management systems. Initially, the ECRDA provided substantial technical support to the five projects. However, the permanent professional foresters appointed by private companies resulted in the ECRDA providing less direct technical support.

In the review period, a significant amount of time was spent resolving community conflict which began in 2018 at the Sinawo project. The agency managed to salvage a small portion at one village where harvesting has commenced. The organisation assisted the Izinini project to commence with their first harvesting operations, when a new Communal Property Association management committee was elected. In addition, in the forestry value chain, transporting timber to markets remains the key cost-driver. In some instances, transportation costs account for more than 50% of total harvesting costs. In addressing this challenge, the Mkambathi forestry enterprise took a resolution to buy a horse-and-trailer truck valued at R2.3 million to provide long-haul services as an additional revenue stream for the enterprise. This should reduce the exorbitant costs of transporting timber up to R200 000 per month.

## PROJECTS OVERVIEW

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

The five enterprises will produce an estimated 71, 243 tonnes a year on an average nine-year rotation age. This is based on a mean annual increment of around 16 to 17 tons per hectare per year. These enterprises should realise a net profit of R200 per ton before tax. This results in around R10,6 million per annum for the five enterprises. Two of the enterprises are both preparing to start their harvesting operations in the next financial year. The other three of the five enterprises have commenced with harvesting during the review period. The three forestry enterprises where timber were sold generated R79, 037, 936 in revenue since 2015.
The enterprises are on communal land which means that the land belongs to a defined number of beneficiaries, usually a number of villages, or administrative area, or individual households. As such, the distribution of benefits is usually to a village, rather than to individuals or households.

## PARTNERSHIPS

During the period under review, the ECRDA continued to develop, promote and consolidate new and existing partnerships in the forestry value chain. These partnerships are crucial to the continued existence of the supported projects as they deploy critical technical expertise to support viability and sustainability. There are various partnerships with the private sector due to their vested interest in timber production. Partnerships also exist with local municipalities as key development stakeholders.
The agreements between community enterprises and the private forestry companies are of mutual benefit. These are partnership agreements rather than just off-take agreements. For Sappi, in most cases, a portion of timber produced is committed to the companies at current market prices - 20 % on a right-of-first refusal to the companies and 15 % is uncommitted. PG Bison has no off-take agreement in place but it is committed to buy timber from the projects around the Maclear area. In return, the private companies create a sustainable market for the enterprises. They have appointed permanent qualified foresters to support the enterprises from a planning and technical perspective to ensure best practise operations and industry-quality timber.

**R10,6m**
in timber value delivered by three community forestry enterprises per year

**71,243** tons

**R79m**
in revenue generated by the enterprises since 2015

**2015**

The trees planted in these areas are site specific eucalyptus species such as E.dunnii, E. nitens, E. macathurii seedlings and Grandis/Urophylla hybrid cloned cuttings. These are a variety of species which are suitable for specific sites and for specific markets. The seedlings and cuttings are as a result of decades of genetically-improved stock, such as disease resistant, drought resistant, frost resistant, stem form, yield potential and timber density. A very small area is planted with wattle and pine trees. Wattle and pine trees are not ordinarily suitable for community-owned enterprises.

At this stage, the community-based forestry enterprises only sell timber to commercial markets. Sappi and PG Bison are the main customers of these community forestry enterprises. A portion of timber produced by these community forestry enterprises can be sold to the highest bidder. However, in most cases, these private companies can absorb the volumes being produced at the most competitive prices. The Sappi Saicor Mill is situated at Umkomasi on the KZN south coast. The PG Bison board plant is situated at Ugie in the North Eastern Cape. Communities surrounding the plantation are allowed to collect small diameter pieces of timber after clear-felling of a specific compartment.

## OPERATIONAL PERFORMANCE

The forestry development function received a R1,9 million budget in the 2021/22 financial year. An additional amount of R2 million was secured much later in the year. This took the total budget for the year to R3,9 million.



The additional budget was used in the recruitment of a further 200 temporary jobs for a period of three months during the last part of the financial year. The remainder of the budget was used to buy two tractors and two laptops. A total of R2,54 million was used for employee costs at the enterprises, including the ECRDA forestry unit resources.
There was no new planting in 2021/22. This was mainly attributed to the absence of an operational grant during the review period. It should be noted that coppice management is applied to all the clear felled areas in order to produce a second rotation of trees without having to replant such harvested areas.

**R2,54m**
was used for employee costs at the enterprise

There was harvesting at Mkambathi, Izinini and a small portion at Sinawo. In 2021/22, the three community forestry enterprises delivered 12, 584 tons of timber to the commercial markets valued at R10,5 million.

A total of 220, 187 person hours were recorded for the forestry enterprises. This amounts to an equivalent of 106 permanent jobs for the year.

## FUTURE PLANS

The ECRDA forestry business unit will continue supporting the five existing projects to realise their potential and to showcase the success of community-based forestry. If funding is secured in the medium-term, then the unit will engage with setting up new forestry enterprises. This is part of the long-term plan to target 20,000 hectares of new afforestation until 2030.

The ECRDA forestry unit plans to extend its support to the enterprises with its proceeds for the acquisition of tractors and timber short-haul trailers, and timber trucks for transportation to the mills. This is already underway at Mkambathi. The improvement of productivity is an ongoing process at the enterprises.

Finally, the organisation will continue to investigate and promote plans to set up secondary processing facilities for future Eastern Cape markets of raw material.

## WOOL AND MOHAIR

The Eastern Cape Rural Development Agency is actively mobilising for the development of high value support instruments which will improve the revenue generation potential of small-scale wool and mohair producers as well as their competitiveness. The provision of a holistic support package to the sector is critical if small-scale farmers are to get top dollar for their produce and ultimately challenge for a place at the table in the commercial value chain.

The focus on this industry is driven by the existing potential for wool and mohair production in the province. Wool and mohair can be produced throughout the Eastern Cape. South Africa produces about 50 million kilograms of wool per annum valued at R5 billion. The Eastern Cape produces about 16 million kilograms a year which is 33% of national output valued at R1,6 billion a year. Mohair South Africa figures released in September 2021 indicate that 2,2 million kilograms mohair was produced from 800,000 angora goats in the 2020/21 financial year. South Africa produces 65% of the world's mohair and 90% of that mohair is produced in the Eastern Cape.

**WOOL** production

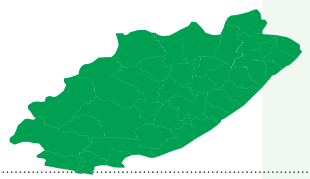
In the Eastern Cape, the Chris Hani, Joe Gqabi and Sarah Baartman districts have the most potential for wool production. The Sarah Baartman district has by far the greatest potential for mohair production in the Eastern Cape. The potential for job creation in this industry is substantial in the manufacturing section of the value chain.

As a result, the ECRDA's interventions are aimed at increasing the socio-economic impact, levels of beneficiation and income for small-scale wool and mohair producers. The idea is to facilitate sustainable resourcing for wool and mohair production whilst promoting sustainable environmental/green practices. The ECRDA's support for the wool and mohair sector is premised on alleviating the difficulties encountered by emerging livestock farmers in this sector, strengthening their capabilities for quality primary production, and providing them a foothold for optimal participation in the value chain of the wool and mohair industry. Against this background, the objective is to localise this value-chain, from primary production to the manufacturing and retail of quality products to both domestic and international markets.

**33%** output

**100%** output

**16m kg's**
of wool is produced by the Eastern Cape per year



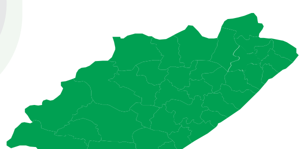
**50m kg's**
of wool is produced by the South Africa per year

**R1,6b**
worth of wool is produced by the Eastern Cape per year

**R5b**
worth of wool is produced by the South Africa per year

**90%** mohair

**65%**
of the world's mohair is produced by the South Africa



**90%**
of South Africa's mohair is produced by the Eastern Cape

### STRATEGIC PARTNERSHIPS

The development of the wool and mohair industry is also premised on the cultivation of strategic partnerships and alliances which are aimed at unlocking real value for small-scale farmers. The ECRDA's interactions in the industry indicate that partnerships can work and complement each other when the ultimate goals are clearly defined and implemented. The ECRDA has been working with an international company, Fulirex, for more than six years in the mohair industry in the Sarah Baartman district.

Through this partnership, in 2021/22, the ECRDA was involved in assisting the first four emerging mohair farmers in South Africa to receive their international on-farm greening Responsible Mohair Standard Certificates. This enabled these farmers to achieve premium prices for their product at the mohair auctions.

The ECRDA is working with its partners, the Elundini Local Municipality and Fulirex in offering professional assistance and technical support services for the wool and mohair sector to "green" and improve production to meet emerging international sustainability standards. However, similar partnerships can be formed to carry out this work in other wool and mohair growing areas throughout the Eastern Cape.

The agency is also assisting wool and mohair farmers through training programmes focussed on on-farm production and marketing techniques so that they become sustainable farmers in the long-term. The organisation intends to explore all funding avenues to finance the complete wool and mohair value chain. In addition, the plan is to ensure that the farms of small-scale farmers are declared "on-farm green" so that the farmers qualify for the International Responsible Wool (RWS) and Mohair Standards (RMS). This allows them to export their wool and mohair. This means they will be able to receive premium prices for their products.

The current consumer demands to know the traceability of the product. For example, the discerning consumer wants to know where their wool jersey is produced and the production process used to make it. As a result, the intention is to produce manufactured products from wool and mohair which are RWS and RMS certified resulting in premium prices being paid to the farmers at the auctions. The main activity is for the farmers to produce certified wool and mohair products that could be made into scarves, beanies, blankets, jerseys, socks etc.

### OPERATIONAL PERFORMANCE

In 2021/22 a Memorandum of Understanding (MoU) was concluded between the ECRDA, the Elundini Local Municipality and Fulirex in August 2021. It was signed by the Elundini Municipality and Fulirex in September 2021.

The MoU concluded that the Elundini Local Municipality and the ECRDA would provide professional assistance and technical support services for the wool and mohair industry to "green" and improve production to meet emerging international sustainability standards. The intended beneficiaries of the MoU are the members of the Mount Fletcher Farmers Association and the communal farmers in the Elundini municipal area.

At the end of 2020/21, the ECRDA conducted a study for the planning and design of the Elundini Wool Hub (warehouse and processing/manufacturing facility). An amount of R687, 010.00 was spent on the study. The final report was presented in April 2021. This report provides valuable information for the future planning and costing of the complete wool and mohair value chain.

Since July 2021, more than 1,000 farmers including 10 shearing sheds had received "on-farm greening" training with the aim of becoming compliant with the International Wool and Mohair standards (RWS & RMS). This training also included modules on Natural Resources Management, Animal Production Systems, Household Practices and Socio-Economic Factors.

The Elundini farmers visited the Blue Crane Mohair and Wool Warehouse in April 2021 in Somerset East. Twelve people, which included eight farmers and four officials, formed part of the delegation from the Elundini municipality as well as five officers from the ECRDA.

The Blue Crane Wool and Mohair Warehouse runs a very successful warehouse where farmers deliver and sell their wool and mohair. The objective of the visit was to evaluate if a similar warehouse setup is feasible in the Mount Fletcher region.

Fulirex was also appointed to do "on farm greening" at the Elundini region. The company sent two of their professional consultants to the Elundini region in May 2021 to discuss the approach to the project. Key initial discussions with the farmers involved acquiring data on animal welfare. Training was conducted with farmers on Management Practises, Infrastructure Requirements and Environmental Requirements.

In August 2021 Fulirex gave a virtual presentation on "The Wool and Mohair Value Chain Enhancement for Emerging and Communal Farmers."
In September 2021 a very successful workshop/presentation was done by Fulirex at the DRDAR offices in Queenstown on the wool and mohair projects they had done, and the potential of value adding opportunities in the wool and mohair industry. The presentation was attended by officers from the ECRDA, the Elundini Municipality, Fulirex and the chairpersons of the Elundini Wool Growers Association and the local farmers' association.

## FUTURE PLANS

The future plans of the programme are broken into four phases:

**Phase one: Primary Production**
To continue the work of establishing on-farm developments to improve the primary production inputs which will result in the improvement of the quality and quantity of wool and mohair from farmers. Primary production interventions implemented during the first phase will have a positive influence on the complete value chain.

**Phase two: Opportunities in Aggregation**
To explore alternative value adding techniques for the proposed Wool Hub. The exploration of these technologies may yield positive revenue generating gains for the wool and mohair producers throughout the Eastern Cape.

**Phase three: Technical Design**
Here it is recommended that a detailed design of the proposed Wool Hub facility be undertaken. This phase is set to include the concept of a wool hub aggregation facility, as well as the consideration of the development of a niche manufacturing centre.

**Phase four: Niche Manufacturing**
It is recommended that the final phase consider a niche manufacturing facility as per demand by consumers locally and international for these niche products. An in-depth market analysis should be conducted preceding this final phase.

## MARINE TILAPIA INDUSTRY

The ECRDA has embarked on the establishment of a high value marine tilapia industry along the coastal areas of the Eastern Cape. The objectives of the industry are to address food security challenges, poverty, unemployment, community empowerment as well as sustainable agricultural and aquaculture practices.

At the implementation stage, the industry is primed to transform the socio-economic architecture of previously disadvantaged communities. The impact on communities along the coastal belt of the province will be significant due to the Eastern Cape's potential in supporting a vibrant aquaculture sector. As an implementing agent, the ECRDA is concerned with providing an enabling environment for the marine tilapia industry initiative. The ECRDA marine tilapia industry initiative has the potential to become a massive job-propeller.

Marine tilapia is an attractive candidate specie as it is recognised throughout the world as a desirable eating fish which has a firm white flesh as well as a bland taste that makes it suitable for diverse cooking and preparation methods. Marine tilapia is also attractive due to its low projected production cost of R15/kg which is a substantial improvement from other marine fish species such as dusky kob which has production costs upward of R70/kg.

The advantages of low production costs are substantial. Low production costs should allow producers to target a wide range of markets stretching from the massive informal sector to the niche high-end hospitality trade.

The plan is to establish the marine tilapia industry in a phased approach over a 13 – 15-year period. The plan is to establish five commercially-viable clusters over a period of 12 to 15 years. Each of these clusters will be driven by a marine tilapia aquaculture facility producing 20,000 tons per annum. The plan also includes establishing support in each cluster for the marine aquaculture facility by ensuring that rural farmers are producing crops for fish feed ingredients while also tapping into other markets. This will constitute the largest job creator in the plan.

Other planned infrastructure includes irrigation systems for farmers, tapping into land water systems, aggregation and bulk storage for crops. Skills development will be provided, a fish feed factory will be built as well as a fish processing plant with value addition, logistics and marketing.

There is also a need to construct bulk infrastructure to service each cluster in order to improve the socio-economic viability of the regions and areas targeted for development and to link them with other projects such as the Wild Coast meander.

## VALUE ADDITION

Commercial processing and value addition activities will be introduced at fish processing facilities when production volumes dictate. Similarly, low production costs will play a significant role as they will allow for competition against the wild capture hake fishers.

The annual capture from this fishing practice is stagnant while demand continues to grow. This means the cost of hake will continue to grow which makes marine tilapia a more attractive alternative without compromising quality. The product range possible from the processing of marine tilapia is as wide as that found on supermarket shelves.

## MARINE TILAPIA INDUSTRY INCUBATOR

The ECRDA has identified Qazini Site 5 Elalini Site 4 in Willowvale in the Amathole District Municipality along the coast as the site for the marine tilapia industry incubator. The incubator is intended to act as a support base for the development of the entire industry. The incubator will house a human resource development facility, auditorium, wet lab, accommodation, mess/activity centre, laundry facility and an integration of all components of the site plan including aquaculture facilities.

The fish for the incubator will be secured from the wild which will be used as breed stock for baby fish in order to stock the fish farms. The plan is to establish the incubator on a floor area of 30 hectares with farms occupying the majority of this space. A fish farm which will produce 2,000 tonnes of the low cost Mozambique marine tilapia will be established. The top structures will be owned by the state while a private operator will finance moveable assets and manage operations. The land is owned by the traditional authority and its communities.

It is envisaged that 106 jobs will be created at the facility. More than 300 small-scale crop farmers from the surrounding communities are expected to grow crops as feed for the incubator from at least a half a hectare each. Operating company is expected to compensate the farmers.

The informal sector up to the high-end hospitality industry will act as a market for marine tilapia. The informal sector will be targeted first as no major processing is required at this level. This should empower local informal traders who are mainly women.

## OPERATIONAL PERFORMANCE

During 2021/22, a budget of R3,4 million was allocated to the marine tilapia industry programme. The budget was used to conduct orientation training to the local community and traditional leaders at the identified incubator site. The training extended to the local municipality.

Besides the training, a scoping study, production model, site acquisition (planning and structural design), construction drawings and a business plan were finalised in 2021/22. A draft Environmental Impact Assessment (EIA) was partially completed by the end of the 2021/22 financial year.

## FUTURE PLANS

The proposed future plans are to secure government funding via the BFI for the bulk infrastructure. The plan also involves securing funding through the Land Bank for the private operator to furnish and set up the MTI Incubator.

The ECRDA is also repurposing the Dohne tunnels to turn them into incubators that can feed into the Mbashe incubator.

## CANNABIS AND HEMP DEVELOPMENT

During the 2021/22 financial year, the ECRDA worked in earnest to give effect to the Eastern Cape Provincial Government's directive which is aimed at the development of a thriving cannabis industry in the province. Working closely with the Department of Rural Development and Agrarian Reform (DRDAR), the ECRDA is committed to planning, facilitating and mobilising support and resources for the establishment of the industry. The industry holds a substantial potential since cannabis has been grown in the province for more than a century.

The directive is an ambitious one, with plans to cultivate 100,000 hectares of cannabis in the province over a 12 to 15-year period. The ECRDA's foray into the cannabis industry is strictly aligned to the national Cannabis Master Plan which agitates for the growth and development of the industry so that it contributes to job creation and poverty alleviation. Food security also forms a central pillar of the cannabis development strategy while advocating for priority to be given to women and youth-owned enterprises. The recreational sub-sector of the industry also holds much potential for the tourism sector.

As such, the ECRDA's cannabis development activities are directly influenced by the national regulatory framework on cannabis. In simple terms, progress on the implementation of the ECRDA-led cannabis program activities is directly influenced by the national government's progress in amending current laws that set limits on the trade of cannabis.

### INDUSTRY BACKGROUND

Up until recently, cannabis was wholly-criminalised in South Africa in 1928 under the Medical, Dental, and Pharmacy Act. Cannabis is still currently regulated under the Medicine and Related Substances Act as well as the Drugs and Drugs Trafficking Act. It is largely regarded as an illegal substance according to these two pieces on legislation. Also, the Plant Improvement Act regarded cannabis as a weed and not a cash crop. Therefore, cultivation, possession, trade and use of both dagga and hemp was prohibited under these statutes, except for research purposes.

In 1998, the Eastern Cape Department of Agriculture in collaboration with the national Department of Agriculture and the Agricultural Research Council's Institute for Industrial Crops as well as the Council for Scientific and Industrial Research (CSIR) were granted research permit by the national Department of Health to conduct hemp research trials on the adaptability of certified European Union (EU) hemp cultivars to South Africa's agroclimatic conditions. EU hemp certified seeds containing not more than 0.3% THC were used in the trials as South Africa did not have certified hemp seeds.

The research trials proved that the Eastern Cape has suitable agroclimatic conditions for hemp cultivation. Furthermore, the National Agricultural Marketing Council (NAMC) feasibility studies on the economic viability of the hemp industry proved the industry was viable if all the current legal restrictions placed in hemp crop were addressed or removed altogether. The Eastern Cape could not continue with the hemp commercialisation phase as the legal restrictions only allowed for research purposes and not the commercial cultivation of the crop.

The landmark Constitutional Court judgement in September 2018 brought a new dimension to the cannabis industry in South Africa. The court ruled that the use, possession and cultivation of cannabis in private dwellings was not illegal and should be allowed. The court gave the legislature 24 months from the date of the judgment to bring the ruling in line with South African laws.

Even though the private use of cannabis has been decriminalised, the buying and selling of cannabis, cannabis oil and cannabis seeds remains illegal. Therefore, the trade of cannabis by indigenous communities in Pondoland still remains illegal. The continued criminalisation of the cannabis trade in which the Eastern Cape communities has been involved for more than a century, albeit being illegal, has a direct negative impact on the ECRDA's recreational and tourism economic prospects.



In May 2019, the Minister of Health Government, through Notices R755 and R756 lowered the Schedule of cannabidiol (CBD) to Schedule 4, and to specifically exclude certain formulations of CBD from the Schedule. Previously, CBD had been treated as a high-schedule drug due to its status as a component of cannabis. However, the lowering to Schedule 4 allows CBD to be prescribed by medical professionals (Section 22 A) when intended for medicinal or therapeutic purposes.

A number of licenses had been issued in this regard by the South African Health Products Regulatory Authority (SAHPRA). Companies issued with these licenses were required to obtain off-take agreements at export markets because local trade is currently not allowed. These companies are also expected to import registered cannabis seeds containing very low percentage levels of delta-9 THC. This is the chemical compound that affects how the brain works (psychoactive). None were available in South Africa and local trade in cannabis seed is still prohibited.

The national cabinet took a decision in July 2019 that South Africa needs a national strategy for the industrialisation and commercialisation of cannabis in order to increase economic growth, create jobs and to alleviate poverty. The Department of Agriculture, Land Reform & Rural Development (DALRRD) was given the responsibility to coordinate the development of Nation Cannabis Master Plan. As a result, the Cannabis Master Plan version 5 provides for both the commercialisation of intsangu / umya (dagga) and for industrial hemp development. It is regarded as central to the country's economic growth strategy which has resulted in it being incorporated into the Country Investment Strategy document.

Notwithstanding what is articulated in the Cannabis Master Plan, as long as the Plant Improvement Act still regarded the cannabis plant as weed (undesirable plant with no commercial value) and not a cash crop, this limitation still made it difficult to commercially cultivate hemp.

It was only on 08 October 2021, that the DALRRD published the amendments to the regulations issued in terms of the Plant Improvement Act No. 53 of 1976. In terms of the amended regulations, Cannabis sativa L, commonly known as 'hemp', was declared an agricultural product, in terms of the Plant Improvement Act.

In terms of the regulations 'hemp' is defined as, "low THC plants or parts of plants of Cannabis sativa L. cultivated for agricultural or industrial purposes whose leaves and flowering heads do not contain more than 0.2% THC". Therefore, the cannabis (intsangu / umya) of the indigenous people of South Africa, inclusive of the community in Pondoland, is still excluded under the Plant Improvement Act as it contains high levels of THC.

On 29 October 2021 the DALRRD announced the opening of the application process for hemp permits. This followed the declaration of hemp as an agricultural crop in 08 October 2021. The commercial use of intsangu / umya remained prohibited in terms of the Drugs and Drug Trafficking Act 140 of 1992. A call was made to all interested growers, researchers, processors, and manufacturers to apply for hemp permits from DALRRD. The optimum industrial hemp cultivation window period for South Africa is the October and early November months. The 29 October 2021 opening of the application process for hemp permits was already late for the 2021 hemp planting season.

Realistically, the ECRDA could only plan for the 2022/23 industrial hemp planting season to position the Eastern Cape as a hemp industrial hub.

Cannabis is subjected to a restrictive regulatory framework that places burdensome trade restrictions that erode the country's global comparative and competitive advantages. The ECRDA fully understands that a restrictive regulatory framework will impede the Eastern Cape's historical advantages for the commercial exploitation of cannabis, both intsangu / umya and hemp, for recreational, medicinal (conventional and complementary medicine) and industrial manufacture of end-products.

## OPERATIONAL PERFORMANCE

As such, the current regulatory environment informed how the ECRDA invested the R4,5 million budget allocated to the cannabis programmes in the 2021/22 financial year.

A decision was taken to procure the services of a reputable law firm to undertake a feasibility study on applicable legislation used by different countries and to propose an alternative regulatory framework based on the Eastern Cape's comparative and competitive advantages. The ECRDA would then submit the report to the relevant national departments tasked with reviewing and amending the South African cannabis regulatory framework. In line with the provisions of the constitution, the ECRDA was exercising the right as provided, to make a contribution in the formulation of a regulatory framework for cannabis as it directly impacts the economic well-being of the people of the province.

As a result, renowned law firm Webber Wentzel was appointed in 2021/22 to develop an internationally-recognised framework for cannabis production. Subsequently, Webber Wentzel produced a comprehensive and incisive document which was subjected to detailed scrutiny going as far as being tabled at the National Economic Development and Labour Council (NEDLAC). This document will be shared with various partners and stakeholders. This was an important deliverable by the ECRDA to influence the development of a conducive cannabis regulatory framework that takes into consideration the Eastern Cape's century old indigenous knowledge in breeding, cultivation, processing and trading in cannabis. This provides a platform for the House of Traditional Leaders; provincial legislators and the executive committee to mount strong opposition to that which will not serve the economic well-being of the people of the province.

Flowing from the South African Cannabis Master Plan developed by DALRRD, each province is required to develop its own Provincial Cannabis Industrial Development Strategy founded on its comparative and competitive advantages to attract investment. During the period under review, the ECRDA appointed Urban-Econ to map the economic feasibility of cannabis in the province. Urban-Econ shared a report with the ECRDA which carries a number of valuable insights on cannabis industrial strategies to be pursued by the province.

In 2021/22, the organisation also worked on establishing a cannabis incubator. A decision was taken to establish a cannabis incubator at Magwa in the Pondoland area and at the Dohne research site. The refurbishment of the Magwa incubator had reached an advanced stage by the end of the 2021/22 financial year. The plan is to appoint operators that will apply for SAHPRA license to operationalise the facility.

Community awareness and promotion activities were also undertaken to ensure that people understand the value of the industry. This support will continue in new financial year.

The ECRDA also began a process to identify all the farmers that had the potential to participate in the cannabis industry. A database of more than 699 farmers from across the Eastern Cape was subsequently created. This is an ongoing exercise in which roadshows to all the districts were conducted to promote the programme.

A total of 150 farmers were also trained in cannabis production from primary production to the market value chain. A team from DRDAR has been made available for training purposes in the new financial year.

There was also a government directive to transform the Lusikisiki college into a cannabis college. As a result, in 2021/22 a roundtable discussion was convened with the universities of Fort Hare, Nelson Mandela, Walter Sisulu, Rhodes and Fort Cox college in this regard. A discussion paper has been produced as a roadmap to the establishment of the envisaged college and other alternative proposed solutions.

Finally, the 2021/22 financial year concluded on a high note with the facilitation of hemp permit applications. The process began in February 2022 and the ECRDA identified those farmers which had a potential to participate. A total of 273 farmers were assisted with their hemp applications by the end of the financial year.

## FUTURE PLANS

The ECRDA's future plans are to ensure that the Eastern Cape becomes one of the country's leading cannabis industrial hubs through the following activities:

- The development of the provincial cannabis industrial cluster that will comprise of strategic government (national and provincial) departments, state-owned entities and the local government sphere to aggregate all material support (financial and non-financial) to enable the commercial exploitation of cannabis by local, national and international business partners (farming-to-retail).
- Continuation with providing:

a. hemp permit application assistance to prospective farmers in the province;
b. financial and non-financial support to those farmers that secured hemp permits;
c. material support towards the operationalisation of Magwa Incubator;
d. material support to Dohne Agriculture & Development Institute to establish cannabis incubator for farmer training and product development at Dohne.

Together with provincial partners, the plan is to develop the provincial cannabis investment guidebook and the launch of the Eastern Cape Cannabis Investment Conference series targeting both national and international investors.

RURAL FINANCIAL SERVICES

**The ECRDA is intentionally engaged in the development and extension of credit facilities to entrepreneurs who reside in the rural areas of the Eastern Cape and to those in the hinterland. This loan funding intervention is by design as it acts as a stimulant to economic activity in the most underserved and underdeveloped areas of the province.**

Entrepreneurs who operate in rural and peri-urban areas are often un-bankable and unattractive to commercial and private lenders. This often proves the death knell for these enterprises without access to empowering finance instruments. These entrepreneurs lack the security and collateral demanded by private lenders and are therefore relegated to the periphery of the formal economy.

As such, agents of socio-economic transformation and redress such as the ECRDA are compelled to offer empowering financial and non-financial support packages which support the competitiveness and sustainability of rural enterprises. The provision of these financial and business support packages injects buoyancy into the rural economy while facilitating sustainable job opportunities. Stimulating economic activity in the rural economy is non-negotiable as it forms the central cog in alleviating the triple challenges of poverty, inequality and unemployment.

The status quo thus necessitates the ECRDA to assume a higher risk appetite than private lenders as minimal security is required to secure access to these development finance instruments. However, the ECRDA has to ensure that entrepreneurs honour their loan repayment obligations so that further funding is available for other deserving entrepreneurs. In this regard, the ECRDA is engaged with loan beneficiaries to ensure that they honour their repayment terms by offering aftercare services which are designed to identify early-stage challenges that may prove a deterrent to effective loan collections.

## OPERATIONAL ENVIRONMENT

As a result, in 2021/22 the agency actively sought to increase loan disbursements while improving the recovery rate of rural finance. Increased loan recovery ensures continuity in the funding value chain. Furthermore, the agency aimed to monitor the sustainability of rural enterprises and subsidiaries through structured project visits.

The target was to ensure that the entire loan budget is disbursed to qualifying enterprises and to improve the recovery of a highly-impaired loan book. However, COVID-19 posed a significant challenge to the ECRDA's efficacy as clients and communities were severely affected by the economic effects of the pandemic. Subsequently, the agency had to consider the employment of customised COVID-19 related interventions such as payment holidays. However, those clients that were in a position to meet repayments were encouraged to honour their repayment obligations.

There was a decline of 7,3% in disbursements in 2021/22 compared to 2020/21 while there was an increase of 6,8% in loan recovery for 2021/22. The reason for the decline in disbursements was due to the shutdown of economic activity across numerous sectors of the economy which wreaked havoc among the small business sector.

**There was a loan recovery increase of 6,8% in 2021/22**

**6,8%**

It is critical for entrepreneurs to repay ECRDA loans in order to build their credit profile which improves their chances of receiving further funding from the organisation and to be considered by other institutions for bigger business opportunities.

In response, the ECRDA embarked on marketing initiatives geared to improve outreach, strengthening of technical support and aftercare project visits.

## LOAN PRODUCTS & ELIGIBILITY CRITERIA

The ECRDA offers agricultural and non-agricultural loans throughout the province.
The ECRDA provides loans for the following items:

- Production inputs
- Tractor and equipment
- Livestock
- On-farm infrastructure
- Working capital
- Mortgage loan for farm purchase
- Starter business entrepreneurial development program
- Agricultural – secondary /processing loans

Individuals, legal entities and groups who conduct their business activities in the Eastern Cape are eligible for ECRDA loan funding. They should be South African citizens in possession of a valid South African identity document, proof of residence, ECRDA completed and signed application form, company documents, business plan with cash-flow projects/enterprise budget, off-take agreement/confirmation of market as well as a valid and current tax clearance certificate.

## COLLECTIONS POLICY

While there was no review of the collections policy in 2021/22, a gap analysis was conducted. The lack of diversity in loan uptake poses a major challenge in loan collections because the bulk of the agency's loan book is for agricultural loans.

Agricultural lending requires patient capital as repayments are aligned to the production cycle of farm activities. The relatively high cost of insurance for agricultural-related enterprises such as crop and livestock is also a challenge. This is because the bulk of ECRDA clients are subsistence farmers and it is difficult for them to secure insurance products. When damages in the form of hailstorms or floods occur, they cannot recover the losses and the loans become irrecoverable.

Climate change is also affecting farmers with the prevalence of drought and pests which are beyond the farmers' control.  All of these challenges have a ripple effect on loan collections.

## OPERATIONAL PERFORMANCE

In the 2021/22 financial year, the ECRDA disbursed a total of R2,8 million was disbursed in loans. Of this amount, R2,3 million were 46 agency loans and R449,130 went to one Micro Agricultural Financial Institutions of South Africa (MAFISA) loan. A total of R1,2 million went to 28 agricultural loans, R1,1 million to 17 non-agricultural loans and R449,130 to a single MAFISA agricultural loan.

Loan approvals were affected by poor credit history, lack of business records, lack of collateral, business managerial competence, loan affordability and negative cashflow. A questionable ability to repay the loan leads to an unfavourable credit outcome.

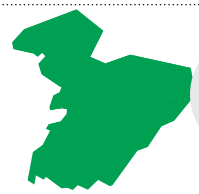
In terms of geographic spread, 20 loans went to the Southern Region consisting of the Sarah Baartman and Amathole districts. The Southern Region accounted for R1,5 million of the loan disbursements. A total of 21 loans went to the Eastern Region comprised of the OR Tambo and Alfred Nzo districts. The Eastern Region accounted for R686,511.70 of the loan disbursements. Four loans went to the Northern Region made up of the Chris Hani and Karoo districts. A total of R155, 347.21 was disbursed to the Northern Region. The ECRDA collected R6,3 million in agency loans in 2021/22 and R679,314.92 in MAFISA loans.

### Loans by geographic spread

**R1,5m**
Sarah Baartman and Amathole districts

**20** loans

**R686k**
OR Tambo and Alfred Nzo districts



**21** loans

**R155k**
Chris Hani and Karoo districts

**4** loans

## A total of R1,2m went to:

**28** Agricultural loans valued at R1,2 million

**17** Non-agricultural loans valued at R1,1 million

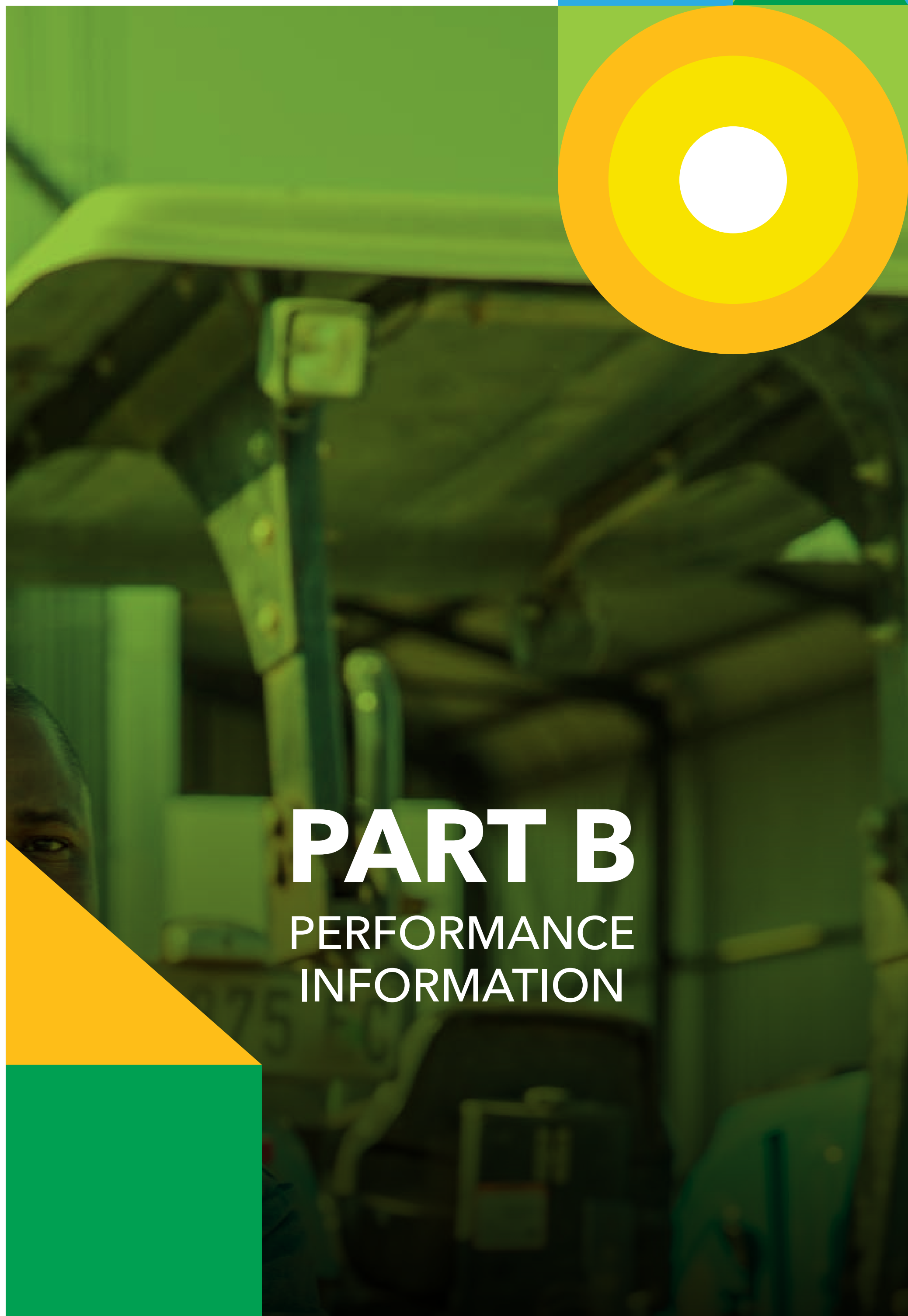
**01** MAFISA agricultural loan valued at R449,130.10

## FUTURE PLANS

A Rural Financial Services Strategy was approved by the Board in the 2021/22 financial year. This strategy will inform future interactions between the ECRDA and its clients. The strategy was developed with an intention to overhaul the rural finance programme with the following objectives:

- Reconfigure the rural financial services function to address all critical elements of an effective function
- Redesign its products and services offering to better align with clientele needs, while addressing the sustainability of the entity
- Improve and modernise its infrastructure, operating systems, support for, as well facilitation of rural financial services
- Enhance the capabilities and efficiency of the services team, the lead team at the point of central coordination, as well as the distributed team in the regions and local areas of the province
- Facilitate and support the development of enterprise-operating and management capabilities, to enhance prospects of success of rural entrepreneurs, and the recoverability of business loans
- Establish smart partnerships that will enhance the ECRDA's mission, reach and impact through the provision of relevant financial services responsive to the condition of the rural Eastern Cape, while promoting the state's and society's objective of an inclusive vibrant and sustainable economy.





# PART B
## PERFORMANCE INFORMATION



## Auditor-General's Report: Predetermined Objectives

The Auditor-General's report is published on Part E (Annual Financial Statements) of this report.

## Situational analysis

**Service delivery environment**

The ECRDA has identified seven key outputs which underpin the two outcomes articulated in the 2020 – 2025 Strategic Plan.

These outputs are:
- Good governance and accountability
- Sustainable capacity building and empowerment
- Sustainable innovation and decision support
- Sustainable resourcing
- Effective and efficient programme and project management
- Sustainable rural infrastructure
- Sustainable environmental practice

During the period under review, the agency encountered challenges in the service delivery environment which affected the performance of the agency specifically relating to project implementation. These factors negatively impacted on infrastructure and job creation targets.

Challenges experienced at the Tshabo Flora RED Hub were two-fold. Firstly, there was a cash flow challenge that was only addressed late in the year through a reprioritisation of funds. Secondly, there was vandalism and theft of fencing infrastructure which was reported to the police.

At the Ncora RED Hub challenges were experienced when the mill did not have access to electricity as a result of non-payment. This challenge has been resolved, but it does pose a risk that the mill may again experience similar challenges in future as a result of cash flow constraints. This hub is also negatively impacted by conflict between community members. The result is that not all members are in agreement with the beneficiation model. The services of a security company had to be procured to secure the project assets. Government is working with the community to resolve the conflict situation.

The Emalahleni RED Hub only received funding through a reprioritisation process late in the financial year. This caused challenges which resulted in electricity being cut-off due to non-payment. The reprioritised funds have been utilised to pay outstanding bills and the salaries of mill employees until the end of the financial year. However, thereafter, the project will again be in a precarious position with no grant funding being allocated to this project.

The remaining two RED Hubs, Mbizana and Mqanduli are operational. It should be noted that there is no allocated funding for these two Hubs in the 2022/23 financial year. This may cause cash flow problems and result in challenges going forward.

Some of the forestry projects also experienced significant cash flow constraints as well as land-related legal disputes. Furthermore, at the Sinawo forestry project illegal groupings are harvesting timber unlawfully. There are some discipline issues specifically relating to the usage of project vehicles for purposes they are not intended.

**Organisational environment**

The organisational environment was tested on various fronts with major conflict being experienced during the roll-out of the Match and Place process. This process was part of the reconfiguration of the organisation to align the structure to strategy. This process has come to a complete halt, which has severely impacted organisational performance for the 2021/22 financial year.

Furthermore, critical positions were left vacant and some positions where the incumbents resigned during the financial year had not been filled by the end of the financial year. These factors all contributed to low staff morale and performance has suffered in the wake of uncertainty.

**Key policy developments and legislative changes**

During the period under review there were no legislative changes.

**Progress towards achievement of institutional impacts and outcomes**

The ECRDA intends to register and leverage socio-economic strategic and systemic impact within the integrated rural space of the Eastern Cape.

| Outcome | Outcome Indicator | Baseline | 2020/21 | 2021/22 | Five-year Target |
|---|---|---|---|---|---|
| Increased levels of resource mobilisation | Combined value of investment, revenue and/or technical support secured in addition to allocated budget | 0 | R13 087 000 | R0 | R1 billion |
| Increased socio-economic impact | Percentage (%)completed projects within the portfolio with approved socio-economic impact reports | 0 | 0 | 0 | 100% |

With the decline in the fiscus and many of the agency's projects being unfunded, the five-year target, specifically related to levels of resource mobilisation, may have to be reconsidered. The impact reports on projects will only be commissioned during the last year of the five-year strategy period.

## Institutional Programme Performance Information

### Programme 1 Administration

The purpose of this programme is to ensure that the core operations have the required administrative support to effectively and efficiently execute their duties in accordance with the predetermined outputs as per the strategic direction provided.

The programme has three sub-programmes:
- Office of the CEO – Oversight, Strategy development and Organisational Performance Monitoring.
- Office of the CFO – Financial Management, Supply Chain Management and Asset Management.
- Corporate Services – Human Resource, ICT, Public Relations and Facilities Management.

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Increased socio-economic impact | Good governance and accountability | Number of unqualified financial and performance audit outcomes | 1 | 1 | 1 | N/A | N/A | N/A |
| 2 | Increased socio-economic impact | Good governance and accountability | % of strategic risk mitigated | 96% | 60% | 67% | 7% | The ECRDA had 42 risk mitigating activities and 28 were implemented. This is a positive variance. | Indicator was adjusted to 60% risks mitigated instead of the 2020/21 FY 100% risk tasks completed to reflect a more strategic perspective. |

## Sub-progamme: Office of the CEO

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 3 | Increased socio-economic impact | Good governance and accountability | % of Board resolutions implemented | 100% | 100% | 89% | -11% | The two Board resolutions that were not implemented were:<br>1. Board workshop to discuss:<br>a. Magwa risks<br>b. ECRDA asset management – income generation<br>c. Project delays<br>d. Loans acceleration<br>2. Appointment of an external service provider to finalise Match and Place process | Indicator was adjusted to 100% resolutions implemented instead of the 2020/21 FY 100% resolutions shared with management to ensure the implementation of resolutions is being monitored. |
| 4 | Increased socio-economic impact | Good governance and accountability | Number of governance framework developed and submitted to subsidiaries for consideration | 1 | 1 | 1 | N/A | N/A | N/A |

## Sub-progamme: Office of the CFO

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 5 | Increased socio-economic impact | Good governance and accountability | % of Audit Action Plan actions implemented | 82% | 80% | 50% | -30% | Not all AIP actions were implemented relating to rural finance and ICT. | The outstanding AIP actions will be closely monitored by the executives responsible to ensure that implementation takes place during the new financial year. |

## Sub-progamme: Corporate Services

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 6 | Increased levels of resource mobilisation | Sustainable capacity building and empowerment | % of concluded employee performance assessments completed | 100% | 100% | 95% | -5% | Employees were assessed in the first quarter against the prior year's performance as per the 2020/21 performance agreements signed. In the third quarter, the employees had to undergo an informal assessment against the 2021/22 performance agreement. Some of the employees did not sign 2021/22 performance agreements and as such could not be informally assessed during the third quarter. | Employees will be encouraged to sign performance agreements during April 2022 for the 2022/23 financial year. Performance agreements for the 2021/22 financial year cannot be signed in hindsight and thus corrective measures will not be implemented, rather consequences management implemented. |

## Sub-progamme: Corporate Services

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 7 | Increased levels of resource mobilisation | Sustainable capacity building and empowerment | % of Human Capital Plan outputs produced | 100% | 100% | 79% | -21% | The milestones not achieved are:<br>• Performance management – 100% of staff not informally assessed during Q3<br>• Organisational reconfiguration – Match and Place not completed (two milestones on this item)<br>• Recognition – first awards could not be done as policy was not approved<br>• Remuneration Policy was not approved which affected three milestones | **Performance management:**<br>Staff will be encouraged to sign performance agreements during April 2022 for the 2022/23 financial year. Performance agreements for 2021/22 financial year cannot be signed in hindsight and thus corrective measures will not be implemented, rather consequence management implemented.<br><br>**Organisational Reconfiguration:**<br>The process will be completed in the next financial year.<br><br>**Recognition:**<br>The policy will be resubmitted to the Board for consideration in the next financial year.<br>Conversion to total cost to company: The Remuneration Policy to be resubmitted for approval in the 2022/23 financial year. |

**Programme 2 Catalytic High Impact Programmes (CHIPS)**

Programme 2 deals with projects from inception to implementation and relate to the core operations of the entity.
This programme has the following sub-programmes:

- Research & Innovation – The purpose of this programme is to support facts-based decision-making.
- Project Packaging – Packaging projects to attract investment.
- Project Implementation – All project related outputs that require implementation is included in this sub-programme.
- Project monitoring and evaluation – Ensuring that operational activities are being tracked and challenges identified timeously for the deployment of mitigating measures

## Sub-progamme: Research & Innovation

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 8 | Increased socio-economic impact | Sustainable innovation and decision support | Number of approved research agendas | 1 | 1 | 1 | N/A | N/A | N/A |
| 9 | Increased socio-economic impact | Sustainable innovation and decision support | Number of research reports produced based on the research agenda | 4 | 4 | 4 | N/A | N/A | The research studies:<br>1. Increased understanding of irregular expenditure<br>2. EC cannabis project towards an enabling regulatory framework<br>3. Marine tilapia – SA's new affordable whitefish alternative<br>4. Social responsibility as an agent of change |

## Sub-progamme: Project Packaging

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 10 | Increased levels of resource mobilisation | Sustainable resourcing | Rand value of additional funding and or support secured | R13 087 000 | R100m | R0 | -R100m | This indicator was not achieved as the major funding proposals submitted to the National Treasury under the Budget Facility for Infrastructure projects in respect of Magwa and Marine Tilapia were rejected. | Management has drafted a resource mobilisation strategy that will be presented to the Board for adoption and implementation. It is meant to facilitate the raising of resources for various projects. |

## Sub-progamme: Project Implementation

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 11 | Increased socio-economic impact | Effective and efficient programme and project management services | % of non-agricultural projects within the ECRDA portfolio | 33% | 15% | 19% | 4% | Programme 3 had a higher than anticipated number of non-agricultural projects. | This is a positive variance. |

## Sub-progamme: Project Implementation

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 12 | Increased socio-economic impact | Sustainable rural infrastructure | % of scheduled rural infrastructure projects completed | 0% | 70% | 0% | -70% | None of the planned infrastructure projects were completed. | All three projects have lagged due to varying factors such as; the original site that was identified by the Elundini Local Municipality was undergoing an EIA process which will only be completed at the end of this financial year. The entity had to wait for a new site to be identified. On the Mbizana project there was a delay in the development of bid documents by engineers as a result of modifications suggested during the specifications meetings. There was also a delay that was caused by confusion around a DRDAR instruction to utilise uncommitted funding for procurement of agri-produce that was meant for the procurement of infrastructure. This was resolved and the infrastructure procurement will continue. |
| 13 | Increased socio-economic impact | Sustainable environmental practice | % of ECRDA projects with regenerative rural development practices implemented | 67.86% | 15% | 64% | 49% | The target in the APP was set prior the final calculation of the previous year. When the final calculation was done it was noted that the target was set too low. | The use of regenerative rural development practices in projects has a positive impact, thus the over-achievement is a positive variance. |
| 14 | Increased socio-economic impact | Effective and efficient programme and project management services | Number of direct jobs created (Full-time Equivalent) | 204 | 350 | 186 | -164 | Projects being implemented did not yield the expected jobs. None of the infrastructure projects were completed and this had a negative impact on the jobs created.<br><br>In addition to the 186 jobs created the ECRDA assisted three distressed entities to maintain jobs during the fourth quarter. Through this process the following jobs were maintained:<br>Shilo: 25<br>Masiqhame: 12<br>Ncera: 110 | Jobs are calculated on hours worked rather than warm bodies.<br>2080 hours logged = 1 job created<br>This indicator will not carry forward to the 2022/23 financial year and jobs created in a specific time cannot be increased after the end of the period. |
| 15 | Increased socio-economic impact | Effective and efficient programme and project management services | % of direct jobs created for women, youth and people with disabilities | 67% | 50% | 60% | 10% | 112 of the 186 jobs created were for either women or youth. | More jobs were filled by women and/or youth which then impacted the outcome positively. |

### Sub-progamme: Project monitoring and evaluation

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 16 | Increased socio-economic impact | Good governance and accountability | Number of project viability reviews completed | 2 | 2 | 2 | N/A | N/A | N/A |
| 17 | Increased socio-economic impact | Good governance and accountability | Review Annual Operational Plan (AOP) implementation and report to the Board | N/A | 4 | 4 | N/A | N/A | New indicator to monitor operations |

## Programme 3 Finance for Rural Development

This programmes purpose is to deal with the disbursement and recovery of loan finance.

### Rural Finance

| No | Outcome | Output | Output Indicator | Audited Actual Performance 2020/21 | Planned Annual Target 2021/22 | Actual Achievement 2021/22 | Deviation from planned target | Reason for deviation | Comments |
|---|---|---|---|---|---|---|---|---|---|
| 18 | Increased levels of resource mobilisation | Sustainable resourcing | % of loans approved and disbursed as per the rural finance Standard Operating Procedures | N/A | 100% | 100% | N/A | N/A | New indicator to monitor loan disbursements |
| 19 | Increased levels of resource mobilisation | Sustainable resourcing | % of Category A loans within the loan portfolio | n/a | 80% | 17% | -63% | Existing recovery methods are not effective. The ECRDA recovery methods/models need to be re-visited and a more effective method should be developed and implemented. | New indicator to monitor recovery rate |

## Institutional response to the COVID-19 pandemic

During the period under review, presentations, information sessions and regular reports were made for the benefit of staff. Management and general staff meetings were held to raise awareness and to educate all employees about the effects of COVID-19 and related implementation measures. Regular updates were provided to keep employees informed of the most recent developments. Hygiene consumables were provided and demonstrations were held. The Corporate Services Executive (CSE) was responsible for keeping track of alerts and directives – Department of Public Service and Administration (DPSA), Office of the Premier, regulations – and advising on protocols to observe all COVID-19 protocols.

Due to the stringent application of COVID-19 regulations and the enforcement of compliance with the regulations, there is no evidence that any employee has contracted the virus whilst being at the office(s).

## Linking performance to budget

| Programme/ Project | 2020/21 | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| | Budget | Actual Expenditure | (Over)/Under Expenditure | Budget | Actual Expenditure | (Over)/ Under Expenditure |
| **Outcome** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** | **R'000** |
| Administration | 87053 | 99262 | (12209) | 89818 | 87507 | 2311 |
| CHIPS: RED Hub Tshabo | 9796 | 9271 | 525 | 3500 | 2331 | 1169 |
| CHIPS: RED Hub Aggregation Centre | 6600 | 5695 | 905 | 11200 | 6501 | 4698 |
| CHIPS: Mechanisation Centres | 8400 | 5882 | 2518 | 7900 | 6867 | 1033 |
| CHIPS: Aquaculture (Marine Tilapia) | 3437 | 1533 | 1904 | 5857 | 2439 | 3418 |
| CHIPS: Forestry | 3263 | 5488 | (2225) | 3969 | 4056 | (87) |
| CHIPS: Cannabis | 2675 | 1400 | 1275 | 4500 | 2830 | 1670 |
| CHIPS: Transactional Advisory Services | 2000 | 0 | 2000 | 700 | 700 | - |
| CHIPS: Wool Hub & Mohair | 1275 | 687 | 588 | 321 | 7 | 314 |
| CHIPS: Other | 85332 | 86362 | (1030) | 2000 | 1090 | 910 |
| Rural Finance | 54506 | 86402 | (31896) | 1999 | 2346 | (346) |
| Total | 264337 | 298983 | (34646) | 131764 | 116674 | 15090 |

**Strategy to overcome areas of under performance**

The underperformance of the entity can largely be ascribed to the re-configuration process that was not completed as envisaged. The entity needs to prioritise the finalisation of this process and ensure that critical posts are filled so that performance can improve in the next financial year.

**Revenue Collection**

The agency classifies commissions earned, project implementation fees and other agency fees as other non-tax revenue.

Interest earned on cash holdings were below the income estimates due to less than budgeted income generation which impacts negatively on expected cash holdings on which interest is earned.

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

Government transfers and payments were in line with voted funds and no deviations occurred.

**Capital Investment**

The ECRDA's assets are mainly comprised of office buildings in Cradock, King Williams' Town and Mthatha and a vehicle fleet, furniture, office and computer equipment.

The ECRDA regularly maintains and repairs movable assets, which is considered to be in a predominantly good condition. Due to insufficient funding for major refurbishments and for upgrades of its owned office buildings, the ECRDA plans to continue with general repairs and maintenance only. There are no plans to close-down and/or downgrade any facilities. There has been no significant theft, disposal or scrapping of assets during the period under review. The ECRDA maintains appropriate internal controls to safeguard assets and ensure that the fixed asset register is updated regularly, which includes quarterly asset counts and updates to the fixed asset registers.

The entity had three infrastructure projects in the period under review.

| Infrastructure Project 2021/22 | Budget | Actual Expenditure | (Over)/ Under Expenditure |
|---|---|---|---|
| Administration | 87053 | 99262 | (12209) |
| Mbizana Potato Sorting Facility | 11 200 000.00 | 6 501 520.00 | 4 698 479.00 |
| Magwa Cannabis Infrastructure | 4 500 000.00 | 2 830 731.00 | 1 669 269.00 |
| Elundini Grain Silo | 8 500 000.00 | 528 232.00 | 7 971 768.00 |

None of the projects were completed during the 2021/22 financial year.

Mbizana Potato Sorting Facility: Construction has commenced but will only be completed in July 2022.

Magwa Cannabis Infrastructure: An architectural and engineering firm has been appointed to develop the scope of work and bill of quantities to refurbish one of the old coffee processing buildings at Magwa to serve as offices and as a processing site for hemp and cannabis. The bid was awarded, and the contractor is onsite undertaking the renovations. Renovations are expected to be completed at the end of June or early July 2022.

Elundini Grain Silo: The tender for the appointment of the contractor closed on 17 January 2022. It had to be approved by the Board because the cost of the silos at Elundini was more than R6 million. The Board resolved not to approve the appointment of the contractor due to technicalities related to the risk involved should Treasury not approve the roll-over of funds into the next financial year. The tender will be re-advertised as per their recommendations and resolutions of the Board should funding permit.

# PART C

## HUMAN RESOURCE MANAGEMENT



The Human Resource initiatives employed at the ECRDA are mainly in the areas of human resources, learning and development, performance management, payroll and wellness. During the review period, the agency embarked on several new and revised initiatives.

The new Skills Development Committee had regular meetings with a higher number of meetings during the first part of the year to consider applications for the new calendar year. In-house training took place for:

- Public Finance Management on 23 and 24 October 2021.
- Project Management Training on 3 and 4 March 2022 with a final day scheduled for 5 April 2022.

A consolidated training worksheet has been developed from all Personal Development Plans submitted by employees on 31 March 2021. This will be used as the basis of the Training Plan. In addition to this, this document is used to identify opportunities which can be sourced for in-house training (where there is demand for a specific skill).

The Skills Development Committee called for applications for formal studies as well as driver's licence training for the 2022 year. All applications were considered within policy and budget guidelines. The Employee Satisfaction Survey questionnaire was distributed in July 2021 and responses were collated and reported on in August 2021.

The Organisation Reconfiguration project continued from the previous financial year until a Board resolution was taken to halt the process.

The organisational structure that was approved in the 2020/21 financial year details critical and specialised positions aligned to the strategic outcomes of the organisation. The structure was based on design principles and the organogram was based on an operating model. This assisted in the types of human capital which the ECRDA intends to attract.

Formal assessments for the 2020/2021 financial year have been conducted for all staff. The Board resolved that performance agreements are to be signed as at end March 2021 and that they can be revised once reporting lines change as a result of organisation reconfiguration.

The performance management policy has been amended, in line with the Board decision, to make allowance for agency processes and procedures. For improvement and capacity development, the following should be noted:

- The shared folder containing all performance agreements and assessments is updated continuously and a register is kept up to date by the HR Administrator and submitted for signing on a monthly basis to the Corporate Services Executive in line with audit requirements.
- The informal performance assessments which are to be done for quarter 1 to quarter 3 have commenced with the distribution of a memorandum to all staff. The deadline for the submissions has been set for 10 December 2021. However, the National Union of Public Service and Allied Workers (NUPSAW) and management discussed the importance of having performance agreements signed and informal assessments conducted.

In order to address the uncertainty of staff with regard to the implementation of the system, additional capacity development was done at the 12 and 19 November Power Hours.

In addition to this, a dedicated e-mail address was created for all Performance assessment submissions and questions. Bonus payments to permanent staff were approved by the Board and actioned on the normal payroll run on 15 December 2021.

All wellness matters were identified and handled on an individual basis with the respective employees. Occupational Health and Safety meetings took place on a regular basis throughout the year.

**Policy Development:**
The Board approved the following policies during the financial year:

- Succession Planning Policy
- Employee Wellness Programme Policy
- Whistle-Blower Policy
- Placement Policy
- Voluntary Severance Package Policy
- Employment Equity Plan
- Amended Performance Management Policy

The following policies were discussed at workshops and developed and are pending approval by the Board:

- Remuneration Policy
- Relocation Policy

Highlights for the period under review:

- Additional support was provided to DRDAR in respect of Extended Public Works Programme (EPWP) payroll processing
- Continued implementation of the Power Hour initiative to empower employees on various operational matters as well as areas of non-racialism and non-sexism.

Challenges during the period under review:

- Greater need to guide the management of policy and processes
- Performance Management, notwithstanding more than 20 workshops held on this process
- Management of people, finance and facilities to be further enhanced through continued dedicated skills development
- Recruitment

The Human Capital Plan has been reviewed for the 2022/23 financial year and the following human resource solutions are proposed to the organisation:

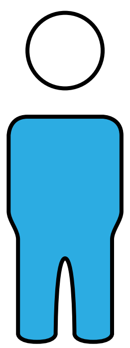
Solution 1: Exit interview process
Solution 2: Project Management standardised process and templates
Solution 3: Management Development Skills
Solution 4: Back-to-office routine Skills
Solution 5: Transformation Committee
Solution 6: Service Level Agreement templates
Solution 7: Salary benchmark
Solution 8: Discipline in the workplace skills development
Solution 9: Coaching and mentoring skills development
Solution 10: Internal policies and procedures training
Solution 11: Cannabis capacitation

## Human Resources Oversight Statistics

### Personnel Cost by programme

| Programme | Total Expenditure for the Entity | Personnel Expenditure | Personnel exp. As a % of total exp. | No. of employees | Average personnel cost per employee |
|---|---|---|---|---|---|
| Administration | 92,077,489 | 55,605,899 | 28% | 62 | 896,869 |
| CHIPS | 67,127,777 | 16,962,428 | 8% | 21 | 807,735 |
| Rural Finance | 40,429,413 | 34,071,379 | 17% | 59 | 577,481 |
| TOTAL | 199,634,679 | 106,639,706 | 53% | 142 | 2,282,085 |

Note:
1. CHIPPS: Is inclusive of Project expenses as well as subsidiaries and transfer payments
2. Rural Finance is also inclusive of social benefits from concessionary loans
3. Leave accrual is allocation to programme 1: Administration

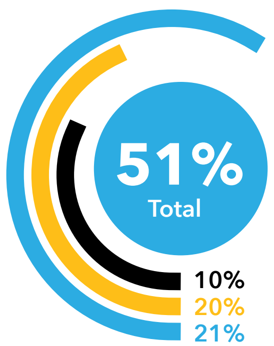


All programmes

**R208M**
Total Expenditure for the Entity

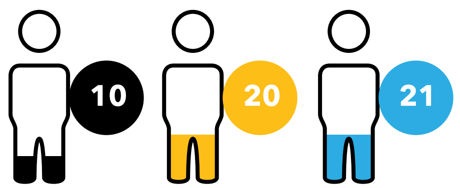
**142**
Employees

Avg. personnel cost per employee
**R704,668**




Personnel exp. As a % of total exp.

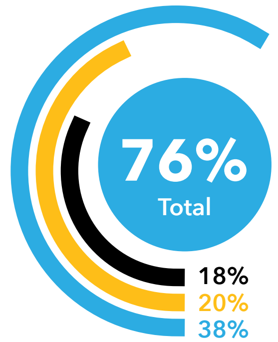
- CHIPS 10%
- Rural Finance 20%
- Administration 21%





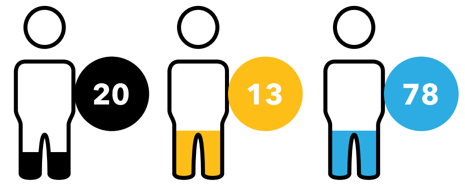

### Personnel cost by salary band

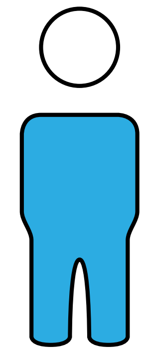
| Level | Personnel Expenditure | % of personnel exp. To total personnel cost | No. of employees | Average personnel cost per employee | Average personnel cost per employee |
|---|---|---|---|---|---|
| Top Management | 8,805,389 | 8% | 4 | 2,201,347 | 704,668 |
| Senior Management | 21,089,013 | 20% | 13 | 1,622,232 | 1,011,887 |
| Professional | 9,403,642 | 9% | 5 | 1,880,728 | 706,791 |
| Skilled | 19,080,302 | 18% | 20 | 954,015 | 2,423,346 |
| Semi-skilled | 40,523,766 | 38% | 78 | 519,535 | |
| Unskilled | 7,737,593 | 7% | 22 | 351,709 | |
| **Total** | **106,639,705** | **100%** | **142** | **750,984** | |




% of personnel exp. to total personnel cost

- Skilled 18%
- Senior management 20%
- Semi-skilled 38%



Totals

**R750,984**
Avg personnel cost per employee

**142**
Employees

Senior Management accounts for 20%
**R1,622,232**

### Performance Rewards

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

### Training Costs

| Programme | Personnel Expenditure (R'000) | Training Expenditure (R'000) | Training exp as a % of Personnel costs | No of employees trained | Average training cost per employee |
|---|---|---|---|---|---|
| Administration | 55,605,899 | 80,971 | 0.15% | 4 | 20,243 |
| CHIPS | 16,962,428 | 64,280 | 0.38% | 38 | 1,692 |
| Rural Finance | 34,071,379 | 115,059 | 0.34% | 4 | 28,765 |

### Employees and vacancies per programme

| Programme | 2020/21 No of Employees | 2021/22 Approved Posts | 2021/22 No of Employees | 2021/22 Vacancies | % of Vacancies |
|---|---|---|---|---|---|
| Administration | 64 | 86 | 62 | A new organisational structure was approved during January 2021. Population of the structure has not been concluded as yet. | |
| CHIPS | 26 | 29 | 21 | | |
| Rural Finance | 68 | 82 | 59 | | |

## TRAINING COSTS

Employees trained

**46**

38 employees from the CHIPS programme

Average training cost per employee

**R28,765**

### Employees and vacancies per level

| Level | 2020/21 No of Employees | 2021/22 Approved Posts | 2021/22 No of Employees | 2021/22 Vacancies | % of Vacancies |
|---|---|---|---|---|---|
| Top Management | 4 | 9 | 4 | A new organisational structure was approved during January 2021. Population of the structure has not been concluded as yet. | |
| Senior Management | 24 | 28 | 13 | | |
| Professional | 8 | 6 | 5 | | |
| Skilled | 20 | 51 | 20 | | |
| Semi-skilled | 78 | 82 | 78 | | |
| Unskilled | 25 | 21 | 22 | | |

A new organisational structure was approved during January 2021. Appointment of staff and the placement of staff against the structure started; however, the process has been halted.

### Employee changes:

| Salary Level | Employment at beginning of period | Appointments | Terminations | Employment at end of the period |
|---|---|---|---|---|
| Top Management | 4 | | | 4 |
| Senior Management | 24 | | 11 | 13 |
| Professional | 8 | | 3 | 5 |
| Skilled | 20 | | | 20 |
| Semi-skilled | 78 | | | 78 |
| Unskilled | 25 | | 3 | 22 |
| **Total** | **159** | **0** | **17** | **142** |

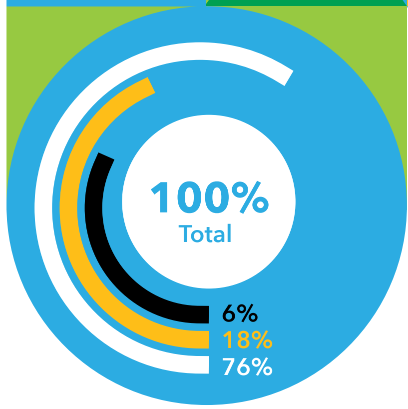
**11**
Senior management terminations

**6**
Professional & Unskilled terminations

### Reasons for staff leaving:

| Reason | Number | % of total no of staff leaving |
|---|---|---|
| Death | | |
| Resignation | 3 | 18% |
| Dismissal | | |
| Retirement | | |
| Ill health | | |
| Expiry of contract | 1 | 6% |
| Other | 13 | 76% |
| Total | 17 | |

The main reason for staff leaving the institution is the voluntary severance process that was engaged in during 2020/2021. However, exits only took place in 2021/2022. The process of populating the new structure has been halted and therefore vacant posts could not be filled.



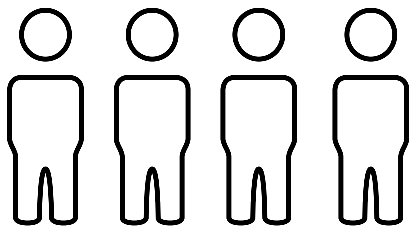

### % and number of staff leaving

- Expiry of contract 1
- Resignation 3
- Other 13

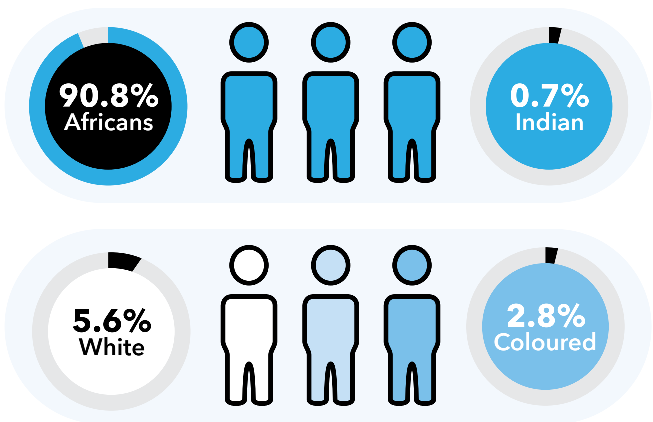
- Expiry of contract 6%
- Resignation18%
- Other 76%

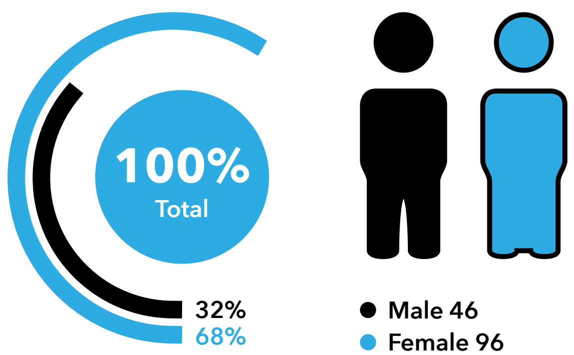
### Labour Relations: Misconduct and disciplinary action:

| Nature of disciplinary Action | Number |
|---|---|
| Verbal warning | 0 |
| Written warning | 4 |
| Final written warning | 0 |
| Dismissal | 0 |



**4**
Written warnings in the year under review




- Male 46
- Female 96

81.1% of the Eastern Cape population is African

### Equity Target and Employment Equity Status:

| Level | Female | | | | Male | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | A | C | I | W | A | C | I | W | |
| Executives (Top Management) | 0 | 0 | 0 | 1 | 2 | 1 | 0 | 0 | **4** |
| Management (Senior) | 8 | 0 | 0 | 2 | 8 | 0 | 0 | 1 | **19** |
| Specialists (Professionally qualified) | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 0 | **3** |
| Skilled | 24 | 1 | 0 | 1 | 8 | 0 | 0 | 2 | **36** |
| Semi-skilled | 42 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | **62** |
| Unskilled | 13 | 2 | 0 | 0 | 3 | 0 | 0 | 0 | **18** |
| **Total** | **87** | **3** | **1** | **5** | **42** | **1** | **0** | **3** | **142** |
| **Percentage** | 61 | 2 | 1 | 4 | 29 | 1 | 0 | 2 | **100** |
| **Gender** | Females = 68% | | | | Males = 32% | | | | |
| ECRDA Actuals: | African =129 (90.8%); Coloured = 4 (2.8%); Indian = 1 (0.7%); White =8 (5.6%) | | | | | | | | |
| Eastern Cape demographics: | African = 81.1%; Coloured = 10.5%; Indians = 0.7%; White = 7.7% Source: 21st Commission for Employment Equity (CEE Annual Report 2020 2021) issued by Dept of Labour | | | | | | | | |

### -BBEE Compliance Performance Information

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

# PART D
## GOVERNANCE

## Introduction

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

Parliament, the Executive and the Boards of the Public Entity are responsible for corporate governance.

## Portfolio Committee

The Portfolio Committee on Agriculture, Land Reform and Rural Development exercises oversight over the service delivery performance of the ECRDA and, as such, reviews the non-financial information contained in the annual reports and is concerned with service delivery and enhancing economic growth.

During the period under review, the ECRDA attended the Portfolio Committee on Agriculture, Land Reform and Rural Development meetings on the following dates:

- 31 May 2021
- 2 November 2021
- 16 November 2021

## Executive Authority

The ECRDA is a Schedule 3C public entity which is wholly owned by the Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR). The ECRDA is committed to providing the shareholder with all relevant performance and organisational information to allow for the effective monitoring, evaluation and oversight. To this end, the ECRDA has submitted all reports due for submission to the shareholder and other authorities timeously.

## Accounting Authority

The ECRDA is governed by 10 independent non-executive Board Members 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.

The strategic direction, ethical governance, oversight, and leadership are all being provided by the Board and as the Accounting Authority, the Board is accountable to the shareholder for the organisation's performance.

Board members are called to adhere to the same values as depicted in the ECRDA strategic documents and to discharge their duties with competence, fairness, and accountability.

The Board adopted a Board Charter in 2020 which sets out its responsibilities in terms of:

- Adoption of Strategic Plan
- Monitoring of operational performance and management
- Determination of policy process to ensure the integrity of the public entity risk management and internal controls
- Communication policies and
- Board Member orientation and evaluation

## Composition of outgoing Board

| Name | Designation | Date | Expiry | Qualifications |
|---|---|---|---|---|
| N Mbete | Chairperson (February 2022 – April 2022) | 1 April 2019 | 30 April 2022 | • National Diploma: Cost and Management Accounting<br>• Post Graduate Diploma: Strategic Management and<br>• Corporate Governance Certified Financial Accountant<br>• Certified Cultural Transformative Tools Expert |
| V Jarana | Deputy Chairperson | 3 July 2020 | 30 April 2022 | • National Technical Diploma in Telecoms<br>• Bachelor of Commerce<br>• BUS Admin (Hons)<br>• MBA |
| L Nare | Member (Chairperson April 2019 – February 2022) | 1 April 2019 | 30 April 2022 | • Bachelor's Degree Industrial Psychology<br>• Higher Education Diploma |
| Adv P Mayapi | Member | 1 April 2019 | 30 April 2022 | • B.Juris<br>• LLB<br>• National Management Diploma: Transportation |
| S Makunga | Member and Social & Ethics Committee Chairperson | 1 April 2019 | 30 April 2022 | • B.Soc.Sc (Communications)<br>• Certificate: Strategic Media Relations<br>• Certificate: Effective Media Relations<br>• Certificate: Multimedia Management Skills |
| M Msoki | Member | 1 April 2019 | 30 April 2022 | • B Soc Sci (Hons)<br>• Certificate in Executive Leadership: Public and Development Management<br>• Certificate in Leadership Training Course |
| Z Thomas | Member and Audit Risk & Compliance Chairperson | 1 April 2019 | 30 April 2022 | • BA Degree: History and Xhosa<br>• LLB<br>• Higher Education Diploma<br>• General Management Programme Certificate<br>• Compliance Certificate<br>• Law School attendance<br>• Certificate and Assessor certificate. |
| S Faku | Member and HC&R Committee | 1 April 2019 | 30 April 2022 | • MSc<br>• Bachelor of Education (Hons)<br>• Bachelor of Arts<br>• Senior Teachers Diploma<br>• HR Programme<br>• Diploma in Company Direction<br>• Real Estate NQF 5 |
| J Korkie | Member and FPI Chairperson; ARC member; S&E member | 25 June 2021 | 30 April 2022 | • National Diploma in Education<br>• LLB<br>• Advance Diploma in Labour Law<br>• Advance Certificate in Governance & Leadership<br>• Accredited Mediator<br>• Masters in Law |

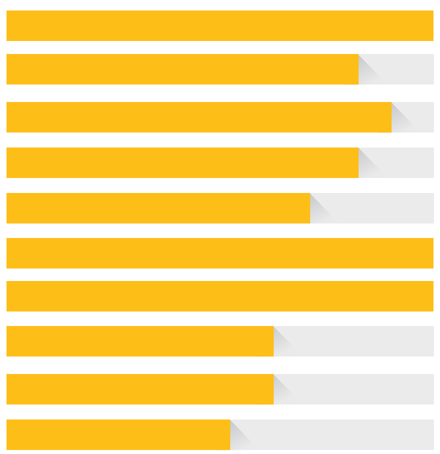


## Composition of outgoing Board

| Name | Designation | Date | Terminations | Employment at end of the period |
|---|---|---|---|---|
| N Ngonyama | Member, FPI member, HC&R member | 25 June 2021 | 30 April 2022 | • Certificate in Practice Management<br>• Certificate in Legal Practice<br>• LLB<br>• Masters in Law |
| n dladla | Chief Executive | 3 July 2020 | 30 April 2022 | • B.Com (Accounting & Economics)<br>• MBA<br>• EdM |
| C Mnqeta | Acting Chief Executive Officer | February 2022 | N/A | • BSC 1986<br>• BVMCH 1997 |

## Board meeting attendance: Outgoing Board

| Name | Designation | No. of meetings held | No. of meetings attended |
|---|---|---|---|
| N. Mbete | Chairperson | 11 | 11 |
| V. Jarana | Deputy chairperson | 11 | 9 |
| L. Nare | Member | 11 | 10 |
| Adv P. Mayapi | Member | 11 | 9 |
| S Makunga | Member | 11 | 8 |
| M. Msoki | Member | 11 | 11 |
| Z. Thomas | Member | 11 | 11 |
| S. Faku | Member | 11 | 7 |
| J. Korkie | Member | 11 | 7 |
| N. Ngonyama | Member | 11 | 5 |



### Board committee composition: Outgoing Board

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

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

| Name | Audit, Risk & Compliance | Human Capital & Remuneration | Finance, Projects & Investments | Social & Ethics |
|---|---|---|---|---|
| N. Mbete | ● | | ● | |
| V. Jarana | ● | | ● | |
| L. Nare | | ● | | |
| Adv P. Mayapi | ● | ● | | |
| S Makunga | | | ● | ● |
| M. Msoki | | ● | | ● |
| Z. Thomas | ● | ● | | ● |
| S. Faku | | ● | ● | |
| J. Korkie | ● | | ● | |
| N. Ngonyama | | ● | ● | |

## Board committee attendance: Outgoing Board

| Name | Audit, Risk & Compliance | Human Capital & Remuneration | Finance, Projects & Investments | Social & Ethics |
|---|---|---|---|---|
| N. Mbete | 6 | | 4 | |
| V. Jarana | 3 | | 3 | |
| L. Nare | | 4 | | |
| Adv P. Mayapi | 4 | 3 | | |
| S Makunga | | | 3 | 2 |
| M. Msoki | | 3 | | 1 |
| Z. Thomas | 6 | | | 2 |
| S. Faku | | 4 | 3 | |
| J. Korkie | 5 | | 3 | |
| N. Ngonyama | | 2 | 2 | |

Board Remuneration: Outgoing Board

| Name | Remuneration | Other Allowance | Re-imbursements | Total |
|---|---|---|---|---|
| Ngonyama, N | 229 328,00 | - | 24 134,75 | 253 462,75 |
| Korkie, J | 265 656,00 | - | 4 037,50 | 269 693,50 |
| Mayapi, P | 317 880,00 | - | - | 317 880,00 |
| Makunga, S | 325 152,00 | - | 59 926,00 | 385 078,00 |
| Nare, L | 402 856,00 | - | 3 965,18 | 406 821,18 |
| Thomas, Z | 325 152,00 | - | - | 325 152,00 |
| Faku, S | 325 152,00 | - | - | 325 152,00 |
| Mbete, N | 332 216,00 | - | 899,00 | 333 115,00 |
| Msoki, M | 263 388,00 | - | - | 263 388,00 |
| Jarana, V | 387 492,00 | - | - | 387 492,00 |
| **Total** | **3 174 272,00** | **0,00** | **92 962,43** | **3 267 234,43** |

## Risk Management

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

Risk workshops were facilitated by the Internal Audit function and a risk register was developed. The ARC plays an independent oversight role which assists management with risk management processes to ensure that suitable mitigation actions are being implemented for identified risks.

## Internal Audit

During the 2021/22 financial year the Internal Audit function performed the following activities:

- Review of 2021/22 quarterly performance reports with supporting evidence
- Review of 2020/21 Annual Financial Statements
- Internal Audit & Audit, Risk and Compliance Committee Charters were reviewed and updated
- Review the 2022/23 Annual Performance Plan to ensure SMART indicators
- Conducted fraud awareness workshops
- Review of remedial action plan for fourth quarter

## Compliance with laws and regulations

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

## Fraud and Corruption

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

## Minimising conflict of interest

All suppliers of the ECRDA must be registered on a database and the registration documentation includes a declaration of supplier's shareholders on any conflict of interest to avoid the inadvertent use of suppliers in an irregular manner. In addition, the employees who are members of either the Bid Evaluation or Bid Adjudication Committees are required to declare any potential conflict of interest at each committee meeting.

## Code of Conduct

The ECRDA adheres to the National Treasury Code of Conduct for supply chain management. Furthermore, the ECRDA continues to subscribe to its core values as set out below:

- Transparency
- Excellence
- Honesty and Integrity
- Innovation
- Commitment to empowerment
- Ubuntu

## Health, Safety and Environmental Issues

The agency recognises that the well-being of its employees is paramount and as such the ECRDA conforms to the rules as enshrined in the Occupational Health and Safety Act (Act 85 of 1993). ECRDA has an established Occupational Health and Safety committee, comprising employees in different roles, to ensure that no one operates in hazardous situations. During the period under review all COVID-19 protocols were strictly adhered to.

## Company Secretary

During the period under review the duties and responsibilities of the Company Secretary were discharged within the ECRDA. The Company Secretary resigned with his last day being 28 February 2022. As at year end, the position remained vacant.

## Social Responsibility

ECRDA contribute to the socio-economic development and upliftment of marginalised communities as per its developmental mandate. The entity was established to promote, support and facilitate rural development in the Eastern Cape Province in a sustainable manner.

# Composition of incoming Board

**Dr. NONDUMISO MAPHAZI (Chairperson)**
Appointed May 2022
Committees:
Governance & Ethics (Chairperson).
Research, Projects & Stakeholder Management
Strategic Plan Implementation & Performance Monitoring

**THANDI MBETE (Deputy Chairperson)**
Appointed May 2022
Committees:
Strategic Plan Implementation & Performance Monitoring (Chairperson).
Governance & Ethics.
Finance & Investment.

**NOLITHA PIETERSEN**
Appointed May 2022
Committees:
Finance & Investment (Chairperson).
Audit & Risk.
Governance & Ethics.

**Adv. JOHN KORKIE**
Appointed May 2022
Committees:
Audit & Risk (Chairperson).
Human Capital & Remuneration.
Governance & Ethics.

**GCINUMZI QOTYWA**
Appointed May 2022
Committees:
Human Capital & Remuneration (Chairperson).
Audit & Risk.
Governance & Ethics.

**MXOLISI KOYO**
Appointed May 2022
Committees:
Research, Projects & Stakeholder Management (Chairperson).
Finance & Investment.
Governance & Ethics.

**ANDILE NONTSO**
Appointed May 2022
Committees:
Finance & Investment.
Human Capital & Remuneration.
Research, Projects & Stakeholder Management.

**Ntuthu Mbiko-Motshegoa**
Appointed May 2022
Committees:
Finance & Investment.
Strategic Plan Implementation & Performance Monitoring.
Research, Projects & Stakeholder Management.

**NOKHANYO MACEBA**
Appointed May 2022
Committees:
Human Capital & Remuneration.
Audit & Risk.
Research, Projects & Stakeholder Management.

**NONDUMISO NGONYAMA**
Appointed May 2022
Committees:
Human Capital & Remuneration.
Strategic Plan Implementation & Performance Monitoring
Research, Projects & Stakeholder Management.

**SENZENI ZOKWANA**
Appointed May 2022
Committees:
Strategic Plan Implementation & Performance Monitoring
Research, Projects & Stakeholder Management.
Human Capital & Remuneration.

# Report of the Audit Committee for the year ended 31 March 2022

The Audit Committee is pleased to present our report for the financial year ended 31 March 2022.

## Audit Committee Responsibility

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

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

- Ensured compliance with its terms of reference and the provisions of the audit committee charter during the year under review;
- Reviewed the procedures for identifying business risks and managing their impact on the Eastern Cape Rural Development Agency (ECRDA) including the risk management functions;
- Reviewed the agency's policies and procedures for detecting and preventing fraud;
- Reviewed the operational effectiveness of the agency's policies, systems and procedures;
- Reviewed the effectiveness and adequacy of the internal audit services and adequacy of its annual work plan;
- Considered whether the independence, objectives, organisation, staffing plans, financial budget, audit plans and standing of the internal audit function provide adequate support to enable the committee to meet its objectives;
- Reviewed the results of the work performed by the internal audit services in relation to financial reporting, corporate governance, risk areas, internal control and any significant investigations and management response;
- Reviewed the coordination between the internal audit function and the external auditors;
- Reviewed the agency's compliance with significant regulatory provisions;
- Reviewed such significant transactions as the committee deemed appropriate;
- Reviewed the controls over significant financial and operational risks;
- Reviewed the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- Reviewed the accounting and auditing concerns identified by internal and external auditors;
- Reviewed the annual report and the consolidated annual financial statements, taken as a whole, to ensure they present a balanced and understandable assessment of the positions, performance and prospects of the agency;
- Reviewed the independence and objectivity of the external auditors.

The Audit Committee is of the opinion that the internal controls of Eastern Cape Rural Development Agency have operated effectively throughout the year under review and, where internal controls did not operate effectively, compensating controls have ensured that the agency's assets have been safeguarded, proper accounting records have been maintained and resources have been utilised efficiently in all significant respects. This opinion is based on the information and explanations given by management, the internal audit services and discussion with the independent external auditors on the results of their audits.

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

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

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

The internal audit reviews performed for the financial year, were all in line with the approved annual audit plan and included the following for the 2021/22 financial year:

- Annual Financial Statements and Annual Performance Report review
- Review of Internal Audit Plan, Audit & Risk Committee Charter and Internal Audit Charter
- Quarterly Report reviews, Q1 – Q4
- Review of the Audit Improvement Plan
- Review of Annual Performance Plan 2021/22
- Fraud Awareness workshops

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

In-Year Management and Monthly/Quarterly Report
The public entity has reported monthly and quarterly to the Treasury as is required by the PFMA.
Evaluation of Financial Statements
We have reviewed the annual financial statements prepared by the public entity.

Following our review of the consolidated annual financial statements for the year ended 31 March 2022, we are of the opinion that they substantially comply with the relevant provisions of the Public Finance Management Act, Act No. 1 of 1999 (as amended by Act 29 of 1999).

The consolidated annual financial statements comply, in all material respects, with the Statements of Generally Recognised Accounting Practice (GRAP).

The Audit Committee concurs that the adoption of the going concern premise in framing the consolidated annual financial statements is appropriate. The Audit Committee has therefore recommended the adoption of the consolidated annual financial statements by the Board members.

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

- Improvement of ICT Governance and Control Environment is ongoing.

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

Adv. John Korkie
**Board member and Chairperson of the Audit, Risk and Compliance Committee**

# PART E
## FINANCIAL INFORMATION

# CONTENT



# Eastern Cape Rural Development Agency Audit Report For the year ended 31 March 2022

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the Eastern Cape Rural Development Agency and its subsidiaries set out on pages 95 to 168, which comprise the consolidated and separate statement of financial position as at 31 March 2022, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Eastern Cape Rural Development Agency as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

### Basis for opinion

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

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

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

### Emphasis of matters

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

### Material impairments

7. As disclosed in notes 7 and 8 to the consolidated financial statements, impairment of R126 million (2020-21: R120,8 million) and R1,6 million (2020-21: R1,2 million) were provided for loans and advances to customers and rental debtors respectively as a result of loans and advances to customers that were deemed uncollectable, and rental debtors considered past due.

### Irregular expenditure

8. As disclosed in note 26 to the consolidated financial statements, the group has accumulated R28,6 million (2020-21: R25,7 million), irregular expenditure that has not been recovered, written off or condoned.

### Restatement of corresponding figures

9. As disclosed in note 35 to the consolidated financial statements, the corresponding figures for the 31 March 2021 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 31 March 2022.

### Other matter

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

### Unaudited supplementary schedules

11. The supplementary information set out on pages 167-168 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### Responsibilities of the accounting authority for the financial statements

12. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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.



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

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

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

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

## Report on the audit of the annual performance report

### Introduction and scope

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

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

18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in the entity's annual performance report for the year ended 31 March 2022:

| Programme | Pages in the annual performance report |
|---|---|
| Programme 2 - Catalytic high-impact programmes | 56 - 61 |

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

### Programme 2 - Catalytic High Impact Programmes

20. I did not identify any material findings on the usefulness and reliability of the reported performance information for this programme.

### Other matter

21. I draw attention to the matter below.

### Achievement of planned targets

22. Refer to the annual performance report on pages 49-63 for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets.

## Report on the audit of compliance with legislation

### Introduction and scope

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

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

### Annual financial statements, performance and annual reports

25. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of loans and advances to customers, liabilities arising from non-exchange transactions, trade and other payables, revenue, expenditure, contingent liabilities, commitments, related parties, comparative figures and cash flow statement identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### Expenditure management

26. Effective and appropriate steps were not taken to prevent irregular expenditure of R2,9 million disclosed in note 26 to the consolidated and separate financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by payments made to suppliers where the formal procurement procedures were not followed.

27. Prepayments were made before services were received, in contravention of treasury regulation 31.1.2(c).

### Revenue management

28. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA.

### Consequence management

29. I was unable to obtain Sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records not being maintained as evidence to support the investigations into irregular and fruitless and wasteful expenditure.

## Other information

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

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

32. 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 programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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



## Internal control deficiencies

34. 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.

35. Leadership did not adequately discharge its oversight responsibilities with regards to the implementation and monitoring of internal controls, which includes adequate document management, to ensure sound financial and performance management and compliance with laws and regulations. The entity's financial records were not adequately reviewed, which contributed to inaccurate financial reporting.

36. Although reviews were done by management, internal audit and the audit committee, material misstatements were identified in the financial statements, indicating that the review processes need to be strengthened.

37. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

## Other reports

38. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

39. At the request of the board, an independent consultant investigated allegations of maladministration concerning the entity's supply chain management and recruitment processes. The investigation covered the period 9 February to 11 March 2022. The investigation was concluded on 30 May 2022 with recommendations for further investigations and to institute criminal proceedings against one former employee.

Auditor-General.

East London, 31 July 2022

**AUDITOR-GENERAL**
**SOUTH AFRICA**

Auditing lo 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 accounting authority
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Eastern Cape Rural Development Agency and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

**Communication with those charged with governance**

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

## Eastern Cape Rural Development Agency
### Statement of Board members' responsibility for financial reporting for the year ended 31 March 2022

The Board members are required by the Public Finance Management Act, Act No. 1 of 1999, (as amended by Act No. 29 of 1999) and the Eastern Cape Rural Finance Corporation Amendment Act, Act No. 1 of 2012 to maintain adequate accounting records, while they are responsible for the content and integrity of the consolidated annual financial statements and the related financial information in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the Agency and Group as at the end of the financial year and the results of their operations and cash flows for the year then ended, in conformity with the prescribed Standards of Generally Recognised Accounting Practice.

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

The Board members acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the Board members to meet these responsibilities, the Board members set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring that business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The Board members have reviewed the Group's cash flow forecast for the year ending 31 March 2023 and for the 2022 financial year and, in the light of this review and the current financial position, are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future. The Board members acknowledge that the Group is dependent on the continued financial support from the Eastern Cape Provincial Government.

The Group has accumulated a profit for the year and the Eastern Cape Provincial Government has confirmed funding for the Eastern Cape Rural Development Agency for the 2022/23 financial year.

The consolidated annual financial statements set out on pages 95 to 168, which have been prepared on the going concern basis, were approved by the board members on 31 May 2022 and were signed on its behalf by:

**Dr Nondumiso Mapazi**
**Chairperson of the Board**



## Eastern Cape Rural Development Agency
### Consolidated statement of financial position as at 31 March 2022

| | Notes | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 6 | **61 782 898** | 102 734 411 | **64 790 814** | 105 479 297 |
| Trade and other receivables: Exchange | 8 | **1 835 818** | 2 516 921 | **38 616 851** | 40 654 492 |
| Inventories | 9 | **78 970** | 143 571 | **10 759 342** | 12 976 945 |
| Loans and advances to customers | 7 | **1 945 938** | 5 434 211 | **1 945 938** | 5 434 211 |
| | | **65 643 624** | 110 829 114 | **116 112 945** | 164 544 945 |
| **Non-current assets** | | | | | |
| Loans and advances to customers | 7 | **4 249 958** | 5 165 348 | **4 249 958** | 5 165 348 |
| Deferred tax | 23 | **-** | - | **113 673 843** | 104 826 074 |
| Bearer biological assets | 9 | **-** | - | **3 083 948** | 3 083 948 |
| Investment under contingency policy | 12 | **11 982 478** | 11 559 688 | **11 982 478** | 11 559 688 |
| Investment property | 13.1 | **1 572 631** | 1 610 848 | **1 572 631** | 1 610 848 |
| Property, plant and equipment | 13.2 | **11 879 644** | 15 676 276 | **20 391 214** | 25 723 018 |
| Intangible assets | 13.3 | **402 599** | 421 437 | **402 599** | 421 437 |
| | | **30 087 310** | 34 433 598 | **155 356 670** | 152 390 361 |
| **Total assets** | | **95 730 934** | 145 262 710 | **271 469 616** | 316 935 306 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Finance lease obligations | 19 | **1 649 134** | 1 883 320 | **1 649 134** | 1 883 320 |
| Deferred grant income arising from non-exchange transactions | 15 | **24 832 061** | 22 900 016 | **24 832 061** | 22 900 016 |
| Trade and other payables | 14 | **29 035 847** | 69 781 819 | **30 757 526** | 72 626 095 |
| Loan from South African Fruit Exporters | 17 | **-** | - | **21 980 575** | 21 980 575 |
| Liabilities arising from non-exchange transactions | 18 | **342 862** | 416 564 | **342 862** | 416 564 |
| | | **55 859 904** | 94 981 719 | **79 562 158** | 119 806 570 |
| **Non-current liabilities** | | | | | |
| Finance lease obligations | 19 | **1 191 529** | 2 773 977 | **1 191 529** | 2 773 978 |
| Deferred tax | 23 | **-** | - | **832 667** | 863 506 |
| | | **1 191 529** | 2 773 977 | **2 024 196** | 3 637 484 |
| **Total liabilities** | | **57 051 433** | 97 755 695 | **81 586 354** | 123 444 054 |
| **Total assets less total liabilities** | | **38 679 501** | 47 507 015 | **189 883 262** | 193 491 251 |
| **NET ASSETS** | | | | | |
| Capital contributed | 20 | **41 989 046** | 41 989 046 | **41 989 046** | 41 989 046 |
| Accumulated surplus | | **(3 123 259)** | 5 517 969 | **147 894 215** | 151 315 918 |
| Attributable to the minority shareholders | | **-** | - | **(248 767)** | (383 664) |
| Attributable to net asset holder of the agency | | **38 865 787** | 47 507 016 | **190 132 029** | 193 688 629 |
| **Total net assets** | | **38 865 787** | 47 507 016 | **189 883 261** | 193 304 964 |

| **Total of Kangela Citrus (Pty) Ltd - 2022 ('R)** | | **Attributable to the ECRDA (51%)** | **Attributable to the minority share (49%)** | **Total of the ECRDA group (exc Minority)** | **Total of the ECRDA group (inc Minority)** |
|---|---|---|---|---|---|
| Total assets | 33 248 795 | 16 956 885 | 16 291 910 | 255 177 706 | 271 469 616 |
| Total liabilities | (32 741 107) | (16 697 965) | (16 043 142) | (65 543 211) | (81 586 354) |
| Total net assets | (507 688) | (258 921) | (248 767) | (189 634 494) | (189 883 261) |

# Eastern Cape Rural Development Agency

## Consolidated statement of financial performance for the period ended 31 March 2022

| | Notes | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|---|
| | | R | R | R | R |
| **INCOME** | | **191 107 176** | 252 885 681 | **254 350 269** | 308 509 884 |
| **Revenue from non-exchange transactions** | | **180 654 897** | 207 213 240 | **225 673 369** | 255 128 451 |
| Government grant from the Eastern Cape Department of Rural Development and Agrarian Reform - operational | | **180 046 000** | 206 742 822 | **221 899 000** | 254 005 822 |
| National Skills Fund | | **218 253** | 69 020 | **218 253** | 69 020 |
| Other income | 22.1 | **390 644** | 401 398 | **3 556 116** | 1 053 609 |
| **Revenue from exchange transactions** | | **10 452 279** | 45 672 440 | **28 676 900** | 53 381 433 |
| Interest income on cash and investments | | **1 666 391** | 1 757 890 | **1 701 739** | 1 461 258 |
| Interest income on loans and advances | | **2 130 084** | 4 827 247 | **1 610 360** | 2 357 437 |
| Interest income on concessionary loans | | **426 464** | 1 135 018 | **718 691** | 1 135 018 |
| Commission fees for managing projects | | **2 436 363** | 2 514 828 | **2 436 363** | 3 818 834 |
| Fair value adjustments | | **1 929 122** | 1 197 103 | **1 929 122** | 1 197 101 |
| Impairment reversed | | **-** | 32 108 392 | **-** | 33 087 909 |
| Loan initiation fees | | **40 910** | 39 100 | **40 910** | 39 100 |
| Rental income from investment property | | **1 822 946** | 1 635 617 | **1 822 946** | 1 635 617 |
| Other income | 22.1 | **-** | 457 246 | **-** | 457 246 |
| Sale of goods - produce | | **-** | - | **18 416 769** | 8 191 913 |
| **EXPENSES** | | **199 634 679** | 260 010 026 | **266 817 867** | 313 394 981 |
| Administrative expenses | 22.2 | **9 455 365** | 8 941 747 | **10 547 620** | 9 412 694 |
| Audit fees | | **4 553 418** | 3 450 058 | **4 769 074** | 3 601 914 |
| Cost of sales | | **-** | - | **23 907 075** | 13 406 462 |
| Depreciation and amortisation | | **4 628 925** | 3 682 928 | **7 097 649** | 5 107 324 |
| Fee - MAFISA Scheme | | **428 027** | 406 383 | **428 027** | 406 383 |
| Finance costs | | **19 995** | 23 272 | **19 995** | 23 272 |
| Marketing and social facilitation | | **594 268** | 569 975 | **749 088** | 781 271 |
| Other operating expenses | 22.3 | **23 860 995** | 45 014 872 | **41 261 084** | 75 900 909 |
| Project expenses | | **29 366 244** | 33 692 821 | **29 366 244** | 33 692 821 |
| Skills levy | | **971 308** | 592 266 | **1 488 919** | 905 788 |
| Staff costs | 22.4 | **106 639 705** | 109 088 275 | **127 959 782** | 115 240 547 |
| Transfer and other payments | | **18 925 104** | 10 639 824 | **18 925 104** | 10 639 824 |
| - Payments to distressed entitites | | 3 835 104 | - | 3 835 104 | - |
| - EPWP/DRDAR project funding | | 15 090 000 | 10 639 824 | 15 090 000 | 10 639 824 |
| Social benefit from concessionary loans | | **191 325** | 565 598 | **191 325** | 565 598 |
| Write off of irrecoverable debts | 7&8 | **-** | 43 342 007 | **106 881** | 43 710 175 |
| NET SURPLUS/(DEFICIT) | | **(8 527 502)** | (7 124 346) | **(12 467 598)** | (4 885 097) |
| Sale and scrapping of property, plant and equipment | | **(113 725)** | (522 772) | **(113 725)** | (530 272) |
| SURPLUS/(DEFICIT) BEFORE TAXATION | | **(8 641 227)** | (7 647 118) | **(12 581 322)** | (5 415 369) |
| Taxation | | **-** | - | **8 878 608** | 12 523 343 |
| **SURPLUS/(DEFICIT) FOR THE YEAR** | | **(8 641 227)** | (7 647 118) | **(3 702 714)** | 7 107 974 |
| Profit/(Loss) of subsidiary attributable to: | | | | | |
| ECRDA (51%) | | **(8 641 227)** | (7 647 118) | **(140 402)** | (48 078) |
| Minority Share (49%) | | **-** | - | **(134 897)** | (46 193) |



# Eastern Cape Rural Development Agency

## Consolidated statement of changes in net assets for the year ended 31 March 2022

| | Agency | | |
|---|---|---|---|
| | Attributable to net asset holder of the agency | | |
| | Capital contributed | Accumulated surplus | Total |
| | R | R | R |
| **Balance as at 31 March 2020** | 41 989 046 | 19 829 376 | 61 818 422 |
| Surplus/(deficit) for the year | - | (7 647 118) | (7 647 118) |
| **Accrual correction** | - | (178 007) | (178 007) |
| **Interest (in-duplum) correction** | - | (6 486 282) | (6 486 282) |
| **Balance as at 31 March 2021** | 41 989 046 | 5 517 969 | 47 507 015 |
| Surplus/(deficit) for the year | - | (8 641 227) | (8 641 227) |
| **Balance as at 31 March 2022** | **41 989 046** | **(3 123 259)** | **38 865 787** |

| | Group | | |
|---|---|---|---|
| | Attributable to net asset holder of the agency | | |
| | Capital contributed | Accumulated surplus | Total |
| | R | R | R |
| **Balance as at 31 March 2020** | 41 989 046 | 30 692 319 | 72 681 365 |
| Effect of transfer of functions: Magwa Enterprise Tea (Pty) Ltd (note 28) | - | 143 878 431 | 143 878 431 |
| Elimination of intergroup grant transaction included in the takeover | - | (23 631 500) | (23 631 500) |
| Inter-group elimination on consolidation | - | (67 018) | (67 018) |
| Accrual correction | - | (178 007) | (178 007) |
| Interest (in-duplum) correction | - | (6 486 282) | (6 486 282) |
| Surplus/(deficit) for the year | - | 7 107 974 | 7 107 974 |
| **Balance as at 31 March 2021** | 41 989 046 | 151 315 918 | 193 304 964 |
| Adjustment to Kangela loan interest | - | 281 011 | 281 011 |
| Surplus/(deficit) for the year | - | (3 702 714) | (3 702 714) |
| **Balance as at 31 March 2022** | **41 989 046** | **147 894 215** | **189 883 261** |

Refer to note 28 on the Magwa Enterprise Tea transfer of functions under common control.

| Accumulated surplus of subsidiary (Kangela Citrus Farms (Pty) Ltd attributable to: | **2022** | **2021** |
|---|---|---|
| ECRDA (51%) | (258 921) | (399 323) |
| Minority Share (49%) | (248 767) | (383 664) |
| | **(507 688)** | **(782 987)** |

The Eastern Cape Rural Development Agency (ECRDA) publicly disclosed budget is prepared on the cash basis whilst the financial statements is prepared on the accrual basis. The budget is classified per strategic goal regardless of the underlying operating expenditure items, whereas the ECRDA consolidated annual financial statements is based per income and expenditure line items. Both the financial statements and the budget covers the period 1 April 2021 to 31 March 2022. The comparison of budget and actual amounts are based on the MTEF Budget narrative as presented to the Department of Rural Development and Agrarian Reform (DRDAR) and the Eastern Cape Provincial Treasury (budgets that are publicly available).

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### Statement of comparison of budget and actual amounts for the year ended 31 March 2022

| | Actual (amended) 2020/21 | Actual 2021/22 | Budget 2021/22 | Over / (Under) Budget |
|---|---|---|---|---|
| **Revenue** | **259 508 084** | **225 774 545** | **252 364 056** | **(26 589 511)** |
| Interest, dividends and rentals (a) | 3 393 507 | 3 489 337 | 3 514 649 | (25 312) |
| Other non-tax revenue (b) | 288 755 | 386 208 | 16 241 407 | (15 855 199) |
| Government Grants ('c) | 207 652 822 | 180 046 000 | 188 546 000 | (8 500 000) |
| Government Transfers & Payments received (d) | 48 173 000 | 41 853 000 | 44 062 000 | (2 209 000) |

| | Actual (amended) 2020/21 | Actual 2021/22 | Budget 2021/22 | Over / (Under) Budget |
|---|---|---|---|---|
| **Expenses** | **219 454 208** | **239 580 748** | **245 581 056** | **(6 000 308)** |
| Compensation of employees (e) | 109 088 275 | 106 639 705 | 111 713 000 | (5 073 295) |
| Goods and services (f) | 58 531 359 | 87 378 393 | 86 017 900 | 1 360 493 |
| Interest, dividends and rentals (g) | 4 571 574 | 3 709 650 | 3 788 156 | (78 507) |
| Transfer Payments Made (h) | 47 263 000 | 41 853 000 | 44 062 000 | (2 209 000) |
| **Surplus / (Deficit) Excluding Items of Capital Nature & Results from Lending Activities** | 40 053 876 | 13 806 203 | 6 783 000 | (20 589 203) |

| **Budgeted Items of a Statement of Financial Position Nature** | Actual (amended) 2020/21 | Actual 2021/22 | Budget 2021/22 | Over / (Under) Budget |
|---|---|---|---|---|
| **Items of Capital Nature** | **12 794 260** | **4 715 485** | **6 783 000** | **(2 067 515)** |
| Capital Expenditure, including intangibles (i) | 10 006 976 | 1 920 264 | 2 444 000 | (523 736) |
| Loans Disbursed (j) | 2 787 284 | 2 795 221 | 4 339 000 | (1 543 779) |

**Reason(s) for material variances**

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

(a) Interest earned on cash holdings were below the income estimates due to less than budgeted income generation which impacts negatively on expected cash holdings on which interest is earned

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

(c) Government transfers and payments were in line with voted funds and thus no deviation occurred

(d) Transfers received for Magwa Tea Estates were in line with voted funds for the financial year, whilst an additional transfer of R2,2m to the Chris Hani Development Agency was funded by DRDAR

(e) Compensation of employees (COE) was below the original budget for the year. The agency embarked on organisational reconfiguration during the financial year under review, however this process was not completed and vacancies contributed to under-expenditure.

(f) The expenditure on goods and services included payments to distressed entities for specific expenditure items and the EPWP project of DRDAR.

(g) The expenditure on rentals was below the original budget and where the agency did not renew regional rental contracts, a work from home based approach was implemented.

(h) Transfers payments consists of transfers paid to Magwa Tea Estates (R42m) and Chris Hani Development Agency (R2m) in line with the allocated budget. The ECRDA allocates expenditure on the DRDAR EPWP project, Stimulus Fund, payments to distressed entities and programme implementation as goods and services and not as transfer payments as per the National Treasury Circular 21 of 2018.

(i) ECRDA capital expenditure focused primarily on ICT needs and no replacement of own fleet was required during the financial year.

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



## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### Statement of comparison of budget and actual amounts (continued) for the year ended 31 March 2022

**Reconciliation between the detailed income statement and the budget versus actual comparison:**

| | Actual 2021/22 | Actual 2020/21 (amended) |
|---|---|---|
| **Total Income as per Income Statement** | 191 107 176 | 211 336 080 |
| Results from Lending activities | (2 820 145) | 35 366 569 |
| Grant received for Magwa Tea | 41 853 000 | 47 263 000 |
| Fair value adjustments and Reversal of impairments and provisions | (1 929 122) | (33 305 492) |
| Dividends: New Republic Bank | - | (457 246) |
| Commission fees for managing projects (accrued) | (2 436 363) | (2 514 828) |
| Gain on disposal of assets | - | - |
| **Total Income for comparison of budget and actual income** | **225 774 545** | **257 688 084** |
| | | |
| **Total Expenses as per Income Statement** | 199 748 403 | 218 983 200 |
| Invoices received and paid in subsequent financial year [accrued] | 546 875 | (402 418) |
| Add: | | |
| Depreciation | (4 628 925) | (3 682 928) |
| Bad debts - rental and other income | - | (1 792 410) |
| Bad debts - Loans | | - |
| Surrender of Funds to Provincial Treasury | - | (28 633 776) |
| Fee - MAFISA Scheme | (428 027) | (406 383) |
| Impairment loss | (5 263 433) | - |
| Fair value adjustments and impairments | (420 490) | - |
| Scrapping of obsolete property, plant and equipment | (113 725) | (522 772) |
| Minor assets expensed | (21 604) | (145 888) |
| Transfer payments | 50 353 000 | 34 803 180 |
| Social benefit from concessionary loans | (191 325) | (565 598) |
| **Total Expenses for comparison of budget and actual income** | **239 580 748** | **217 634 208** |
| **Net result** | **(13 806 203)** | **40 053 876** |

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### Consolidated cash flow statement for the year ended 31 March 2022

| | | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|---|
| | | **R** | R | **R** | R |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts | | **241 543 863** | 303 860 194 | **265 850 763** | 312 407 797 |
| Grants received | | **232 608 000** | 244 276 000 | **232 608 000** | 244 276 000 |
| Interest received on cash and cash equivalents and loans and advances | | **1 752 862** | 7 273 198 | **1 752 862** | 5 997 049 |
| Non-exchange transfers arising from administered funds | | **388 285** | 10 639 822 | **388 285** | 10 639 822 |
| Tax(es) refund | | **-** | - | **-** | 111 |
| Net movement in loans and advances to customers before credit impairments | | **328 759** | 35 746 306 | **328 759** | 36 725 823 |
| Other receipts from commission and fees | | **6 465 957** | 5 924 868 | **30 772 857** | 14 768 992 |
| Less: Payments | | **279 231 982** | 258 267 653 | **302 454 231** | 275 276 239 |
| Employee costs | | **105 359 185** | 97 080 927 | **126 679 262** | 103 233 199 |
| Disbursements of non-exchange transactions from administered funds | | **58 578 208** | 55 184 974 | **58 578 208** | 55 184 974 |
| Payments to suppliers | | **115 294 589** | 106 001 752 | **117 196 761** | 116 858 066 |
| Cash (outflows) / inflows from operating activities | A | **(37 688 119)** | 45 592 541 | **(36 603 468)** | 37 131 558 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Acquisition and transfer of property, plant and equipment | | **(788 084)** | (8 910 656) | **(1 721 637)** | (10 702 169) |
| Proceeds on disposal of property, plant and equipment and intangible assets | | **32 672** | 546 778 | **32 672** | 546 778 |
| Acquisition of intangible assets | | **(156 625)** | - | **(156 625)** | - |
| Cash invested under contingency policy and related admin | | **(422 790)** | (462 749) | **(422 790)** | (462 749) |
| Cash (outflows) / inflows from investing activities | | **(1 334 827)** | (8 826 627) | **(2 268 382)** | (10 618 140) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Decrease in finance lease obligations | | **(1 816 633)** | 3 957 618 | **(1 816 633)** | 3 957 618 |
| Cash (outflows) / inflows from financing activities | | **(1 816 633)** | 3 957 618 | **(1 816 633)** | 3 957 618 |
| **Net increase / (decrease) in cash and cash equivalents** | | **(40 839 579)** | 40 723 532 | **(40 688 483)** | 30 471 036 |
| **Cash and cash equivalents at the beginning of the year** | 6 | **102 734 411** | 62 010 879 | **105 479 297** | 64 609 268 |
| **Cash and cash equivalents transferred through entities under common control** | | **-** | - | **-** | 10 398 993 |
| **Cash and cash equivalents at the end of the year** | 6 | **61 894 832** | 102 734 411 | **64 790 814** | 105 479 297 |

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



## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### Notes to the consolidated cash flow statement for the year ended 31 March 2022

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| **A. Reconciliation of net cash flows from operating activities to surplus before taxation** | **R** | R | **R** | R |
| Surplus (Deficit) before taxation | **(8 641 227)** | (7 647 120) | **(12 581 322)** | (5 415 370) |
| *Non cash flow items in surplus / (deficit) before taxation* | | | | |
| Depreciation of investment property and property, plant and equipment | **4 628 925** | 3 682 928 | **7 097 649** | 5 107 324 |
| Administration fee: Guardrisk (non-cash) | **45 000** | 45 000 | **45 000** | 45 000 |
| Scrapping of property, plant and equipment | **(266 341)** | (24 008) | **(266 341)** | (16 501) |
| Fair value adjustments and impairments | **(1 311 638)** | 106 908 | **7 146 041** | 24 362 956 |
| Discount allowed | **-** | - | **24 516** | - |
| Increase/(decrease) in credit impairments | **5 263 433** | (32 108 392) | **5 263 433** | (33 087 909) |
| SARS payment | **-** | - | **(1 350 071)** | - |
| VAT adjustment | **-** | - | **378 020** | - |
| Irrecoverable debts written off | **-** | 43 342 007 | **106 881** | 43 710 175 |
| Social benefit from concessionary loans (Subsidy cost fair value adjustment) | **191 325** | 565 598 | **191 325** | 565 598 |
| Unwinding of subsidy cost / Concessionary loans interest | **(426 464)** | (1 135 018) | **(718 691)** | (1 135 018) |
| Interest received on loan book and staff debtors | **(2 130 084)** | (4 827 247) | **(1 610 360)** | (2 357 437) |
| Net of interest capitalised and expenses / fees on investment under contingency policy (non-cash) | **(422 790)** | (462 749) | **(422 790)** | (462 749) |
| Penalties and fines | **609** | 18 061 | **233 081** | 42 523 |
| Interest expense | **12 776** | 23 272 | **12 775** | 23 272 |
| **Adjusted operating cash flow** | **(3 056 475)** | 1 579 241 | **3 549 147** | 31 381 864 |
| **Working capital changes** | | | | |
| Increase / (decrease) in deferred grant income | **1 932 045** | 1 986 368 | **1 932 045** | 1 986 368 |
| Change in deferred taxes | **-** | - | **(7 907 911)** | - |
| Increase / (Decrease) in payables | **(40 716 768)** | 36 837 975 | **(41 839 365)** | 39 128 739 |
| Decrease in Property, Plant and Equipment: | **-** | (3 170 465) | **-** | (3 170 465) |
| Changes in assets due to transfer of entities under common control | **-** | - | **-** | (20 382 064) |
| Increase / (Decrease) in administered fund liabilities from non-exchange transfers | **(73 702)** | 4 855 422 | **(73 702)** | 4 855 422 |
| (Increase) / Decrease in trade and other receivables | **681 103** | 299 871 | **2 037 641** | (7 039 059) |
| Increase / (Decrease) in loans with credit balances | **(29 205)** | 892 | **(29 205)** | 892 |
| (Increase) / Decrease in inventories | **64 601** | (46 179) | **2 217 603** | (12 879 554) |
| **Working capital changes** | **(38 141 926)** | 40 763 884 | **(43 662 895)** | 2 500 279 |
| **Operating cash flow adjusted for working capital changes** | **(41 198 401)** | 42 343 125 | **(40 113 749)** | 33 882 142 |
| Lending cash flow movements | | | | |
| **New loans granted during the year** | **(2 795 221)** | (2 787 284) | **(2 795 221)** | **(2 787 284)** |
| **Loans repaid by customers** | **6 305 503** | 6 036 701 | **6 305 503** | **6 036 701** |
| **Net lending movements** | **3 510 282** | 3 249 417 | **3 510 282** | **3 249 417** |
| **Cash (outflows) / inflows from operating activities** | **(37 688 119)** | 45 592 541 | **(36 603 468)** | 37 131 558 |
| | **(37 688 119)** | 45 592 541 | **(36 603 468)** | 37 131 558 |
| **B. Non-cash transactions** | **(0)** | 0 | | |

There have not been any acquisition of property, plant and equipment through finance lease arrangements in 2022

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Notes to the consolidated financial statements for the year ended 31 March 2022

### NATURE OF BUSINESS AND OPERATIONS

The Eastern Cape Rural Development Agency and its subsidiaries forms the reporting group. The agency was established by the Eastern Cape Rural Finance Corporation Amendment Act, Act 1 of 2012. The agency's objective is to promote, support and facilitate rural development in the Eastern Cape. This is achieved through the formulation, promotion and implementation of a rural development strategy and supporting programmes.

The agency's administrative office is in East London and it operates from branches in the Eastern Cape Province, Republic of South Africa. The sole equity holder of the agency is the Eastern Cape Provincial Government (through the Eastern Cape Department of Rural Development and Agrarian Transformation). The agency is a Schedule 3C Provincial Public Entity and is required to comply with the Public Finance Management Act, Act No.1 of 1999 (as amended by Act 29 of 1999).

### 1. PRESENTATION OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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

### 2. ACCOUNTING POLICIES

#### 2.1 Basis of preparation

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

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

Assets, liabilities, revenues and expenses have not been offset except where offsetting is required or permitted by a Standard of Generally Recognised Accounting Practice.

The accounting policies are consistent with the previous period, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

#### 2.2 Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the agency and its subsidiaries. Control is achieved where the agency has the power to govern the financial and operating policies of an entity in order to obtain economic benefits from its activities. The operating results of the subsidiaries are included from the effective dates that control is acquired and up to the effective dates of disposal or when control ceases. Business combinations are accounted for in accordance with the purchase method. All intra-group transactions, balances, income and expenses are eliminated on consolidation. On acquisition, the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held for sale, which is recognised at fair value less costs to sell. Premiums or discounts arising on the acquisition of subsidiaries are treated in terms of the group's accounting policy for goodwill. Where necessary, adjustments are made to the annual financial statements of a subsidiary to align its accounting policy with those of the controlling entity.

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

The consolidated annual financial statements of the agency and the subsidiaries used in the preparation of the consolidated annual financial statements are prepared at the same reporting date. Where the reporting dates of the agency and a subsidiary are different, the subsidiary prepares for consolidation purposes, additional financial information to align to the reporting date of the agency. This adjustment requires that the subsidiary adjusts the financial information to account for transactions or events that occur between that date and the date of the agency's consolidated annual financial statements. The difference between the reporting date of the agency and the subsidiaries shall be no more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period. Adjustments are made when necessary to the financial statements of the subsidiaries to bring their accounting policies in line with the GRAP reporting applied by the agency. All intra group transactions, balances, revenues and expenses are eliminated in full on consolidation.

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Notes to the consolidated cash flow statement for the year ended 31 March 2022

#### 2.3 Investment in subsidiaries

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

#### 2.4 Goodwill

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

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

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

#### 2.5 Taxation

The Income Tax expense represents the sum of the current and deferred tax. The tax charge is based on taxable income for the year. Taxable income differs from the surplus reported in the consolidated statement of financial performance as it excludes items of income or expense that are taxable or deductible in other reporting periods and items that are never subject to tax.

Deferred tax is expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated annual financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised when the temporary differences arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the surplus for the year.

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

#### 2.6 Revenue

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

#### 2.6.1 Revenue from exchange transactions

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

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

**Sale of goods**

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

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

***Rendering of services***

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

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

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

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

**2.6.3 Loan initiation fees**
These fees are charged upfront, and where significant are capitalised into the loan, and are primarily based on the cost of granting the loan to the customer. These origination fees are considered an integral part of the loan agreement and recognised as revenue at loan origination.

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

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

**2.6.6 Fees from administered funds**
The group is entitled to fees for administering certain of the funds under administration. Such fees are recognised in terms of the underlying contracts specifying the agent/implementation fee structures.

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

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

There is no cover to the extent that the loan is in arrears. In order to build up a reserve to fund future commitments, the group entered into a contingency policy through Guard Risk Insurance Company Limited (a member of the Alexander Forbes Group). This policy is treated as an investment. The risksunder 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.



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

**2.8 Property, plant and equipment**
***Initial Recognition***
Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset when:
• It is probable that future economic benefits or service potential associated with the item will flow to the agency; and
• The cost of the item can be measured reliably.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the agency. Trade discounts and rebates are deducted in arriving at the cost.
If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located are also included in the cost of property, plant and equipment, where the agency is obliged to incur such expenses and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

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

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

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

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

The annual depreciation rates for each category of property, plant and equipment are based on the following estimated average asset lives:
Item / Useful life
Buildings / 30 - 50 Years
Computer equipment / 5 - 9 Years
Office furniture and fittings / 10 - 12 Years
Leasehold improvements / 2 - 5 Years (period of the lease)
Vehicles / 4 - 5 Years
Plant and equipment / 5 - 10 Years
Equipment under finance lease / Period of the lease term

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the statement of financial performance. Reviewing the useful life of an asset on an annual basis requires the agency to amend the previous estimate applied.

**2.8 Property, plant and equipment(continued)**

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.



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

**2.8 Property, plant and equipment(continued)**

***Derecognition***

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

**2.9 Property, plant and equipment – Fruit Trees and Tea Bushes**

***Initial recognition***

The agency recognise an asset (tree) only when:

• The agency controls the asset as a result of past events;

• It is probable that future economic benefits or service potential associated with the asset will flow to the agency; and

• The fair value or cost of the asset can be measured reliably.

***Subsequent measurement***

Assets are measured at their fair value less estimated point-of-sale costs. A gain or loss arising on initial recognition of the asset at fair value less estimated point-of-sale costs is included in profit or loss for the period in which it arises. Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate is used to determine fair value. Where fair value cannot be measured reliably - like with the Tea Bushes at Magwa Enterprise Tea, assets are measured at cost. The tea bushes are not depreciated.

An asset is derecognised when the asset is disposed of or when there is no further economic benefits or service potential expected from the use thereof. The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying value and is included in surplus or deficit when the item is derecognised.

**2.10 Intangible assets**

***Initial recognition***

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

• Is capable of being separated or divided from an agency and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability; or

• Arises from contractual rights to other legal rights, regardless whether those rights are transferable or separate from the agency or from other rights and obligations.

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

• It is technically feasible to complete the asset so that it will be available for use or sale;

• There is an intention to complete and use or sell it;

• There is an ability to use or sell it;

• It will generate probable future economic benefits or service potential;

• There are available technical, financial and other resources to complete the development and to use/sell the asset; and

• The expenditure attributable to the asset during its development can be measured reliably.

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

***Subsequent measurement***

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

***Amortisation and impairment***

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

Item / Useful life

Computer software / 3 years or purchased licencing term

### 2.10 Intangible assets (continued)

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.



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

The group receives the following types of non-exchange transactions:

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

***Transfer of assets from non-exchange transactions***

An inflow of resources from non-exchange transactions, other than services in kind, that meet all the definitions of an asset (other than business combinations) is recognised as an asset when it is probable that it will result in an inflow of economic benefits and the fair value of the asset can be measured reliably. An inflow of resources from a non-exchange transaction (recognised as an asset) is recognised as revenue, except to the extent that a liability is recognised for the same inflow. As the group satisfies a present obligation recognised as a liability in respect of an inflow of resources from non-exchange transactions recognised as an asset, it will simultaneously reduce the carrying amount of the liability recognised and recognise an amount equal to that reduction. On initial recognition, the non-exchange receipt is recognised at its fair value, which is taken as the monetary amount, unless the grant on initial recognition has extended payment terms, in which case the monetary amounts is discounted. Delay in receipt of the non-exchange transfer does not result in it being discounted, but does result in the grant being checked for impairment.

### 2.14 Leases

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

***Finance leases: Lessee***

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

***Operating leases***

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

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

### 2.15 Financial Instruments

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

***Initial recognition and measurement of financial assets and financial liabilities***

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

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

**Subsequent measurement of financial assets and financial liabilities**

On subsequent measurement the agency measures all financial instruments as either –

(a) Financial instruments at fair value; or
(b) Financial instruments at amortised cost; or *
(c) Financial instruments at cost. *

* Financial assets that are measured at amortised cost or cost are subject to annual impairment reviews.

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

***Financial assets***

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

Financial assets are initially recognised by applying trade date accounting.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, in bank, on deposit and other short term highly liquid investments that are readily convertible to known amounts of cash and are held for the

purpose of meeting short term cash commitments rather than for investment purposes. Cash and cash equivalents are initially and subsequently recorded at cost.

*Receivables from exchange transactions*

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

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

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

*Loans to subsidiaries*

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

*Loans to customers*

Advances are classified as loans and receivables and are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in the statement of financial performance.

Origination fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to the statement of financial performance over the contractual life of the loan using the effective interest rate method. Given the developmental mandate of the agency, the differences between the fair value and the transaction amount represents a subsidy granted on a concessionary loan in the execution of public policy and is recognised as an expense on initial recognition.

The prime overdraft rate is used as the fair market rate when determining concessionary loans. Advances, which are deemed uncollectible, are written off either fully or partially against the impairment allowance for non-performing loans. Cash collected on loans, which have previously been written off is recognised in the statement of financial performance as bad debts recovered as and when the cash is received. Loans and advances are disclosed net of deferred administration fees (consisting of origination fees), impairment provisions and fair value adjustments arising from concessionary loans. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset or liability or, where appropriate a shorter period.

The investment under contingency policy is initially and subsequently recorded at fair value. Other investments, which are classified as available for sale, are initially and subsequently recorded at fair value.

***Financial Liabilities***

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

*Payables from exchange transactions*

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

***Loans from subsidiaries***

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

***Net Assets***

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



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

***Fair value***

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of the fair value of a

financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received. Transaction costs that are directly attributable are included in the initial fair value of financial assets and financial liabilities.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants. Where the fair value is not stated in the notes to these consolidated annual financial statements, the carrying amount is approximately equal to the fair value.

***De-recognition of financial instruments***

The group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial asset) when:

• The contractual rights to the cash flows arising from the financial asset have expired, are settled or waived; or
• The group transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
• Transfers the contractual rights to receive the cash flows from the financial asset;
• It retains the contractual rights to receive the cash flows of the financial asset, but assumes a corresponding contractual obligation to pay the cash flows to one or more recipients, and consequently transfers substantially all the risks and benefits associated with the asset; or
• No future economic benefits are expected.

A financial liability (or group of financial liabilities) or a part of a financial liability (or part of a group of financial liabilities) is derecognised when, and only when, the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss for the period.

***Offsetting***

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

### 2.16 Impairment of Assets

Cash-generating assets are those assets used by the agency with the primary objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return. The Acczone loan system and the investment property of the ECRDA are cash-generating assets.

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or amortisation. An impairment loss of a non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

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

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

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

### 2.17 Retirement Benefits
A defined contribution plan is a post-employment benefit plan under which an agency pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement plans arerecognised as an employee benefit expense in the statement of financial performance when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The agency's employees select to which funds they wish to belong.

### 2.18 Administered Funds
Amounts received under service level agreements (i.e. from government departments or agencies) are recognised as a liability to the extent that the funds have not been disbursed.

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

### 2.20 Related Parties
The group operates in an economic environment, together with other entities directly or indirectly owned by the South African Government. As a result of the constitutional independence of all three spheres of government in South Africa, mainly parties within the Eastern Cape provincial sphere of Government will be considered to be related parties.

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 (a) geographical offices (detailed in the segement report), where loans are initiated to customers, the (b) projects unit (project implementation) and the (c) subsidiaries (separate economic entities in the group as the reportable segments to the consolidated financial statements. These segments generates economic benefits for the ECRDA group and such results are monitored and reviewed by management. The segments per (a) geographical area allows the users to comprehend the loans disbursed and the clients serviced at the branches.

**2.30 Segment reporting (continued)**
The (b) projects department and the activities of the (c) 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 (a) geographical spread of the offices of the ECRDA forms the basis of segment reporting on the loans division of the agency. The (b) projects implementation unit of the agency was identified as the other reportable segment due to the economic benefits the department derives for the agency . The (c) subsidiaries of the ECRDA are reported separately due to their mandated functions. Segments have not been aggregated in the financial statements.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

**Critical accounting judgements**

_Going concern basis of preparation_
As is evident from these consolidated annual financial statements, the group and the agency receive an annual Government grant from the Eastern Cape Department Rural Development and Agrarian Reform. The group and the agency budget on the basis of such grant. The group and the agency are not able to generate cash flows from its core business of development finance sufficient to cover its annual total cash requirements. As such the group and the agency are dependent for its continued operation in the foreseeable future on continued Government financial support. The group is unable to fund the operations of the subsidiary companies that have been transferred and that will be transferred to it, acquisition through business combination without Government support. The Board of Directors have determined that such support is reasonably expected to continue and therefore have prepared these consolidated annual financial statements on the going concern basis. The financial statements of the Kangela Citrus Farms (Pty) Ltd have however not been prepared on the going concern basis as operations ceased on 3 October 2018."

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

**Key sources of estimation uncertainty**

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

_Provision for insurance contracts_
Management base the measurement of the provision for insurance contracts (when required) on mortality rates, persistency assumptions and claims experience from prior years to determine the expected cash outflow for insurance contracts. Actual outcomes could differ from these estimates.

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

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



## 4. CHANGES IN PRESENTATION

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

## 5. GRAP STANDARDS

Accounting Standards which have been approved and are effective:
GRAP 1: Presentation of financial statements
GRAP 2: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors
GRAP 4: The effects of changes in foreign exchange rates
GRAP 5: Borrowing costs
GRAP 9: Revenue from exchange transactions
GRAP 10: Financial reporting in hyperinflationary economies
GRAP 11: Construction contracts
GRAP 12: Inventories
GRAP 13: Leases
GRAP 14: Events after the reporting date
GRAP 16: Investment property
GRAP 17: Property, plant and equipment
GRAP 18: Segment reporting
GRAP 19: Provisions, contingent liabilities and contingent assets
GRAP 20: Related party disclosures
GRAP 21: Impairment of non-cash generating assets
GRAP 23: Revenue from non-exchange transactions
GRAP 24: Presentation of budget information in financial statements
GRAP 25: Employee benefits
GRAP 26: Impairment of cash-generating assets
GRAP 27: Agriculture
GRAP 31: Intangible assets
GRAP 32: Service concession arrangements: Grantor
GRAP 34: Separate financial statements
GRAP 35: Consolidated financial statements
GRAP 36: Investments in associates and joint ventures
GRAP 37: Joint arrangements
GRAP 38: Disclosure of interests in other entities
GRAP 100: Discontinued operations
GRAP 103: Heritage assets
GRAP 104: Financial instruments
GRAP 105: Transfer of functions between entities under common control
GRAP 106: Transfer of functions between entities not under common control
GRAP 107: Mergers
GRAP 108: Statutory receivables
GRAP 109: Accounting by principles and agents
GRAP 110: Living and non-living resources

IAS 12 Income Tax

Directives issued and effective:
Directive 1: Repeal of existing transitional provisions
Directive 2-4: Transitional Provisions for the adoption of Standards of GRAP
Directive 5: GRAP reporting framework
Directive 7: The application of deemed cost
Directive 12: The selection of an appropriate reporting framework by Public Entities
Directive 14: Application of standards of GRAP by Public Entities

## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### Notes to the consolidated annual financial statements for the year ended 31 March 2022

| 6. CASH AND CASH EQUIVALENTS | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| Cash on call and deposits at commercial banks | **41 986 449** | 49 771 520 | **41 986 449** | 49 771 520 |
| Cash on current accounts at commercial banks | **19 794 548** | 52 959 282 | **22 784 950** | 55 573 918 |
| Cash on hand | **1 901** | 3 609 | **19 415** | 133 859 |
| | **61 782 898** | 102 734 411 | **64 790 814** | 105 479 297 |

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 2022 were 2,55% (2021: 2,5%) for funds on call and 2,25% (2021: 1,9%) for funds on deposit. Kangela Citrus Farms (Pty) Ltd has limited cash resources.

| | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| **Composition of cash and cash equivalents:** | | | | |
| Liabilities arising from non-exchange transactions (note 18) | **342 862** | 416 564 | **342 862** | 416 564 |
| Deferred grant income arising from non-exchange transactions (note 15) | **24 832 061** | 22 900 016 | **24 832 061** | 22 900 016 |
| Funds at commercial banks - own and funder | **36 607 975** | 79 417 831 | **39 615 891** | 82 162 717 |
| | **61 782 898** | 102 734 411 | **64 790 814** | 105 479 297 |
| **Detailed analysis of cash balances at reporting date:** | | | | |
| MAFISA funding (DAFF) | **43 395 081** | 41 665 368 | **43 395 081** | 41 665 368 |
| Oxfam/SPF funding | **596 961** | 593 113 | **596 961** | 593 113 |
| Office of the Premier Youth Funds | **-** | 5 785 | **-** | 5 785 |
| Stimulus fund (DEDEAT) | **9 516 304** | 910 000 | **9 516 304** | 910 000 |
| Kangela Citrus Farms (Pty) Ltd | **-** | - | **2 450 272** | 2 500 048 |
| Magwa Enterprise Tea (Pty) Ltd | **-** | - | **557 644** | 244 838 |
| EPWP (DRDAR) | **203 204** | 4 982 846 | **203 204** | 4 982 846 |
| ECRDA own funds | **8 071 348** | 54 577 299 | **8 071 348** | 54 577 299 |
| | **61 782 898** | 102 734 411 | **64 790 814** | 105 479 297 |
| Cash available for operational use (ECRDA)* | 8 071 348 | 54 577 299 | 8 071 348 | 54 577 299 |
| Cash held for project/programme implementation on behalf of third parties | 53 711 550 | 48 157 112 | 53 711 550 | 48 157 112 |
| Cash held by subsidiaries | - | - | 3 007 916 | 2 744 886 |
| | **61 782 898** | 102 734 411 | **64 790 814** | 105 479 297 |

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

| Cash and cash equivalents reconciliation: | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| - Statement of Financial Position | 61 782 898 | 102 734 411 | 64 790 814 | 105 479 297 |
| - Cash flow statement | 61 894 932 | 102 734 411 | 64 790 814 | 105 479 297 |
| Difference | (111 933) | 0 | 0 | (0) |

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

Management considers that all the above cash and cash equivalent categories are of good quality. The maximum exposure to credit risk at the reporting date is the fair value of each class of cash and cash equivalent mentioned above.

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

The amount of cash and cash equivalents (and the corresponding unspent administered funds balances) varies significantly from month to month and is dependent on the level of administered funds mandated to the group, receipt of governmental tranches and cash flow requirements of projects.



## EASTERN CAPE RURAL DEVELOPMENT AGENCY

### Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

| 7. LOANS AND ADVANCES TO CUSTOMERS | | Agency and Group 2022 R | Agency and Group 2021 R |
|---|---|---|---|
| **Loans and advances to customers** | | 141 788 864 | 138 856 312 |
| Interest (in-duplum) correction - 2020 and prior | | (6 486 282) | (6 486 282) |
| Interest (in-duplum) correction - 2021 | | (2 085 787) | (2 085 787) |
| Interest (in-duplum) correction - 2022 | | (2 270 506) | - |
| Loans and advances to customers prescribed and written off | | - | 41 549 597 |
| Customers with credit balances | | 2 313 023 | 2 342 228 |
| Gross loans and advances to customers | (i) | **133 259 312** | 174 176 068 |
| Less: Prescribed loans written off | | - | (41 549 597) |
| Less: Fair value adjustments arising on concessionary loans | | (718 683) | (953 822) |
| Less: Specific credit impairments | | (126 019 811) | (120 756 878) |
| | | **6 520 818** | 10 915 771 |
| Less: Unallocated loan repayments | | (324 922) | (316 212) |
| **Net carrying amount for ECRDA** | * | **6 195 896** | 10 599 559 |
| Less: Group loan | | (10 213 180) | (10 245 869) |
| Add: Impairment of Group loan | | 10 213 180 | 10 245 869 |
| **Net carrying amount for the ECRDA Group** | | **6 195 896** | 10 599 559 |
| | * As % of loanbook | **5%** | 6% |

| **Detailed loans and advances granted to customers per type of loan** | ECRDA | Asgisa | Mafisa | Uvimba |
|---|---|---|---|---|
| Loans granted at 31 March 2021 | 33 852 119 | 1 122 770 | 79 538 040 | 18 113 542 |
| Less: Fair value adjustments arising on concessionary loans | (172 301) | - | - | (781 521) |
| Less: Specific credit impairments | (30 715 814) | (1 122 770) | (78 654 973) | (10 263 321) |
| Less: Unallocated loan repayments | (31 220) | - | (47 597) | (237 395) |
| **Net granted balance at 31 March 2021** | **2 932 784** | **-** | **835 470** | **6 831 305** |
| As % of loans granted | 9% | 0% | 1% | 38% |
| **Loans granted at 31 March 2022** | 33 695 555 | 1 184 305 | 83 629 973 | 14 749 479 |
| Less: Fair value adjustments arising on concessionary loans | (92 092) | - | (10) | (626 581) |
| Less: Specific credit impairments | (31 601 294) | (1 184 305) | (83 312 044) | (9 922 168) |
| Less: Unallocated loan repayments | (30 730) | - | (47 597) | (246 595) |
| **Net granted balance at 31 March 2022** | **1 971 439** | **-** | **270 322** | **3 954 135** |
| As % of loans granted | 6% | 0% | 0% | 27% |

| **Movement in specific credit impairments:** | | 2022 | 2021 |
|---|---|---|---|
| Balance at the beginning of the year | | **120 756 878** | 152 865 270 |
| New impairments created | | **5 262 933** | (32 108 392) |
| Balance at the end of the year | **(ii)** | **126 019 811** | 120 756 878 |
| Balance at the end of the year expressed as a percentage of gross loans (ii/i) and advances to customers | | 95% | 91% |

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

| **Contractual maturity analysis:** | 2022 | 2021 |
|---|---|---|
| Repayable within 1 year and overdue | **123 508 413** | 110 286 301 |
| Repayable later than 1 year | **9 750 899** | 22 340 170 |
| | **133 259 312** | 132 626 471 |

## 7. LOANS AND ADVANCES TO CUSTOMERS (continued)

In terms of GRAP1.67, even though the repayments are not all expected to be realized within twelve months of the reporting date, the loan balances are classified as current assets on the statement of financial position.

| | | |
|---|---|---|
| **Contractual Maturity Analysis on Carrying Value** | | |
| Current Asset | **1 945 938** | 5 434 211 |
| Non Current Asset | **4 249 958** | 5 165 348 |
| | **6 195 896** | 10 599 559 |

The maturity analysis is based on the remaining period from the reporting date to contractual maturity.

| | | | |
|---|---|---|---|
| **Sectoral analysis:** | | | |
| Agricultural | | **130 795 468** | 119 281 458 |
| Non-agricultural | | **13 306 419** | 13 345 013 |
| | | **133 259 312** | 132 626 471 |
| **Exposure to credit risk (A):** | | | |
| Loans and advances neither past due nor impaired | * | **6 297 938** | 9 858 744 |
| Loans and advances past due but not impaired | | **582** | 2 |
| Loans and advances individually assessed as impaired | | **137 803 367** | 131 339 794 |
| **A** | | **133 259 312** | 132 626 471 |
| | * As % of loanbook | 5% | 7% |

A financial asset is past due when a counterparty has failed to make a payment when contractually due. There are no loans and advances that have been renegotiated that would otherwise have been past due and impaired. Loans and advances that are past due but not impaired arise where the discounted collateral exceeds the carrying amount.

The livestock loans issued by the former AsgiSA-EC, and recorded on the financial statements as receivables have been recorded on the loans system and is included in the balance of loans advanced to customers. The contractual repayment terms are currently renegotiated with the debtors as these loans are all past due.

| | | Agency and Group 2022 | Agency and Group 2021 |
|---|---|---|---|
| **Collateral held against loans and advances (limited to customer balance outstanding) (B):** | | **R** | **R** |
| Loans and advances neither past due nor impaired | | **4 722 544** | 9 482 540 |
| Loans and advances past due but not impaired | | **-** | - |
| Loans and advances individually assessed as impaired | | **20 391 536** | 16 143 875 |
| | **B** | **25 114 080** | 25 626 415 |
| **Expressed as a percentage of the loan book** | **(B/A)** | **18.85%** | 19.32% |

The collateral can be applied as stipulated in the individual loan agreements entered into with the customers.



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

The agency does not hold any bought in collateral for the year ended 31 March 2022 (2021: Nil).

| | | |
|---|---|---|
| **Net exposure to credit risk after deducting collateral held (A - B):** | | |
| Loans and advances neither past due nor impaired | **1 575 394** | 376 204 |
| Loans and advances past due but not impaired | **582** | 2 |
| Loans and advances individually assessed as impaired | **117 411 831** | 115 195 919 |
| | **118 987 807** | 115 572 125 |
| **Net exposure after specific impairments:** | | |
| Loans and advances neither past due nor impaired | **6 297 938** | 9 858 744 |
| Loans and advances past due but not impaired | **582** | 2 |
| Loans and advances individually assessed as impaired | **-** | - |
| | **6 298 520** | 9 858 746 |

Loans to customers are impaired when the loan terms have not been met (defaulted payments) and/or when the loan has expired. Individual loan assessments are performed to evaluate the repayments, the arrears outstanding, the repayment period and the interest rate of the loan to calculate the impairment. Specific loan impairment was done on all loans in 2022 and 2021 due to the default rate.

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

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

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

**Specific credit impairments**
Loans and advances, which are deemed uncollectible, are written off either fully or partially and represent a reduction in the value of loans and advances. The agency reviews its loan portfolios to assess impairment at each reporting date. Collateral is considered when estimating the impairment loss. The present value of collateral is determined using the Prime Overdraft Rate, and is calculated on the assumption that it will take one year to foreclose against the collateral and receive the cash.

In some instances it may take longer than one year to recover the value of the collateral. The agency has a developmental mandate and plays a role in the land redistribution, job creation and food security initiatives of the government. Accordingly, the agency attempts to explore all avenues to try and recover the debt from the other role-players before foreclosing against collateral. Costs to foreclose against collateral are not taken into account when determining the present value of the collateral. These are not considered material and are recognised when they occur.

During the 2021 financial year, prescribed loans to the value of R41 549 597 (2022: Rnil) was written off. The Board duly approved this write-off.

### 8. TRADE AND OTHER RECEIVABLES

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Exchange transactions** | | | | |
| Interest accrued | 145 971 | 120 508 | 145 971 | 120 508 |
| Deposits | 271 735 | 326 377 | 271 735 | 1 207 923 |
| Trade and other receivables | - | - | 5 756 333 | 5 307 031 |
| New Republic Bank dividends | - | 457 246 | - | 457 246 |
| Staff and other debtors | 179 393 | 421 028 | 195 368 | 421 028 |
| Farm sales receivable from SAFE | - | - | 24 785 607 | 24 785 607 |
| Kangela Empowerment Trust (note 10) | - | - | 5 996 941 | 5 996 941 |
| Prepaid expenses | 1 132 180 | 1 096 320 | 1 358 355 | 2 262 766 |
| Rent receivable | 106 539 | 95 442 | 106 541 | 95 442 |
| - Rental debtors | 1 661 193 | 1 322 103 | 1 661 193 | 1 322 103 |
| - Less: impairment of rent | (1 554 654) | (1 226 661) | (1 554 654) | (1 226 661) |
| Receivables from exchange transactions | 1 835 818 | 2 516 921 | 38 616 851 | 40 654 492 |
| Total Trade and other receivables | 1 835 818 | 2 516 921 | 38 616 851 | 40 654 492 |

Not any of the terms and conditions attached to the financial assets were re-negotiated during the period under review. There have been no consultations with tenants for payment holidays or rebates on anticipated economic losses due to Covid 19.

Non-performing, irrecoverable and prescribed debt of R1 792 410 was written off in the 2021 financial year. The write off was duly approved by the Board.

Magwa Enterprise Tea (Pty) Ltd wrote off bad debts of R106 881 in the 2022 (2021: nil) financial year.

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.

| | 0 - 30 days | 30 - 60 days | 60 - 90 days | over 90 days | Total |
|---|---|---|---|---|---|
| Rent receivable is aged as follows: | R | R | R | R | R |
| Agency - 2022 | 106 538 | 78 487 | 72 154 | 1 404 013 | 1 661 192 |
| Agency - 2021 | 95 442 | 84 533 | 57 346 | 1 084 782 | 1 322 103 |
| Impairment of rent receivable | | | | | |
| Agency - 2022 | | | | | (1 554 654) |
| Agency - 2021 | | | | | (1 226 661) |

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).

New Republic Bank Limited: The capital amount owing to depositors at date of registration under receivership, 31 October 1999, have paid out 94c in the rand (on 23 August 2013), with no guarantees or expectations that additional funds might be available for distribution. On 8 October 2020, in the High Court of South Africa, Pietermaritzburg, it was ordered that the dividend payable pursuant to the 10th account will be the last and final dividend to be paid under the Scheme of Arrangement. On 14 May 2021, notice to depositors and creditors was transmitted to open objections on the amount available for distribution, until 7 June 2021. The payment was received during the 2022 financial year.

| **Movement in rental impairment** | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 1 226 661 | 2 330 155 |
| Impairments reversed due to debt written off | - | (1 103 494) |
| New impairments created | 327 993 | - |
| Balance at the end of the year | 1 554 654 | 1 226 661 |



EASTERN CAPE RURAL DEVELOPMENT AGENCY
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### 9. INVENTORIES AND BEARER BIOLOGICAL ASSETS

| 9.1 INVENTORIES | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| Inventories comprise: | R | R | R | R |
| Consumables and stationery | 78 970 | 143 571 | 10 759 342 | 12 976 945 |
| | 78 970 | 143 571 | 10 759 342 | 12 976 945 |

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.

| **Reconciliation of inventory** | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Total carrying value of inventory valued at the lower of cost or NRV | 78 970 | 143 571 | 10 759 342 | 12 976 945 |
| Opening balance of consumable inventory | 143 571 | 97 392 | 12 976 945 | 97 392 |
| Inventory transfer under common control | - | - | | 23 890 384 |
| Inventory through cost of sales | - | - | 27 907 839 | 14 352 030 |
| Inventory recognised as an expense during the financial year | 469 714 | 571 021 | 469 714 | 722 037 |
| Inventory written down | - | - | (8 134 853) | (25 560 056) |
| Inventory sold | - | - | (21 925 988) | - |
| Inventory purchased during the financial year | (534 315) | (524 842) | (534 315) | (524 842) |

Harvesting costs were capitalised to inventory at Magwa Enterprise Tea (Pty) Ltd during the 2021 financial year. The valuation of the inventory at the lower of cost or net realisable value resulted in this inventory write-down of R8 134 853 (2021: R25 560 056).

### 9.2 BEARER BIOLOGICAL ASSETS

Magwa Enterprise Tea (Pty) Ltd operates on communal land under a pending land claim. There is no formal arrangement in place to allow land rights to the land to the Tea Enterprise. The Magwa Enterprise Tea (Pty) Ltd capitalised costs incurred to ensure some level of productive capacity restoration of the plantation after years of neglect. The tea bushes are classified as Bearer Biological Assets, and are reported at cost.

The tea bushes are not depreciated and no impairment was recognised in either the 2022 or 2021 financial year.

| | Group 2022 | Group 2021 |
|---|---|---|
| | R | R |
| Tea bushes at cost (as rehabilitated by the Magwa Enterprise Tea (Pty) Ltd and not representing all tea bushes used and available for tea production. | 3 083 948 | 3 083 948 |

## 10. DISCONTINUED OPERATIONS

On 3 October 2018, the Eastern Cape Rural Development Agency received a court instruction to halt all operational and administrative functions performed on behalf of Kangela Citrus Farms (Pty) Ltd. Subsequently, the agency no longer has control, management or access to the assets as of the date on which the Kangela Empowerment Trust took control over the land owned by them.

As a result, the property, plant and equipment, have been taken over by the Trust. The receivable is included in note 8.

The fruit trees, valued at R21 890 000, planted on the land cannot be detached from the land. The asset no longer bears any future economic benefit for the Kangela Citrus Farms (Pty) Ltd and has been impaired in full in 2019.

The following assets have been derecognised in the 2019 financial year - with no changes to the balances or the receivable in from the 2020 to 2022 financial years:

| Property, plant and equipment | Opening balance 1 April 2018 | Depreciation recognised for the year | Classified as held for sale | Reverse revaluation | Impairment | Book value 31 March 2019 |
|---|---|---|---|---|---|---|
| Leasehold improvements | 971 229 | (14 850) | (956 379) | - | - | - |
| Buildings | - | - | - | - | - | - |
| Plant and machinery | 1 234 439 | (163 059) | (1 071 380) | - | - | - |
| Motor vehicles | 4 257 295 | (391 276) | (3 866 019) | - | - | - |
| Computer equipment | 20 282 | (3 575) | (16 707) | - | - | - |
| Trees | 21 890 000 | - | - | (5 943 000) | (15 947 000) | - |
| | 28 373 245 | (572 760) | (5 910 485) | (5 943 000) | (15 947 000) | - |
| **Intangible assets** | | | | | | |
| Packing rights | 178 500 | - | (178 500) | - | - | - |
| | 178 500 | - | (178 500) | - | - | - |

| | | |
|---|---|---|
| Assets taken over in sale | 6 088 985 | |
| Revaluation reserve utilised | (53 940) | |
| Discontinued operations | 6 035 045 | |
| Revaluation reserve fair value adjustment | | (92 044) |
| Total receivable at reporting date (note 8) | | **5 996 941** |

There has been no change to the receivable reported (since 2019) as the Empowerment Trust have not settled the dues. The balance due to the group as at 31 March 2022 therefore amounts to R5 996 941 (2021: R5 996 941). The receivable is included in Note 8.

Management did not impair the receivable from the Empowerment Trust due to ongoing legal action to settle the debt and either sell or close the company.





## 11. INVESTMENTS IN SUBSIDIARIES

**Subsidiaries of the Eastern Cape Rural Development Agency**

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

| | 2022 | 2021 |
|---|---|---|
| | % | % |
| Kangela Citrus Farms (Proprietary) Limited (11.1) | 51 | 51 |
| Magwa Enterprise Tea (Proprietary) Limited (11.2) | 100 | 100 |

### 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 where after the ECRDA took over the management functions. The Trust evicted the Kangela Citrus Farms (Pty) Ltd from the farm with effect from 3 October 2018, resulting in ceased operations.

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

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

### 11.2 Magwa Enterprise Tea (Proprietary) Limited

All shares (100) issued by the Magwa Enterprise Tea (Proprietary) Limited, transferred to the ECRDA on 18 September 2020. The company is a tea estate operating from land owned by the Government on which land claims have not been finalised. The transfer of the shares is a common control transaction.

The company is incorporated under registration number 2004/014891/07 in the Republic of South Africa and is based in the Eastern Cape Province. The company has a March year end.

A fair value of Rnil has been placed on this investment at acquisition, given that the liabilities exceeded the assets of the company and the company had sustained losses for years. Note 28 details the transfer of functions under common control.

## 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 5,34% (2021: 5,22%) as at March 2022. 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 2022 was R11 982 478 (R11 559 688 as at 31 March 2021).

As the investment policy is depended on money market rates, the Covid 19 crisis may have a negative impact on the growth of this policy. Especially as both the prime interest rate and the economical grading of the country might negatively impact on the growth on the portfolio.

| | Agency and group 2022 | Agency and group 2021 |
|---|---|---|
| | **R** | R |
| Investment under contingency policy | **11 982 478** | 11 559 688 |
| | **11 982 478** | 11 559 688 |

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

| 13.1 Investment property | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| **Carrying amount at beginning of the year** | **1 610 848** | 1 649 065 | **1 610 848** | **1 649 065** |
| Cost | **2 388 564** | 2 388 564 | **2 388 564** | **2 388 564** |
| Accumulated depreciation | **( 777 716)** | ( 739 499) | **( 777 716)** | **( 739 499)** |
| Depreciation charge | **( 38 217)** | ( 38 217) | **( 38 217)** | **( 38 217)** |
| **Carrying amount at end of the year** | **1 572 631** | 1 610 848 | **1 572 631** | **1 610 848** |
| Cost | **2 388 564** | 2 388 564 | **2 388 564** | **2 388 564** |
| Accumulated depreciation | **( 815 933)** | ( 777 716) | **( 815 933)** | **( 777 716)** |
| 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 2021 by M. Lindstrom (from Penny Lindstrom Valuations), a registered valuator holding a recognised and relevant professional qualification (Reg No. 4968/9), who valued the investment property at R8 700 000 (valued at R13 750 000 in March 2018), using the capitalisation of income method (previously applied the discounted cash flow method) on potential rent based on his experience in the location and category of similar investment properties. The property earns income from renting out office space and due to the ongoing payment defaults by tenants and the effect of Covid 19 on both the payment of debts as well as the demand for office space, the market value of the property decreased.

Included in the profit for the year is operating expenditure, inclusive of repairs and maintenance of R264 739 (2021: R255 018) which arose from investment property that generated rental revenue of R1 822 946 (2021: R1 635 617) 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.



EASTERN CAPE RURAL DEVELOPMENT AGENCY
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### 13. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (continued)

| 13.2 Property, plant and equipment | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| **13.2.1 Land** | | | | |
| **Carrying amount at beginning of the year** | **715 000** | 715 000 | **715 000** | 715 000 |
| Cost | **715 000** | 715 000 | **715 000** | 715 000 |
| Additions/Merger | **-** | - | **-** | - |
| Disposal | **-** | - | **-** | - |
| **Carrying amount at end of the year** | **715 000** | 715 000 | **715 000** | 715 000 |
| Cost | **715 000** | 715 000 | **715 000** | 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

| 13.2.2 Buildings | R | R | R | R |
|---|---|---|---|---|
| **Carrying amount at beginning of the year** | **2 540 336** | 2 616 065 | **2 540 336** | 2 616 065 |
| Cost | **3 786 375** | 3 786 375 | **3 786 375** | 3 786 375 |
| Accumulated depreciation | **(1 246 039)** | (1 170 310) | **(1 246 039)** | (1 170 310) |
| Accumulated impairment | **-** | - | **-** | - |
| Derecognise subsidiary impact | **-** | - | | |
| Disposal | **-** | - | | |
| Depreciation charge | **(75 727)** | (75 729) | **(75 727)** | (75 729) |
| Impairment (recognised)/reversed | **-** | - | **-** | - |
| **Carrying amount at end of the year** | **2 464 609** | 2 540 336 | **2 464 609** | 2 540 336 |
| Cost | **3 786 375** | 3 786 375 | **3 786 375** | 3 786 375 |
| Accumulated depreciation | **(1 321 766)** | (1 246 039) | **(1 321 766)** | (1 246 039) |
| Accumulated impairment | **-** | - | **-** | - |

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).

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 (representing land of R160 000 and buildings of R580 000).

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

## 13. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (continued)

### 13.2.3 Plant and equipment

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Carrying amount at beginning of the year** | **328 630** | 446 685 | **7 197 385** | 446 685 |
| Cost | **2 289 668** | 2 627 635 | **16 200 138** | 2 627 635 |
| Accumulated depreciation | **(1 961 038)** | (2 180 950) | **(9 002 753)** | (2 180 950) |
| Additions and Merger/Transfer | **233 168** | 48 616 | **342 274** | 7 533 709 |
| Derecognise subsidiary impact | **-** | - | **-** | - |
| Disposal/Scrapping - cost | **(94 969)** | (386 583) | **(94 969)** | (386 583) |
| Depreciation charge | **(164 351)** | (148 327) | **(1 558 147)** | (764 665) |
| Accumulated depreciation on disposal/transfer | **90 787** | 368 239 | **90 787** | 368 239 |
| **Carrying amount at end of the year** | **393 265** | 328 630 | **5 977 330** | 7 197 385 |
| Cost | **2 438 119** | 2 289 668 | **16 447 443** | 16 200 138 |
| Accumulated depreciation | **(2 044 854)** | (1 961 038) | **(10 470 113)** | (9 002 753) |

**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

### 13.2.4 Equipment under finance leases

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Carrying amount at beginning of the year** | **7 560 491** | 629 606 | **7 560 491** | 629 606 |
| Cost | **8 966 786** | 1 077 480 | **8 966 786** | 1 077 480 |
| Accumulated depreciation | **(1 406 295)** | (447 874) | **(1 406 295)** | (447 874) |
| Additions | **-** | 8 213 019 | **-** | 8 213 019 |
| Write -off/scrapping of obsolete assets | **-** | (323 713) | **-** | (323 713) |
| Depreciation charge | **(2 904 587)** | (1 282 134) | **(2 904 587)** | (1 282 134) |
| Accumulated depreciation on disposal/transfer | **-** | 323 713 | **-** | 323 713 |
| **Carrying amount at end of the year** | **4 655 904** | 7 560 491 | **4 655 904** | 7 560 491 |
| Cost | **8 966 786** | 8 966 786 | **8 966 786** | 8 966 786 |
| Accumulated depreciation | **(4 310 882)** | (1 406 295) | **(4 310 882)** | (1 406 295) |
| 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



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Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

## 13. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (continued)

### 13.2.5 Vehicles

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Carrying amount at beginning of the year** | **2 119 859** | 3 074 267 | **3 477 095** | 3 074 267 |
| Cost | **5 406 230** | 7 115 108 | **8 641 056** | 7 115 108 |
| Accumulated depreciation | **(3 286 371)** | (4 040 841) | **(5 163 961)** | (4 040 841) |
| Additions and merger/transfer | **-** | - | **-** | 1 675 482 |
| Derecognise subsidiary impact | **-** | - | **-** | - |
| Disposal - cost | **-** | (1 708 879) | **-** | (1 708 879) |
| Depreciation charge | **(436 064)** | (752 885) | **(953 224)** | (1 071 131) |
| Accumulated depreciation on disposal/transfer | **-** | 1 507 356 | **-** | 1 507 356 |
| **Carrying amount at end of the year** | **1 683 795** | 2 119 859 | **2 523 871** | 3 477 095 |
| Cost | **5 406 230** | 5 406 230 | **8 641 056** | 8 641 056 |
| Accumulated depreciation | **(3 722 435)** | (3 286 371) | **(6 117 185)** | (5 163 961) |

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

### 13.2.6 Computer equipment

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Carrying amount at beginning of the year** | **1 369 216** | 1 740 479 | **1 696 233** | 1 740 479 |
| Cost | **5 805 971** | 6 708 611 | **6 859 872** | 6 708 611 |
| Accumulated depreciation | **(4 436 755)** | (4 968 132) | **(5 163 639)** | (4 968 132) |
| Additions/merger/transfer | **554 916** | 550 143 | **588 216** | 964 649 |
| Derecognise subsidiary impact | **-** | - | **-** | - |
| Write -off/scrapping of obsolete assets | **(286 805)** | (1 461 901) | **(286 805)** | (1 461 901) |
| Depreciation charge | **(512 210)** | (730 864) | **(692 368)** | (818 353) |
| Accumulated depreciation on disposal/transfer | **116 793** | 1 271 359 | **116 793** | 1 271 359 |
| **Carrying amount at end of the year** | **1 241 910** | 1 369 216 | **1 422 069** | 1 696 233 |
| Cost | **6 074 082** | 5 805 971 | **7 161 283** | 6 859 872 |
| Accumulated depreciation | **(4 832 172)** | (4 436 755) | **(5 739 214)** | (5 163 639) |

**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. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (continued)

| 13.2.7 Office furniture and fittings | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| **Carrying amount at beginning of the year** | **1 042 745** | 2 010 266 | **2 032 085** | 2 010 266 |
| Cost | **3 974 839** | 5 929 704 | **5 985 742** | 5 929 704 |
| Accumulated depreciation | **(2 932 094)** | (3 919 438) | **(3 953 657)** | (3 919 438) |
| Additions and merger/transfer | **-** | 98 879 | **184 392** | 1 250 898 |
| Derecognise subsidiary impact | **-** | - | **-** | - |
| Write -off/scrapping of obsolete assets | **(96 844)** | (2 055 810) | **(96 844)** | (2 055 810) |
| Depreciation charge | **(313 447)** | (430 071) | **(664 381)** | (592 750) |
| Accumulated depreciation on disposal/scrap | **92 706** | 1 419 481 | **92 706** | 1 419 481 |
| **Carrying amount at end of the year** | **725 160** | 1 042 745 | **1 547 958** | 2 032 085 |
| Cost | **3 877 995** | 3 974 839 | **6 073 290** | 5 985 742 |
| Accumulated depreciation | **(3 152 835)** | (2 932 094) | **(4 525 332)** | (3 953 657) |

**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

| 13.2.8 Leasehold and other assets | R | R | R | R |
|---|---|---|---|---|
| **Carrying amount at beginning of the year** | **1** | 1 | **504 395** | 1 |
| Cost | **1** | 1 | **504 395** | 1 |
| Accumulated depreciation | **-** | - | **-** | - |
| Additions | **-** | - | **606 757** | 504 394 |
| Write -off/scrapping of obsolete assets | **(1)** | - | **(1)** | - |
| Derecognise subsidiary impact | **-** | - | **-** | - |
| Depreciation charge | **-** | - | **(26 678)** | - |
| Accumulated depreciation on disposal/transfer | **-** | - | **-** | - |
| **Carrying amount at end of the year** | **-** | 1 | **1 084 473** | 504 395 |
| Cost | **-** | 1 | **1 111 151** | 504 395 |
| Accumulated depreciation | **-** | - | **(26 678)** | - |

**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





### 13. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (continued)

| 13.2.10 Total property, plant and equipment | Agency 2022 R | Agency (amended) 2021 R | Group 2022 R | Group (amended) 2021 R |
|---|---|---|---|---|
| **Carrying amount at beginning of the year** | **15 676 276** | 11 232 369 | **25 723 018** | 11 232 369 |
| Cost | **30 944 870** | 27 959 915 | **51 659 364** | 27 959 915 |
| Accumulated depreciation | **(15 268 594)** | (16 727 546) | **(25 936 346)** | (16 727 546) |
| Accumulated impairment | **-** | - | **-** | - |
| Additions | **788 084** | 8 910 656 | **1 721 637** | 20 142 149 |
| Write -off/scrapping of obsolete assets | **(383 650)** | (3 841 424) | **(383 650)** | (3 841 424) |
| Derecognise subsidiary impact | **-** | (1) | **-** | (1) |
| Disposal - cost | **(94 969)** | (2 095 462) | **(94 969)** | (2 095 462) |
| Revaluation | **-** | - | **-** | - |
| Impairment | **-** | - | **-** | - |
| Devaluation (apply revaluation reserve) | **-** | - | **-** | - |
| Depreciation charge | **(4 406 386)** | (3 420 010) | **(6 875 111)** | (4 604 761) |
| Accumulated depreciation on merger | **-** | - | **-** | - |
| Accumulated depreciation on disposal/transfer | **300 289** | 4 890 148 | **300 289** | 4 890 148 |
| **Carrying amount at end of the year** | **11 879 644** | 15 676 276 | **20 391 214** | 25 723 018 |
| Cost | **31 264 588** | 30 944 870 | **52 902 384** | 51 659 364 |
| Accumulated depreciation | **(19 384 944)** | (15 268 594) | **(32 511 170)** | (25 936 346) |

No estimated useful lives were changed during the financial year (2021: None).

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 was incurred to repair and maintain the property, plant and equipment of the ECRDA. 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 22.

### 13. INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT (continued)

| | Agency | |
|---|---|---|
| | 2022 | 2021 |
| Investment property (Mthatha Building) | 264 739 | 255 018 |
| | **264 739** | **255 018** |
| Buildings (Cradock and King Williams Town) | 605 125 | 4 871 |
| Plant and machinery and Office equipment | - | - |
| Vehicles | 154 324 | 93 336 |
| Computer equipment | - | 14 432 |
| Office furniture and fittings | 5 750 | - |
| | **765 198** | **112 639** |
| **Total asset repairs** | **1 029 938** | **367 657** |
| Repairs/expenses on leased property (Operating leases) | 5 130 | 7 156 |
| **Total repairs and maintenance** | **1 035 068** | **374 813** |

| 13.3 Intangible assets | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| *Computer software* | | | | |
| **Carrying amount at beginning of the year** | **421 437** | 659 833 | **421 437** | 659 833 |
| Cost | **4 549 551** | 4 575 833 | **4 549 551** | 4 575 833 |
| Accumulated amortisation | **(4 128 114)** | (3 916 000) | **(4 128 114)** | (3 916 000) |
| Additions | **156 625** | - | **156 625** | - |
| Write -off/scrapping of obsolete assets | **-** | (26 282) | **-** | (26 282) |
| Amortisation for the year | **(175 463)** | (222 769) | **(175 463)** | (222 769) |
| Accumulated amortisation on disposal/transfer | **-** | 10 655 | **-** | 10 655 |
| **Carrying amount at end of the year** | **402 599** | 421 437 | **402 599** | 421 437 |
| Cost | **4 706 176** | 4 549 551 | **4 706 176** | 4 549 551 |
| Accumulated amortisation | **(4 303 577)** | (4 128 114) | **(4 303 577)** | (4 128 114) |

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



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

### 14. TRADE AND OTHER PAYABLES

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Amounts due to customers with credit balances | **2 313 023** | 2 342 228 | **2 313 023** | 2 342 228 |
| Funds payable to Treasury (surrender)** | **9 693 869** | 35 940 412 | **9 693 869** | 35 940 412 |
| Rent received in advance | **59 317** | 94 081 | **59 317** | 94 081 |
| Other payables | **6 200 897** | 8 854 594 | **7 080 398** | 10 117 556 |
| VAT (SARS) payable | **-** | - | **842 178** | 1 581 314 |
| Accruals | **1 963 029** | 12 651 414 | **1 963 029** | 12 651 414 |
| Leave Pay Accrual | **7 392 865** | 8 322 433 | **7 392 865** | 8 322 433 |
| Bonus Accrual | **1 259 504** | 1 310 827 | **1 259 504** | 1 310 827 |
| Operating lease straight line adjustments | **153 343** | 265 830 | **153 343** | 265 830 |
| | **29 035 847** | 69 781 819 | **30 757 526** | 72 626 095 |

There are no trade and other payables with extended payment terms at 31 March 2022 (2021: 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.
**Included in the funds payable to Treasury is a balance of R1 408 005 from the 2020 financial year on the Stimulus Funding.

**Request to retain unspent funds i.t.o. National Treasury Regulation 6.4**
In line with the National Treasury Regulations 6.4 requiring that "funds appropriated but not spent in a particular financial year may be rolled over to a subsequent year subject to approval of the relevant provincial treasury", the ECRDA submitted a roll-over request through the controlling department, DRDAR, to retain the unspent funds as at year-end. A payable of R9 693 869 exist on the administered funds to be surrendered (2021: R34 533 407 post prior year adjustment) after consideration of the retention of the MAFISA and Oxfam funding.

| | Balance at 31 March 2022 | Balance at 31 March 2021 |
|---|---|---|
| Small Projects Foundation (OXFAM) | 596 961 | 593 113 |
| Office of the Premier project | - | 5 785 |
| MAFISA | 43 395 081 | 41 665 368 |
| Stimulus (DEDEAT) | 9 516 304 | 910 000 |
| EPWP (DRDAR) | 203 204 | 4 982 846 |
| ECRDA funds available to surrender | - | 19 836 584 |
| ECRDA shortfall of funds | (3 877 764) | - |
| Payables | 11 949 113 | 34 740 715 |
| - Customers with credit balances | 2 313 023 | 2 342 228 |
| - Rent received in advance | 59 317 | 94 081 |
| - Leave accrued - retrenchments/packages | - | 8 322 433 |
| - Payables* | 8 317 269 | 22 599 420 |
| - Fair value interest on VSP | - | 71 726 |
| - Salary savings by employees | 1 259 504 | 1 310 827 |
| * Information in calculation at request date | 61 782 899 | 102 734 411 |

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

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | **R** | R | **R** | R |
| MAFISA grant | **24 832 061** | 22 900 016 | **24 832 061** | 22 900 016 |
| Liability for an equitable share in interest earned on MAFISA loans | **5 171 578** | 4 785 514 | **5 171 578** | 4 785 514 |
| Liability arising from interest earned on cash deposits on unspent funds | **19 660 483** | 18 114 503 | **19 660 483** | 18 114 503 |
| | **24 832 061** | 22 900 016 | **24 832 061** | 22 900 016 |
| Comprised of the following assets: | | | | |
| Cash and cash equivalents (Refer to note 6) | 24 832 061 | 22 900 016 | 24 832 061 | 22 900 016 |
| | **24 832 061** | 22 900 016 | **24 832 061** | 22 900 016 |

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 R6 424 101 (2021: R2 927 250) relating to projects implementation where orders have been issued. ECRDA's operational commitments of R7 967 131 (2021: R1 809 379) existed at 31 March 2022. Kangela Citrus Farms Proprietary Limited had commitments of R38 145 [incurred by the ECRDA] (2021: R37 233) at the reporting date.

**Contingent liabilities**
ECRDA has dealt with numerous legal matters instituted by and in defence of claims brought against the organisation.

| | 2022 | 2021 |
|---|---|---|
| ECRDA/SLABBERT BOERDERY [claim] | **874 506** | 874 506 |
| ECRDA/SLABBERT BOERDERY [legal cost] | **300 000** | 300 000 |
| ECRDA/EC BEEF FUND [legal cost] | **2 200 000** | 2 200 000 |
| EC BEEF FUND/ECRDA [claim defended] | **14 203 118** | 14 203 118 |
| EC BEEF FUND/ECRDA [legal fees for defence] | **350 000** | 300 000 |
| SKG AFRICA (PTY)LTD/ECRDA & ANOTHER [costs reserved] | **unknown** | unknown |
| SKG AFRICA (PTY)LTD/ECRDA & OTHERS [legal cost] | **1 800 000 to 2 000 000** | 1 800 000 to 2 000 000 |
| NEHAWU/ECRDA | **30 000** | 30 000 |

Where the possibility of legal fees and/or other reimbursements exist, it is reported per contingency (below).

**Claims instituted by ECRDA:**
ECRDA/SLABBERT BOERDERY: a claim by ARDA was inherited by ECRDA in the matter of Slabbert Boerdery. Slabbert Boerdery was sued for the non-delivery of lucerne whilst they claimed payment of R437 253 (plus interest) for the sale and delivery. During the case, the total amount has escalated to R874 506 as a result of fees and interest. A trail was to commence on 28 April 2021 but it was postponed when the attorney of Slabbert Boerdery withdrew. A new date has not been set. The legal cost estimate at reporting date for the matter amounts to R300 000 (2021: R300 000) per the ECRDA's attorneys. The defendant (Slabbert Boerdery) subsequently instituted a counter claim of R1 million. The timing and outcome of the matter can however not be determined at reporting date. Reasonable prospects of success.

ECRDA/EC BEEF FUND: an application to the High Court to set aside the contract whereby livestock was delivered to Berlin Beef without proper procurement processes being followed in terms of the PFMA. The matter was heard on 05 December 2019 with subsequent judgement against ECRDA. The attorneys estimated the legal cost to be R500 000 at 31 March 2020 but as the subsequent leave to appeal was granted, and record of appeal prepared, the legal cost estimate increased to R2,2 million in 2021. The appeal in the Supreme Court of Appeal was heard on 22 November 2021. Judgment was delivered on 6 January 2022 in which the court upheld the appeal with costs. The respondents brought an application for leave to appeal in the Constitutional Court. The ECRDA is defending the application.



## 16. COMMITMENTS AND CONTINGENCIES(continued)

The application is set down for hearing in the Constitutional Court on 6 September 2022. [also see EC BEEF

FUND/ECRDA defended]. The attorneys estimated the additional legal expenses to amount to R2,2 million as at 31 March 2021, remaining unchanged for 2022.

**Claims defended by ECRDA:**
EC BEEF FUND/ECRDA: a claim has been instituted against ECRDA for an amount of R14 203 118 for livestock allegedly delivered by the claimant to ECRDA. The matter is being defended by ECRDA, the outcome of which is dependent on the finalization of the Constitutional Court application [see ECRDA/EC BEEF FUND initiated by the ECRDA]. The legal cost estimate at reporting date amounts to R350 000 (2021: estimated at R300 000). The prospects of succeeding are reasonable even though the timing and outcome remains unknown.

SKG AFRICA (PTY)LTD/ECRDA & ANOTHER: An interdict was served on ECRDA (prior financial years) to stop the move from the Beacon Bay Crossing premises to the new leased premises, as well as an interdict to stop the implementation of the awarding of a tender for leased premises and further for the court to consider the review of the tender awarded. The court ordered in favour of ECRDA with regard to the interdict application however costs in
the matter were reserved for the main review application to be instituted by SKG Africa. The ECRDA's legal costs for the interdict

matter was R292 082 (estimated at R1 000 000). The interdict application was resolved in the 2020 financial year but with no resolution as to legal costs order in the matter. This is to be confirmed upon outcome of the main review application in the review application which is yet to be heard.
The matter is still on hold pending the outcome of the main review application.

SKG AFRICA (PTY)LTD/ECRDA & OTHERS: A review application was brought against ECRDA to review a tender awarded for leased premises and to set aside the BEE Level 1 qualification and Regulation 4(1) applied, as unconstitutional. Matter was set down for hearing on 20 April 2020, however since then the Afribusiness NPC matter (not related to ECRDA) was enrolled at the Constitutional Court. ECRDA and SKG have agreed to move the SKG/ECRDA matter from the roll before full bench, pending the outcome of the Afribusiness NPC matter currently on appeal to the Constitutional Court. The Afribusiness NPC matter, before the full bench of the High Court, concerns the very issues that form the basis for the current proceeding involving ECRDA/SKG. The Constitutional Court Judgement in the Afribusiness NPC matter is expected by June 2021. ECRDA costs to be cost in the cause. ECRDA's legal costs have been estimated between R1,8 million - R2 million (Unchanged from 2021). The outcome of this matter is unknown at reporting date. There are reasonable prospects of success.

Constitutional Court judgment delivered on 16 February 2022. Applicant provided us with a proposed draft order as it intended setting the matter down for hearing. We did not agree to the proposed draft order in light of the fact that the matter was not ready for hearing in that the Office of the State Attorney launched an application to the Constitutional Court to obtain clarification on the court order delivered on 16 February 2022. The matter is still pending and has not been set down for hearing by the Applicant.

CCMA/ECRDA: NEHAWU referred a dispute in respect of interpretation of a Wage Agreement for the payment of bonusses to the CCMA. A certificate of non-resolution was issued in April 2021. The date of arbitration is awaited but the employer is of the opinion that the prospects of the claimant is low, therefore not exposing the ECRDA to costs exceeding R30 000. A notice of arbitration was not yet received by the entity.

Magwa Enterprise Tea (PTY) Ltd has a dispute of R1 034 490, with a service provider for a lack of evidence of work done and rates charged for professional engineering work done prior to 31 November 2019. The matter was resolved during the 2022 financial year.

**Contingent Asset**

| | 2022 | 2021 |
|---|---|---|
| CRADOCK BIOFUEL - ARENGO 316 INVESTMENTS | 12 530 043 | 12 530 043 |

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.

## 17. LOANS

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

The loan from South African Fruit Exporters (SAFE) is interest free, unsecured and operated on a current account basis. South African Fruit Exporters was the managing agent of the Kangela Citrus estate and has been funding the operations of the estate pending seasonal harvesting. South African Fruit Exporters used to take cession of the produce once harvested. The loan is repayable by Kangela Citrus Farms (Pty) Ltd as the management contract with SAFE ended during the 2017/2018 financial year. Legal action has been superseded by settlement negotiations.

| | Group 2022 | Group 2021 |
|---|---|---|
| | R | R |
| South African Fruit Exporters (SAFE) | 21 980 575 | 21 980 575 |

## 18. LIABILITIES ARISING FROM NON-EXCHANGE TRANSACTIONS

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| Total funds under administration and cash and cash equivalents belonging to administered funds | R | R | R | R |
| | **342 862** | 416 564 | **342 862** | 416 564 |
| **Reconciliation of total funds under administration:** | | | | |
| Balance at beginning of the year | **416 564** | 545 049 | **416 564** | 545 049 |
| Transfers/Receipts received in the year | **68 040 476** | 60 788 215 | **68 040 476** | 60 788 215 |
| Surrender of Administered Funds to Treasury | **(9 693 869)** | (5 898 631) | **(9 693 869)** | (5 898 631) |
| Interest capitalised on administered funds | **157 899** | 166 905 | **157 899** | 166 905 |
| Funds disbursed (net credit notes) | **(58 578 208)** | (55 184 974) | **(58 578 208)** | (55 184 974) |
| Total administered funds | **342 862** | 416 564 | **342 862** | 416 564 |
| **Comprising:** | | | | |
| Oxfam | **342 862** | 416 564 | **342 862** | 416 564 |
| Chris Hani Development Agency | **-** | - | **-** | - |
| Stimulus (DEDEAT) | **30** | 30 | **30** | 30 |
| EPWP (DRDAR) | **-** | - | **-** | - |
| Magwa Tea | **-** | - | **-** | - |
| Project salaries | **-** | - | **-** | - |
| | **342 892** | 416 594 | **342 892** | **416 594** |





## 18. LIABILITIES ARISING FROM NON-EXCHANGE TRANSACTIONS (continued)

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| | Youth Project (OTP) | Stimulus Fund | Chris Hani Development Agency | EPWP wages (DRDAR) |
| Balance of administered fund at 31 March 2020 | - | 30 | - | - |
| Transaction cancelled post-reporting | - | 1 408 005 | - | - |
| Surrender to Treasury | - | (1 408 005) | - | - |
| Adjusted balance of adminsitered fund at 31 March 2020 | - | 30 | - | - |
| Transfers/Receipts received in the year | - | 2 780 750 | - | 10 639 822 |
| Disbursements for the year | (1 415) | (1 999 853) | - | (5 699 175) |
| Interest earned on ring-fenced funds | 7 200 | 129 073 | - | 42 199 |
| Surrender to Treasury | (5 785) | (910 000) | - | (4 982 846) |
| Balance of administered fund at 31 March 2021 | - | 30 | - | - |
| Transfers/Receipts received in the year* | - | 8 500 000 | 2 209 191 | 15 090 000 |
| Disbursements for the year (and surrendered funds) | - | (554 536) | (2 209 191) | (14 957 898) |
| Credit notes for the year | - | 1 474 005 | - | - |
| Interest earned on ring-fenced funds | - | 71 196 | - | 71 102 |
| Surrender to Treasury | - | (9 490 665) | - | (203 204) |
| Balance of administered fund at 31 March 2022 | **-** | **30** | **-** | **-** |

* The Stimulus project funding and the Chris Hani Development Agency transfer payment are included in the Government Grant allocated to the agency by the Province.

| | Magwa Tea | Oxfam | Project salaries | TOTAL |
|---|---|---|---|---|
| Balance of administered fund at 31 March 2020 | (44 332) | 589 351 | - | 545 049 |
| Transfers/Receipts received in the year | 47 263 000 | 104 643 | - | 60 788 215 |
| Disbursements for the year | (47 218 668) | (265 862) | - | (55 184 974) |
| Interest earned on ring-fenced funds | - | (11 568) | - | 166 905 |
| Surrender to Treasury | - | - | - | (5 898 631) |
| Balance of administered fund at 31 March 2021 | - | 416 564 | - | 416 594 |
| Transfers/Receipts received in the year** | 41 853 000 | 134 470 | 253 815 | 68 040 476 |
| Disbursements for the year | (41 853 000) | (223 536) | (254 052) | (60 052 213) |
| Credit notes for the year | - | - | - | 1 474 005 |
| Interest earned on ring-fenced funds | - | 15 364 | 237 | 157 899 |
| Surrender to Treasury | - | - | - | (9 693 869) |
| Balance of administered fund at 31 March 2022 | **-** | **342 862** | **-** | **342 892** |

**** The grant to Magwa Enterprise Tea is part of the funds allocated to the agency by the Province.**

**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 the Small Projects Foundation (SPF). The loans are included in the total loans advanced per note 7.

At 31 March 2022 the administered fund amounted to R342 862 (2021: R416 564).

**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 2022 (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, as it does not have legal ownership of, any rights or obligations to the land and derive no benefit from the use or the existence of the land. No future economic benefits or service potential will, or ever has, accrued to the ECRDA.

| 19. FINANCE LEASE OBLIGATIONS | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| **Finance lease liabilities** | **R** | R | **R** | R |
| Capitalised finance lease liability | **2 840 663** | 4 657 298 | **2 840 663** | 4 657 298 |
| Less: Current portion | **(1 649 134)** | (1 883 320) | **(1 649 134)** | (1 883 320) |
| Non-current portion | **1 191 529** | 2 773 978 | **1 191 529** | 2 773 978 |

| | Agency and Group | | | |
|---|---|---|---|---|
| **Reconciliation of future minimum lease payments to their present value** | **Minimum lease payments** | | **Present value of minimum lease payments** | |
| | **2022** | 2021 | **2022** | 2021 |
| | **R** | R | **R** | R |
| No later than 1 year | **1 258 101** | 2 215 846 | **1 649 134** | 1 883 320 |
| Later than 1 year and not later than 5 years | **1 875 728** | 3 120 451 | **1 191 529** | 2 773 978 |
| | **3 133 829** | 5 336 297 | **2 840 663** | 4 657 298 |
| Less: future finance charges | **(293 166)** | (678 999) | | |
| Present value of minimum lease payments | **2 840 663** | 4 657 298 | | |

**Fair value**
The fair value of the finance lease liabilities is approximately equal to their carrying amount. The agency has capitalised arrangements at the ruling Prime Overdraft Rate at inception of each lease.

**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 between 2 - 5 years for equipment and 2 years for Vodacom contracts. A contract was concluded with Brilliant Telecommunications in the 2021 financial year, for a period of 3 years. Such arrangements are summarised below.

**Finance lease agreements**
New contracts were entered into with Konica Minolta, effective 1 September 2020 for a period of 3 years. At reporting date, the approximate aggregate monthly instalment on finance leases is R34 516 (2021: R34 516).

The Vodacom contracts are capitalised for a period of 2 years and the aggregate monthly instalment on the finance leases is R120 595 (2021: R137 904) at reporting date.

**Communication equipment other than above (i.e. PABX and mobile technology)**
Contracts with Telkom expired in the 2020 financial year and the procurement process was interrupted by the National lockdown. At 31 March 2020, the approximate contractual aggregate monthly instalment is Rnil on these Communication contracts that covered a period of 5 years. Effective 1 January 2021, the communications is regulated in the 3year contract concluded with Brilliant Telecommunications. At 31 March 2022 the monthly instalment on this lease is R120 614 (2021: R120 614).





| 20. CAPITAL CONTRIBUTED | Agency and Group 2022 | Agency and Group 2021 |
|---|---|---|
| | **R** | 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. | **25 232 691** | 25 232 691 |
| The equity contribution relates to the funds received from the Eastern Cape Department of Rural Development and Agrarian Reform utilised to fund the advance to Kangela Citrus Farms (Proprietary) Limited. | **15 680 000** | 15 680 000 |
| This contribution was acquired prior to the formal establishment of the corporation and relates to an amount transferred from trade payables previously owing to the Department of Internal Affairs for farms purchased by clients of the former Ciskeian Agricultural Bank approximately 18 years before date of establishment. | **1 076 355** | 1 076 355 |
| | **41 989 046** | 41 989 046 |

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 2022 (2021: 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 share-takeover of Magwa Enterprise Tea (PTY) Ltd on 18 September 2020, and the lasting National impact of the Covid 19 epidemic on scarce Government resources will place further strain on available resources for the agency.
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 defaulting repayments on the 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. The lasting impact of Covid 19 on the economy and markets and the decrease in the prime rate may further impact the liquidity of the ECRDA.

As at 31 March 2022, approximately 81% (2021: 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 2022 were: Moody's Ba3 and Fitch BB-, with a respective negative investors outlook per Moody's and a stable outlook on Fitch (2021: Moody's Ba2; Fitch Ratings BB-, both with a negative investors outlook). The remaining 19% (2021: 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 Kangela Citrus Farms (Pty) Ltd ceased operations in the 2019 financial year.

## 22. OTHER INCOME AND EXPENSE ANALYSIS

### 22.1 Other Income

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Other income from non-exchange transactions | | | | |
| Recovery of loans and advances previously written off | **222 688** | 181 663 | **222 688** | 181 663 |
| Sundry income - Insurance income | **20 354** | 47 816 | **20 354** | 47 816 |
| Sundry income - other | **147 602** | 171 919 | **3 313 074** | 824 130 |
| | **390 644** | 401 398 | **3 556 116** | 1 053 609 |
| Other income from exchange transactions | | | | |
| Sundry income - Dividends received | **-** | 457 246 | **-** | 457 246 |
| | **-** | 457 246 | **-** | 457 246 |
| **Total other income** | **390 644** | 858 644 | **3 556 116** | 1 510 855 |



### 22.2 ADMINISTRATIVE EXPENSES

| | | | | |
|---|---|---|---|---|
| Audit fees - Internal | **1 033 838** | 320 542 | **1 033 838** | 320 542 |
| Archiving, fittings and minor electricals | **183 934** | 190 056 | **183 934** | 190 056 |
| Administration costs | **12 940** | 24 667 | **12 940** | 24 667 |
| Bank charges | **212 678** | 235 987 | **266 501** | 289 408 |
| Contingent insurance policy administration fee | **45 000** | 45 000 | **45 000** | 45 000 |
| Covid-19 expenses | **40 223** | 381 597 | **44 793** | 405 340 |
| Directors' remuneration - fees | **3 174 272** | 3 149 490 | **3 356 088** | 3 149 490 |
| Directors' travelling, subsistence and expenses | **1 388 773** | 617 254 | **1 388 773** | 617 254 |
| Donations | **-** | - | **-** | 1 037 |
| Entertainment | **-** | 3 789 | **-** | 3 789 |
| Fines and Penalties | **609** | 18 061 | **233 081** | 42 523 |
| Insurance | **392 982** | 383 847 | **392 982** | 383 847 |
| Legal expenses | **1 313 452** | 1 910 472 | **1 336 472** | 1 910 472 |
| Printing and stationery | **469 713** | 571 021 | **699 538** | 722 039 |
| Relocation - staff | **83 885** | 15 675 | **83 885** | 15 675 |
| Staff recruitment | **51 062** | 69 437 | **63 998** | 144 437 |
| Staff refreshments | **44 204** | 24 114 | **68 682** | 104 138 |
| Staff training | **242 032** | 726 825 | **310 642** | 726 825 |
| Staff ancillary costs | **41 526** | 36 877 | **180 157** | 97 120 |
| Subscriptions | **36 569** | 36 684 | **158 643** | 38 682 |
| Workers forum | **1 555** | - | **1 555** | - |
| Workmen's compensation | **686 188** | 180 353 | **686 118** | 180 353 |
| | **9 455 365** | 8 941 747 | **10 547 620** | 9 412 694 |

### 22.3 OTHER OPERATING EXPENSES

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | **R** | R | **R** | R |
| Alternative energy: Diesel, Petrol and Oil | **-** | - | **1 391 916** | 747 881 |
| Chemical and Water treatment | **-** | - | **345 597** | 206 173 |
| Cleaning | **231 784** | 220 700 | **313 486** | 249 182 |
| Commission | **-** | - | **353 236** | - |
| Computer maintenance | **2 722 774** | 2 433 672 | **2 733 869** | 2 445 452 |
| Debt collection service fees | **-** | 1 389 | **-** | 1 389 |
| Discount allowed | **-** | - | **24 516** | - |
| Fair value adjustments | **420 490** | - | **8 555 344** | 25 560 056 |
| Impairment loss | **5 263 433** | - | **5 263 433** | - |
| Leasing charges - operating lease for equipment | **324 313** | 222 106 | **324 313** | 222 106 |
| Lost securities | **-** | 240 | **-** | 240 |
| Loan application screening/Enquiry cost | **51 623** | 55 422 | **51 623** | 55 422 |
| Minor assets expensed and write off of insured assets stolen/damaged | **21 604** | 145 888 | **191 004** | 158 833 |
| Motor vehicles: fuel and maintenance | **452 426** | 279 829 | **557 882** | 332 841 |
| Municipal services - rates, water and electricity | **2 192 980** | 2 084 408 | **5 191 585** | 4 324 543 |
| Postages | **18 540** | 14 914 | **28 189** | 14 914 |
| Professional fees | **1 758 404** | 768 830 | **2 289 955** | 1 420 444 |
| Protective clothing and uniforms | **4 715** | - | **559 832** | 27 459 |
| Rental charges on land and buildings | **3 689 655** | 4 548 302 | **3 689 655** | 4 548 302 |
| Repairs and maintenance - buildings | **203 255** | 255 018 | **203 255** | 255 018 |
| Repairs and maintenance - general | **677 489** | 36 146 | **3 030 650** | 1 232 356 |
| Security | **453 194** | 518 243 | **453 194** | 518 243 |
| Stakeholder management | **109 070** | 305 638 | **109 070** | 305 638 |
| Telephone calls and data lines | **3 076 189** | 2 780 246 | **3 220 545** | 2 845 866 |
| Surrender to Treasury | **-** | 28 633 776 | **-** | 28 633 776 |
| Travelling and subsistence | **2 189 057** | 1 710 105 | **2 378 935** | 1 794 775 |
| | **23 860 995** | 45 014 872 | **41 261 084** | 75 900 909 |

### 22.4 STAFF COSTS

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| Salaries - medical aid contributions | **5 891 962** | 6 091 608 | **5 891 962** | 6 091 608 |
| Salaries - provident fund contributions | **3 691 557** | - | **3 691 557** | - |
| Salaries and wages* | **97 056 186** | 102 996 667 | **118 376 263** | 109 148 939 |
| Acting allowances | **3 692 989** | 855 801 | **3 692 989** | 855 801 |
| Basic salaries and savings | **81 814 466** | 81 633 454 | **81 814 466** | 81 633 454 |
| Bonusses | **6 899 890** | - | **6 899 890** | - |
| Funeral contribution | **69 720** | 73 514 | **69 720** | 73 514 |
| Housing allowances | **2 474 425** | 2 662 318 | **2 474 425** | 2 662 318 |
| Leave accrued, payment and movement | **97 253** | 1 751 323 | **97 253** | 1 751 323 |
| Long service awards | **111 591** | 1 543 564 | **111 591** | 1 543 564 |
| Meal and accommodation allowances | **71 167** | 23 503 | **71 167** | 23 503 |
| Voluntary Severance Packages | **-** | 12 648 701 | **-** | 12 648 701 |
| Subsidiary salaries | **-** | - | **21 320 077** | 6 152 272 |
| Travel allowances | **1 511 773** | 1 516 885 | **1 511 773** | 1 516 885 |
| UIF contribution | **306 922** | 281 629 | **306 922** | 281 629 |
| Wages to casuals | **5 990** | 5 976 | **5 990** | 5 976 |
| | **106 639 705** | 109 088 275 | **127 959 782** | 115 240 547 |



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

### 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.

Adjustment originates from timing delay between financial statement preparation and the assessment of the income tax by SARS. No provision has been made for the 2022 or 2021 tax expense as the company has no taxable income. In terms of Section 21(1)(a) of the Income Tax Act (No 58 of 1962), a company that does not carry on a trade during a year of assessment forfeits the right to carry forward its assessed loss from the immediate preceding year of assessment (Kangela Citrus Farms (Pty) Ltd). The deferred tax asset is derived from estimated tax losses available for set off against future taxable income for Magwa Enterprise Tea (Pty) Ltd.

In his speech in February 2022, the Minister of Finance announced a budgeted change in the corporate income tax rate from 28% to 27%. The new corporate income tax rate of 27% is effective for all financial year-ends commencing 1 April 2022. Therefore the applicable tax rate used in the tax rate reconciliation is 28% as this is the corporate tax rate still applicable as at the end of the financial period. Deferred tax, however, is measured at tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The 27% tax rate has been "substantively enacted" in South Africa with effect from the date of the budget speech. Therefore, deferred tax for the current year is measured at 27%, as the timing difference is expected to reverse in a tax period when the new tax rate will be effective.

| | Group 2022 | Group (amended) 2021 |
|---|---|---|
| **Income Tax** | **R** | R |
| Current year - normal taxation | **-** | - |
| | | |
| **Deferred tax** | | |
| Balance at the beginning of the year | **103 962 568** | - |
| Assessed loss available for future periods set-off: Magwa | **13 057 911** | - |
| Effect of tax rate changes from 28% to 27% | **(4 179 303)** | 103 962 568 |
| Balance at end of the year | **112 841 176** | 103 962 568 |
| | | |
| Comprising: | | |
| Deferred tax asset | **113 673 843** | 104 826 074 |
| Deferred tax liability | **(832 667)** | (863 506) |
| | **112 841 176** | 103 962 568 |

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

| | Group 2022 | Group 2021 |
|---|---|---|
| **Current income tax** | **R** | **R** |
| Charge for the year | (1 026 143) | (2 710 998) |
| Adjustments - other | (12 031 768) | (13 217 781) |
| Effect of tax rate changes from 28% to 27% | 4 179 303 | - |
| Pre-take-over tax | - | 3 405 436 |
| Balance at end of the year | **(8 878 608)** | (12 523 343) |
| | | |
| Comprising: | | |
| Magwa Enterprise Tea (Proprietary) Limited | (8 878 608) | (12 523 343) |
| Kangela Citrus Farms (Proprietary) Limited | **-** | - |
| | **(8 878 608)** | (12 523 343) |

### 24. OPERATING LEASE ARRANGEMENTS

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

**Operating leases where the agency/group is the lessee**

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Lease of office premises | **2 396 213** | 6 135 643 | **2 396 213** | 6 135 643 |
| Up to 1 year | **2 396 213** | 3 739 430 | **2 396 213** | 3 739 430 |
| 1 to 5 years | **-** | 2 396 213 | **-** | 2 396 213 |
| More than 5 years | **-** | - | **-** | - |

The statement of financial performance details the expenditure incurred by the agency on the operating leases. A total of R3 689 655 (2021: R4 548 302) was paid during the financial year in respect of all lease expenses. A net straight lined operating lease liability of R153 343 (2021: R265 830) exists.

The East London office lease contributes 100% (2021: 92%) of the lease expense for the next 12 months, with a current 0% (2021: 100% contribution) for the period thereafter. The lease terminates on 30 November 2022 and the agency will commence with the tender process to secure new office premises in the second quarter of the 2023 financial year.

**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. At reporting date lease contracts generating income of R142 022 (2021: R140 517) 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 (the agency does not enter into any non-cancellable operating leases).

### 25. FRUITLESS AND WASTEFUL EXPENDITURE

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Interest/Finance costs paid | **8 098** | - | **8 098** | - |
| Employee related expenditure | **-** | - | **-** | - |
| Goods/Services not delivered (Telkom & Minolta) | **-** | 117 035 | **-** | 117 035 |
| Fines and penalties | **-** | 28 806 | **232 472** | 53 268 |
| Total fruitless and wasteful expenditure for the year | **8 098** | 145 841 | **240 570** | 170 303 |
| Less: condoned by the relevant authority | **-** | (4 242) | **-** | (4 242) |
| Expenditure recovered (from prior year) | **-** | (5 684) | **-** | (5 684) |
| - Project budget recovery (prior year) | **-** | (13 971) | **-** | (13 971) |
| - Receivable at year-end (invoiced) | **-** | (43 898) | **-** | (43 898) |
| - Service delivered by supplier (subsequently) | **(13 898)** | - | **(13 898)** | - |
| - Disciplinary action taken against employee; dismissed | **-** | - | **-** | - |
| - Ongoing consultation with suppliers to reverse interest as invoices were received late | **-** | - | **-** | - |
| Expenditure not condoned by the relevant authority - carried forward | **98 851** | 660 169 | **123 313** | 660 169 |
| Expenditure condoned in current year for prior year | **-** | (639 364) | **-** | (639 364) |
| Expenditure not condoned by the relevant authority - brought forward | **93 051** | 98 851 | **349 985** | 123 313 |





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

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Opening balance | **25 652 550** | 22 811 044 | **25 652 550** | 22 811 044 |
| Add: Irregular expenditure incurred in current year | **330 802** | 2 841 506 | **2 927 366** | 2 841 506 |
| Add: Irregular expenditure incurred in prior year but identified in current year | **-** | - | **-** | - |
| Add: Irregular expenditure in the current year originating from the prior year | **-** | - | **-** | - |
| Less: Irregular expenditure condoned by the relevant authority | **-** | - | **-** | - |
| Total | **25 983 352** | 25 652 550 | **28 579 916** | 25 652 550 |

**Details of Irregular Expenditure, originating in the 2022 financial year:**
1. (ECRDA) Payments to the value of R330 802 were made to suppliers where the formal procurement procedures were not followed.
2. (Magwa) Proof of vendor registration on National Treasury Supplier database was not obtained on procurement of R867 538. The SDB 4 was not obtained from suppliers on procurement amounting to R2 596 564. The preferential point system was not used to evaluate quotes on procurement of R867 539. Three quotes were not obtained from suppliers on purchases of R451 914."
**Details of Irregular Expenditure, originating in the 2021 financial year:**
1. Payments to the value of R1 886 790 were effected to suppliers where contracts were extended beyond their engagement terms and the 15% deviation was exceeded.

2. Payments to the value of R954 716 were made to suppliers where the formal procurement procedures were not followed."

**Details of Irregular Expenditure, originating in the 2020 financial year:**
1. The month-to-month lease on the Engcobo office results in payments to the value of R199 695 during the financial year. The month-to-month lease, upon inception, was approved by the Accounting Officer.

2. Expenditure on Bids awarded, to the value of R13 913 838 are considered irregular in terms of National Treasury Instruction No. 1 of 2015/16 states which requires that PFMA compliant institutions must, through the relevant treasury, publish the awards of all advertised competitive bids on the eTender Publication Portal. ECRDA did not submit to the relevant Treasury's eTender Publication Administrator the required information of successful bidders, as a result these awards were not published on eTender Portal Publication. The ECRDA published the bids and awards on the ECRDA website in compliance with National Treasury Instruction Note 32. The bid adjudication committee was not considered to be duly constituted in terms of the Supply Chain Management Policy as the SCM Manager participated in both the Bid Evaluation Committee and Bid Adjudication Committee.

3. Payments made to suppliers exceeded contract value by R69 419 attributable to a variation/increase in scope on the original orders issued.

**Details of Irregular Expenditure, originating in prior financial years (opening balance):**
1. The agency maintained a lease contract on a month-to-month basis to operate the Engcobo office from after expiry of the contract on 30 September 2016. The expenditure incurred in the 2017 (R78 677) and the 2018 (R168 223) financial years are included in the irregular expenditure identified in the current year. In the 2019 financial year a total of R185 392 was paid in respect of the lease.

2. ECRDA, ito 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.

3. 2017/18 irregular expenditure amounted to R1m out of an awarded contract of R2m. The remaining R1m occurred in 2018/19 and related to the 2017/18 awarded contract.

## 27. BOARD MEMBERS' AND SENIOR MANAGEMENT REMUNERATION

### 27.1 Board Member Remuneration

| Board committee members | Fees 2022 R | Claims 2022 R | Fees 2021 R | Claims 2021 R |
|---|---|---|---|---|
| Nare, L., Ms | **402 856** | **3 965** | 409 920 | - |
| Korkie, J., Adv. | **265 656** | **4 038** | - | - |
| Ncwadi M., Mr | **-** | **-** | 328 871 | 265 |
| Nconyama, N., Ms | **229 328** | **24 135** | - | - |
| Mayapi, P., Adv. | **317 880** | **-** | 273 921 | - |
| Makunga, S., Mr | **325 152** | **59 926** | 325 152 | 42 598 |
| Thomas, Z., Mrs | **325 152** | **-** | 325 152 | 3 762 |
| Faku, S., Mr | **325 152** | **-** | 325 152 | - |
| Mbete, N., Ms | **332 216** | **899** | 325 152 | - |
| Petela-Ngcanga, N.B., Ms | **-** | **-** | 180 656 | - |
| Msoki, M., Mr | **263 388** | **-** | 263 388 | - |
| Maqetuka, M., Amb. | **-** | **-** | 219 490 | - |
| Jarana V., Mr | **387 492** | **-** | 216 534 | - |
| **Fees for services rendered** | **3 174 272** | **92 963** | 3 193 388 | 46 625 |
| Less: refund due to ECRDA | **-** | **-** | (43 898) | - |
| **Board fees for services rendered** | **3 174 272** | **92 963** | 3 149 490 | 46 625 |

* The Chief Executive Officer is also a member of the board.

Mr. Ncwadi, Amb. Maqetuka and Ms. Petela-Ngcanga's's services as board members ended during the 2021 financial year. Mr. Jarana was re-appointed as board member during the 2021 financial year.

Amb. Maqetuka owes the ECRDA R43 898 at 31 March 2021 in respect of board fees paid (included in note 8) as the agency was not informed of his service termination. The debt was settled in the 2022 financial year.

The Board members' remuneration constitutes fees paid to individuals to oversee the Governance of the entity. Apart from a reimbursement for travel expenses and normal subsistence and travelling required to attend board meetings, no other payments are effected or accrued to any Board member. As such, no basic salaries, bonuses, short or long term benefits, termination and/or post employment benefits, commission or other benefits accrue to Board members. The nature of the relationship is strict Governance and Oversight as required.

Other than the board fee repayment of Amb Maqetuka (2021), there are no balances due by or to any Board member at reporting date, while no commitments exist.

Due to the Board members' remuneration constituting fees for work performed, the transactions do not require special terms and conditions, security, guarantees, any provisions for doubtful debts, the recognition of any bad debts, the sale of inventory or assets, lease agreements, research and development payments or financing arrangements. All payments to the Board members are considered as part of the normal operating parameters of the ECRDA as per our legal mandate.





### 27.2 Senior Management Remuneration

| Agency - 2022 | Salary, Bonus & Savings R | Settlement and VSP R | Other benefits R | Total R |
|---|---|---|---|---|
| dladla n., Mr - Chief Executive Officer* | 2 670 398 | 2 670 398 | 85 700 | **5 426 497** |
| Simukonda N., Mr - Chief Operations Officer | 2 329 765 | - | 109 809 | **2 439 574** |
| Baxter J., Mrs - Chief Financial Officer | 2 088 529 | - | 59 420 | **2 147 949** |
| Gardner C., Mr - Corporate Services Executive | 1 999 771 | - | 45 427 | **2 045 198** |
| | **9 088 464** | **2 670 398** | **300 356** | **12 059 218** |

| Agency - 2021 | Salary & Savings R | Settlement and VSP R | Other benefits R | Total R |
|---|---|---|---|---|
| dladla n., Mr - Chief Executive Officer | 2 480 784 | - | 47 192 | **2 527 976** |
| Simukonda N., Mr - Chief Operations Officer | 2 019 780 | - | 59 312 | **2 079 092** |
| Baxter J., Mrs - Chief Financial Officer | 1 914 870 | - | 43 680 | **1 958 550** |
| Gardner C., Mr - Corporate Services Executive | 1 857 775 | - | 43 680 | **1 901 455** |
| | **8 273 209** | **-** | **193 864** | **8 467 073** |

* A legal matter between the ECRDA Board and Mr. Dladla resolved a settlement payment, terminating his services at 31 March 2022.

Executive management are remunerated for services rendered as employees of the Agency. Remuneration constitutes a basic salary which can be structured to comprise of a basic salary, a savings portion, a housing allowance and a vehicle allowance. Bonuses as a thirteenth cheque have been effected to all employees during the 2022 financial year - including executive management members.

Short-term benefits to management comprise normal leave accrued as per the Human Resources Policy of the ECRDA. This policy does not allow for any post employment, termination or long-term benefits and does not allow management to earn commission or other benefits not regulated in the approved policy and appointment letters of management. All payments to management are therefore per the normal operating parameters established by its legal mandate. Transactions with management are therefore remuneration paid for work performed as a normal employee and does not entail any commitments, special terms and conditions, security, guarantees, provisions for doubtful debts, recognition of bad debts, finance arrangements, research and development purchased, lease transactions or any licencing agreements. In the event that an executive member transact with the ECRDA it is under normal operating procedures applicable to all staff, customers and suppliers.

## 28. RELATED PARTY TRANSACTIONS

| Transactions and balances | Agency 2022 R | Agency (amended) 2021 R |
|---|---|---|
| Department of Rural Development and Agrarian Reform (operating grant and transfer payments) | **217 518 191** | 231 189 000 |
| Department of Rural Development and Agrarian Reform (specific additional project funding) | - | 13 087 000 |
| Department of Rural Development and Agrarian Reform (EPWP: administered fund) | **15 090 000** | 10 639 822 |
| Kangela Citrus Farms (receivable at fair value) | **10 213 180** | 10 245 869 |
| Kangela Citrus Farms (receivable paid to ECRDA during the year) | **-** | - |
| Kangela Citrus Farms (interest charged on loan during the year) | **519 724** | 979 517 |
| Kangela Citrus Farms (interest written off/reversed on loan in respect of prior years) | **(281 013)** | - |
| Kangela Citrus Farms (revenue collected and paid over during the year) | **-** | - |
| Magwa Tea - budget allocation and additional funds transferred | **41 853 000** | 47 263 000 |
| Magwa Tea - receivable at fair value | **-** | |
| DEDEAT - Stimulus Fund (received from Government) | **-** | 910 000 |

Transactions with board members and management are detailed in note 27.

All Departments and Entities within the Province are considered to be related parties in terms of GRAP 20(05).

**Transactions with the Eastern Cape Provincial Government during the year**
The agency received (and accrued) a grant of R232 608 191 (2021: R231 189 000) from the Eastern Cape Department of Rural Development and Agrarian Reform (DRDAR) during the year for operating activities. Included in the operational funds is the Government allocation for Magwa Enterprise Tea (Pty) Ltd of R41 853 000 (2021: R47 263 000) as the company's shares were transferred to the ECRDA on 18 September 2020. At 31 March 2022 a total of Rnil of the allocated funds (2021: 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 Rural Development and Agrarian Reform**
In October 2020, the ECRDA was appointed to administer and pay-out casual labour payments on behalf of the Department, and to procure associated protective clothing and personal protective consumables required by these Departmental labourers. R10 639 822 was paid to the ECRDA in December 2020, allowing payrolls totalling R5 725 506 (net) to be disbursed during the financial year, and project administration fees of R59 040 earned by the ECRDA. At reporting date the cash available in the ring-fenced administration fund was R4 982 846 (note 6 and 18) with a total of R14 100 due to the ECRDA for project implementation (note 8). The fund balance of R4 983 000 was returned to the Department as part of the surrender instruction.

Included in the Government Grant allocated and paid to the ECRDA in the 2022 financial year, is R15 090 000 to administer the EPWP programme. The ring-fenced funds attracted interest of R71 102 while bank charges of R1 140 was paid. Net salaries to the value of R14 428 280, payroll processing fees of R92 414 and protective clothing of R387 040 were funded through the programme. The ECRDA charged administration fees of only R34 770 from the fund as the Department amended the contractual conditions during the financial year. At 31 March 2022 the ring-fenced fund balance of R203 204 needs to be returned to the Department.



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

## 28. RELATED PARTY TRANSACTIONS (CONTINUE)

The agreement entered into requires of the ECRDA to act as an agent for the Department (principal) to perform administrative functions on its behalf. The ECRDA's administrative functions includes assistance with Supply Chain Management Procedures to procure the protective clothing for the workers; Payroll functions to record salaries and wages due to the workers employed by the Department on the EPWP programme; and Finance functions to pay over the salaries and wages and procured items to suppliers; and to report on activities undertaken. The Department remains responsible for the accuracy, completeness and validity of all payroll instructions submitted to the ECRDA to execute, and remains responsible to the employees to address any queries.

| | 2022 | 2021 |
|---|---|---|
| Fund balance from prior year | 4 982 846 | - |
| Funds paid to the ECRDA to manage on behalf of the Department (note 18) | 15 090 000 | 10 639 822 |
| Interest earned on ring-fenced bank account | 71 102 | 42 199 |
| Funds surrendered to the Department | (4 983 000) | - |
| Payrolls processed (net rejections and bank charges) | (14 429 420) | (5 654 235) |
| Non-salary payments processed | (479 454) | |
| Agent fees accrued from prior year paid | (14 100) | |
| Agent fees paid to ECRDA for administration | (34 770) | (44 940) |
| Cash held on behalf of the Department (note 6) and available for project implementation (note 18) | 203 204 | 4 982 846 |
| Agency fees to be recovered from the fund/cash | - | (14 100) |

***Department of Economic Development, Environmental Affairs and Tourism***
The Department appointed the Agency to administer their Stimulus project during the 2020 financial year. R18 715 000 was transferred to the Agency for project implementation. At 31 March 2020 a total of R222 895 interest was earned on the ring-fenced funds while disbursements amounted to R14 271 113. The unspent funds of R4 666 782 (accrued in note 14) was surrendered in March 2021. As the project was not completed at 31 March 2020, the ECRDA contributed R1 870 050 to the project during the 2021 financial year to fund disbursements of R1 998 438. The R129 073 interest earned during the 2021 funded the project disbursements. In January 2021, the Department of Rural Development and Agrarian Reform contributed R910 000 toward the stimulus project. This unspent contribution was accrued in note 14 and was surrendered.

**Magwa Enterprise Tea (Pty) Ltd (MET)**
A total of R41 853 000 (2021: R47 263 000) was allocated to the MET as per the Provincial Budget allocation from the Department of Rural Development and Agrarian Reform (DRDAR). The full amount was disbursed to the entity in the 2022 financial year. In the 2021 financial year, disbursements to the estate amounted to R47 218 668, with a receivable of R44 332 that originated in the 2020 financial year, recovered in the 2021 financial year.

The shares of the Magwa Enterprise Tea (Pty) Ltd transferred to the ECRDA on 18 September 2020 as a transfer under common control. No consideration was paid for the shares transferred, and no assets was given up as consideration thereof. The operations of the Magwa Enterprise Tea is funded through Government Grants, paid to the Tea Estate via the ECRDA as per the approved budget, and tea sales. The ECRDA, as 100% shareholder, fully consolidate the financial balances and transactions of the Magwa Enterprise Tea (Pty) Ltd on a line-by-line basis. The company has its own board of directors and is managed by the ECRDA through secondment of the General Manager. The ECRDA does not instructor approve daily operations and/or policies of the Tea Estate.

### 28. RELATED PARTY TRANSACTIONS (CONTINUE)

At take-over date (18 September 2020), the following assets, liabilities and contingencies accrued to the ECRDA:

| | |
|---|---|
| **Current Assets** | **R** |
| Cash and cash equivalents | 10 398 993 |
| Trade and other receivables: Exchange | 6 872 628 |
| Inventories | 23 890 384 |
| | 41 162 005 |
| **Non-current Assets** | |
| Property, Plant and Equipment | 10 123 531 |
| Biological assets | 3 091 448 |
| Deferred tax | 92 279 550 |
| | 105 494 529 |
| **Total Assets** | 146 656 534 |
| **Current Liabilities** | |
| Trade and other payables | 1 912 498 |
| **Non-current Liabilities** | |
| Deferred tax | 865 605 |
| **Total liabilities** | 2 778 103 |
| **Total assets less total liabilities** | **143 878 431** |
| **Net Assets** | |
| Accumulated surplus | **143 878 431** |

*The related parties listed in this note have an operational relationship with the ECRDA where all transactions are incurred and managed in normal arm's length transactions and are governed in signed agreements. Balances outstanding are disclosed in full while no commitments exist with any of these parties at reporting date. The transactions incurred have no special terms and conditions/guarantees/collaterals and no provisions for bad debts have been raised nor any written off. The payables and receivables stated per party are per arm's length transactions as inventory/assets/services/leases or any other transaction are not incurred at any term or condition other than the normal operating parameters of the enabling legislation of the ECRDA.*

### 29. ADMINISTERED FUNDS

The agency administers funds on behalf of various departments (mainly the Department of Rural Development and Agrarian Reform and the Department of Agriculture, Forestry and Fisheries). 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 for amounts due for commission fees receivable at the reporting date (and comparative information).

**Transactions between the agency and Kangela Citrus Farms (Proprietary) Limited**

No voted funds was received from the Department as part of the operational grant of the agency for either the 2022 or the 2021 financial years. The agency has a 51% shareholding in the subsidiary and considers Kangela Citrus Farms as a Rural Enterprise Development Hub. An unsecure loan of R13 175 000 was paid to the company in the 2018 financial year. The loan agreement required full repayment on 31 March 2019, which did not realise.

No repayments were made on the loan in either the 2022 or 2021 financial years. Interest of R519 723 (2021: R979 517) was raised during the financial year with an interest adjustment by rural finance, as approved by the CEO, in the current year of R281 013 in respect of the 2021 financial year. The loan system does not allow posting in prior periods, thereby restricting the restatement of the loan balances in prior years. The receivable at reporting date amounts to R10 213 180 (2021: R10 245 869). Due to the loan being past expiry date, it is impaired (note 7).



### 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 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| Surplus/Deficit for the year (refer to the statement of financial performance) | **(8 641 227)** | (7 647 120) | **(3 702 714)** | 7 107 973 |
| *Adjusted for:* | | | | |
| Initiation fees & net margin on loans | **(2 820 145)** | 35 366 569 | **(2 592 649)** | 37 836 379 |
| Subsidy costs on concessionary loans | **191 325** | 565 598 | **191 325** | 565 598 |
| Fair Value Adjustments & Reversal of Provisions | **(1 929 122)** | (33 305 492) | **(1 929 122)** | (33 305 492) |
| Profit / loss on disposal of property, plant and equipment | **113 725** | 522 772 | **113 725** | 530 272 |
| Bad debts - rental and other income | **-** | 1 792 410 | **106 881** | 2 160 578 |
| Fair value adjustments - biological assets | **-** | - | **-** | (71 726) |
| Fee - MAFISA Scheme | **428 027** | 406 383 | **428 027** | 406 383 |
| Minor assets expensed | **21 604** | 145 888 | **191 004** | 158 833 |
| Dividends: New Republic Bank | | (457 246) | **-** | - |
| Impairment Loss | **5 263 433** | - | **5 263 433** | - |
| Commission fees for managing projects (accrued) | **(2 436 363)** | (2 514 828) | **(2 436 363)** | (3 818 834) |
| Surrender of funds | **-** | 28 633 775 | **-** | 28 633 775 |
| Depreciation | **4 628 925** | 3 682 928 | **7 097 649** | 5 107 324 |
| Fair value adjustments | **420 490** | - | **8 555 344** | 25 560 056 |
| Invoices received and paid in subsequent year | **(546 875)** | 402 416 | **(546 875)** | 402 416 |
| Project implemented on behalf of funders (DRDAR, DEDEAT & OTP) | **(8 500 000)** | 12 459 822 | **(8 500 000)** | 12 459 822 |
| Surplus per approved budgets | **(13 806 204)** | 40 053 876 | **2 239 665** | 83 733 359 |

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

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 | 2021/2022 | Basis | Agency | Timing |
|---|---|---|---|---|
| Net Cash Flows from Operating Activities | | | | |
| Per AFS | (37 688 119) | | | |
| Per MTEF Budget estimated outcomes | 6 783 000 | | | |
| Difference | (44 471 119) | x | | |
| Net Cash Flows from Investing Activities | | | | |
| Per AFS | (1 334 827) | | | |
| Per MTEF Budget estimated outcomes | (2 444 000) | | | |
| Difference | 1 109 173 | x | | |
| Net Cash Flows from Financing Activities | | | | |
| Per AFS | (1 816 633) | | | |
| Per MTEF Budget estimated outcomes | - | | | |
| Difference | (1 816 633) | x | | |
| Total | (45 178 578) | | | |

### 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.

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. Since then, the virus has spread to more than 100 countries, including South Africa. On 23 March 2020, President Cyril Ramaphosa announced a new measure to combat the spread of the Covid-19 coronavirus in South Africa – a three-week nationwide lockdown with severe restrictions on travel and movement. Even though the lockdown has been extended, operations did not cease completely. Management and support/administrative staff could all proceed with daily activities and deadlines remotely while the lifting of the lockdown to level 4 at the end of April 2020, allowed the Hubs to continue operations. The State of Disaster was lifted towards the end of the 2022 financial year, but the economy remains unstable. The Board and Management are not aware of any other material event which occurred after the reporting date and up to the date of this report.

### 32. STANDARDS AND INTERPRETATION NOT YET EFFECTIVE AS AT 31 MARCH 2022

The Minister of Finance, acting in terms of section 91(1)(b) and (c) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), has made regulations prescribing the following standards of generally recognised accounting practice set out in the Schedule with the following implementation dates:

| Reference | Topic | Implementation date |
|---|---|---|
| GRAP 104 (amended) | Financial Instruments | 1 April 2025 |
| GRAP 25 (amended) | Employee benefits | No date announced yet |

Note 5 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 board members 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 of the ECRDA has been prepared on a going concern basis. Kangela Citrus Farms (Pty) Ltd ceased operations on 3 October 2018 and the financial statements was compiled on the discontinued operations basis of accounting.

The shares of the Magwa Enterprise Tea (Pty) Ltd transferred to the ECRDA on 18 September 2020. Without continued support from Government, the ECRDA cannot sustain the operations of the Tea Estate. The budget allocation for the 2022/2023 financial year includes funding for the Tea Estate operations.

The board members have satisfied themselves that the ECRDA in a sound financial position and has access to funds to meet it's foreseeable future requirements. The board members 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

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | **Amortised Cost** | Amortised Cost | **Amortised Cost** | Amortised Cost |
| Trade and other payables | **29 035 847** | 69 781 819 | **30 757 526** | 72 626 095 |
| Loan from South African Fruit Exporters (SAFE) | **-** | - | **21 980 575** | 21 980 575 |
| | **29 035 847** | 69 781 819 | **52 738 101** | 94 606 670 |

#### 34.2 Financial Assets by Category

The accounting policies for financial instruments have been applied to the line items below

| | Agency 2022 | | |
|---|---|---|---|
| | **Fair Value** | **Amortised Cost** | **Cost** |
| Cash and cash equivalents | **-** | **-** | **61 782 898** |
| Trade and other receivables | **1 835 818** | **-** | **-** |
| Loans and advances to customers | **-** | **1 945 938** | **-** |
| Investments under contingency policy * | **11 982 478** | **-** | **-** |
| | **13 818 296** | **1 945 938** | **61 782 898** |

| | Agency (amended) 2021 | | |
|---|---|---|---|
| | Fair Value | Amortised Cost | Cost |
| Cash and cash equivalents | - | - | 102 734 411 |
| Trade and other receivables | 2 516 921 | - | - |
| Loans and advances to customers | - | 5 434 211 | - |
| Investments under contingency policy * | 11 559 688 | - | - |
| | 14 076 610 | 5 434 211 | 102 734 411 |

| | Group 2022 | | |
|---|---|---|---|
| | **Fair Value** | **Amortised Cost** | **Cost** |
| Cash and cash equivalents | **-** | **-** | **64 790 814** |
| Trade and other receivables | **38 616 851** | **-** | **-** |
| Loans and advances to customers | **-** | **1 945 938** | **-** |
| Investments under contingency policy * | **11 982 478** | **-** | **-** |
| | **50 599 329** | **1 945 938** | **64 790 814** |

| | Group (amended) 2021 | | |
|---|---|---|---|
| | Fair Value | Amortised Cost | Cost |
| Cash and cash equivalents | **-** | **-** | **105 479 297** |
| Trade and other receivables | **40 654 492** | **-** | **-** |
| Loans and advances to customers | **-** | **5 434 211** | **-** |
| Investments under contingency policy * | **11 559 688** | **-** | **-** |
| | **52 214 181** | **5 434 211** | **105 479 297** |

* The financial instruments per category (note 34) provides additional disclosed information and does not affect the reporting on the statement of financial position. In assessing the accounting policies, the investment under contingency policy have been reassessed to be classified as a fair valued instrument, rather than at amortised cost as previously stated. This amendment is as a result of the market rates and inflation impacting more on the growth of the investment than the amortisation model.

### 34.3 Effect of finance costs, gains and losses on financial instruments

| | Group | | |
|---|---|---|---|
| | 2022 | | |
| | **Fair Value** | **Amortised Cost** | **Cost** |
| Revenue affected by financial instruments | **1 822 946** | **2 592 649** | **1 701 739** |
| Expenses affected by financial instruments | **( 151 881)** | **( 670 975)** | **( 266 501)** |
| Gains/Losses arising from financial instruments | **(1 575 424)** | **(5 263 433)** | **-** |
| | **95 641** | **(3 341 759)** | **1 435 238** |
| | 2021 (amended) | | |
| | **Fair Value** | Amortised Cost | Cost |
| Revenue affected by financial instruments | 1 635 617 | 3 713 218 | 1 461 258 |
| Expenses affected by financial instruments | (2 205 578) | (42 578 629) | ( 289 408) |
| Gains/Losses arising from financial instruments | (1 204 782) | 33 087 909 | - |
| | (1 774 743) | (5 777 502) | 1 171 850 |

Financial instruments held at cost comprise cash and cash equivalents. Interest earned on cash balances and bank charges are impacted by the instrument.

Financial instruments held at amortised cost comprise loans and advances to customers. Interest earned, concessionary interest earned, the recovery of bad debts written off and loan initiation fees affect revenue received and bad debts written off, lost securities, roadshows to sell the products, enquiry fees and debt collection fees are expenses affected by the instrument. Gains/Losses on the loans and advances are impacted by fair value adjustments and impairments thereon.

Financial instruments held at fair value comprise trade and other receivables and the contingent policy investment. Rental charges and interest earned (revenue), bad debts written off and admin fees (expenses) and fair value adjustments and impairments (gains/losses) are affected by these instruments.

| | Group | |
|---|---|---|
| **Financial instruments at fair value** | **2022** | **2021** |
| Rental income from investment property | **1 822 946** | 1 635 617 |
| **Revenue affected by financial instruments** | **1 822 946** | 1 635 617 |
| Administration fee - Guardrisk | **(45 000)** | (45 000) |
| Bad debts - rental and other income | **(106 881)** | (2 160 578) |
| **Expenses affected by financial instruments** | **(151 881)** | (2 205 578) |
| Impairment of rent | **(1 554 654)** | (1 226 661) |
| Fair value adjustments on Guardrisk and debtors | **(20 770)** | 21 879 |
| **Gains/Losses arising from financial instruments** | **(1 575 424)** | (1 204 782) |

| | Group | |
|---|---|---|
| **Financial instruments at amortised value** | **2022** | 2021 |
| Interest income on loans and advances | **1 610 360** | 2 357 437 |
| Interest on concessionary loans | **718 691** | 1 135 018 |
| Recovery of loans and advances previously written off | **222 688** | 181 663 |
| Loan initiation fees | **40 910** | 39 100 |
| **Revenue affected by financial instruments** | **2 592 649** | 3 713 218 |



EASTERN CAPE RURAL DEVELOPMENT AGENCY
Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

### 34.3 Effect of finance costs, gains and losses on financial instruments (continued)

| | | |
|---|---|---|
| Write off of irrecoverable debts | **-** | (41 549 597) |
| Debt collection service fees | **-** | (1 389) |
| Enquiry Fees | **(51 623)** | (55 422) |
| Fee - MAFISA Scheme | **(428 027)** | (406 383) |
| Lost securities | **-** | (240) |
| Rural finance roadshow | **-** | - |
| Social benefit from concessionary loans | **(191 325)** | (565 598) |
| **Expenses affected by financial instruments** | **(670 975)** | (42 578 629) |
| Impairment reversed (loans and advances) | **-** | 33 087 909 |
| Bad debts - Loans/movement in impairment | **(5 263 433)** | - |
| **Gains/Losses arising from financial instruments** | **(5 263 433)** | 33 087 909 |

| **Financial instruments at cost** | **2022** | 2021 |
|---|---|---|
| Interest income on cash and investments | **1 701 739** | 1 461 258 |
| **Revenue affected by financial instruments** | **1 701 739** | 1 461 258 |
| Bank charges | **(266 501)** | (289 408) |
| **Expenses affected by financial instruments** | **(266 501)** | (289 408) |
| **Gains/Losses arising from financial instruments** | **-** | - |

**Financial liabilities** comprise the group SAFE loan and Trade and other payables at amortised cost. There has been no movement on the SAFE loan since 2019, and thus no impact on revenue, expenses or any gains/losses on financial instruments. As all procurement at the agency is through credit purchases, all expenses and administration implementation is funded through the Trade and Other Payables.

| **Financial (liability) instruments at amortised cost** | **2022** | 2021 |
|---|---|---|
| Payments to suppliers (expenses) | **(117 196 761)** | (116 858 066) |
| Fair value adjustments on payables (gains/loss) | **-** | 71 726 |
| Interest charged/finance charges/penalties on late payments (expenses) | **(253 076)** | (65 796) |

### 34.4 Aging and performance of financial instruments

Financial instruments held at cost (cash and cash equivalents) are not due nor past due and impairment is not applicable on the instrument.
Financial instruments held at amortised cost assets (loans and advances from customers) are individually assessed for impairment. Refer to note 7 for the analysis of the impairment and aging. The financial liabilities were assessed and where payment is not expected to be realised in 30 days, the present value was recorded. In the 2021 financial year only the Voluntary Severance Packages were affected, where the amortisation of R71 726 was reported. Impairment was not required on any payables.

Financial instruments held at fair value represents the contingency investment policy and the trade and other receivables. Aging is not applicable to the contingency policy. Note 8 contains the aging analysis on the rent receivable. The following receivables are not impaired, as -
- Interest accrued is not past due, but is realised on 1 April annually;
- Deposits held are not past due as it is held for the lease term as security to damages and/or arrear payments;
- Prepaid expenses are not impaired as the receivable arose due to the payment of expenses for services renderable immediately;
- Rent receivable have been assessed per individual tenant and impairment was calculated on the receivable. Although deposits are held on these lease contracts, it is not sufficient to mitigate the payment default rates. Note 8 details the total impairment of R1 554 655 (2021: R1 226 661) calculated on the rental receivable of R1 661 192 (2021: R1 322 103).
- Staff and other debtors comprise staff debt; project implementation fees and expense and sundry debtors. The balances are all past due, but not impaired as recovery is managed and defaults are not a risk.

### 34.5 Maturity and sensitivity

Trade and other payables (note 14) and the SAFE group loan (note 17) are financial liabilities held by the group at amortised cost. In assessing the maturity of these financial instrument liabilities, the expected cash-flow -

| | **2022** | 2021 | **Expected settlement/cashflow** |
|---|---|---|---|
| Amounts due to customers with credit balances | 2 313 023 | 2 342 228 | Immediate and ongoing |
| Funds payable to Treasury | 9 693 869 | 35 940 412 | 0 - 3 months |
| Rent received in advance | 59 317 | 94 081 | 0 - 3 months |
| Other payables | 7 922 576 | 11 698 870 | 0 - 3 months |
| Accruals | 1 963 029 | 12 651 414 | 0 - 3 months |
| Leave pay accrual | 7 392 865 | 8 322 433 | Immediate and ongoing |
| Savings (own bonus) accrual | 1 259 504 | 1 310 827 | Immediate and ongoing |
| Operating lease straight-line | 153 343 | 265 830 | 0 - 6 months |
| | **30 757 527** | 72 626 095 | |
| SAFE loan | **21 980 575** | 21 980 575 | 6 - 12 months |
| Financial liabilities | **52 738 102** | 94 606 670 | |

In analysing the sensitivity analysis on the financial instrument liabilities:

| | **2022** | Inflation risk/Interest risk/Market risk | 1% change in inflation/interest | Risk impact on average settlement/ Liquidity risk |
|---|---|---|---|---|
| Trade and other payables | 30 757 527 | Low | 307 575 | 830 |
| SAFE loan | 21 980 575 | Low | 219 806 | 2 198 |
| Liquidity risk - current exposure | | | | 3 028 |

The agency manages the liquidity risk (also refer to note 21) through:
- A confirmed budget from the Provincial Government for the 2022/2023 financial year.
- The roll-over request to Treasury to allow the agency to retain the funds needed to settle the payables (note 14).
- A commitment by the agency to settle debts as and when due to avoid increased charges/fees/penalties/fines.
-Good governance allows the agency to immediately apply for the 2023 quarterly tranche to assist the agency to fund operations.

The financial asset instruments of the agency:

| | **2022** | 2021 | Expected recovery/usage |
|---|---|---|---|
| Cash and cash equivalents | **64 790 814** | 105 479 297 | Immediate and ongoing |
| Trade and other receivables | **38 616 851** | 40 654 492 | Immediate and ongoing |
| Loans and advances to customers | **1 945 938** | 5 434 211 | Immediate and ongoing |
| Investments under contingency policy | **11 982 478** | 11 559 688 | Later than 12 months |

In analysing the sensitivity analysis on the financial instrument assets:

| | **2022** | Inflation risk/Interest risk/Market risk | 1% change in inflation/interest | Risk impact on average settlement/ Liquidity risk |
|---|---|---|---|---|
| Cash and cash equivalents | 64 790 814 | None | None | None |
| Trade and other receivables | 38 616 851 | Low | 386 169 | 188 175 |
| - Interest accrued | 145 971 | Low | 1 460 | 122 |
| - Deposits | 271 735 | Low | 2 717 | 2 717 |
| - Trade and other receivables | 5 756 333 | Low | 57 563 | 28 782 |
| - Kangela Empowerment Trust | 5 996 941 | Low | 59 969 | 29 985 |
| - SAFE sales | 24 785 607 | Low | 247 856 | 123 928 |
| - Staff and other debtors | 195 368 | Low | 1 954 | 977 |
| - Prepaid expenses | 1 358 355 | Low | 13 584 | 1 132 |
| - Rent receivable net impairment | 106 541 | Low | 106 541 | 533 |
| Loans and advances to customers | 1 945 938 | Low | 1 945 938 | 9 730 |
| Investments under contingency policy | 11 982 478 | Low | 11 982 478 | 119 825 |
| Liquidity risk - current exposure | | | | 317 729 |



### 34.6 Risk exposure

The agency is exposed to the following risks (also refer to notes 7 and 21):

| | **Capital risk** | **Credit risk** | **Market risk** | **Liquidity risk** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | High | Low | Low | Low |
| Trade and other receivables | Low | Medium | Low | Medium |
| Loans and advances to customers | High | High | Low | Medium |
| Investments under contingency policy | Low | Low | Low | Medium |
| **Financial liabilities** | | | | |
| Trade and other payables | Low | Medium | Low | Low |
| SAFE loan | Low | Medium | Low | Low |

The agency cannot fund operations, loans or the subsidiaries without the continued support through government grants. The credit risk refers to the risk that the counterparties do not honour payment obligations - which is evident from the high impairment rate on the loans and advances. Note 21 details the risks assessed.

## 35. COMPARATIVE FIGURES

ECRDA accrued for the surrender of the R19 836 472 unspent funds in note 14 for the financial year ended 31 March 2021. The roll-over application was however not approved by Provincial Treasury, resulting in the surrender of an additional R8 797 192 by ECRDA and the R4 983 846 EPWP funding. The additional payable therefore needs to be accrued on the 2021 comparative figures.

During the 2022 audit, the AGSA indicated that ECRDA need to amend the financial statements to derecognise the revenue and expenses on transfer payments, i.e. Magwa Tea funding (R47 263 0000) and the Stimulus funding (R910 000). The statement of financial performance was adjusted accordingly.

The in-duplum mathematical calculations on the loans system did not recognise the loan capital on loans captured as balances brought forward on the system. The system requires the disbursed and loan capital fields to be populated to correctly apply the in-duplum testing and interest calculations. New mathematical equations had to be developed by the system programmers to overcome this error, resulting in an adjustment on the 2020 and 2021 balances. The accumulated surplus as at 31 March 2020 had to be debited with R6 486 282, with the credit affecting the impairment of loans balance in the statement of financial position. (The loans and advances (debtors) due by customers were debited and credited with the same balance, resulting in a nil adjustment). The 2021 correction resulted in a debit of R2 085 787 on interest charged on loans and advances, with the resulting credit on the impairment of loans (statement of financial performance) (again having a nil effect the loan balances by debiting and crediting the account with the same amount).

In addition to the correction above, a further correction was required for the impact of the in-duplum reversal on the commission earned on managing the MAFISA loan book as it is linked to a percentage of interest earned on the loan book. The 2022 correction included a decrease in commission income of R1597751, increase in interest income from loans of R1826001and decrease deferred income of R228250. The 2021 restatement included a decrease in commission income of R1304006, increase in interest income from loans of R1490292 and decrease deferred income of R186286.

In order to enhance disclosure, the carrying value of the ECRDA loan book has been classified between non-current assets and current assets, whereas all loans were previously classified as current assets. The impact is contained in the table below.
A supplier invoice of R1 408 005 relating to disbursements on the Stimulus Fund was "cancelled" in the 2022 financial year when a credit note was received from the supplier. The transaction, dated 31 March 2020 therefore had to be cancelled on the administered fund. The cancellation has no effect on the balances reported, but affects the content of note 14 on payables.

Supplier invoices received and dated in the reported financial year (2022) amounting to R402 416 related to services rendered in the 2021 financial year and R178 007 related to the 2020 financial year. The expenditure was realised in the comparative figures to recognise the accruals.

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Notes to the consolidated annual financial statements (continued) for the year ended 31 March 2022

**Statement of Financial Performance**

| | Balance previously reported | | Restated balance | | Error corrected [Group effect] |
|---|---|---|---|---|---|
| | Agency | Group | Agency | Group | |
| **Revenue** | | | | | |
| Government Grants | 254 915 822 | 254 915 822 | 206 742 822 | 254 005 822 | (910 000) |
| Interest income on loans and advances | 5 422 741 | 4 443 224 | 4 827 247 | 3 847 730 | (595 494) |
| Impairment reversed (loans and advances) | 30 022 605 | 31 002 122 | 32 108 392 | 33 087 909 | 2 085 787 |
| Commission fees for managing projects | 3 818 834 | 3 818 834 | 2 514 828 | 2 514 828 | (1 304 006) |
| **Expenses** | | | | | |
| Surrender of funds to Treasury (own) | 19 836 584 | 19 836 584 | 28 633 776 | 28 633 776 | 8 797 192 |
| Administrative expenses | 8 650 195 | 9 121 141 | 8 941 747 | 9 412 694 | 291 553 |
| Transfer and other payments | 58 812 824 | 11 549 824 | 10 639 824 | 10 639 824 | (910 000) |
| Other operating expenses | 44 904 008 | 75 790 045 | 45 014 872 | 75 900 909 | 110 864 |
| Impact on the financial performance | | | | | **7 565 895** |

**Statement of Financial Position**

| | Balance previously reported | | Restated balance | | Error corrected |
|---|---|---|---|---|---|
| | Agency | Group | Agency | Group | [Group effect] |
| loans and advances to customers (current) | 17 085 841 | 17 085 841 | 10 599 559 | 10 599 559 | -6 486 282 |
| Impact on total assets | | | | | -6 486 282 |
| Reclassified as: | 17 085 841 | 17 085 841 | 5 434 211 | 5 434 211 | |
| Current Assets | | | | | |
| Non Current Assets | - | - | 5 165 348 | 5 165 348 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 55 421 357 | 58 265 633 | 69 781 819 | 72 626 095 | 14 360 462 |
| Liabilities arising from non- exchange transactions | 5 399 410 | 5 399 410 | 416 564 | 416 564 | -4 982 846 |
| Deferred grant income arising from non-exchange transactions | 23 086 303 | 23 086 303 | 22 900 016 | 22 900 016 | (186 287) |
| **Equity** | | | | | |
| Accumulated surplus | 21 195 579 | 167 179 817 | 5 704 255 | 151 502 205 | -15 677 612 |
| **Impact on total equity and liabilities** | | | | | **-6 486 282** |

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Notes to the consolidated annual financial statements (continued)

### 36. Consolidated segment report of financial position as at 31 March 2022

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

**2022**

| | Admin (non-segment) | East London Project management | Branches Rural Finance | Segments total | Subsidiaries Magwa | Subsidiaries Kangela Citrus | Statement of financial position (group) |
|---|---|---|---|---|---|---|---|
| | R | R | R | R | R | R | R |
| **ASSETS** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | 23,836,427 | - | 37,946,471 | 37,946,471 | 557,644 | 2,450,272 | **64,790,814** |
| Trade and other receivables | 1,729,278 | - | 106,540 | 106,540 | 5,982,510 | 30,798,523 | **38,616,851** |
| Inventories | 78,970 | - | - | - | 10,680,372 | - | **10,759,342** |
| Loans and advances to customers | - | - | 136 572 000 | 136 572 000 | - | (10 213 180) | **126 358 820** |
| Less: Credit impairments on loans | - | - | (130 376 104) | (130 376 104) | | 10 123 180 | **(120 162 924)** |
| Net loans and advances to customers | - | - | 6 195 896 | 6 195 896 | - | | **6 195 896** |
| Of which the following portion is current | | | | 1 945 938 | - | - | 1 945 938 |
| | 25 644 675 | - | 39 998 949 | 39 998 949 | 17 220 526 | 33 248 795 | **116 112 945** |
| **Non-current assets** | | | | | | | |
| Net loans and advances to customers | | | **4 249 958** | **4 249 958** | - | - | **4 249 958** |
| Deferred tax | - | - | - | - | 113,673,843 | - | **113,673,843** |
| Bearer biological assets | - | - | - | - | 3,083,948 | - | **3,083,948** |
| Investment under contingency policy | 11 982 478 | - | - | - | - | - | **11 982 478** |
| Investment property | - | - | 1 572 631 | 1 572 631 | - | - | **1 572 631** |
| Property, plant and equipment | 6 801 692 | - | 5 077 951 | 5 077 951 | 8 511 571 | - | **20 391 214** |
| Intangible assets | 402 599 | - | - | - | - | - | **402 599** |
| | 19 186 769 | - | 10 900 540 | 10 900 540 | 125 269 362 | - | **155 356 670** |
| **Total assets** | 44 831 444 | - | 50 899 489 | 50 899 489 | 142 489 888 | 33 248 795 | **271 469 616** |
| **LIABILITIES** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Finance lease obligations | 1 516 075 | - | 133 059 | 133 059 | - | - | **1 649 134** |
| Deferred grant income arising from non-exchange transactions | - | - | 25 060 311 | 25 060 311 | - | - | **25 060 311** |
| Trade and other payables Loan from South African Fruit Exporters | 29 035 847 | - | - | - | 1 174 329 | 547 350 | **30 757 526** |
| Exporters | - | - | - | - | | 21 980 575 | **21 980 575** |
| Liabilities arising from non-exchange transactions | - | 342 862 | - | 342 862 | - | | **342 862** |
| | 30,551,922 | 342 862 | 25 193 370 | 25 536 231 | 1 174 329 | 22 527 925 | **57 262 483** |
| **Non-current liabilities** | | | | | | | |
| Finance lease obligations | 1 136 087 | - | 55 442 | 55 442 | - | | **1 191 529** |
| Deferred tax | | - | - | - | 832 667 | - | **832 667** |
| | 1 136 087 | - | 55 442 | 55 442 | 832 667 | - | **2 024 196** |
| **Total liabilities** | 31 688 009 | 342 862 | 25 248 812 | 25 591 672 | 2 006 996 | 22 527 925 | **59 286 679** |
| **Total assets less total liabilities** | 13 143 435 | (342 862) | 25 650 677 | 25 307 815 | 140 482 892 | 10 720 870 | **178 934 142** |
| **NET ASSETS** | | | | | | | |
| Capital contributed | 41 989 046 | - | - | - | - | - | **41 989 046** |
| Accumulated surplus | (3 123 259) | - | - | - | 150 509 786 | 507 688 | **147 894 215** |
| Attributable to the minority shareholders | (248 767) | - | - | - | - | | **(248 767)** |
| Attributable to net asset holder | 39 114 555 | - | - | - | 150 509 786 | | **190 132 028** |
| **Total net assets** | 38 865 787 | - | - | - | 150 509 786 | | **189 883 261** |

**2021 (amended)**

| | Admin (non-segment) | East London Project management | Branches Rural Finance | Segments total | Subsidiaries Magwa | Subsidiaries Kangela Citrus | Statement of financial position (group) |
|---|---|---|---|---|---|---|---|
| | R | R | R | R | R | R | R |
| **ASSETS** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | 66,307,125 | - | 36,427,285 | 36,427,285 | 244,839 | 2,500,048 | **105,479,297** |
| Trade and other receivables | 2,421,480 | - | 95,441 | 95,441 | 7,339,041 | 30,798,530 | **40,654,492** |
| Inventories | 143,571 | - | - | - | 12,833,374 | - | **12,976,945** |
| Loans and advances to customers | - | - | 133 442 224 | 133 442 224 | - | (10 245 869) | **123 196 355** |
| Less: Credit impairments on loans | - | - | (122 842 665) | (122 842 665) | - | 10 245 869 | **112 569 796** |
| Net loans and advances to customers | - | - | 10 599 559 | 10 599 559 | - | | **10 599 559** |
| Of which the following portion is current | | | 5 434 211 | 5 434 211 | | | **5 434 211** |
| | 68 872 176 | - | 41 956 937 | 41 956 937 | 20 417 254 | 33 298 578 | 164 544 945 |
| **Non-current assets** | | | | | | | |
| Net loans and advances to customers | | | 5 165 348 | 5 165 348 | | | **5 165 348** |
| Deferred tax | - | - | - | - | 104 826 074 | | **104,826,074** |
| Bearer biological assets | | | | | 3 083 948 | 3,083,948 | **3,083,948** |
| Investment under contingency policy | 11 559 688 | - | - | - | - | - | **11 559 688** |
| Investment property | - | - | 1 610 848 | 1 610 848 | - | | **1 610 848** |
| Property, plant and equipment | 9 878 791 | - | 5 797 485 | 5 797 485 | 10 046 742 | | **25 723 018** |
| Intangible assets | 421 437 | - | - | - | - | | **421 437** |
| | 21 859 916 | - | 12 573 681 | 12 573 681 | 117 956 764 | - | **152 390 361** |
| **Total assets** | 90 732 092 | - | 54 530 618 | 54 530 618 | 138 374 018 | 33 298 578 | **316 935 306** |
| **LIABILITIES** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Finance lease obligations | 1 759 749 | - | 123 571 | 123 571 | - | | **1 883 320** |
| Deferred grant income arising from non-exchange transactions | - | - | 23 086 303 | 23 086 303 | - | | **23 086 303** |
| Trade and other payables Loan from South African Fruit Exporters | 69 781 819 | - | - | - | 2 294 948 | 549 328 | **72 626 095** |
| Exporters | - | - | - | - | | 21 980 575 | **21 980 575** |
| Liabilities arising from non-exchange transactions | - | 416 564 | - | 416 564 | - | | **416 564** |
| | 71 541 568 | 416 564 | 23 209 874 | 23 626 438 | 2 294 948 | 22 529 903 | **119 992 857** |
| **Non-current liabilities** | | | | | | | |
| Finance lease obligations | 2 586 264 | - | 187 714 | 187 714 | - | | **2 773 978** |
| Deferred tax | | - | - | - | 863 506 | | **863 506** |
| | 2 586 264 | - | 187 714 | 187 714 | 863 506 | - | **3 637 484** |
| **Total liabilities** | 74 127 832 | 416 564 | 23 397 588 | 23 814 152 | 3 158 454 | 22 529 903 | **123 630 341** |
| **Total assets less total liabilities** | 16 604 260 | (416 564) | 31 133 030 | 30 716 466 | 135 215 564 | 10 768 675 | **193 304 965** |
| **NET ASSETS** | | | | | | | |
| Capital contributed | 41 989 046 | - | - | - | - | | **41 989 046** |
| Accumulated surplus | 5 331 681 | - | - | - | 145 014 963 | 782 987 | **151 129 631** |
| Attributable to the minority shareholders | (383 664) | - | - | - | - | | **(383 664)** |
| Attributable to net asset holder | 47 704 391 | - | - | - | 145 014 963 | 782 987 | **193 502 341** |
| **Total net assets** | 47 320 727 | - | - | - | 145 014 963 | 782 987 | **193 118 677** |

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Notes to the consolidated annual financial statements (continued)

### 36. Consolidated segment report of financial position as at 31 March 2022

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

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Rural Finance Segment Breakdown | | | | | | |
| | King Williams Town & Butterworth | Port Elizabeth | Cradock | Mthatha | Queenstown & Engcobo | | Kokstad |
| | Amathole | Nelson Mandela Metro | Karoo | OR Tambo | Chris Hani | | Alfred Nzo |
| | R | R | R | R | R | | R |
| **ASSETS** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | 10 189 742 | 5 433 049 | 1 211 761 | 3 459 604 | 6 573 795 | | 11 078 521 |
| Trade and other receivables | - | - | - | 106 540 | - | | - |
| Inventories | - | - | - | - | - | | - |
| Loans and advances to customers | 36 673 596 | 19 553 922 | 4 361 211 | 12 451 356 | 23 659 548 | | 39 872 369 |
| Less: Credit impairments on loans | (35 009 815) | (18 666 814) | (4 163 355) | (11 886 472) | (22 586 179) | | (38 063 469) |
| Net loans and advances to customers | 1 663 781 | 887 108 | 197 856 | 564 884 | 1 073 370 | | 1 808 900 |
| | 11 853 523 | 6 320 157 | 1 409 617 | 4 131 027 | 7 647 164 | | 12 887 420 |
| **Non-current assets** | | | | | | | |
| Deferred tax | - | - | - | - | - | | - |
| Investment under contingency policy | - | - | - | - | - | | - |
| Investment property | - | - | - | 1 527 631 | - | | - |
| Property, plant and equipment | 2 973 011 | 41 987 | 1 152 578 | 388 624 | 267 838 | | 253 913 |
| Intangible assets | - | - | - | - | - | | - |
| | 2 973 011 | 41 987 | 1 152 578 | 1 961 255 | 267 838 | | 253 913 |
| **Total assets** | 14 826 534 | 6 362 144 | 2 562 195 | 6 092 283 | 7 915 002 | | 13 141 333 |
| **LIABILITIES** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Finance lease obligations | 80 195 | - | 26 432 | 26 432 | - | | - |
| Deferred grant income arising from non-exchange transactions | 6 729 431 | 3 588 051 | 800 261 | 2 284 764 | 4 341 414 | | 7 316 390 |
| Trade and other payables | - | - | - | - | - | | - |
| Liabilities arising from non-exchange transactions | - | - | - | - | - | | - |
| | 6 809 626 | 3 588 051 | 826 693 | 2 311 196 | 4 341 414 | | 7 316 390 |
| **Non-current liabilities** | | | | | | | |
| Finance lease obligations | 33 414 | - | 11 014 | 11 014 | - | | - |
| Deferred tax | - | - | - | - | - | | - |
| | 33 414 | - | 11 014 | 11 014 | - | | - |
| **Total liabilities** | 6 843 040 | 3 588 051 | 837 707 | 2 322 210 | 4 341 414 | | 7 316 390 |
| **Total assets less total liabilities** | 7 983 494 | 2 774 093 | 1 724 487 | 3 770 072 | 3 573 588 | | 5 824 943 |
| **NET ASSETS** | | | | | | | |
| Capital contributed | - | - | - | - | - | | - |
| Accumulated surplus | - | - | - | - | - | | - |
| Attributable to net asset holder | - | - | - | - | - | | - |
| **Total net assets** | - | - | - | - | - | | - |

| | 2021 (amended) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Rural Finance Segment Breakdown | | | | | | |
| | King Williams Town & Butterworth | Port Elizabeth | Cradock | Mthatha | Queenstown & Engcobo | | Kokstad |
| | Amathole | Nelson Mandela Metro | Karoo | OR Tambo | Chris Hani | | Alfred Nzo |
| | R | R | R | R | R | | R |
| **ASSETS** | | | | | | | |
| **Current Assets** | | | | | | | |
| Cash and cash equivalents | 9 694 702 | 5 323 119 | 1 324 300 | 3 591 459 | 6 069 592 | | 10 424 112 |
| Trade and other receivables | - | - | - | 95 441 | - | | - |
| Inventories | - | - | - | - | - | | - |
| Loans and advances to customers | 35 498 604 | 19 519 069 | 4 879 919 | 13 204 550 | 22 191 510 | | 38 148 573 |
| Less: Credit impairments on loans | (32 693 160) | (17 950 999) | (4 465 899) | (12 111 372) | (20 468 306) | | (35 152 929) |
| Net loans and advances to customers | 2 805 444 | 1 568 070 | 414 020 | 1 093 178 | 1 723 204 | | 2 995 644 |
| | 12 500 146 | 6 891 189 | 1 738 320 | 4 780 078 | 7 792 796 | | 13 419 756 |
| **Non-current assets** | | | | | | | |
| Deferred tax | - | - | - | - | - | | - |
| Investment under contingency policy | - | - | - | - | - | | - |
| Investment property | - | - | - | 1 610 848 | - | | - |
| Property, plant and equipment | 3 104 223 | 266 975 | 1 120 773 | 437 109 | 242 275 | | 626 130 |
| Intangible assets | - | - | - | - | - | | - |
| | 3 104 223 | 266 975 | 1 120 773 | 2 047 957 | 242 275 | | 626 130 |
| **Total assets** | 15 604 369 | 7 158 164 | 2 859 093 | 6 828 035 | 8 035 071 | | 14 045 886 |
| **LIABILITIES** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Finance lease obligations | 67 747 | - | 11 165 | 11 165 | 22 330 | | 11 165 |
| Deferred grant income arising from non-exchange transactions | 6 144 153 | 3 373 602 | 839 294 | 2 276 138 | 3 846 689 | | 6 606 428 |
| Trade and other payables | - | - | - | - | - | | - |
| Liabilities arising from non-exchange transactions | - | - | - | - | - | | - |
| | 6 211 900 | 3 373 602 | 850 459 | 2 287 303 | 3 869 019 | | 6 617 593 |
| **Non-current liabilities** | | | | | | | |
| Finance lease obligations | 102 913 | - | 16 960 | 16 960 | 33 920 | | 16 960 |
| Deferred tax | - | - | - | - | - | | - |
| | 102 913 | - | 16 960 | 16 960 | 33 920 | | 16 960 |
| **Total liabilities** | 6 314 813 | 3 373 602 | 867 419 | 2 304 263 | 3 902 939 | | 6 634 553 |
| **Total assets less total liabilities** | 9 289 556 | 3 784 562 | 1 991 674 | 4 523 772 | 4 132 132 | | 7 411 333 |
| **NET ASSETS** | | | | | | | |
| Capital contributed | - | - | - | - | - | | - |
| Accumulated surplus | - | - | - | - | - | | - |
| Attributable to net asset holder | | | | | | | |
| **Total net assets** | - | - | - | - | - | | - |

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Notes to the consolidated annual financial statements (continued)

### 37. Consolidated segment report of financial performance for the year ended 31 March 2022

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

**2022**

| | Admin (non-segment) | East London Project management | Branches Rural Finance | Segments total | Subsidiaries Magwa Tea | Subsidiaries Kangela Citrus | Statement of financial position (group) |
|---|---|---|---|---|---|---|---|
| | **R** | **R** | **R** | **R** | **R** | **R** | **R** |
| **INCOME** | 132 494 096 | 54 924 815 | 3 460 016 | **58 384 830** | 63 242 847 | 247 | **254 122 019** |
| **Revenue from non-exchange transactions** | 129 422 359 | 50 890 701 | 341 837 | 51 232 538 | 45 018 472 | - | **225 673 369** |
| Government funding | 129 156 000 | 50 890 000 | - | **50 890 000** | 41 853 000 | - | **221 899 000** |
| National Skills Fund | 218 253 | - | - | **-** | - | | **218 253** |
| Other Income | 48 106 | 701 | 341 837 | **342 538** | 3 165 472 | | **3 556 116** |
| **Revenue from exchange transaction** | 3 071 737 | 4 034 114 | 3 118 178 | **7 152 292** | 18 224 375 | 247 | **28 448 650** |
| Interest income on cash and investments | 1 118 345 | - | 548 046 | **548 046** | 35 101 | 247 | **1 701 739** |
| Interest income on loans and advances | 23 520 | - | 280 562 | **280 562** | (519 723) | | **(215 641)** |
| Interest income on concessionary loans | - | - | 426 464 | **426 464** | 292 227 | | **718 691** |
| Commission fees for managing projects | - | 4 034 114 | - | **4 034 114** | - | | **4 034 114** |
| Fair value and impairment adjustments | 1 929 122 | - | - | **-** | - | | **1 929 122** |
| Loan initiation fees | 750 | - | 40 160 | **40 160** | - | | **40 910** |
| Rental income from investment property | - | - | 1 822 946 | **1 822 946** | - | | **1 822 946** |
| Gain on disposal of property, plant and equipment | - | - | - | **-** | - | | **-** |
| Other income | - | - | - | **-** | - | | **-** |
| **Sale of goods-produce** | - | - | - | **-** | 18 416 769 | | **18 416 769** |
| **EXPENSES** | 92 077 489 | 67 127 777 | 40 429 412 | **107 557 189** | 67 135 139 | 48 049 | **266 817 865** |
| **Administrative expenses** | 8 950 591 | 46 125 | 458 647 | **504 773** | 1 064 106 | 28 149 | **10 547 619** |
| Audit fees | 1 734 871 | 832 365 | 1 986 182 | **2 818 547** | 195 756 | 19 900 | **4 769 074** |
| Cost of sales | - | - | - | **-** | 23 907 075 | | **23 907 075** |
| Free-MAFISA Scheme | - | - | 428 027 | **428 027** | - | | **428 027** |
| Finance costs | 18 295 | 1 427 | 273 | **1 700** | - | | **19 995** |
| Marketing and social facilitation | 594 268 | - | - | **-** | 154 820 | | **749 088** |
| Other operating expenses and depreciation | 24 202 256 | 994 085 | 3 293 579 | **4 287 664** | 19 868 813 | | **48 358 733** |
| **Project expenses** | - | 29 366 243 | - | **29 366 243** | - | | **29 366 243** |
| Skills levy | 971 308 | - | - | **-** | 517 611 | | **1 488 919** |
| Staff costs | 55 605 899 | 16 962 428 | 34 071 379 | **51 033 806** | 21 320 077 | | **127 959 782** |
| Transfer payments and payments to subsidiaries | - | 18 925 104 | - | **18 925 104** | - | | **18 925 104** |
| **Social benefit from concessionary loans** | - | - | 191 325 | **191 325** | - | | **191 325** |
| **Write off of irrecoverable debts** | - | - | - | **-** | 106 881 | | **106 881** |
| NET (DEFICIT)/SURPLUS | 40 416 607 | (12 202 961) | (36 969 397) | **(49 172 358)** | (3 892 292) | (47 802) | **(12 695 846)** |
| Sale and scrapping of property, plant and equipment | (113 725) | - | - | **-** | - | | **(113 725)** |
| (DEFICIT)/SURPLUS BEFORE TAXATION | 40 302 882 | (12 202 961) | (36 969 397) | **(49 172 358)** | (3 892 292) | (47 802) | **(12 809 571** |
| **Taxation** | - | - | - | **-** | 8 878 608 | | **8 878 608** |
| **(DEFICIT)/SURPLUS FOR THE YEAR** | 40 302 882 | (12 202 961) | (36 969 397) | **(49 172 358)** | (4 986 316) | (47 802) | **(3 930 964)** |

**2021 (amended)**

| | Admin (non-segment) | East London Project management | Branches Rural Finance | Segments total | Subsidiaries Magwa Tea | Subsidiaries Kangela Citrus | Statement of financial position (group) |
|---|---|---|---|---|---|---|---|
| | R | R | R | R | R | R | R |
| **INCOME** | 200 636 615 | 45 085 834 | 6 976 943 | **52 062 777** | 55 810 745 | (252) | **308 509 885** |
| **Revenue from non-exchange transactions** | 165 648 764 | 41 267 000 | 297 476 | **41 564 476** | 47 915 212 | - | **255 128 451** |
| Government funding | 165 475 822 | 41 267 000 | - | **41 267 000** | 47 263 000 | | **254 005 822** |
| National Skills Fund | 69 020 | - | - | **-** | - | | **69 020** |
| Other Income | 103 922 | - | 297 476 | **297 476** | 652 212 | | **1 053 609** |
| **Revenue from exchange transaction** | 34 987 851 | 3 818 834 | 6 679 467 | **10 498 301** | 7 895 533 | (252) | **53 381 434** |
| Interest income on cash and investments | 1 210 747 | - | 547 143 | **547 143** | (296 380) | (252) | **1 461 258** |
| Interest income on loans and advances | 14 365 | - | 3 322 589 | **3 322 589** | (979 517) | | **2 357 437** |
| Interest income on concessionary loans | - | - | 1 135 018 | **1 135 018** | - | | **1 135 018** |
| Commission fees for managing projects | - | 3 818 834 | - | **3 818 834** | - | | **3 818 834** |
| Fair value and impairment adjustments | 33 305 493 | - | - | **-** | 979 517 | | **34 285 010** |
| Loan initiation fees | - | - | 39 100 | **39 100** | - | | **39 100** |
| Rental income from investment property | - | - | 1 635 617 | **1 635 617** | - | | **1 635 617** |
| Gain on disposal of property, plant and equipment | - | - | - | **-** | - | | **-** |
| Other income | 457 246 | | | | | | **457 246** |
| **Sale of goods-produce** | - | - | - | **-** | 8 191 913 | | **8 191 913** |
| **EXPENSES** | 108 462 033 | 68 146 407 | 83 401 588 | **151 547 996** | 53 290 428 | 94 521 | **313 394 981** |
| **Administrative expenses** | 8 164 514 | 193 203 | 584 030 | **777 234** | 408 493 | 62 453 | **9 412 693** |
| Audit fees | 1 643 466 | 586 492 | 1 220 100 | **1 806 592** | 126 638 | 25 218 | **3 601 914** |
| Cost of sales | - | - | - | **-** | 13 406 462 | | **13 406 462** |
| Free-MAFISA Scheme | - | - | 406 383 | **406 383** | - | | **406 383** |
| Finance costs | 21 915 | 28 | 1 329 | **1 357** | - | | **23 272** |
| Marketing and social facilitation | 569 975 | - | - | **-** | 211 296 | | **781 271** |
| Other operating expenses and depreciation | 41 192 044 | 1 368 072 | 6 137686 | **7 505 758** | 32 303 579 | 6 852 | **81 008 233** |
| **Project expenses** | - | 33 692 821 | - | **33 692 821** | - | | **33 692 821** |
| Skills levy | 592 266 | - | - | **-** | 313 522 | | **905 788** |
| Staff costs | 56 277 853 | 21 665 967 | 31 144 455 | **52 810 422** | 6 152 272 | | **115 240 547** |
| Transfer payments and payments to subsidiaries | - | 10 639 824 | - | **10 639 824** | | | **10 639 824** |
| **Social benefit from concessionary loans** | - | - | 565 598 | **565 598** | - | | **565 598** |
| **Write off of irrecoverable debts** | - | - | 43 342 007 | **43 342 007** | 368 168 | | **43 710 175** |
| NET (DEFICIT)/SURPLUS | 92 174 582 | (23 060 573) | (76 424 645) | **(99 485 218)** | 2 520 316 | (94 774) | **(4 885 094)** |
| Sale and scrapping of property, plant and equipment | (522 772) | - | - | **-** | (7 500) | | **(530 272)** |
| (DEFICIT)/SURPLUS BEFORE TAXATION | 91 651 810 | (23 060 573) | (76 424 645) | **(99 485 218)** | 2 512 816 | (94 776) | **(5 415 368)** |
| **Taxation** | - | - | - | **-** | 12 523 343 | - | **12 523 343** |
| **(DEFICIT)/SURPLUS FOR THE YEAR** | 91 651 810 | (23 060 573) | (76 424 645) | **(99 485 218)** | 15 036 159 | (94 776) | **7 107 975** |

### 37. Consolidated segment report of financial performance for the year ended 31 March 2022

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

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Rural Finance Segment Breakdown | | | | | | |
| | King Williams Town & Butterworth | Port Elizabeth | Cradock | Mthatha | Queenstown & Engcobo | | Kokstad |
| | Amathole | Nelson Mandela Metro | Karoo | OR Tambo | Chris Hani | | Alfred Nzo |
| | R | R | R | R | R | | R |
| **INCOME** | 1 271 035 | (338 098) | 65 468 | 2 264 086 | (24 827) | | 222 351 |
| **Revenue from non-exchange transactions** | 157 937 | - | - | 182 134 | 1 766 | | - |
| Other income | 157 937 | - | - | 182 134 | 1 766 | | - |
| **Revenue from exchange transactions** | 1 113 097 | (338 098) | 65 468 | 2 081 952 | (26 592) | | 222 351 |
| Interest income on cash and investments | 548 046 | - | - | - | - | | - |
| Interest income on loans and advances | 98 427 | (338 098) | 65 468 | 259 006 | (26 592) | | 222 351 |
| Interest income on concessionary loans | 426 464 | - | - | - | - | | - |
| Commission fees for managing projects | - | - | - | - | - | | - |
| Loan initiation fees | 40 160 | - | - | - | - | | - |
| Rental income from investment property | - | - | - | 1 822 946 | - | | - |
| **EXPENSES** | 12 227 792 | 4 561,347 | 6 515 155 | 5 658 853 | 5 683 659 | | 5 782 605 |
| Administrative expenses | 296 815 | 8 246 | 48 505 | 65 365 | 24,776 | | 14 940 |
| Audit fees | 583 293 | 249 983 | 333 310 | 249 983 | 305 534 | | 264 079 |
| Fee - MAFISA Scheme | 428 027 | - | - | - | - | | - |
| Finance costs | - | - | 11 | 262 | 0 | | - |
| Marketing and social facilitation | - | - | - | - | - | | - |
| Other operating expenses and depreciation | 1 387 635 | (176 137) | 573 192 | 1 269 353 | 189 667 | | 49 870 |
| Project expenses | - | - | - | - | - | | - |
| Skills levy | - | - | - | - | - | | - |
| Staff costs | 9 340 698 | 4 479 256 | 5 560 137 | 4 073 889 | 5 163 682 | | 5 453 716 |
| Social benefit from concessionary loans | 191 325 | - | - | - | - | | - |
| Write off of irrecoverable debts | - | - | - | - | - | | - |
| NET (DEFICIT)/SURPLUS | (10 956 758) | (4 899 445) | (6 449 687) | (3 394 766) | (5 708 485) | | (5 560 254) |
| Sale and scrapping of property, plant and equipment | - | - | - | - | - | | - |
| (DEFICIT)/SURPLUS BEFORE TAXATION | (10 956 758) | (4 899 445) | (6 449 687) | (3 394 766) | (5 7088 485) | | (5 560 254) |
| **Taxation** | | | | | | | |
| **(DEFICIT)/SURPLUS FOR THE YEAR** | (10 956 758) | (4 899 445) | (6 449 687) | (3 394 766) | (5 708 485) | | (5 560 254) |

| | 2021 (amended) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Rural Finance Segment Breakdown | | | | | | |
| | King Williams Town & Butterworth | Port Elizabeth | Cradock | Mthatha | Queenstown & Engcobo | | Kokstad |
| | Amathole | Nelson Mandela Metro | Karoo | OR Tambo | Chris Hani | | Alfred Nzo |
| | R | R | R | R | R | | R |
| **INCOME** | 2 301 733 | 658 669 | 223 530 | 2 513 059 | 887 547 | | 392 406 |
| **Revenue from non-exchange transactions** | - | - | 43 043 | 4 315 | 31 235 | | 31 235 |
| Other income | - | - | 43 043 | 4 315 | 31 235 | | 31 235 |
| **Revenue from exchange transactions** | 658 669 | 223 530 | 2 470 016 | 883 232 | 361 171 | | 361 171 |
| Interest income on cash and investments | - | - | - | - | - | | - |
| Interest income on loans and advances | 658 669 | 223 530 | 834 399 | 883 232 | 361 171 | | 361 171 |
| Interest income on concessionary loans | - | - | - | - | - | | - |
| Commission fees for managing projects | - | - | - | - | | | - |
| Loan initiation fees | - | - | - | - | - | | - |
| Rental income from investment property | - | - | 1 635 617 | - | - | | - |
| **EXPENSES** | 4 805 285 | 15 299 387 | 19 092 565 | 22 030 854 | 9 293 859 | | 9 293 859 |
| Administrative expenses | 15,736 | 56 182 | 91 354 | 22,206 | 77 543 | | 77 543 |
| Audit fees | 176 140 | 234 854 | 176 140 | 215,283 | 6 689 | | 6 689 |
| Fee - MAFISA Scheme | - | - | - | - | - | | - |
| Finance costs | - | 352 | 419 | 159 | - | | - |
| Marketing and social facilitation | - | - | - | - | - | | - |
| Other operating expenses and depreciation | 411 350 | 474 871 | 1 431 462 | 964,878 | 1 052 624 | | 1 052 624 |
| Project expenses | - | - | - | - | - | | - |
| Skills levy | - | - | - | - | - | | 5 259 922 |
| Staff costs | 4 007 312 | 4 614 011 | 3 482 826 | 4 909 991 | 5 259 922 | | |
| Social benefit from concessionary loans | - | - | - | - | - | | - |
| Write off of irrecoverable debts | 194 747 | 9 919 117 | 13 910 364 | 15 918 337 | 2 897 081 | | 2 897 081 |
| NET (DEFICIT)/SURPLUS | (10 577 905) | (4 146 616) | (15 075 857) | (16 579 506) | (21 143 307) | | ( 901 453) |
| Sale and scrapping of property, plant and equipment | - | - | - | - | - | | - |
| (DEFICIT)/SURPLUS BEFORE TAXATION | (10 577 905) | (4 146 616) | (15 075 857) | (16 579 506) | (21 143 307) | | (8 901 453) |
| **Taxation** | | | | | | | |
| **(DEFICIT)/SURPLUS FOR THE YEAR** | (10 577 905) | (4 146 616) | (15 075 857) | (16 579 506) | (21 143 307) | | (8 901 453) |

# EASTERN CAPE RURAL DEVELOPMENT AGENCY

## Detailed consolidated statement of financial performance as at 31 March 2022

**(unaudited schedule to financial statements)**

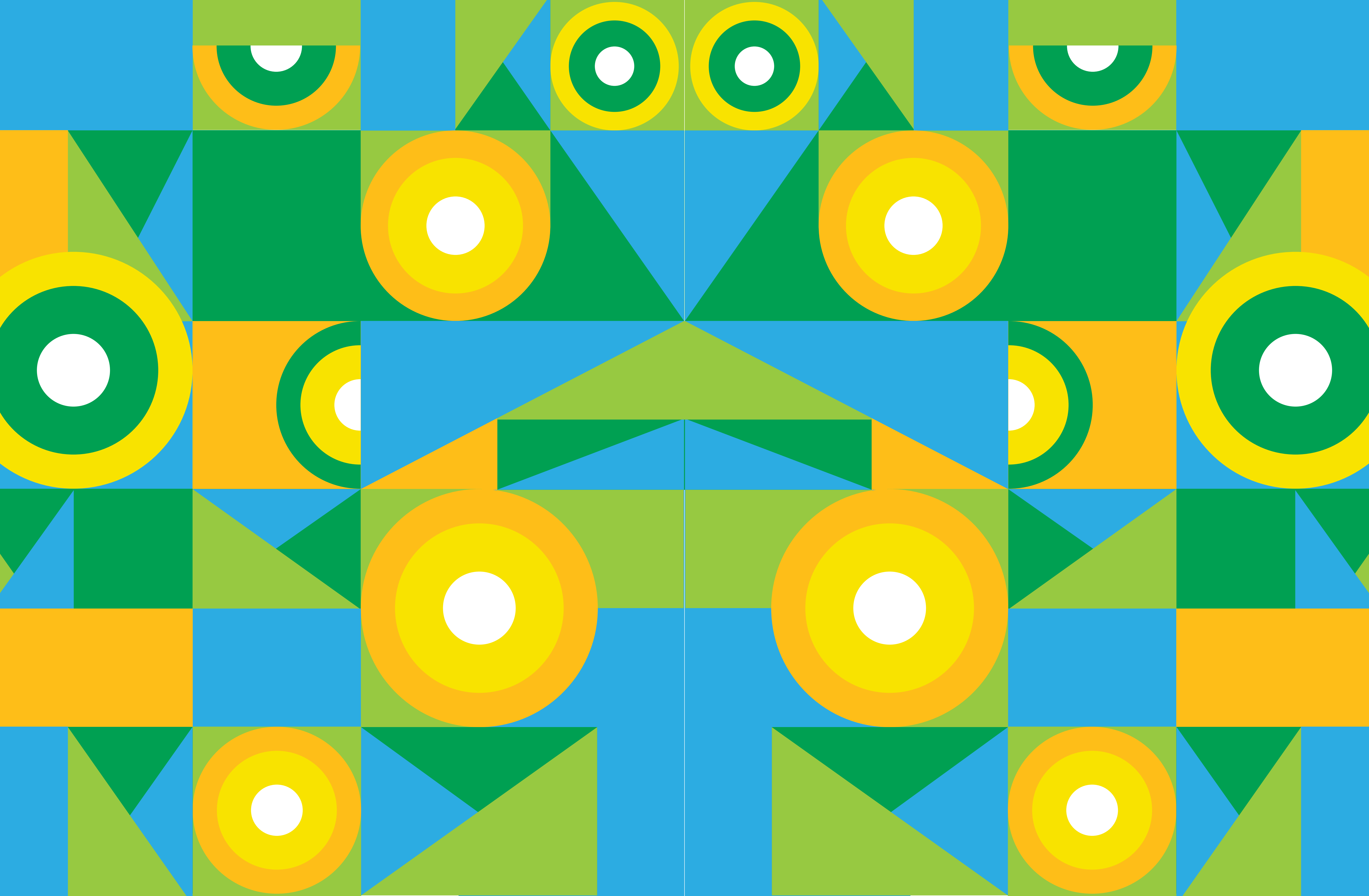
| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **INCOME** | | | | |
| Interest income on loans and advances | **2 130 084** | 4 827 247 | **1 610 360** | 2 357 437 |
| Net credit impairment charge | **649 152** | (40 232 916) | **941 379** | (40 232 916) |
| *Write off of irrecoverable debts* | **-** | (41 549 597) | **-** | (41 549 597) |
| *Interest on concessionary loans* | **426 464** | 1 135 018 | **718 691** | 1 135 018 |
| *Recovery of loans and advances previously written off* | **222 688** | 181 663 | **222 688** | 181 663 |
| Net interest margin on lending activities | **2 779 235** | (35 405 669) | **2 551 739** | (37 875 479) |
| Loan initiation fees | **40 910** | 39 100 | **40 910** | 39 100 |
| **Result from lending activities** | **2 820 145** | (35 366 569) | **2 592 649** | (37 836 379) |
| Interest income on loans and advances / Average gross loans and advances | **0,35%** | 0,75% | **0,26%** | 0,62% |
| **Other income** | **8 241 031** | **39 959 828** | **29 858 620** | **50 790 843** |
| Commission fees for managing projects | **2 436 363** | 2 514 828 | **2 436 363** | 3 818 834 |
| Fair value adjustment: Guardrisk and other | **-** | 21 879 | **-** | 21 879 |
| Fair value adjustment: Payables | **-** | 71 726 | **-** | 71 726 |
| Fair value adjustment: Leased Equipment | **1 929 122** | 1 103 494 | **1 929 122** | 1 103 494 |
| Interest income on cash and investments | **1 666 391** | 1 757 890 | **1 701 739** | 1 461 258 |
| Impairment reversed (loans and advances) | **-** | 32 108 392 | **-** | 33 087 909 |
| National Skills Fund | **218 253** | 69 020 | **218 253** | 69 020 |
| Rental income from investment property | **1 822 946** | 1 635 617 | **1 822 946** | 1 635 617 |
| Sale of goods | **-** | - | **18 416 769** | 8 191 913 |
| Sundry income - Dividends received | **-** | 457 246 | **-** | 457 246 |
| Sundry income - Insurance Income | **20 354** | 47 816 | **20 354** | 47 816 |
| Sundry income - Other | **147 602** | 171 920 | **3 313 074** | 824 131 |
| **Government grant and additional program specific funding** | **180 046 000** | 206 742 822 | **221 899 000** | 254 005 822 |
| **TOTAL INCOME and balance carried forward** | **191 107 176** | 211 336 080 | **254 350 269** | 266 960 286 |

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Balance brought forward** | **191 107 176** | 211 336 080 | **254 350 269** | 266 690 286 |
| **EXPENSES** | | | | |
| Administration fee - Guardrisk | **45 000** | 45 000 | **45 000** | 45 000 |
| Administration Costs | **12 940** | 24 667 | **12 940** | 24 667 |
| Alternative energy: Diesel, Petrol and Oil | **-** | - | **1 391 916** | 747 881 |
| Archiving, fittings and minor electricals | **183 934** | 190 056 | **183 934** | 190 056 |
| Audit fees - External | **4 553 418** | 3 450 058 | **1 033 838** | 3 601 914 |
| Audit fees - Internal | **1 033 838** | 320 542 | **774 992** | 320 542 |
| Bad debts - rental and other income | **-** | 1 792 410 | **106 881** | 2 160 578 |
| Bank charges | **212 678** | 235 987 | **266 501** | 289 408 |
| Cleaning | **231 784** | 220 700 | **313 486** | 249 182 |
| Commission | **-** | - | **353 236** | - |
| Chemicals and water treatment | **-** | - | **345 597** | 206 173 |
| Computer maintenance | **25 646** | 9 476 | **36 741** | 21 257 |
| Computer software maintenance | **2 697 128** | 2 424 195 | **2 697 128** | 2 424 195 |
| Cost of Sales | **-** | - | **23 907 075** | 13 406 462 |
| Discount allowed | **-** | - | **24 516** | - |
| COVID-19 expenses | **40 223** | 381 597 | **44 793** | 405 340 |
| Debt collection service fees | **-** | 1 389 | **-** | 1 389 |
| Depreciation of investment property and property, plant and equipment | **4 628 925** | 3 682 928 | **7 097 649** | 5 107 324 |
| Directors' remuneration and fees | **3 174 272** | 3 149 490 | **3 356 088** | 3 149 490 |
| Directors' travelling, subsistence, expenses - non executive | **1 388 773** | 617 254 | **1 388 773** | 617 254 |
| Donations | **-** | - | **-** | 1 037 |
| Entertainment | **-** | 3 789 | **-** | 3 789 |
| Enquiry Fees | **51 623** | 55 422 | **51 623** | 55 422 |
| Fair value adjustment: Guardrisk | **20 770** | - | **20 770** | - |
| Fair value adjustment: Payables | **71 726** | - | **71 726** | - |
| Fair value adjustment on receivables and assets | **327 994** | - | **8 462 848** | 25 560 056 |
| Fee - MAFISA Scheme | **428 027** | 406 383 | **428 027** | 406 383 |
| Finance costs | **19 995** | 23 272 | **19 995** | 23 272 |
| Insurance | **392 982** | 383 847 | **392 982** | 383 847 |
| Impairment loss | **5 263 433** | - | **5 263 433** | - |
| Leasing charges | **324 313** | 222 106 | **324 313** | 222 106 |
| Legal expenses | **1 313 452** | 1 910 472 | **1 336 472** | 1 910 472 |
| Lost securities | **-** | 240 | **-** | 240 |
| Scrapping of obsolete property, plant and equipment | **113 725** | 522 772 | **113 725** | 530 272 |
| Marketing and functional partnerships | **594 268** | 569 975 | **749 088** | 781 271 |
| Minor assets expensed | **21 604** | 145 888 | **191 004** | 158 833 |
| Motor vehicles: fuel and maintenance | **452 426** | 279 829 | **557 882** | 332 841 |
| Municipal services - rates, water and electricity | **2 192 980** | 2 084 408 | **5 191 585** | 4 324 543 |
| Penalties and Fines | **609** | 18 061 | **233 081** | 42 523 |
| Postages | **18 540** | 14 914 | **28 189** | 14 914 |
| Printing and stationery | **469 713** | 571 021 | **699 538** | 722 039 |
| Professional Fees | **1 758 404** | 768 830 | **2 289 955** | 1 420 444 |
| Project expenses | **29 366 244** | 33 692 821 | **29 366 244** | 33 692 821 |
| **Balance carried forward** | **61 431 386** | 58 219 799 | **103 167 645** | 103 555 237 |

# EASTERN CAPE RURAL DEVELOPMENT AGENCY
## Detailed consolidated statement of financial performance as at 31 March 2022 (unaudited schedule to financial statements)

| | Agency 2022 | Agency (amended) 2021 | Group 2022 | Group (amended) 2021 |
|---|---|---|---|---|
| | R | R | R | R |
| **Balance brought forward** | **61 431 386** | 58 219 799 | **103 167 645** | 103 55 237 |
| Protective clothing and uniforms | **4 715** | - | **559 832** | 27 459 |
| Relocation - staff and offices | **83 885** | 15 675 | **83 885** | 15 675 |
| Rental charges on land and buildings | **3 689 655** | 4 548 302 | **3 689 655** | 4 548 302 |
| Repairs and maintenance - general | **677 489** | 36 146 | **3 030 650** | 1 232 356 |
| Repairs and maintenance - buildings | **203 255** | 255 018 | **203 255** | 255 018 |
| Salaries - medical aid contributions | **5 891 962** | 6 091 608 | **5 891 962** | 6 091 608 |
| Salaries - provident fund contributions | **3 691 557** | - | **3 691 557** | - |
| Salaries and wages | **97 056 186** | 102 996 667 | **118 376 263** | 109 148 939 |
| Security | **453 194** | 518 243 | **453 194** | 518 243 |
| Skills levy | **971 308** | 592 266 | **1 488 919** | 905 788 |
| Staff recruitment | **51 062** | 69 437 | **63 998** | 144 437 |
| Staff refreshments | **44 204** | 24 114 | **68 682** | 104 138 |
| Staff training | **242 032** | 726 825 | **310 642** | 726 825 |
| Staff ancillary cost | **41 526** | 36 877 | **180 157** | 97 120 |
| Stakeholder management | **109 070** | 305 638 | **109 070** | 305 638 |
| Subscriptions | **36 569** | 36 684 | **158 643** | 38 682 |
| Social benefit from concessionary loans | **191 325** | 565 598 | **191 325** | 565 598 |
| Surrender of funds to Treasury (own) | **-** | 28 633 776 | **-** | 28 633 776 |
| Telephone calls and data lines | **3 076 189** | 2 780 246 | **3 220 545** | 2 845 866 |
| Transfer payments and distressed entities | **3 835 104** | - | **3 835 104** | - |
| Transfer of project funding | **15 090 000** | 10 639 824 | **15 090 000** | 10 639 824 |
| Travelling, accommodation and subsistence | **2 189 057** | 1 710 105 | **2 378 935** | 1 794 775 |
| Worker's forum | **1 555** | - | **1 555** | - |
| Workmen's compensation | **686 118** | 180 353 | **689 118** | 180 353 |
| **TOTAL EXPENSES** | **199 748 403** | **218 983 200** | **266 931 591** | 272 375 656 |
| **(DEFICIT) / SURPLUS BEFORE TAXATION** | **(8 641 227)** | **(7 647 120)** | **(12 581 322)** | **(5 415 370)** |
| **TAXATION** | **-** | **-** | **8 878 608** | **12 523 343** |
| **(DEFICIT) /SURPLUS AFTER TAXATION** | **(8 641 227)** | **(7 647 120)** | **(3 702 714)** | **7 107 973** |
| Composition: | | | | |
| Eastern Cape Rural Development Agency | | | (8 641 227) | (7 647 120) |
| Kangela Citrus Farms (Pty) Ltd | | | (275 299) | (94 271) |
| Magwa Enterprise Tea (Pty) Ltd* | | | 5 213 812 | 15 035 650 |
| | | | **(3 702 714)** | **7 294 259** |

*from shares take-over (with intergroup grant elimination in ECRDA)



ECRDA
Eastern Cape
Rural Development
Agency

Eastern Cape Rural
Development Agency
Infinity Place,
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