

# ZADT ANNUAL REPORT

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FOR THE YEAR ENDED 31 DECEMBER 2018

# 2018 BY THE NUMBERS

## SUMMARY RESULTS

## PERFORMANCE (2018)

## PERFORMANCE (2017)



**FUND UTILISATION  
POSITION AT  
YEAR END**

**US\$  
26.9 MILLION**

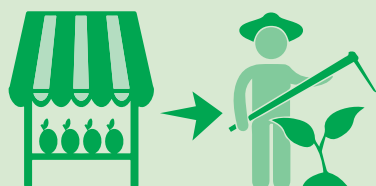
**US\$  
23.4 MILLION**



**PARTICIPATING  
FINANCIAL  
INSTITUTIONS**

**16**

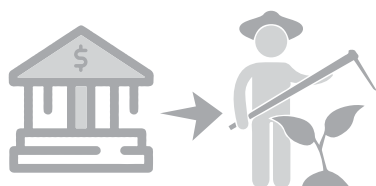
**13**



**SHFS BENEFITTING THROUGH LINKED VALUE  
CHAIN ACTORS (VCAS)**

**82,701**

**29,693**



**SHFS ACCESSING CREDIT THROUGH  
DISBURSING MFIS**

**24,385**

**6,686**



**AGRICULTURAL  
COMMODITIES  
SUPPORTED  
DURING THE YEAR**

**19**

**18**

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# ACRONYMS AND ABBREVIATIONS

<b>ACT</b>	Access to Clean Technology
<b>CAPEX</b>	Capital Expenditure Facility
<b>CEO</b>	Chief Executive Officer
<b>CSA</b>	Climate Smart Agriculture
<b>DANIDA</b>	Danish International Development Agency
<b>DfID</b>	Department for International Development
<b>Hivos</b>	Humanistic Institute for Cooperation with Developing Countries
<b>IPC</b>	Industrial Psychology Consultant
<b>MFI</b>	Micro Finance Institution
<b>NPL</b>	Non - Performing Loan
<b>PPG</b>	Pro Poor Growth
<b>RBZ</b>	Reserve Bank of Zimbabwe
<b>RTGS</b>	Real Time Gross Settlement
<b>SHFs</b>	Small Holder Farmers
<b>SNV</b>	SNV Netherlands Development Organisation
<b>USD</b>	United States Dollars
<b>VCAs</b>	Value Chain Actors
<b>ZADT</b>	Zimbabwe Agricultural Development Trust
<b>ZIMVAC</b>	Zimbabwe Vulnerability Assessment Committee

# EXECUTIVE SUMMARY

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Zimbabwe Agricultural Development Trust (ZADT) is pleased to present the 2018 Annual report which highlights progress achieved in the financial year. The report also shows progress in programme implementation since inception in 2012 to December 2018. During the year, ZADT funds were disbursed through diversified loan products offered through Commercial Banking Institutions and Micro Finance Institutions (MFIs).

In terms of fund uptake, annual disbursements for 2018 stood at US\$21 million, slightly higher than the position from 2017 disbursements which were US\$17 million. The outstanding loan book as at 31 December 2018 however stood at US\$26.9 million representing 75% utilisation against the available fund. ZADT was also currently working on additional lending models to further improve fund uptake. Cumulative disbursements have increased significantly over the years standing at US\$91.7 million as at 31 December 2018 supporting close to 19 commodities.

Annually, the ZADT Fund managed to reach out to more than 107,000 farmers through agribusinesses who borrowed through commercial banks and MFIs. In this regard, smallholder farmers derived a number of benefits from these relations. Cumulatively, 519,096 farmers have been reached by the ZADT Fund since 2012.

ZADT managed to preserve the Fund as there were no defaults on borrowed funds by disbursing financial institutions in 2018. There was also about 2,4% growth in the Fund from US\$37,603,514 in 2017 to US\$38,500,846. The growth was from surplus income above operational costs which was ploughed back into the Capital fund.

During the year, the Secretariat conducted studies in order to measure the effect of the Fund on farmers and borrowing agribusinesses. These results show that smallholder farmers linked to funded agribusinesses or accessing finance directly continue to enjoy positive benefits to their livelihoods. Most farmers attested to having been able to finance their children's education among many other household financial obligations. The ZADT Fund contributed to inclusive access to finance as forty-four (44) percent of the farmers that obtained ZADT credit mostly in kind through the funded VCAs were females in 2017/18 season. This was against the 50% target stipulated in the national Gender policy. the ZADT Fund therefore contributes to the Sustainable Development Goal (SDG) 5 of promoting gender equality and women empowerment. Credit access also increased household dietary diversity and food consumption score by 13% and 10% respectively.

Capacity building activities for stakeholders was in the form of a Train and Share Indaba targeted at banks and rural development partners. For staff members, training sessions were organised on industrial practices and stress management. ZADT also hosted a stakeholder's conference where over one hundred (100) stakeholders including smallholder farmers attended.

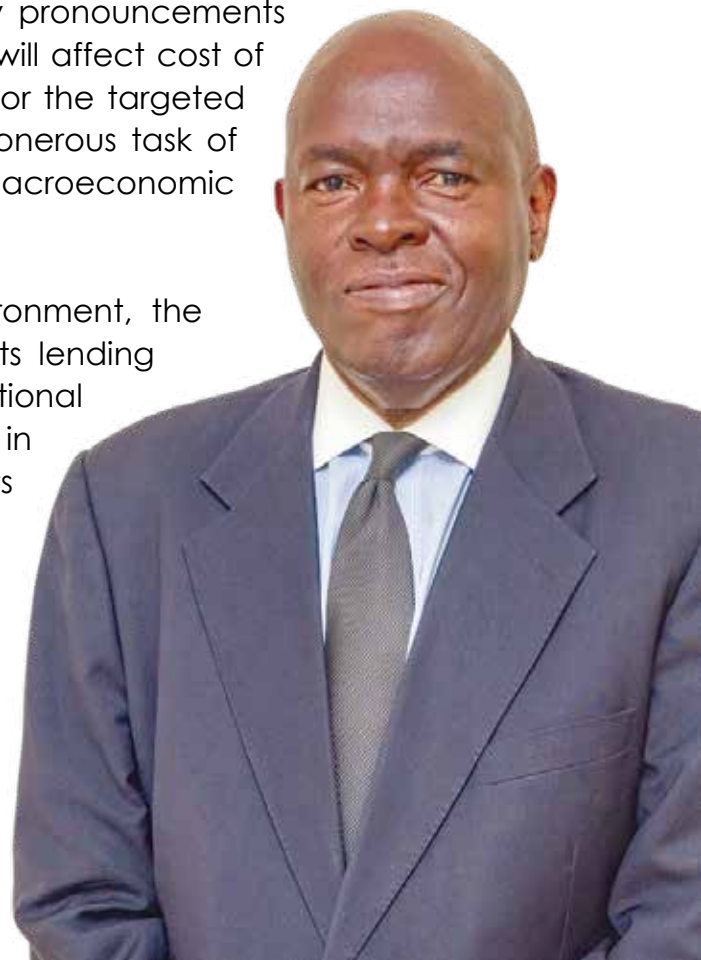
# CHAIRPERSON'S REMARKS

Since its establishment in 2012 the Zimbabwe Agricultural Development Trust (ZADT) continues to play a crucial role of facilitating access to finance directly to smallholder farmers or indirectly through agribusinesses. Most smallholder farmers who are the target of the ZADT Fund largely depend on rain fed agriculture. The 2017/18 agricultural season did not perform very well as it was characterised by long dry spells in the first half and incessant rains in the second half of the season. Production was therefore less than optimal. However, in the backdrop of such poor seasonal performance, the Trust managed to disburse US\$21 million during the year representing 55% of the total Trust capital of US\$38.5million. The disbursed facilities directly and indirectly benefitted close to one hundred thousand smallholder farmers in line with ZADT five-year strategic plan. New strategic initiatives and products rolled out during the year included de-risking instruments, participation in agro-based note issuance products, as well as introduction and piloting of ZADT Business Consultancy and Advisory Services, Access to Clean Technology and Climate Smart Agriculture products. Access to finance support to eligible beneficiaries continues to be provided through partner financial institutions comprising of commercial banks and microfinance institutions. Noting the direct benefits and significant impact of access to finance by smallholder farmers through MFIs, the Trust contracted four additional microfinance institutions to the stable of distribution channels to bring the total number of participating MFIs in the disbursement of the ZADT Fund in 2018 to thirteen (13). In the spirit of supporting smallholder farming productivity, the Trust continues to monitor movements in cost of capital with a view to ensuring that finance remains affordable to our target clientele.

Inflation has been going up since the monetary pronouncements by the Central Bank in September 2018 and this will affect cost of capital which will also affect access to finance for the targeted smallholder farmers. The Trust therefore has the onerous task of ensuring that the Fund is preserved in the volatile macroeconomic situation.

Despite the challenging macro-economic environment, the Trust managed to post a modest surplus from its lending activities which goes towards meeting the operational expenses of the Trust. The total income received in 2018 amounted to US\$1,497,661 against total costs of US\$1,123,636 resulting in a surplus of US\$374,025. Whilst income decreased by 1% from prior year, costs increased by 18.2%. The Operational Self Sufficiency (OSS) Ratio for 2018 therefore decreased to 1.33 from 1.46 in 2017.

The Board and its respective Committees managed to meet every quarter and provided



the necessary oversight to the Secretariat. The Credit and Loans Committee, however, met more often during the year as they had to consider and approve funding proposals received by the Secretariat from participating financial institutions. The Board also approved the recruitment of a resource to manage risk and compliance.

ZADT continues to positively impact on the livelihoods of targeted smallholder farmers through its value chain financing facility. This was made possible through contributions from its development partners. In this regard ZADT Board would like to acknowledge the financial support received hitherto constituting the ZADT Fund. Three development partners contributed to the capital fund and these are the Royal Danish Ministry of Foreign Affairs through the Danish International Development Organisation ("DANIDA"), the United Kingdom's Department for International Development (DfID) and the Ford Foundation. On behalf of the Board I would like to thank these partners for supporting such a worthy cause. The Royal Netherlands Embassy and Australian Aid (AusAID) also deserve special acknowledgement in that they contributed to the initial seed capital used to establish the Trust.

Allow me to take this opportunity to thank my fellow members of ZADT Board of Trustees, management and staff for all the effort put in 2018. As we continue to put our hands to the spindle to improve the livelihoods of smallholder farmers in Zimbabwe, I wish continued success to the ZADT family and all its partners.

**Kumbirayi Katsande**



Board Chairperson



# MESSAGE FROM THE CEO

In 2018 ZADT continued to fulfil its mandate of providing access to finance to smallholder farmers as well as agribusinesses whose operations benefit the farmers. The Trust engaged in several initiatives under the approved model to spur disbursements. These included reviewing of the model and the attendant terms and conditions, financial products, establishing strategic partnerships with organisations working with target smallholder farmers and reviewing and engaging of participating financial institutions. The Trust continued to review its disbursement model to ensure greater access to finance by targeted beneficiaries. Whilst the basic model from inception was based on transactional lending through financial institutions, the changes in liquidity positions of banks motivated the Trust to consider other strategies and products such as equity and risk sharing products.

The Trust surpassed its annual disbursement target to end up with an outstanding loan book of US\$26.9 million from US\$23.4 million in 2017, a 15% increase. This translated into an available Fund utilisation rate of 80% which demands the Trust to initiate and engage in Fund-raising activities in 2019 if it maintains the same disbursement momentum. The Fund size has largely remained unchanged with a 2% growth from US\$37,603,514 in 2017 to US\$38,500,837 in 2018. However, the Trust's available Fund for on-lending was adjusted downwards to US\$33.5 million as a result of a strategic value preservation decision to invest US\$5million in a fixed property. There was a general challenge in accessing foreign currency in 2018 and this has affected some of ZADT's operations. The Trust received several enquiries from its partner financial institutions for foreign currency support to on-lend to borrowers for importation of key raw materials as well as equipment.

In Quarter 3 the Central Bank issued a directive to separate Nostro and RTGS balances into different accounts. The separation was linked to the general increase in prices which affected the operational costs and sustainability of the Trust as income did not change since interest rates remained the same. Whilst initially the value of the RTGS\$ was equal to the US\$ this later changed as the Central bank adopted an interbank determined exchange rate. This directly affected the ZADT Fund. Fund preservation has become a major objective for the Trust if it is to continue availing access to affordable finance to smallholder farmers. There were no defaults by all participating financial institutions for loans advanced to them.

To drive direct access to finance by smallholder farmers four additional MFIs were engaged in 2018 bringing the number up to nine from five in 2017. One bank opted out bringing the number down to seven from eight in 2017. The increase in number of disbursing MFIs is in line with the strategy to increase



the share of support to 30% noting that smallholder farmers have direct access to finance through this channel. The share of disbursements to MFIs to total disbursements in 2018 was 24%. Coincidentally exposure to MFIs in the total outstanding loan book constitutes the same proportion.

Disbursements during the year supported businesses of about 21 value chain actors through both commercial banks and microfinance institutions. The supported businesses were dealing in 19 commodities of which the highest value of loans went into the stock feeds sector. The smallholder farmers whose livelihoods were impacted through the 2018 disbursements totaled 107,086 up from 36,379 in 2017. Women constituted 32.4%. The cumulative reach to smallholder farmers since inception of the ZADT Fund stood at 519,102 of which 25% were women. The majority of smallholder farmers impacted in 2018 were in the poultry sub-sector especially broiler production which is characterised by low entry and exit costs as smallholder farmers can start the business even with makeshift facilities. The business also has quick turnover. There were three stock feed manufacturing companies and two hatcheries supported.

Impact assessments also showed that farmers linked to ZADT Funded businesses had better access to extension services over and above the public extension support services. ZADT value chain financing facility was instrumental in creating a stable, viable and guaranteed market for smallholder farmers in 2018 as income obtained through the Funded borrowers accounted for 58% of income obtained from all crop sales.

Whilst the ZADT Fund impacted positively on the livelihoods of smallholder farmers it is important to point out that the funded agribusinesses also benefitted. Of the facilities whose tenures matured in 2018 the average growth in turnover was 41% whilst capacity utilisation grew by 36%. Employment levels also increased by 43% between the time Funds were accessed and maturity of facility.

Several capacity building events were done during the year. These included Stress Management, Team Building as well as ZADT Annual Stakeholder Event. These all contributed to improvement in overall staff performance.

I would like to thank the Board of Trustees for the oversight and guidance provided in 2018 without whose support ZADT would not have been able to register the achievements. I would also like to thank the staff for the job well done during the year and wish them the best in 2019.

**Godfrey R. Chinoera**



Chief Executive Officer

# BACKGROUND

## INTRODUCTION

This annual report covers the Trust's activities for the period January to December 2018 and is the Trust's primary report to stakeholders. The report covers highlights of the Trust's performance during the financial year in line with the general outlook of the operating environment, update of the ZADT Fund loan portfolio, highlights on Fund impact on the targeted smallholder farmers and funded agribusinesses. The report also provides updates on development initiatives during the year, external reviews conducted and audited financial results.

## PERFORMANCE OF THE 2018 AGRICULTURAL SEASON

The 2018 annual reporting period covers portions of two agricultural seasons. The Zimbabwean agricultural season runs from October to March. The period January to March 2018 represents the second half of the 2017/2018 rainy season whilst the period October to December 2018 constitutes the first half of the 2018/19 season.

The rainfall season was characterised by long dry spells in the first half (October–December 2017) and incessant rains in the second half (January – March 2018) of the season. The poor distribution of the rains prior to February negatively impacted on crop development, particularly the establishment and flowering of the early planted crop. The incessant rains in the later part affected weeding and harvesting which had a negative effect on the quantity and quality of the harvest. The outbreak of the Fall Armyworm compounded the challenges as it wreaked havoc in most parts of the country destroying crops (maize, small grains and others). Poor knowledge to deal with the pest and inadequate liquidity among farmers made it difficult to contain the pest. Sporadic outbreaks of foot and mouth disease continued to be the major threat to the cattle enterprise in the country.

In terms of cereal production, the Table below, extracted from the ZIMVAC Report of 2018, presents the three year trend in average household cereal production from 2015/16 to 2017/18.

Season	Average production of cereals (kg per household)	
	Maize	Small Grains
2015/16	126.5	16.4
2016/17	480.9	42.2
2017/18	334.2	14.2

Source: ZIMVAC 2018.

According to the ZIMVAC Report all provinces recorded a decrease in maize production except for Mashonaland West and Masvingo which had a 21% and 6% increase respectively. The average production for 2017/18 was lower than the previous season levels and the average crop productivity per unit area remains too low and a major cause for concern.

## OVERVIEW OF THE ZADT FUND

ZADT continues to manage a revolving fund mobilised from Development Institutions to support smallholder agriculture in Zimbabwe. ZADT Fund is disbursed through local financial institutions in Zimbabwe to on-lend to smallholder farmers and agribusinesses whose operations benefit smallholder farmers. Smallholder farmers typically benefit through diverse forms including; direct access to finance in cash and/or in-kind, access to viable and guaranteed markets for farming inputs, produce and other services such as technical assistance.

The disbursement of these funds follows two main pathways constituting the ZADT model. These are the transactional and strategic business models;

- i. The transactional model involves eligible value chain actors accessing credit as working capital or capital expenditure through Commercial Banks based on analysis of estimated impact on the targeted clientele of smallholder farmers. Under this model Micro Finance Institutions also disburse directly to smallholder farmers.
- ii. The strategic value chain business model involves a longer-term perspective through cooperating with agricultural technical assistance partners as well as other key players such as rural development organisations such as non-governmental organisations to cause a structural lift to selected value chains overtime ensuring financial inclusion.

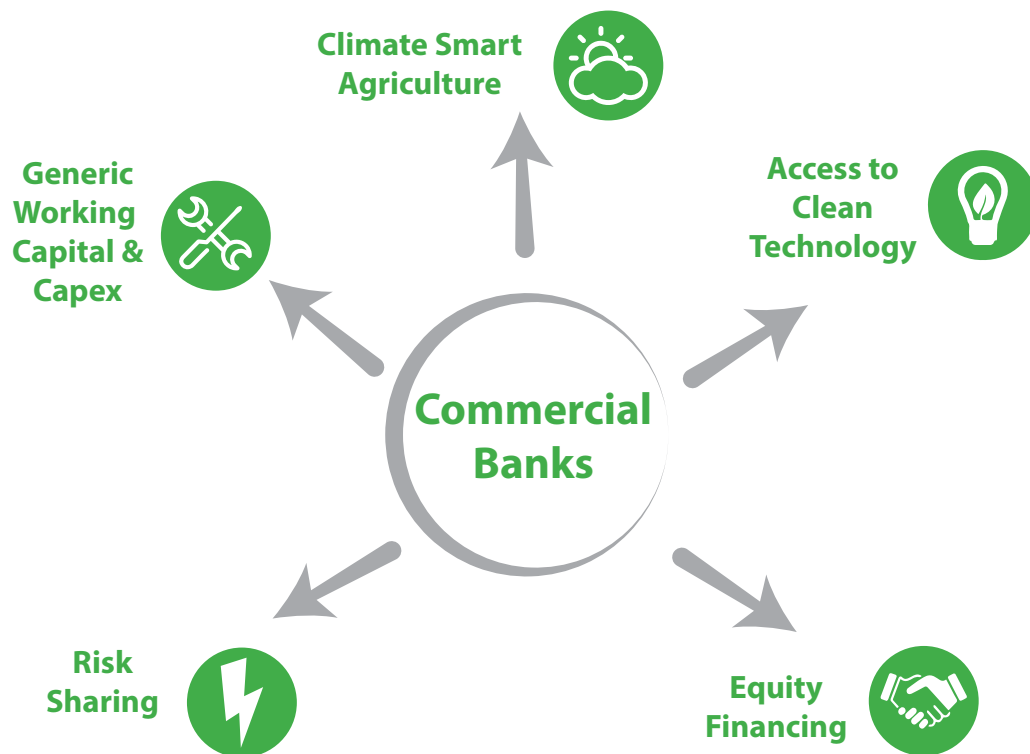
Under this strategic objective ZADT is focussing on strategic value chains in collaboration with technical assistance providers with a focus on financial inclusion and innovative funding. The strategic partnerships facilitate joint analysis of selected high-potential value chains with respect to, among other things, their reach to smallholder farmers and development impact. The strategy involves distilling each strategic value chain to identify specific requirements along the various nodes in the chain and jointly develop financing models that are tailor made to suit the needs of the smallholder farmers involved.

The participating Commercial Banks and MFIs in the disbursement of the ZADT Fund are as listed in III and IV.

## ZADT PRODUCTS

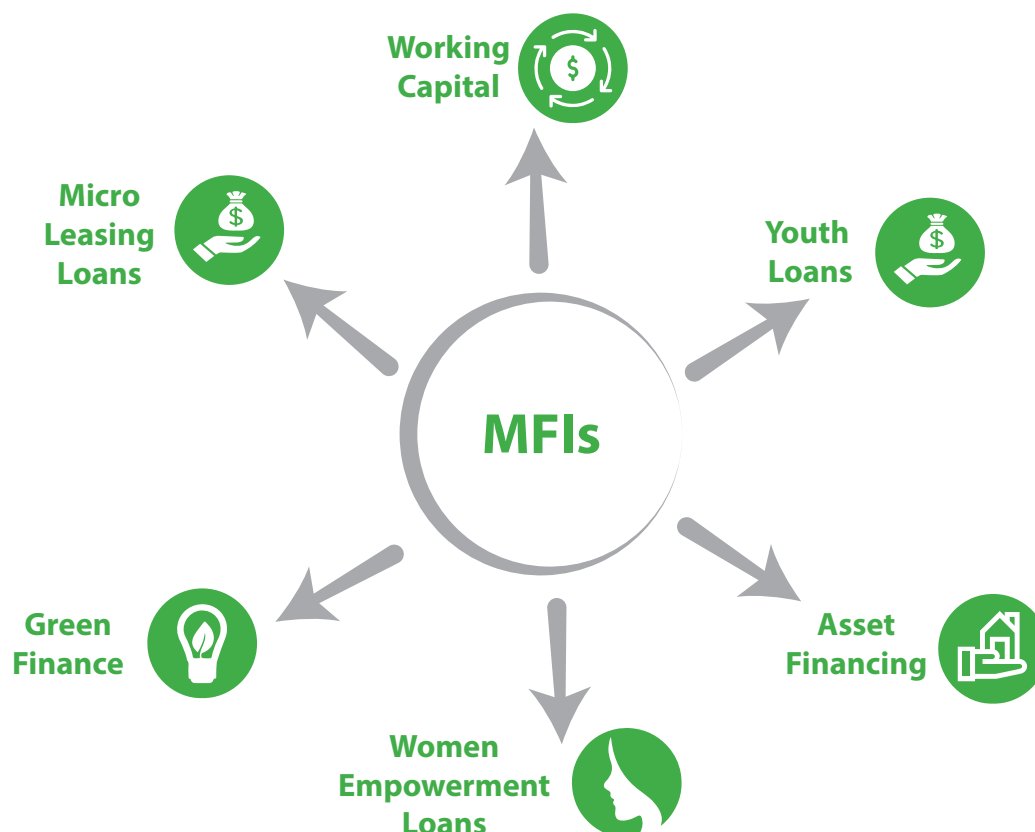
The ZADT Fund continues to be disbursed through five diversified loan products. The products offered through Commercial Banking Institutions are as presented in **Figure 1**.

**Figure 1:** Loan products offered by ZADT through Participating Commercial Banks



Through the nine Micro Finance Institutions, ZADT also facilitated direct access to finance for smallholder farmers through a variety of financial products which they offer. Some of the products are presented in **Figure 2**.

**Figure 2:** Loan products offered to beneficiaries through MFIs

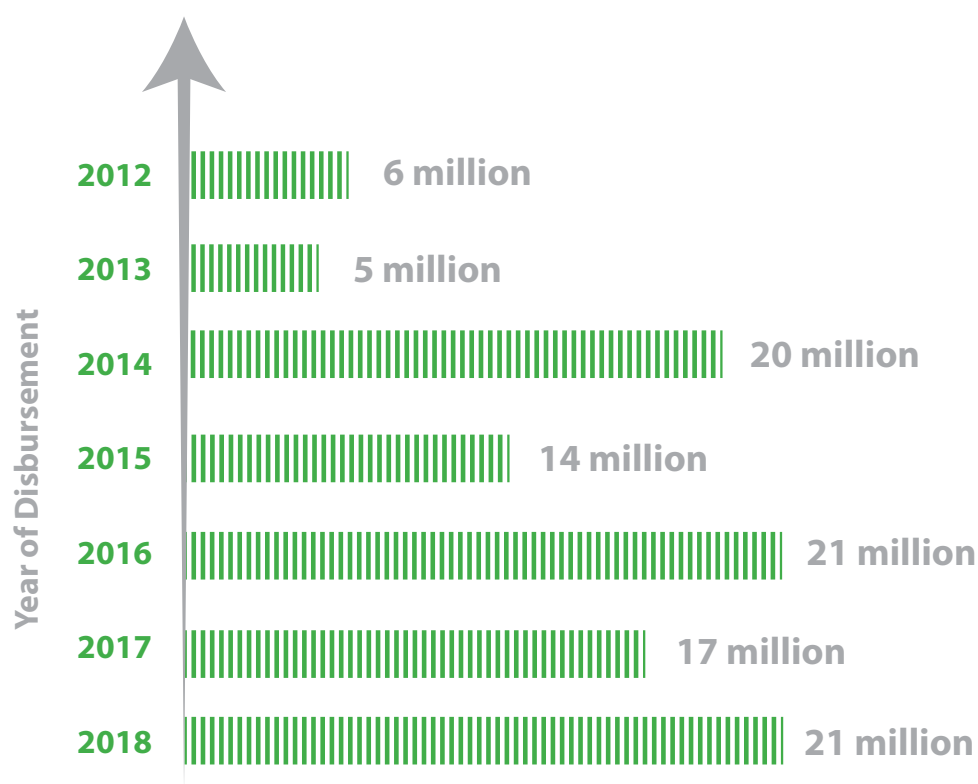


# ZADT FUND PORTFOLIO ANALYSIS

## FUND UPTAKE

Annual disbursements for 2018 stood at US\$21 million, slightly higher than the position in 2017 which were US\$17 million. This was due to introduction of new product offering channels in addition to the existing traditional products. ZADT was also currently working on additional lending models to further improve Fund uptake.

**Figure 3:** Annual disbursements and placements by loan values (US\$)



The outstanding loan book as at 31 December 2018 stood at US\$26.9 million compared to US\$23.4 million in 2017 which represents a 15% increase. The outstanding loan amount therefore represented 75% utilisation against the available fund of US\$33.5million (adjusted ZADT Fund size for US\$5million property investment) at the end of the year.

**Table 1:** Cumulative disbursements by loan values (\$)

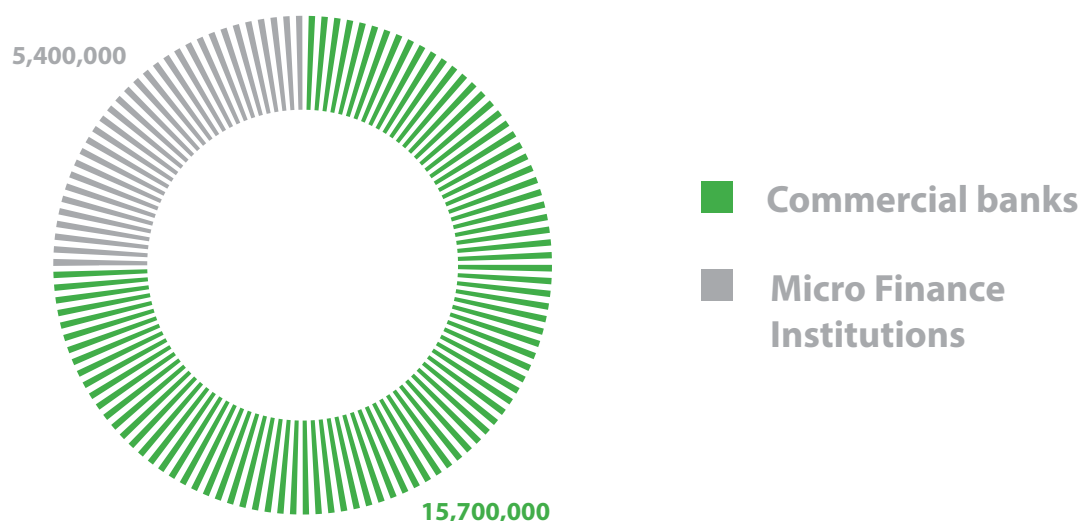
	2018	2017
CUMULATIVE VALUE OF LOANS	USD \$91.7 million	USD \$77.5 million
CUMULATIVE NUMBER OF LOANS	355 loans	323 loans



## AGRIBUSINESSES AND MICRO FINANCE INSTITUTIONS ACCESSING FINANCE

During the reporting year, loans and placements were disbursed to 21 value chain actors comprising of 13 Agribusinesses and 8 Micro Finance Institutions. Figure 4 presents the distribution of value of loans to agribusinesses and to MFIs during the year.

**Figure 4:** Distribution of loans among borrowing value chain actors in 2018 (US\$)



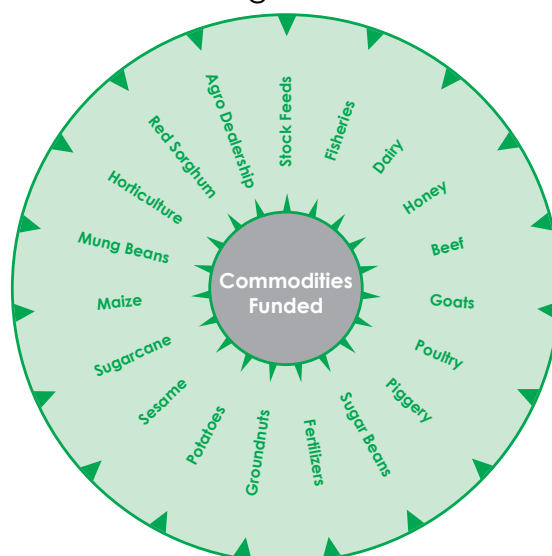
The distribution in Figure 4 shows that agribusinesses, through commercial banks, accessed 74% of total loans disbursed during the year. Agribusinesses typically borrow to support their operations whose benefit filter through to smallholder farmers directly or indirectly. MFIs however access funding for on-lending to smallholder farmers involved in various value chains. MFIs thus continue to reach out to more and more smallholder farmers.

## AGRICULTURAL COMMODITIES SUPPORTED THROUGH COMMERCIAL BANKS AND MICRO FINANCE INSTITUTIONS

**Figure 5** presents the major value chains supported through loans disbursed by banks and MFIs in 2018. In terms of distribution, through banks, about 50% of loans fell within the stock feeds sub-sector namely (beef, and poultry). This was followed by sugarcane at 22%. Amongst the least supported commodities was that for agro-dealership, which included agribusinesses offering once off type of services to farmers e.g. agro-input distributors.

For MFIs, ZADT availed funding on a once-off basis for the MFIs to on-lend to smallholder farmers involved in production of several agricultural commodities.

**Figure 5:**  
Commodities supported through banks and MFIs in 2018



# FUND PRESERVATION

ZADT managed to preserve the Fund as there were no Non-Performing Loans (NPL) on all borrowed funds by disbursing financial institutions in 2018. NPLs rate for the whole banking sector closed the year at 8.25% up from 7.08% in 2017, against an RBZ target of 5%.

Within the ZADT Fund there was also about 2% growth in the Fund from US\$37,603,514 in 2017 to US\$38,500,846 in 2018. The growth was from surplus income above operational costs which was ploughed into the Capital fund.

# FUND IMPACT

## NUMBER OF SMALLHOLDER FARMERS LINKED TO FUNDED AGRIBUSINESSES AND MICRO FINANCE INSTITUTIONS

Table 2: Smallholder farmers benefitting through Agribusinesses and direct loans from MFIs

	Total smallholder farmers benefitting	Female smallholder farmers
Through Agribusinesses	82,701	27,687
Through Microfinance Institutions	24,385	7,043
<b>Total</b>	<b>107,086</b>	<b>34,730</b>

As presented in **Table 2**, the total number of smallholder farmers who benefitted from the Fund disbursements in 2018 was 107,086 up from 36,379 in 2017. This represented an increase of 66%.

Over 70% of smallholder farmers reached were through agribusinesses who borrowed through commercial banks. These agribusinesses in turn impacted on the agricultural operations of farmers in different ways including the following, see **Table 3**;

Table 3: Benefits derived by smallholder farmers from borrowing Agribusinesses

Provision of a reliable market and competitive prices for agricultural produce

Provision of crop farming inputs on flexible credit terms

Convenience in accessing farming inputs close to their areas of operation

Capacity building of farmers on proper crop and livestock production

Provision of high quality inputs for crop and livestock production



The remaining 30% of farmers were availed with direct micro loans through Micro Finance Institutions supported by ZADT.

The cumulative number of farmers reached by the ZADT Fund since 2012 to December 2018 is 519,096. These comprised of 491,658 benefitting through funded Agribusinesses whilst 27,438 accessed microloans through MFIs.

## **IMPACT OF ZADT FUND ON FARMERS' AGRICULTURAL PRODUCTION, ASSET ACCUMULATION, INCOME, FOOD AND NUTRITIONAL SECURITY**

Highlights from the second phase of the round 2 longitudinal sentinel study are presented in this section. The sentinel study is an impact assessment conducted in order to measure the effect of the Fund on farmer's agricultural production, asset accumulation, income, food and nutritional security. Information was collected from households involved in different value chains which were being supported by borrowers of the ZADT Fund. The study results show that the program was successful in improving the welfare and income of farmers.

### **IMPROVED ACCESS TO CREDIT**

The ZADT Fund improved smallholder farmer's access to credit, particularly for women. Approximately 52% and 44% of the farmers that obtained ZADT credit mostly in kind through the funded VCAs were females in 2016/17 and 2017/18 season respectively. The National Gender Policy advocates for a 50% participation between men and women. Results also showed that farmers have limited access to credit from other sources confirming the importance of ZADT facility to smallholder farmers.

### **IMPROVED ACCESS TO EXTENSION**

Farmers that participated in programmes financed by the ZADT Fund had better access to extension services. In addition to government extension support services that are provided to all farmers, about 42% and 43% of farmers that participated in the ZADT funded programme in 2016/17 and 2017/18 obtained additional extension support from borrowers respectively. In the ZIMVAC report the proportion of households that received extension visits actually declined from 31% in 2016/17 to 21% in the 2017/2018 season. The trend shows that household visits are becoming less frequent. Availing extension support helps in building capacity among farmers and also improves productivity. This has spill over effects towards household welfare and economic development.

### **CONTRIBUTION OF ZADT FUND TO SMALLHOLDER FARMERS' INCOMES AND MARKET ACCESS**

The ZADT funded programme was instrumental in creating a stable, viable and guaranteed market for smallholder farmers in the two cropping seasons. ZADT funded value chain actors contributed 58% to total farmers' crop revenue generated in 2016/17 season. Income obtained through the borrower accounted for a greater proportion of income that was obtained from all crops sales.

### **CONTRIBUTION OF ZADT FUND TO FOOD SECURITY AND LIVELIHOODS**

Income obtained by farmers supported by ZADT funded agribusinesses had positive effects on dietary diversity and food consumption. Most of the income generated from crop sales under ZADT facility in 2016/17 (36%) and 2017/18 (28%) was used to purchase

food and subsequently improved dietary diversity. Regression analysis results showed that a unit increase in the initial credit led to a 2.4% and 3.7% increase in household dietary diversity and food consumption score respectively in 2016/17. In 2017/18, credit access increased household dietary diversity and food consumption score by 13% and 10% respectively. Some of the farmers used the income to pay for their children's education. This had a positive and long-term effect on human capital development. Farmers also reinvested their income into agricultural activities (20%) and (18%) for 2016/17 and 2017/18 seasons respectively. The ability to reinvest ensures sustainability of farm enterprises. These results are in line with Sustainable Development Goal (SDG) 2 of ending hunger, achieve food security and improved nutrition and promote sustainable agriculture.

### **SUSTAINABILITY OF THE ESTABLISHED AGRIBUSINESS LINKS**

Despite the fact that some of the facilities had matured at the time of the study, a borrower in the (banana value chain) maintained links with farmers. Tea farmers who were linked to a borrower whose operations were closed re-established their links with the parent company. This demonstrates that farmers have been capacitated to forge their own partnerships, a key indication of sustainability. The duration of relationship with borrower had a positive and significant correlation with crop income for sugarcane and Michigan pea farmers. An additional year of borrower-farmer relationship increased income among sugarcane and Michigan pea farmers by 15% and 45% respectively. Therefore, nurturing and promoting long-term relationships between credit providers and farmers is important to enhance household welfare.

### **RECOMMENDATIONS**

The study findings indicated that the ZADT facility had a positive impact on improving agricultural productivity, incomes, livelihoods and food security of smallholder farmers. Given these positive contributions the facility needs to continue availing the credit to farmers.

## **SUCCESS STORIES AS NARRATED BY SMALLHOLDER FARMER BENEFICIARIES.**

### **TESTIMONIAL 1: POSITIVE IMPACT ON LIVELIHOOD THROUGH PROVISION OF MICRO LOANS TO PAPRIKA GROWERS**

Virl Microfinance, a ZADT Fund disbursing Micro Finance Institution funded a group of smallholder farmers in Makoni District for paprika production. Virl supported the group with funding for inputs namely fertilizers and herbicides which the farmers would ordinarily not have been able to finance. Virl also assisted this group to access a viable market at competitive prices.



*Members of the Tashinga paprika group in Makoni with Viri staff members.*

Peter, a 31-year-old farmer from Nyamusosa Village in Makoni has been receiving financial and technical support from Viri Microfinance for the past 3 years. He had this to say about their work with Viri,

“The paprika enterprise is very profitable. I am very grateful for Viri's initiative of giving us loans to be able to produce paprika over the years as this has impacted on our lives positively”.

Peter managed to realize a gross margin of US\$1,600 from a 0.5hectare piece of land. From his crop proceeds over the 3-year period, he managed to purchase 10 goats, 2 herd of cattle and was currently keeping 85 indigenous chickens. Peter was also building his house using funds from paprika production.

Another farmer, Beauty, a widow from Mayo village in the same district has been getting an average gross margin of US\$3,100 per hectare growing the same crop with funding through Viri. She also had this to say;

“As a widow who joined the group due to struggles in fending for my family, I really appreciate Viri as they have allowed me to farm on time thus guaranteeing good harvests”.

Beauty managed to drill a borehole and purchased a scotch cart of her own and she now owns 8 herd of cattle.

## **TESTIMONIAL 2: SORGHUM SMALL HOLDER FARMERS EXPERIENCE LIVELIHOOD IMPROVEMENTS IN BINGA**

Papamani Group in Binga District grows red sorghum under contract for Ingwebu Breweries. The group consists of 20 members comprising of 15 women and 5 men. Ingwebu Breweries accessed the ZADT Facility to support farmers with working capital and a guaranteed market for sorghum. The sorghum is used as input in the company's 'mahewu' (non-alcoholic beverage) plant.

Smallholder farmers have enjoyed technical backstopping support on sorghum production offered by the company's agronomists who work closely with government extension officers, received sorghum seed, chemicals and transportation services for produce thus reducing burden on the farmers.

The Sibanda family, one of the beneficiary members of the group, grew sorghum on 4 hectares of land in Lusulu communal area of Binga District. Commenting on how their linkages with Ingwebu has improved their welfare Mr. Sibanda had this to say;

*“From sorghum proceeds in the previous seasons, I managed to construct proper sanitation facilities. I also managed to renovate my homestead buildings and purchased furniture items among other things”.*



*Mr. and Mrs. Sibanda of Papamani Group in Binga standing in front of a heap of harvested sorghum awaiting threshing.*



*Mrs. Sibanda of Papamani Group shows off her high-quality sorghum produce after threshing.*



*Mr. Sibanda poses in front of the house which he managed to renovate through proceeds from sorghum production.*



*Improved sanitation facility constructed from sorghum proceeds.*

### INCREASED HOUSEHOLD INCOMES THROUGH CATTLE PEN FATTENING

Success Microfinance funded Hlanganani group comprising of seven members – five men and two women in Insiza District for cattle pen fattening. The group has been in existence for almost two years. They were involved in buying and selling cattle. The MFI funded the group with working capital to buy cattle, stock feeds, establish pen feeding facilities and selling off the fattened stock. The group started realizing incomes which were 75% higher than what they had been getting through the ‘buying and selling’ model. The value adding activities are paying off.





*A Hlanganani Group member shows off some of the animals under the pen fattening scheme in Insiza.*



*More cattle by another group member of Hlanganani Group.*

### **TESTIMONIAL 3: IMPROVED PRODUCTIVITY FOR SMALLHOLDER FARMERS ACCESSING QUALITY FERTILIZERS THROUGH TRIOMF.**

Smallholder farmers in rural areas across Zimbabwe have benefitted from provision of high-quality fertilizers manufactured and distributed by Triomf Fertilizers. ZADT supported the company with funding to set up additional rural container outlets in Gutu, Headlands, Chiredzi, Guruve, Mhondoro and Nyanyadzi. Smallholder farmers in these areas expressed gratitude because of the convenience in access to fertilizer at competitive prices which they are enjoying.

The company also provides technical support on proper usage of the products. This has contributed to improved productivity, income and hence livelihoods for these farmers.



**Above:** Triomf rural outlet in Guruve.



**Left:** A smallholder farmer purchasing Triomf Fertiliser at an outlet in Headlands.

# OTHER ASSESSMENTS

## IMPACT OF ZADT FUNDING ON FUNDED BUSINESSES

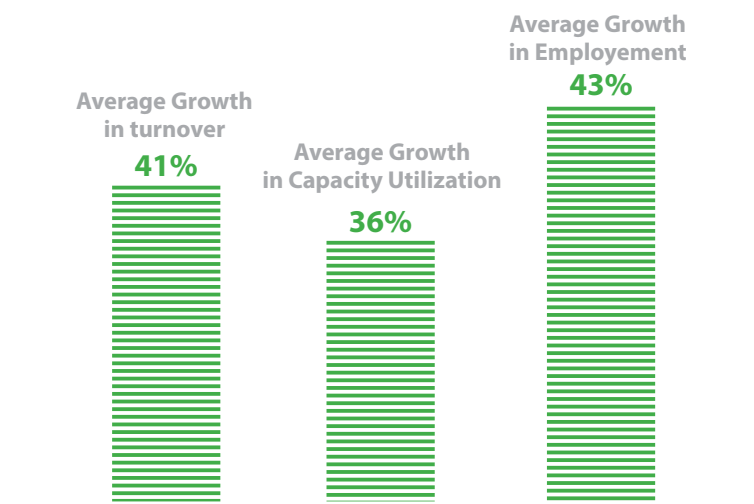
An assessment was done to establish the impact of the ZADT Fund on the performance of funded agribusinesses. The assessment focussed on the extent to which the Fund contributed to changes in three main indicators namely annual turnover, capacity utilisation and employment levels. The changes in the parameters were measured between the period when the facility was disbursed and when it matured. The findings are presented in the Figure below.

### SUMMARIZED FINDINGS

Agribusinesses with facilities maturing in 2018 had an overall turnover growth of 41%. There were no sampled agribusinesses with an average growth in turnover of less than 10%. All of these companies admitted that the ZADT Fund contributed to more than 50% of total funds supporting their operations during the year. The ZADT Fund therefore contributed to the growth in the turnover of these businesses. The Fund was also able to contribute positively to the productive capacity of borrowing agribusinesses. The overall contribution of the Fund to

increased capacity utilisation was 36%. There were two companies who recorded 100% growth in capacity utilisation indicating full impact of the Fund on the businesses.

### AVERAGE GROWTH FIGURES



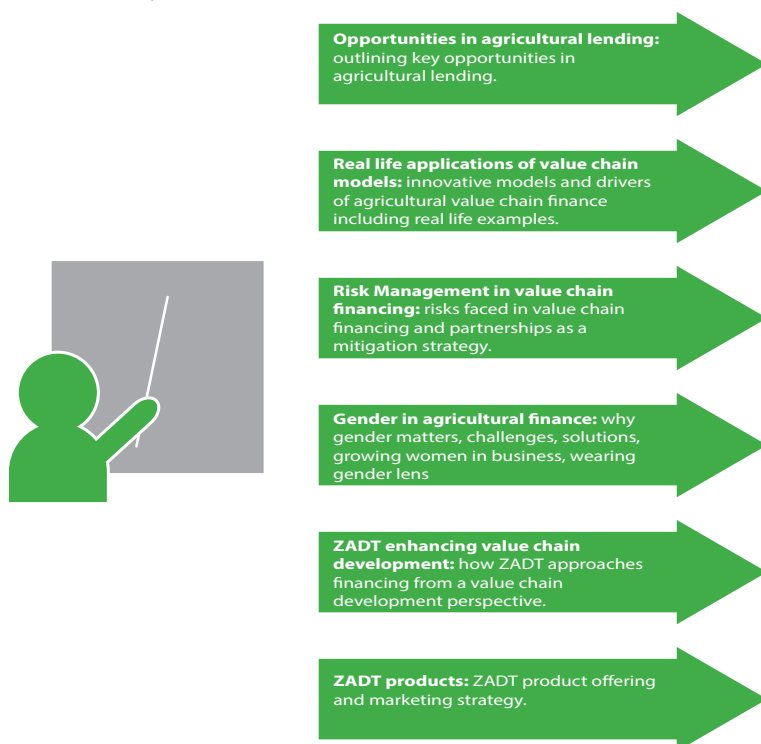
In line with increased capacity utilisation, agribusinesses recorded a 43% overall increase in employment levels. The boost in capacity utilisation increased their ability to produce more hence the need for additional human resources. The ZADT Fund therefore contributed to employment creation specifically to the funded businesses and to the country as a whole.



# CAPACITY BUILDING

In line with its 5-year strategy ZADT conducted a 'Train and Share Indaba' in December 2018. The event was attended by banks and rural development partners working with target smallholder farmers. The main aim for this event was to facilitate capacity building of Financial Institutions offering innovative and sustainable access to finance to target smallholder farmers and agribusinesses. Main topics covered were as follows;

**Table 4:** Main topics covered at Train and Share Indaba



**Above:** Participants pose for a photo shoot.

**Below:** Participants in session.



## TRAINING OF ZADT SECRETARIAT

In 2018, ZADT arranged a number of training programmes in order to capacitate staff on different topics. These included Stress Management, Workers Committee and Team Building.

### STRESS MANAGEMENT TRAINING

ZADT engaged IPC Consultants to facilitate a stress management workshop. The training was very useful as it helped staff to understand how to identify and manage stress both at the work place and at home.

### WORKERS COMMITTEE TRAINING

The ZADT Secretariat also organised training for staff to appreciate some of the industrial practices that staff should be aware of. These include guidelines on the role of and setting up and functioning of the Workers Committee at institutions. The training was facilitated by an expert from Ministry of Labour and Social Services.



## 2018 TEAM BUILDING EXERCISE

In 2018, the ZADT Secretariat attended a two-day Team Building exercise which was conducted at Manna Safari Resorts in Harare. The exercise was facilitated by Industrial Psychology Consultants (IPC). The exercise was done to improve staff relations, cohesion, effectiveness and overall performance.



*ZADT Staff pose for a photo during a Team building event.*



*Staff enjoying a break session during the Team Building event.*

# EVENTS

## ZADT 2018 STAKEHOLDERS CONFERENCE

ZADT hosted a stakeholder's conference on the 27th of September 2018 at Wild Geese Lodge in Harare. The event ran under the theme "Leveraging Partnerships for Inclusive Smallholder Agricultural Finance and Development". In attendance were over 100 stakeholders from various institutions including participating financial institutions in the disbursement of the ZADT Fund, current and prospective borrowing agribusinesses, representatives of smallholder farmers linked to the various funded value chain actors and other stakeholders involved in the development of smallholder farmers. Some stakeholders had an opportunity to set up exhibition stands to display their products and make presentations on selected topics.

Ms. Patience Magodo Founder and Managing Consultant of Tafadzwa neChiedza Development Trust and Mr. Paul Zakariya, Executive Director for Zimbabwe Farmers Union were Panelists and Co-Guest Speakers. Mr. Zakariya called for a mind-set change, particularly the framing of smallholder farmers who are still viewed as associated with high risk and low productivity. He said access to affordable financing, training and investment in value addition ventures, was central to transforming smallholder farmers' output.



ZADT CEO, Mr Chinoera (in the middle) with the two guest speakers, Ms. Magodo and Mr. Zakariya during the event.





Some of the attendants at the conference.



Time to meet and share at the event

Participants at the ZADT stand

## LAUNCH OF NEW FINANCIAL PRODUCTS

ZADT launched and trained PFIs on three of the new products that were developed during the year ended 31st December 2017. The launch and trainings were done on the 13<sup>th</sup> of April 2018 and 27<sup>th</sup> of April 2018 for Harare and Bulawayo based PFIs respectively. The new products that were launched include Access to Clean Technology (ACT), Climate Smart Agriculture (CSA) and Business Consultancy & Advisory Services products.



**Left:** ZADT Business & Marketing Development Manager during the event.

**Right:** ZADT CEO making a presentation to participants



# GOVERNANCE

## ZADT BOARD OF TRUSTEES

The ZADT Board is comprised of seven Trustees, all of whom are non-executive. Their main role is to oversee the Trust's operations and ensure that the Secretariat discharges the set mandate in line with laid down policy.

The Board set up three committees which ensure guidance is provided to the Secretariat in specific areas. These are Credit and Loans Committee, Human Resources and Nominations Committee and Audit Committee. The committees meet quarterly except for the Credit and Loans Committee which meets more often necessitated by the need to review and approve proposals submitted by the PFIs for funding.

## THE ZADT SECRETARIAT



*Members of the ZADT Secretariat*

# FINANCIAL PERFORMANCE

The Trust managed to post a surplus for the year 2018, despite the macro-economic challenges which adversely affected business prospects and confidence. The Trust generated a surplus of US\$374,025 for the financial year ended 31 December 2018 which was 51% lower than the prior year's comparative of US\$563,939. Inflationary pressures, which started in the third quarter of 2018, led to an increase in operating costs resulting in a reduced surplus for 2018. Interest on loans totalled US\$1,158,901 a growth of 14% from US\$1,020,518 in 2017 resulting from a growth in loans. Other income for 2018 amounted to US\$338,760, a decrease of 44% from US\$489,044 in 2017. Total operating income was down 0.8% to US\$1,497,661, from US\$1,509,562 in 2017. This reduction in income was due mainly to a decrease in investments in comparison to 2017.

Operating expenses increased by 19% to US\$1,123,636 in 2018 from US\$945,623 in 2017 due to inflationary pressures, reflecting the adverse changes in the operating environment.

The Trust's statement of financial position improved with total assets increasing to US\$39,239,297 in 2018 from US\$38,843,406 mostly due to an increase in loans to financial institutions from US\$22,419,633 in 2017 to US\$24,762,183 in 2018, a growth of 10%. The revolving fund increased by 2.4% to US\$38,500,837 in 2018 from US\$37,603,514 in 2017. This was as a result of ploughing back 50% of accumulated retained earnings to the Capital fund for further on-lending. The Trust remains in a stable financial position at the year-end despite sustained economic and regulatory challenges. ZADT continues to address increasing revenues and cost reductions in the volatile economic environment.

## INVESTMENTS

If funds are not immediately required, they are invested in longer and medium-term low risk funds and short-term deposits. Our overall investment objective is to generate a positive return, while maintaining the capital value of investments in real terms over the long term. The Audit Committee regularly reviews the Trust's investment portfolio and investment policy. The Stock Market weakened towards year end which resulted in fair value loss of US\$16,919 at year end. However, the Trust's investment in stocks have shown a strong start to the new financial year.

# FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2018

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## REFERENCE AND ADMINISTRATION INFORMATION

BOARD OF TRUSTEES:	<ul style="list-style-type: none"> <li>- Kumbirayi Katsande – Chairman</li> <li>- Mikkel Klim</li> <li>- Dorothy Mushayavanhu</li> <li>- Tanja Lubbers</li> <li>- Naa-Aku Acquaye Baddoo</li> <li>- Dr Benedict Gilbert Moyo</li> <li>- Leif Reeckmann</li> </ul>
SECRETARIAT:	<ul style="list-style-type: none"> <li>- Godfrey R Chinoera - Chief Executive Officer</li> <li>- Caroline Mangezi - Finance and Administration Manager</li> <li>- Fortunate Vengesai - Business and Market Development Manager</li> <li>- Morris Mudiwa - Senior Monitoring and Evaluation Officer</li> <li>- Mutsa Denhere - Projects Officer</li> <li>- Josephine Dube – Risk and Compliance Officer</li> <li>- Tafadzwa Masama - Accountant</li> <li>- Bridget Gomo - Loans Officer</li> <li>- Tatenda Majongwe - Monitoring and Evaluation Officer</li> <li>- Caroline Muyambo - Receptionist</li> <li>- Zivai Gumbo - Credit Analyst</li> <li>- Pardon Chivizhe - Accounts Clerk</li> <li>- Jonathan Moyo - Driver/Messenger/Cleaner</li> <li>- Leonard Maziyo - Caretaker</li> </ul>
REGISTERED OFFICE:	Zimbabwe Agricultural Development Trust 44 The Chase, Mt Pleasant, Harare, Zimbabwe
MAIN FUNDERS:	<ul style="list-style-type: none"> <li>- Royal Danish Ministry of Foreign Affairs ("DANIDA"),</li> <li>- Department for International Development ("DFID"),</li> <li>- Ford Foundation</li> </ul>
TRUST DEED NUMBER:	MA864/2010
LEGAL ADVISOR:	Gill, Godlonton & Gerrans 7th Floor, Beverley Court, 100 Nelson Mandela Avenue, Harare
PRINCIPAL BANKER:	Standard Chartered Bank of Zimbabwe Limited 68 Nelson Mandela Avenue, Harare
INDEPENDENT AUDITOR:	KPMG Chartered Accountants 100 The Chase (West) EMERALD HILL, HARARE, ZIMBABWE

## GENERAL INFORMATION

### GENERAL OVERVIEW AND OBJECTIVES OF THE TRUST

Zimbabwe Agricultural Development Trust (the "Trust" or "ZADT" ), is a Trust that was formed by SNV Netherlands Development Organisation - Zimbabwe and Humanist Institute for Co-operation with Developing Countries (Hivos) – Zimbabwe. ZADT is funded by The Royal Danish Ministry of Foreign Affairs ("DANIDA"), Department for International Development ("DFID") and Ford Foundation. The Trust's objective is to promote growth in primary agriculture and related value chain with the main aim of improving food security and income for rural communities through provision of funding for agricultural activities.

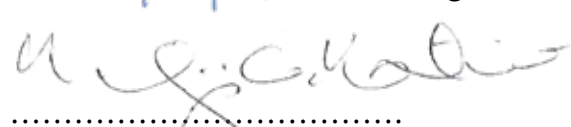
### STATEMENT OF THE BOARD OF TRUSTEES' RESPONSIBILITIES

The Board of Trustees is responsible for the preparation, presentation and integrity of the financial statements and all the information contained in the report. The information contained in these financial statements has been prepared in accordance with the accounting policies described in note 1 of the financial statements and they incorporate full disclosure to ensure that the information contained therein is both reliable and relevant. The Board of Trustees is also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements and to safeguard, maintain and verify accountability of assets and to prevent and detect material misstatements and losses. The systems are implemented and monitored by suitably trained personnel, with appropriate segregation of authority and duties. Nothing has come to the attention of the Trustees to indicate that a material breakdown in the functioning of these controls, procedures and systems has occurred during the period under review.

These financial statements are prepared on the going concern basis. Nothing has come to the attention of the Board of Trustees to indicate that the Trust will not remain a going concern for the foreseeable future.

The Trust's independent auditor KPMG Chartered Accountants (Zimbabwe), has audited the financial statements and their report appears on pages 39 to 42.

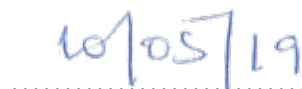
The financial statements set out on pages 43 to 45 were approved by the Board of Trustees on 10/05/19 and are signed on its behalf by:



BOARD CHAIRMAN



AUDIT COMMITTEE CHAIRMAN



DATE:

## BOARD OF TRUSTEES' REPORT

### FAIR REVIEW OF ZADT'S BUSINESS

The operating conditions in 2018 were characterised by macro-economic environmental challenges, largely stemming from changes in the fiscal and monetary policy through the pronouncements made in the second half of the year. These included separation of Nostro Foreign Currency and RTGS balances in preparation for the reintroduction of a market based foreign exchange market. Inflation rate peaked to 42% in December 2018. Economic activity in the second half of the year remained constrained by the shortages of hard currency, the tight liquidity and shortages of consumer goods.

In terms of fund uptake for the Trust, annual disbursements for 2018 stood at US\$21 million, slightly higher than the 2017 disbursements which were US\$17 million. The outstanding loan book including guarantees as at 31 December 2018 was US\$26.9 million (2017: US\$23.4 million) representing 75% utilisation against the available fund. ZADT is also currently working on additional lending models to further improve fund uptake. Cumulative disbursements have increased significantly over the years standing at US\$91.7 million as at 31 December 2018 supporting close to 19 commodities compared to US\$72.4 million in 2017. Annually, the ZADT Fund managed to reach out to more than 107 000 farmers through agribusinesses who borrowed through commercial banks and Micro Finance Institutions (MFIs). In this regard, smallholder farmers derived a number of benefits from these relations. Cumulatively, 519 096 farmers have been reached by the ZADT Fund since 2012.

ZADT managed to preserve the Fund as there were no defaults on borrowed funds by disbursing financial institutions in 2018. There was also about 2% growth in the Fund from US\$37 603 514 in 2017 to US\$38 500 837. The growth is as a result of surplus income above operational costs which was ploughed back into the Capital fund. During the year, the Secretariat conducted studies in order to measure the effect of the Fund on farmers and borrowing agribusinesses. The results show that smallholder farmers linked to funded agribusinesses or accessing finance directly continue to enjoy positive benefits to their livelihoods.

The volatile economic situation in Zimbabwe of increased inflation has substantially increased ZADT's operational costs. The 2% intermediated money transfer tax will significantly deplete the bottom line. The monetary policy which came with splitting of Nostro FCA and Nostro RTGS bank accounts also saw ZADT's funds being converted into RTGS funds, an indication of erosion of the ZADT Capital fund as the alternative market rate has been hovering between 3.5 to 4 for US\$1.

### ECONOMIC OVERVIEW (EVENTS LEADING TO THE ADOPTION OF THE RTGS CURRENCY)

In February 2009, the Zimbabwe dollar was demonetised due to hyperinflation, which had led to loss of value and confidence in local currency. By late 2008, hyperinflation had led to the abandonment of the Zimbabwe dollar in virtually all transactions. The resulting de facto dollarisation of the economy was the rational response by economic agents to a loss of confidence in the domestic currency. The 2009 National Budget legalised the use of multiple currencies for transaction purposes. Five foreign currencies were granted official

status. The United States dollar, the South African Rand, the Botswana Pula, the British Pound and the Euro. The Rand was initially adopted as the reference currency; however, the US dollar gained prominence and was being used as the principal currency. Stock exchange trading took place in US dollars, the payments systems, the banking system and the Reserve Bank of Zimbabwe (RBZ) also maintained accounting in US dollars.

The period of 2015-2016 saw a significant fall in the supply of the US dollar culminating into a serious liquidity crunch that hindered the growth and development prospects of the country. The central bank, in an effort to ease currency shortages, introduced bond notes in October 2016. Though not legal currency, rather just a financial instrument, they were used for local transactions and initially at par with the US dollar, meaning US\$1 was equal to 1 bond note. The market, however, quickly rejected the bond notes and the surrogate currency lost value, trading at a huge discount to the US dollar. With the situation becoming untenable, the Reserve Bank of Zimbabwe, in its 2019 Monetary Policy Statement, finally abandoned the long-held 1:1 parity between local bond notes, including RTGS balances (money held in banks but used through transfers, bank cards or mobile money, if physical notes were unavailable) with the US dollar. The central bank then introduced the RTGS dollar, which is made up of bond notes and deposits in the bank. The relationship or the exchange rate between the US dollar and the RTGS dollar is now determined by market forces, through an interbank market. At introduction, on February 22, the exchange rate was RTGS\$2.50 for every US\$1.

Notwithstanding the requirements of ZADT's accounting framework requirements, ZADT adopted USD as the functional currency as prescribed under Statutory Instrument 33 (SI33) of 2019.

### PRINCIPAL RISKS AND UNCERTAINTIES FACING ZADT;

Zimbabwe Agricultural Development Trust's activities and operations results in exposure to the following risks:

- a. Credit risk;
- b. Liquidity risk;
- c. Operational risk;
- d. Reputational risk;
- e. Legal and compliance risk; and
- f. Strategic risk.

ZADT controls these risks by diversifying its exposures and activities among products, clients and by limiting its positions in various instruments and investments.

### CREDIT RISK

Credit risk is the risk of financial loss to the Trust if a counterparty or group of counterparties fail(s) to meet its contractual obligations that arise from the loans and advances to financial institutions.

ZADT manages, limits and controls concentrations of credit risk in respect of individual counterparties. ZADT structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty or group of counterparties and to

geographical and industry segments. Limits on the level of credit risk by counterparty are approved by the Board of Trustees. However, the financial institutions bear 100% (2017: 100%) of the risk of any default on the loans and advances except for loans guaranteed by ZADT. Currently, the outstanding loan book including guarantees as at 31 December 2018 was US\$26.9 million (2017: US\$23.4 million).

ZADT has sound and well-defined policies, procedures and limits which are reviewed and approved by the Board of Trustees at least once every year.

### LIQUIDITY RISK

Liquidity risk is the risk of not being able to generate sufficient cash to meet financial commitments, to extend credit and other unexpected demands for cash.

ZADT manages its liquidity risk by ensuring it has enough liquidity resources to meet financial commitments and extend credit at any given point.

### OPERATIONAL RISK

Operational risk is the risk of a change in value caused by the fact that actual losses incurred for inadequate or failed internal processes, people and systems or from external events (including legal risk) differ from the expected losses.

Operational risk exists in all ZADT's products and business activities. ZADT's approach to manage operational risk is that the Trust's activities are undertaken in accordance with clear documentation of control procedures, approval limits, segregation of duties, authorisation, reconciliation of transactions and compliance.

### REPUTATIONAL RISK

Reputational Risk is the potential loss to financial capital, social capital and/or market share resulting from damages to a firm's reputation.

ZADT manages reputational risk by ensuring that business is conducted in accordance with the legal and regulatory requirements.

### LEGAL AND COMPLIANCE RISK

Legal and compliance risk is exposure to legal penalties, financial forfeiture and material loss an organisation faces when it fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

ZADT manages legal and compliance risk by ensuring that business is conducted in accordance with the relevant legal and regulatory requirements.

### STRATEGIC RISK

Strategic risk is a possible source of loss that might arise from the pursuit of an unsuccessful business plan.

The Board of Trustees approves ZADT's strategy while the Chief Executive Officer has the overall responsibility of strategy implementation. The Board conducts regular reviews of the strategy's performance and its continued applicability.

## COMPLIANCE WITH REGULATION AND ACCOUNTING FRAMEWORK

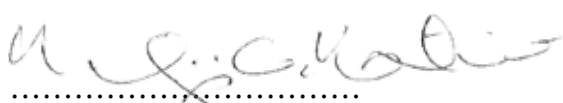
While full compliance with ZADT's accounting framework has been possible in previous reporting periods, only partial compliance has been achieved for 2018. As described in note 1, the accounting policy requires management to apply certain parameters in determining the functional currency of ZADT, for use in preparing financial statements. In February 2019, the Government of Zimbabwe issued Statutory Instrument 33 of 2019, which, based on our legal interpretation, for accounting and other purposes, prescribes parity between the US dollar and local currency as at and up to the effective date of 22 February 2019, and also prescribes the manner in which certain balances in the financial statements may be treated as a consequence of the recognition of the RTGS dollar as currency in Zimbabwe. In our opinion, the requirement to comply with Statutory Instrument 33 of 2019 has created inconsistencies with ZADT's accounting framework. This has resulted in accounting treatment being adopted in the 2018 financial statements, which is different from that which would have been adopted if the Trust had been able to independently apply the judgments and estimates provided for under its accounting policies. As such, the Trustees and management have been unable to produce financial statements which in their view would be prepared in all material respects in accordance with the Trust's accounting policies.

## EVENTS AFFECTING ZADT THAT HAVE OCCURRED SINCE THE END OF THE FINANCIAL YEAR

ZADT adopted a minimalistic budget in 2019 given the spiraling costs due to the devalued RTGS balances. The Trust is stepping up fund mobilization efforts to include establishing an off-shore facility. As part of fund preservation, ZADT has invested in property and the stock market.

## AN INDICATION OF LIKELY FUTURE DEVELOPMENT IN THE TRUST'S BUSINESS.

The Trust is also looking at investments in projects that generate and enable ZADT to earn foreign currency. It has also engaged other local guarantee partners and there is also stepping up efforts to market green products through some partnerships.



Board Chairman



Date



# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

### ADVERSE OPINION

We have audited the financial statements of Zimbabwe Agricultural Development Trust ("the Trust") set out on pages 43 to 63, which comprise the statement of financial position as at 31 December 2018, statement of income and expenditure and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the financial statements for the year ended 31 December 2018 are not prepared, in all material respects, in accordance with the basis of accounting described in Note 1 (basis of accounting) to the financial statements.

### BASIS FOR ADVERSE OPINION

As described in note 2 to the financial statements, during the year ended 31 December 2018, the Trust transacted using a combination of the United States dollar (US\$), bond notes and bond coins. Acute shortage of US\$ cash and other foreign currencies in the country, resulted in an increase in the use of different modes of payment for goods and services such as settlement through the Real Time Gross Settlement (RTGS) system overseen by the Reserve Bank of Zimbabwe (RBZ), point of sale and mobile money platforms. The note further explains that during the year there was a significant divergence in market perception of the relative values between the US\$, the bond note, bond coin, mobile money platforms and RTGS, collectively referred to as "local currency". Although bond notes and bond coins, RTGS and mobile money platforms were not legally recognised as currency during the year ended 31 December 2018, the economic phenomenon suggested that it was currency. Due to these factors, the Trustees performed an assessment of the functional currency of the Trust in accordance with Trust's basis of accounting and acknowledge that the functional currency of the Trust was no longer the US\$.

In February 2019, an electronic currency called the RTGS dollar was issued through Statutory Instrument 33 of 2019 (S.I 33) with an effective date of 22 February 2019 and the currency commenced trading at a rate of 2.5 to the USD. In addition, S.I 33 fixed the exchange rate between the RTGS Dollar and the US\$ at a rate of 1:1 for periods before the effective date. The rate of 1:1 is consistent with the rate mandated by the Reserve Bank of Zimbabwe (RBZ) at the time it issued the bond notes as legal tender.

Although the Trustees acknowledge that there was a functional currency change and that the market exchange rate between the US\$ and local currency was not 1:1, they have maintained their functional currency as the US\$ and have presented the financial statements in US\$ using an exchange rate of 1:1, in compliance with S.I 33. This constitutes a departure from the requirements of the Trust's basis of accounting.

The Trustees have performed a sensitivity analysis of how different exchange rates would impact the statement of financial position in Note 19 to the financial statements. However the amounts presented in that sensitivity analysis may not necessarily reflect the opening balances in RTGS dollars going forward. This sensitivity analysis confirms that had the local currency been translated to US\$ in accordance with Trust's accounting framework, many elements in the statement of financial position would have been materially affected and therefore the departure from the requirements of the accounting framework is considered to be pervasive. The effects of this departure on the financial statements have not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Trust in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Zimbabwe, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

#### **EMPHASIS OF MATTER - BASIS OF ACCOUNTING AND RESTRICTION ON USE**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared for the purpose of providing financial information to the members of the Trust. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Trust and its members and should not be used by parties other than the Trust or its members. Our opinion is not further modified in respect of this matter.

#### **OTHER INFORMATION**

The Trustees are responsible for the other information. The other information comprises the General overview and objectives of the Trust and the Board of Trustees' Report. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Basis for Adverse Opinion section above, the Trust should have translated its local currency transactions and balances to US\$ using a rate determined in accordance with the accounting framework. We have therefore concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Board of Trustees' Report affected by the failure to translate the local currency transactions and balances using a rate which complies with the requirements of the basis of accounting.



## RESPONSIBILITIES OF THE TRUSTEES FOR THE FINANCIAL STATEMENTS

The Trustees are responsible for the preparation of the financial statements in accordance with Basis of Accounting described in Note 1 of the financial statements, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 our 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 Trust's internal control.
- Conclude on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees. We communicate with the Trustees regarding, among other matters, the planned scope and timing of

the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We communicate with the Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**Themba Mudidi (KPMG)**

Partner

Registered Auditor

Registration number 0437

**Signed on behalf of:**

KPMG Chartered Accountants (Zimbabwe)

100 The Chase (West)

Emerald Hill

Harare, Zimbabwe

Date: 10/05/19


## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018

	Notes	2018 US\$	2017 US\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	3	489 444	483 291
Investments in equities	7	1 376 824	-
<b>Current assets</b>			
Loans and advances to financial institutions	4	24 762 183	22 419 633
Receivables	5	3 781 251	225 718
Money market investments	6.1	2 352 800	4 800 000
Cash and cash equivalents	6	6 476 795	10 914 764
<b>Total assets</b>		<b>39 239 297</b>	<b>38 843 406</b>
<b>LIABILITIES AND ACCUMULATED SURPLUS</b>			
Accumulated surplus	8	595 841	1 119 139
<b>Liabilities</b>			
Revolving fund	9	38 500 837	37 603 514
Accounts payable	10	142 619	120 753
		38 643 456	37 724 267
<b>Total liabilities and accumulated surplus</b>		<b>39 239 297</b>	<b>38 843 406</b>

The notes on page 46 to 61 are an integral part of these financial statements.

The financial statements were approved by the Board of Trustees and are signed on its behalf by:

  
Board Chairman

  
Audit Committee Chairman

Date: 10/05/19

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

INCOME AND EXPENDITURE STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 US\$	2017 US\$
<b>INCOME</b>			
Interest on loans	11	1 158 901	1 020 518
Other income	12	338 760	489 044
		<b>1 497 661</b>	<b>1 509 562</b>
<b>EXPENDITURE</b>			
Employment expenses	13	(498 517)	(358 664)
Advertising and marketing		(23 302)	(23 456)
Legal expenses		(8 563)	(10 374)
Board fees		(16 464)	(35 880)
Consultancy fees		(20 644)	(18 770)
Rent and occupational expenses		(27 996)	(27 205)
Audit fees	14	(51 445)	(25 752)
Equipment write offs		-	(1 159)
Travel and accommodation		(10 226)	(46 748)
Other administration expenses	15	(264 263)	(173 560)
Business development		(66 009)	(25 343)
Business development - consultancy		-	(37 016)
Monitoring and evaluation - travel and accommodation		(17 959)	(27 283)
Monitoring and evaluation - consultancy		(44 730)	(97 274)
Guarantee fees		(23 955)	(25 000)
Other programme costs		(9 048)	(12 139)
Commission and other expenses		(23 596)	-
Fair value loss		(16 919)	-
<b>Total expenditure</b>		<b>(1 123 636)</b>	<b>(945 623)</b>
<b>Surplus for the year</b>		<b>374 025</b>	<b>563 939</b>

The notes on page 46 to 61 are an integral part of these financial statements

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 US\$	2017 US\$
<b>Cash flows from operating activities</b>			
Surplus for the year		374 025	563 939
Adjustment for non-cash items:			
- Fixed assets write offs		-	2 238
- Depreciation	3	83 077	78 040
- Fair value loss		16 919	-
<b>Operating cash flows before working capital changes</b>		474 021	644 217
Changes in working capital:			
- Increase in other receivables		(3 555 533)	19 400
- Increase in loans and advances to financial institutions		(2 342 550)	(494 860)
- Increase in accounts payable		21 866	61 633
<b>Net cash flows from operating activities</b>		(5 402 196)	230 390
<b>Cash flows from investing activities</b>			
Purchase of equipment	3	(89 230)	(46 996)
Purchase of equity instruments		(1 393 743)	-
<b>Net cash flows used in investing activities</b>		(1 482 973)	(46 996)
<b>Cash flows from financing activities</b>		-	-
<b>Net cash flows from financing activities</b>		-	-
Net increase/ (decrease) in cash and cash equivalents		(6 885 169)	183 394
Cash and cash equivalents at the beginning of the year		15 714 764	15 531 370
<b>Cash and cash equivalents at the end of the year</b>		<b>8 829 595</b>	<b>15 714 764</b>

The notes on page 46 to 61 are an integral part of these financial statements



## 1. ACCOUNTING POLICIES AND SCOPE OF FINANCIAL STATEMENTS

### SCOPE OF FINANCIAL STATEMENTS

The financial statements incorporate externally financed projects, the funding of which is channeled through the Secretariat.

### BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting framework for Zimbabwe Agricultural Development Trust ("ZADT" or the "Trust"). The accounting framework is based on the accounting policies as stated herein.

The accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented.

The Trust has in previous financial periods adopted the United States dollar as both its presentation currency and functional currency. In order to comply and meet the prescribed requirements of Statutory Instrument 33 of 2019 (SI 33), the Trust has adopted the US dollar as its presentation currency for the 2018 financial statements. Based on the requirements of SI 33, the Trust was not able to apply the requirements of accounting for a change in functional currency as per the accounting framework of ZADT.

The preparation of financial statements in conformity with the Trust's accounting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the note below.

### BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis of accounting except for financial assets at fair value through profit and loss, which are measured at fair value.

### TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

### USE OF JUDGMENTS AND ESTIMATES

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Trust's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The entity applies the use of estimates and

judgments in the following sections:

- **DEPRECIATION**

In the depreciation of property and equipment, the assets are depreciated over the period that the asset is expected to be used.

- **DETERMINATION OF THE FUNCTIONAL CURRENCY**

The Trust operates in an economy which is experiencing a shortage of foreign currency and consequently has exchange control regulations that impact the timing of payment of foreign payables among other matters. Given the context of the environment, management has assessed in terms of its operations, if there has been a change in the functional currency used by the Trust. When there is a change in functional currency, the Trust shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise balances with less than three months maturity from the date of placement including cash on hand and demand deposits with banks.

### **LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS.**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Trust initially recognizes the loans and advances when they are originated. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. Zimbabwe Agricultural Development Trust's loans and receivables comprise loans and advances to financial institutions.

Loans and advances are initially measured at fair value. Subsequently, the Trust reviews its loan portfolio to assess impairment at least on an annual basis. In determining whether an allowance for probable losses should be recorded in the statement of financial performance, management makes judgments as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial institutions. At the moment, the financial institutions take 100% risk on all transactional loans.

The financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

### **IMPAIRMENT OF LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS**

The Trust assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on

the estimated future cash flows of a financial asset or a group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income and expenditure account.

If, in a subsequent period, the amount of the impairment allowance decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income and expenditure account.

### **EQUITY INSTRUMENTS**

Stock market investments are classified as financial assets at fair value through profit or loss (FVTPL). This is the normal default classification for financial assets and will apply to all financial assets unless they are designated to be measured and accounted for in any other way. This classification includes any financial assets held for trading purposes and also derivatives, unless they are part of a properly designated hedging arrangement. Initial recognition at fair value is normally cost incurred and this will exclude transactions costs, which are charged to profit or loss as incurred. Re-measurement to fair value takes place at each reporting date, with any movement in fair value taken to profit or loss for the year, which effectively incorporates an annual impairment review.

### **CONTINGENT LIABILITIES.**

Contingent liabilities are possible obligations which arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events. Loan guarantees are contingent liabilities which are accounted for off balance sheet. The Trust provides guarantees to its customers by committing to settle the guarantee obligation in full, in the event of default.

### **REVOLVING FUND**

The Revolving fund comprises funds that have been received from the funding partners for the purposes of onward lending including interest earned in the Hivos Account and surpluses earned by the Trust which have been transferred to the Fund. The Board of Trustees resolved that all loan impairments should be charged to the revolving fund and all recoveries of such impairments should be credited to the revolving fund starting 2017. Furthermore, the Board also resolved to replenish the revolving fund by transferring 50% of the accumulated surplus to the revolving fund each year.

### **REVENUE**

The Trust recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Trust's activities, as described below:

## • INTEREST INCOME

Revenue is recognised upfront when the loan contract has been signed rather than when cash is received nor over the term of the loan.

## • INVESTMENT INCOME

The Trust recognises interest earned from short term money market investments when the investment matures and funds have been received in the ZADT bank account.

## • GUARANTEE FEES

The Trust initially recognises income earned from guarantee fees when the fees have been received in the ZADT bank account. The Trust then accrues for outstanding fees as per the guarantee loan agreement.

## EXPENDITURE

Expenses are recognised using the accrual basis.

## PROPERTY AND EQUIPMENT

Depreciation is provided on a straight line basis on the carrying amount of the asset over its estimated economic useful life. The Trust estimates economic lives of plant and equipment as follows:

	Estimated useful life	Depreciation rate per annum
Buildings	40 years	2.50%
Intangible assets	3 years	33%
Motor vehicles	4 years	25%
Computers and office equipment	3 years	33%
Furniture and fittings	10 years	10%
ICT systems	5 years	20%

## 2. DEPARTURE OF THE FUNCTIONAL AND PRESENTATION CURRENCY ACCOUNTING POLICIES

### FOREIGN CURRENCY TRANSLATION

#### FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in United States dollars (US\$), which is the Trust's adopted presentation currency as prescribed under Statutory Instrument 33 of 2019 (SI 33).

The market was characterised by the following observations and developments which all pointed towards disparity between the US\$ and the local RTGS value:

- The shortage of foreign currency continued in the current year resulting in significant backlogs of foreign remittances.
- Proliferation of a parallel market where a multi-tier exchange rate system continued with margins widening significantly.
- Reluctance by traders to accept local electronic transfers preferring hard currency US dollars or off-shore transfers.
- There was increased pressure from suppliers to increase prices in line with inflation. Year on year inflation was 42% in December 2018 (2017:3.46%).

## FUNCTIONAL AND PRESENTATION CURRENCY (CONTINUED)

In the October 2018 Monetary Policy Statement, the Reserve Bank of Zimbabwe (RBZ) instructed all local banks to ring fence actual foreign currency deposits from RTGS transfer deposits in customer accounts. This led to the creation of Nostro FCA accounts and RTGS FCA accounts.

In the February 2019 Monetary Policy Statement, the Governor of the RBZ announced significant currency reforms. The Governor established an inter-bank foreign exchange market in Zimbabwe to formalise the trading of RTGS balances and bond notes with US\$ and other currencies on a willing-buyer willing-seller basis through banks and bureau de change. Under the framework, RTGS balances, bond notes and coins were denominated as RTGS dollars in order to establish an exchange rate between the current monetary balances and foreign currency. RTGS dollars were also added to the basket of currencies in the multi-currency environment.

Statutory Instrument 33 of 2019 (SI 33) issued on 22 February 2019 gave effect to the introduction of the RTGS dollar as legal tender and prescribed that, for accounting and other purposes, certain assets and liabilities on the effective date would be deemed to be RTGS dollars at a rate of 1:1 to the US\$ and would become opening RTGS dollar values from the effective date.

Given the observed market conditions and the RBZ's clear separation between the local RTGS and foreign FCAs, the Trustees re-evaluated the functional currency and the reporting currency implications of the Trust. The currency of the competitive forces and regulations that mainly determine the sales prices of goods and services.

This assessment was performed taking into account the requirements of ZADT's accounting framework and considered the following factors:

- The currency that mainly influences sales prices for goods and services.
- The currency that mainly influences labour, material and other costs of providing goods or services.
- The currency in which funds from financing activities are generated.
- The currency in which receipts from operating activities are usually retained.

The United States dollar ceased from being the primary driver for most of the factors above and was replaced by the RTGS dollar. Therefore, the Trustees concluded that the functional currency had changed to the RTGS dollar in 2018. However, the Trustees have adopted the accounting treatment prescribed by Statutory Instrument 33 of 2019 and used an exchange rate of 1:1 between RTGS balances and bond notes and the US\$. The Trust has adopted the United States dollar as its functional currency.

These financial statements are presented in United States dollar (USD), which is ZADT's presentation currency. All financial information presented has been rounded to the nearest dollar except where otherwise indicated.



## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. PROPERTY AND EQUIPMENT

	Land and buildings US\$	Intangible assets US\$	Motor vehicles US\$	Computer and related equipment US\$	Furniture and fittings US\$	ICT systems US\$	Total US\$
<b>31 December 2018</b>							
Opening net book amount	319 129	848	58 899	51 759	25 276	27 380	<b>483 291</b>
Additions	40 806	-	8 249	25 926	14 249	-	<b>89 230</b>
Write offs - cost	-	-	-	(1 511)	(55)	-	<b>(1 566)</b>
Depreciation charge	(9 238)	(517)	(30 151)	(31 887)	(4 233)	(7 051)	<b>(83 077)</b>
Write offs – accumulated depreciation	-	-	-	1 511	55	-	<b>1 566</b>
Carrying amount	350 697	331	36 997	45 798	35 292	20 329	<b>489 444</b>
<b>As at 31 December 2018</b>							
Cost	373 424	1 553	154 437	128 195	48 298	35 253	<b>741 160</b>
Accumulated depreciation	(22 727)	(1 222)	(117 440)	(82 397)	(13 006)	(14 924)	<b>(251 716)</b>
Carrying amount	350 697	331	36 997	45 798	35 292	20 329	<b>489 444</b>

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. PROPERTY AND EQUIPMENT (continued)

	Land and buildings US\$	Intangible assets US\$	Motor vehicles US\$	Computer and related equipment US\$	Furniture and fittings US\$	ICT systems US\$	Total US\$
<b>31 December 2017</b>							
Opening net book amount	323 608	1 365	95 446	39 625	22 098	34 431	516 573
Additions	3 788	-	-	35 483	7 725	-	46 996
Write offs – cost	-	-	-	(4 570)	(1 925)	-	(6 495)
Depreciation charge	(8 267)	(517)	(36 547)	(22 491)	(3 167)	(7 051)	(78 040)
Write offs – accumulated depreciation	-	-	-	3 712	545	-	4 257
Carrying amount	319 129	848	58 899	51 759	25 276	27 380	483 291
<b>As at 31 December 2017</b>							
Cost	332 618	1 553	146 188	100 617	34 104	35 254	650 334
Accumulated depreciation	(13 489)	(705)	(87 289)	(48 858)	(8 828)	(7 874)	(167 043)
Carrying amount	319 129	848	58 899	51 759	25 276	27 380	483 291

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

4. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS	2018 US\$	2017 US\$
Balance at 1 January 2018	22 419 633	21 924 773
Loans and advances repaid by financial institutions	(8 733 300)	(14 573 940)
Loans and advances rolled over to financial institutions	(8 620 000)	(1 700 000)
Loans and advances advanced to financial institutions	19 695 850	16 768 800
Balance as at 31 December 2018	24 762 183	22 419 633

ZADT made credit facilities available to selected financial institutions so that they on-lend to actors in the agricultural value chains with the exception of those in tobacco and cotton who are already receiving support under various existing outgrower schemes .

These facilities are advanced to meet the following objectives:

- Providing soft capital to value chain actors in which smallholder farmers meaningfully benefit directly or indirectly for example contracting companies, processors, traders, transporters agro dealers, distributors and service providers;
- Providing soft capital to small and medium enterprises which procure from and sell to and distribute to low income groups and are engaged in other agro-rural economic activities that create rural employment; and
- Providing soft capital to financial services providers that lend to agricultural input and output value chain actors who ultimately benefit small holder farmers.

The financial inswtitutions bear 100% (2017: 100%) of the risk of any default on the loans advances except for loans guaranteed by ZADT. The average interest rate on the loans issued during the year was 6% (2017: 5%). All the loans issued to financial institutions are unsecured.

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## 4. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS (continued)

## 4.1 Analysis of loan tenor

	0 to 6 Months US\$	7 to 12 Months US\$	Over 12 Months US\$	Total US\$
<b>As at 31 December 2018</b>				
FBC Bank Limited	101 000	600 000	-	701 000
NMB Bank Limited	2 000 000	-	-	2 000 000
Steward Bank Limited	600 000	2 250 000	-	2 850 000
African Banking Corporation of Zimbabwe Limited t/a BancABC	2 000 000	9 000 000	-	11 000 000
CBZ Bank Limited	870 000	61 333	341 000	1 272 333
Inclusive Financial Services (Private) Limited	-	1 100 000	400 000	1 500 000
Success Microfinance Bank Limited	500 000	-	500 000	1 000 000
MoB Capital (Private) Limited	-	200 000	-	200 000
Oakfin Finance (Private) Limited	300 000	820 000	160 000	1 280 000
Untu Capital (Private) Limited	285 850	-	700 000	985 850
Virl Rural and Social Financial Services (Private) Limited	208 000	-	200 000	408 000
GetBucks Financial Services (Private) Limited	500 000	-	-	500 000
Wintron Financial Services	65 000	-	-	65 000
Nurture Finance (Private) Limited	-	-	1 000 000	1 000 000
<b>Total</b>	<b>7 429 850</b>	<b>14 031 333</b>	<b>3 301 000</b>	<b>24 762 183</b>
<b>As at 31 December 2017</b>				
FBC Bank Limited	205 000	701 000	-	906 000
NMB Bank Limited	150 000	2 000 000	-	2 150 000
Steward Bank Limited	20 000	1 230 000	-	1 250 000
Ecobank Zimbabwe Limited	133 333	-	-	133 333
African Banking Corporation of Zimbabwe Limited t/a BancABC 000	5 500 000	1 000 000	4 500 000	11 000
Nedbank Zimbabwe Limited	70 000	50 000	-	120 000
CBZ Bank Limited	907 000	2 965 300	80 000	3 952 300
Inclusive Financial Services (Private) Limited	400 000	500 000	600 000	1 500 000
Success Microfinance Bank Limited	500 000	-	-	500 000
MoB Capital (Private) Limited	-	200 000	-	200 000
Untu Capital (Private) Limited	450 000	50 000	-	500 000
Virl Rural and Social Financial Services (Private) Limited	-	208 000	-	208 000
<b>Total</b>	<b>8 335 333</b>	<b>8 904 300</b>	<b>5 180 000</b>	<b>22 419 633</b>

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 US\$	2017 US\$
<b>5. RECEIVABLES</b>		
Fees receivable	122 530	147 685
Prepayments	3 076 060	58 605
Interest on short term investments	-	19 428
MMC Capital	582 661	-
	<u>3 781 251</u>	<u>225 718</u>

Included in prepayments is US\$3 000 000 which is a prepayment for land purchase located in Mt Hampden, being initial deposit towards the purchase price of US\$5 000 000. This is an investment to hedge part of the Capital Fund against the volatile economic environment.

MMC Capital balance of US\$582 661 relates to an outstanding balance of funds that had not been invested in the stock market. A total of US\$2 000 000 was transferred to MMC Capital for investment in the stock market and as at 31 December 2018, US\$1 417 339 including transaction costs had been utilised towards the stock market investments.

	2018 US\$	2017 US\$
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash held with local bank (Standard Chartered Bank)	6 451 534	10 874 143
BancABC current investment account	(98)	624
Petty cash	4	1 997
Cash on hand	25 355	38 000
	<u>6 476 795</u>	<u>10 914 764</u>

Included in cash and cash equivalents are balances with local banks. These balances are used for transacting on a daily basis. In October 2018, the Reserve Bank of Zimbabwe introduced a separation of bank balances between local RTGS FCA accounts and Nostro FCA accounts. The balances above are split as follows:

	2018 US\$ 000
RTGS FCA accounts	6 451 534
Nostro FCA accounts	-
	<u>6 451 534</u>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

### 6. CASH AND CASH EQUIVALENTS (continued)

The RTGS FCA account balances subsequently changed their currency denomination to RTGS\$ from the initial denomination of US\$ in February 2019 through Statutory Instrument 33 of 2019. The impact of SI 33 of 2019 has been assessed and disclosed separately in note 19. Included in cash and cash equivalents is cash on hand amounting to US\$25 355 (2017: US\$ 30 000) and petty cash amounting to US\$4 (2017: US\$1 997).

#### 6.1 The financial institution holding cash and cash equivalents of the Trust has the following credit rating:

			2018 US\$	2017 US\$
	Rating	Agency		
Standard Chartered Bank Zimbabwe Limited	AA-	GCR	6 451 534	10 874 143

#### 6.2 MONEY MARKET INVESTMENTS

Money market investments relate to funds placed with local banks on a short term basis. Short term investments of US\$2 352 800 relate to the cover earmarked for loan guarantees issued during the period.

	Interest rates per annum (%)	Tenure (days)	2018 US\$
NMB Bank Limited	3.5	91	750 000
NMB Bank Limited	3.5	90	800 000
NMB Bank Limited	4	90	802 800
			2 352 800

	Interest rates per annum (%)	Tenure (days)	2017 US\$
NMB Bank Limited	5	90	250 000
NMB Bank Limited	4	90	750 000
NMB Bank Limited	3.5	60	300 000
			1 300 000
CBZ Bank Limited	3.25	61	3 500 000
			4 800 000

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## 7. INVESTMENT IN EQUITIES

Investment in equities relate to funds placed on the stock market. The fair value of all equity securities is based on their current bid price in an active market. The following table presents the Trust's assets that are measured at fair value as at 31 December 2018.

Investment in equities at fair value through profit or loss	2018 US\$	2017 US\$
Listed securities:		
Old Mutual Zimbabwe	490 233	-
Innsco Africa Limited	196 670	-
Delta Corporation Limited	296 581	-
Padenga Holdings Limited	196 670	-
Econet Wireless Zimbabwe	196 670	-
	<hr/>	<hr/>
	1 376 824	-
	<hr/>	<hr/>

## 8. ACCUMULATED SURPLUS

Opening balance as at 1 January	1 119 139	1 110 401
Surplus for the year	374 025	563 939
Capital fund replenishment	(559 570)	(555 201)
Agriseeds loan recoveries	(337 753)	-
	<hr/>	<hr/>
Closing balance as at 31 December	595 841	1 119 139
	<hr/>	<hr/>

## 9. REVOLVING FUND

Balance as at 1 January	(37 603 514)	(37 048 313)
Capital fund replenishment	(559 570)	(555 201)
Agriseeds loan recoveries	(337 753)	-
	<hr/>	<hr/>
Balance as at 31 December	(38 500 837)	(37 603 514)
	<hr/>	<hr/>

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## 9. REVOLVING FUND (continued)

## Breakdown of revolving fund by contribution

The revolving fund contribution is broken down as follows:

	2018 US\$	2017 US\$
- DANIDA funds received through HIVOS	(34 440 694)	(34 440 694)
- DFID funds received through HIVOS	(2 407 619)	(2 407 619)
- Ford Foundation contribution	(200 000)	(200 000)
- Agriseeds loan recoveries	(337 753)	-
- Capital fund replenishment	(1 114 771)	(555 201)
	<u>(38 500 837)</u>	<u>(37 603 514)</u>

The funds are received for the purposes of on-lending in line with the Trust's objectives and as such are not recorded as revenue. The funds are recorded as a liability as they are maintained in a revolving fund.

## 10. ACCOUNTS PAYABLE

	2018 US\$	2017 US\$
Audit fees	50 963	18 371
Pay As You Earn (PAYE) and National Social Security Authority (NSSA)	9 076	5 109
Pension and leave pay provision	34 993	15 337
Suppliers	21 064	24 126
Monitoring and evaluation costs	17 892	40 728
Fees Payable	-	6 540
Other payables	8 631	10 542
	<u>142 619</u>	<u>120 753</u>

Payables are non-interest bearing and are generally on 7 - 90 days' terms.

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 US\$	2017 US\$
<b>11. INTEREST ON LOANS</b>		
Interest received	1 046 196	882 904
Accrued interest income	112 705	137 614
	<u>1 158 901</u>	<u>1 020 518</u>
<b>12. OTHER INCOME</b>		
Interest from short term investments	211 702	364 872
Sundry income	336	-
Agriseeds loan recoveries	79 871	103 148
Insurance claim	-	1 024
Guarantee fees	46 851	20 000
	<u>338 760</u>	<u>489 044</u>
<b>13. EMPLOYMENT EXPENSES</b>		
Basic salaries	344 208	273 667
Bonus	28 452	21 871
Medical aid	23 570	18 206
Staff allowances	59 865	5 730
NSSA	3 689	2 797
Workers' compensation insurance fund (WCIF)	4 213	3 325
Staff training and development	6 055	4 401
Provident fund	30 345	25 224
Leave pay	(1 880)	3 443
	<u>498 517</u>	<u>358 664</u>
<b>14. AUDIT FEES</b>		
External audit fees	51 445	18 852
Internal audit fees	-	6 900
	<u>51 445</u>	<u>25 752</u>

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

15. OTHER EXPENSES	2018 US\$	2017 US\$
Key stakeholders' meetings	24 514	-
Bank charges	40 098	8 868
Depreciation	83 077	78 040
Insurance	23 552	14 249
IT consultancy costs	11 382	11 859
Cleaning and teas	5 798	3 373
Printing and stationery	22 584	9 790
Repairs and maintenance	13 187	15 098
Telephone and fax	5 853	5 748
General expenses	22 581	17 867
Team building	11 637	8 668
	<u>264 263</u>	<u>173 560</u>

## 16. TAXATION

The income earned by a non-profit making organisation of a public character is exempt from corporate tax as provided for by the Income Tax Act (Chapter 23:06), Section 14, Third Schedule sub-paragraph 2, ZADT being a non-profit making organisation has not provided for corporate tax on this basis.

17. CONTINGENCIES	2018 US\$	2017 US\$
Guarantees:		
Novatek Animal Feeds Zimbabwe	-	250 000
Fairhill Poultry Farm	-	750 000
Gokwe maize farmers	118 225	-
Mwenezi goat farmers	14 100	-
Hyperfeeds Animal Nutrition (Private) Limited	552 800	-
Novafeed Animal Feeds Zimbabwe	500 000	-
MFS Group (Private) Limited	250 000	-
Flowell Farming (Private) Limited	750 000	-
	<u>2 185 125</u>	<u>1 000 000</u>

The contractual amounts of the Trust's off-balance sheet guarantees from the reporting date are as follows:

Due between 1 and 3 months	250 000	-
Due between 3 and 12 months	1 935 125	1 000 000
Greater than 1 year	-	-
	<u>2 185 125</u>	<u>1 000 000</u>



**18. GOING CONCERN**

The Trustees have assessed the ability of the organisation to continue operating as a going concern and believe that the preparation of these financial statements on a going concern basis is still appropriate. However, the Trustees believe that under the current economic environment, a continuous assessment of the ability of ZADT to continue to operate as a going concern will need to be performed to determine the continued appropriateness of the going concern assumption that has been applied in preparation of these financial statements.

**19. SUBSEQUENT EVENTS**

In the 20 February 2019 Monetary Policy Statement, the Reserve Bank of Zimbabwe Governor announced significant currency reforms which included the following:

- Denomination of RTGS balances, bond notes and coins collectively as RTGS dollars. RTGS dollars were added to the basket of currencies in the multi-currency system.
- RTGS dollars to be used by all entities (including government) and individuals in Zimbabwe for purposes of pricing of goods and services, record debts, accounting and settlement of domestic transactions.
- Established an inter-bank foreign exchange market to formalise the trading of RTGS balances and bond notes with US\$ and other currencies on a willing-buyer willing-seller basis through banks and bureaux de change. The official starting exchange rate for the RTGS dollar against the US\$ was 2.5:1 as of 22 February 2019.

In addition to the Monetary Policy Statement, Statutory Instrument 33 of 2019 was issued on 22 February 2019. The Statutory Instrument gave effect to the introduction of the RTGS dollar as legal tender and prescribed that for accounting and other purposes certain assets and liabilities on the effective date would be deemed to be RTGS dollars at a rate of 1:1 to the US\$ and would become opening RTGS dollar values from the effective date.

In the Trustees' assessment of the above subsequent events, they have considered the events as adjusting events as it was considered as reflective of underlying conditions as at the reporting date of 31 December 2018. However, given the prescribed accounting requirements, as per SI 33, these subsequent events have not been adjusted for.

A sensitivity analysis was carried out for ZADT's statement of financial position as at 31 December 2018 by applying different exchange rates, as shown in the next table, which illustrates the sensitivities based on RTGS\$ exchange rates to the US\$ of 1:1, 1:2.5, 1:3.5 and 1:4.

## ZIMBABWE AGRICULTURAL DEVELOPMENT TRUST

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

## SUBSEQUENT EVENTS (continued)

	Components of reported amounts				Sensitivity analysis		
	Monetary Assets / Liabilities Nostro FCA USD	Monetary Assets / Liabilities RTGS dollar	Non-Monetary Assets / Liabilities USD	Non-Monetary Assets / Liabilities RTGS dollar	Total USD @1:1	Total RTGS \$ @1:2.5	Total RTGS \$ @1:3.5
<b>Non-current assets</b>							
Property, plant and equipment	-	-	489 444	-	489 444	1 223 610	1 713 054
Investments in equity instruments	-	-	-	1 376 824	1 376 824	1 376 824	1 376 824
	-	-	<b>489 444</b>	<b>1 376 824</b>	<b>1 866 268</b>	<b>2 600 434</b>	<b>3 089 878</b>
<b>Current assets</b>							
Loans and advances to financial institutions	-	24 762 183	-	-	24 762 183	24 762 183	24 762 183
Receivables	-	3 781 251	-	-	3 781 251	3 781 251	3 781 251
Money market investments	-	2 352 800	-	-	2 352 800	2 352 800	2 352 800
Cash and cash equivalents	25 355	6 451 440	-	-	6 514 828	6 540 183	6 522 860
	<b>25 355</b>	<b>37 347 674</b>	-	-	<b>37 373 029</b>	<b>37 411 062</b>	<b>37 436 417</b>
<b>Total Assets</b>	<b>25 355</b>	<b>37 347 674</b>	<b>489 444</b>	<b>1 376 824</b>	<b>39 239 297</b>	<b>40 011 496</b>	<b>40 526 295</b>
							<b>40 753 694</b>

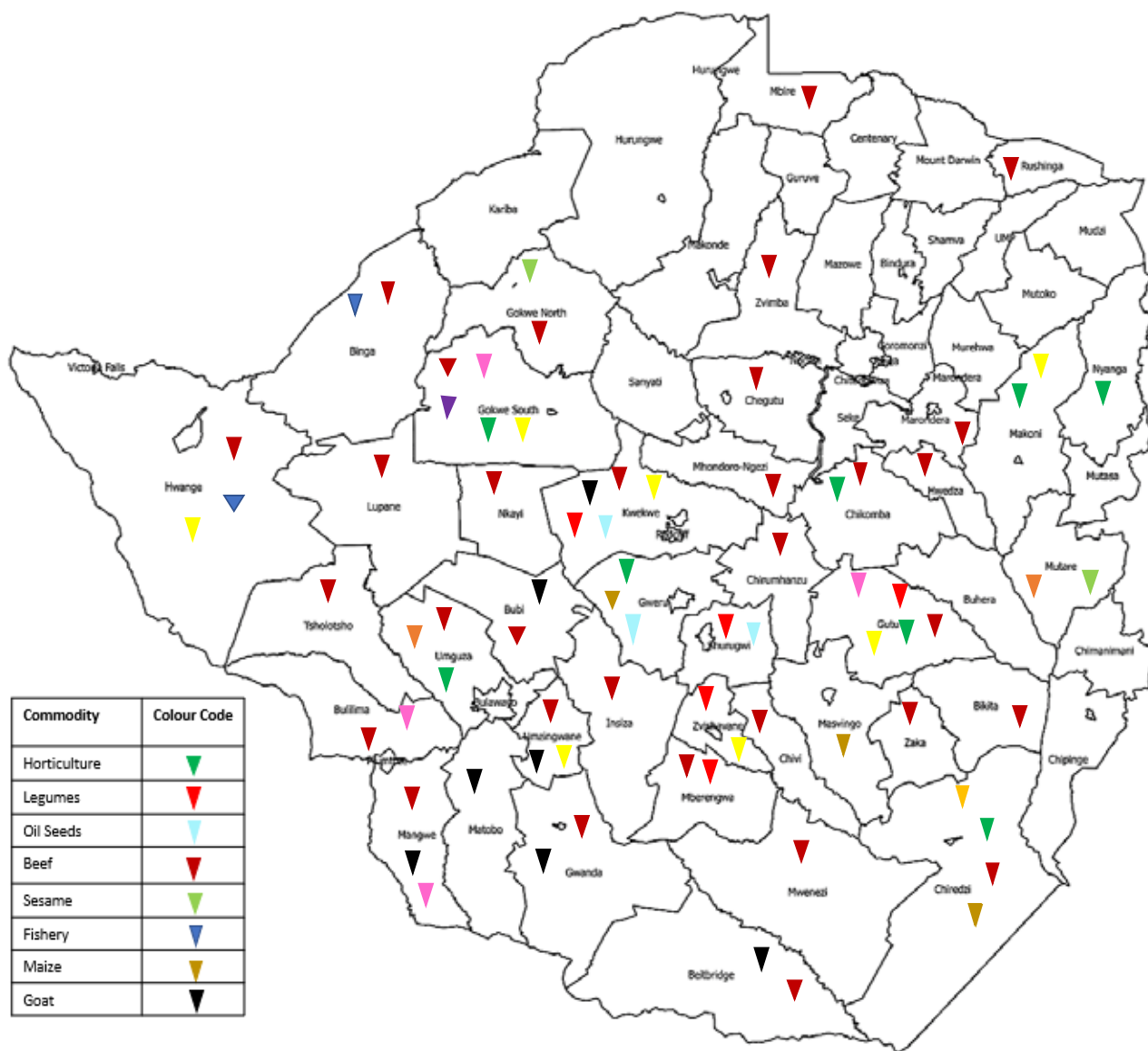
	Components of reported amounts					Sensitivity analysis		
	Monetary Assets / Liabilities Nostro FCA USD	Monetary Assets / Liabilities RTGS dollar	Non-Monetary Assets / Liabilities USD	Non-Monetary Assets / Liabilities RTGS dollar	Total USD @1:1	Total RTGS \$ @1:2.5	Total RTGS \$ @1:3.5	Total RTGS \$ @1:4
<b>Liabilities and Accumulated surplus</b>								
Accumulated surplus	-	-	-	595 841	595 841	595 841	595 841	595 841
Translation reserve	-	-	-	-	-	704 261	1 173 768	1 378 521
	-	-	-	595 841	595 841	1 300 102	1 769 609	1 974 362
<b>Current liabilities</b>								
Revolving fund	-	-	-	38 500 837	38 500 837	38 500 837	38 500 837	38 500 837
Accounts payable	45 292	97 327	-	-	142 619	210 557	255 849	278 495
	45 292	97 327	-	38 500 837	38 643 456	38 711 394	38 756 686	38 779 332
<b>Total liabilities and accumulated surplus</b>	45 292	97 327	-	39 096 678	39 239 297	40 011 496	40 526 295	40 753 694

#### Assumptions

- The revolving fund will be denoted in RTGS\$. The monetary policy which came with splitting of Nostro FCA and Nostro RTGS bank accounts also saw ZADT fund being converted into RTGS funds, an indication of erosion of ZADT Capital Fund. The monetary and exchange control changes in Zimbabwe have affected ZADT funds which DfID, the Ford Foundation and DANIDA availed amounting to US\$37 million (DKK221.3 million) to ZADT as seed capital, to set up a revolving financing facility focusing on facilitating access to finance in the Agricultural sector. The Trust has registered the unloaned amount of US\$8 948 197 in ZADT's capital account as at 20 February 2019 as legacy debt with the Reserve Bank of Zimbabwe and await approval.
- Property, plant and equipment will be valued in US\$ since most of the assets were purchased before 1 October 2018, the point at which the Reserve Bank of Zimbabwe directed banks to split US\$ and RTGS\$ balances.

## APPENDIX I:

## DISTRIBUTION OF COMMODITIES SUPPORTED BY MICRO FINANCE INSTITUTIONS FUNDED BY ZADT IN 2018



## APPENDIX II:

### FOUNDING AND FUNDING PARTNERS



FORD  
FOUNDATION

## APPENDIX III:

### PARTICIPATING COMMERCIAL BANKS





# APPENDIX IV:

## PARTICIPATING MICRO FINANCE INSTITUTIONS



Microfinance Bank



Success Microfinance Bank

Registered Deposit Taking Microfinance Institution

WINTRON FINANCIAL SERVICES PVT LTD

313 Kingdom Building  
9<sup>TH</sup> Ave/J Moyo Street  
P O Box Fm 345  
Bulawayo  
Telephone: 887412-4  
Fax: 887415

Email: [wintron@mweb.co.zw](mailto:wintron@mweb.co.zw)

