AGRICULTURE DEVELOPMENT INSTITUTE - SMALLHOLDER AGRICULTURE DEVELOPMENT AND COMMERCIALIZATION PROJECT

Statement of Cash Receipts and Payments for the Year Ended December 31, 2017 together with the Independent Auditor's Report
INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements Agriculture Development Institute reporting on the project "Smallholder Agriculture Development and Commercialization" ("the Project"), loan reference 8626AO, which comprise the statement of cash receipts and payments for the year ended December 31, 2017 which shows an amount of 10,481,788 USD of funds received and the amount of 6,140,797 USD of expenditures paid during the year then ended, a cash balance of 4,340,991 USD and the accompanying notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the cash proceeds and disbursements and uses of funds by the Project during the year ended December 31, 2017, in accordance with Cash Basis IPSAS - Financial Reporting Under the Cash Basis of Accounting issued by the International Public Sector Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Contabilistas e Peritos Contabilistas de Angola (the Angolan Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent from the Project in accordance with the law and we have fulfilled other ethical requirements in accordance with the Angolan Institute of Statutory Auditors code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management for the financial statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Project’s financial position, financial performance and cash flows in accordance with International Public Sector Accounting Standard (IPSA) - Financial Reporting Under the Cash Basis of Accounting;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Project’s ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Project’s ability to continue as a going concern.

The management is responsible for overseeing the Project’s financial reporting process.
Auditor’s responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor’s 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 Project’s internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management’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 Project’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s 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 report. However, future events or conditions may cause the Project to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with management 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.

Luanda, October 18, 2018

DELOITTE & Touche Auditores, Lda.
## Smallholder Agriculture Development and Commercialization Project

**Statement of Cash Receipts and Payments for the Year Ended December 31, 2017**

(Amounts Stated in United States Dollars - USD)

<table>
<thead>
<tr>
<th>Notes</th>
<th>RECEIPTS</th>
<th>2017 Receipts/(Payments)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Designated account</td>
<td>6 701 730</td>
</tr>
<tr>
<td>2</td>
<td>Direct payments</td>
<td>3 779 460</td>
</tr>
<tr>
<td>3</td>
<td>Other receipts</td>
<td>598</td>
</tr>
<tr>
<td></td>
<td><strong>Total Receipts</strong></td>
<td><strong>10 481 788</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>PAYMENTS</th>
<th>2017 Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Strengthening Capacity of Smallholder Farmers and Farmers’ Organizations through Farmer Field Schools</td>
<td>(1 565 116)</td>
</tr>
<tr>
<td>5</td>
<td>Institutional Strengthening of Local, Provincial and National</td>
<td>(1 162 289)</td>
</tr>
<tr>
<td></td>
<td>Strengthening Capacity and Global Knowledge to address Emerging Research Problems</td>
<td>(30 073)</td>
</tr>
<tr>
<td></td>
<td>Provision of Technical Support</td>
<td>(3 436)</td>
</tr>
<tr>
<td></td>
<td>Financing to sub-projects</td>
<td>(10 164)</td>
</tr>
<tr>
<td>6</td>
<td>Operational costs</td>
<td>(3 369 720)</td>
</tr>
<tr>
<td></td>
<td><strong>Total payments</strong></td>
<td><strong>(6 140 797)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>Increase/(Decrease) in Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Increase/(Decrease) in Cash</td>
</tr>
<tr>
<td>7</td>
<td>Cash at year end</td>
</tr>
</tbody>
</table>

Increase/(Decrease) in Cash: 4 340 991

Cash at the beginning of the year: -
Increase/(Decrease) in Cash: 4 340 991
Cash at year end: 4 340 991

The accompanying notes are an integral part of this statement of cash receipts and payments.

The Project Coordinator

The Financial Manager
1. **ACCOUNTING POLICIES**

**Basis of preparation**
The financial statements have been prepared in accordance with the "Cash Basis IPSAS, Financial Reporting Under the Cash Basis of Accounting". The Entity has elected to early adopt Cash Basis IPSAS (issued November 2017). Cash basis is a basis of accounting that recognizes transactions and other events only when cash is received or paid. The accounting policies have been applied consistently throughout the period.

**Reporting Entity**
The financial statements are for the Agriculture Development Institute ("Entity" or "Project Implementation Unit") reporting on the project "Smallholder Agriculture Development and Commercialization Project" (SADCP). The Entity controls its own bank account.

The Entity is an Institute that is part of the Ministry of Agriculture and Forest of Angola and holds its domicile at Largo António Jacinto (Largo dos Ministérios) in Luanda Province.

The Government of Angola has entered into a loan agreement on September 30, 2016, in the amount of 70 million USD from the International Bank for Reconstruction and Development (IBRD) to implement the Smallholder Agriculture Development and Commercialization Project (SADCP).

The SADCP Project is a continuation of the Market Oriented Smallholder Agriculture Project (MOSAP) that was successfully implemented over six years to support the development of smallholder farmers' in Angola and closed on March 31, 2016. The SADCP will continue the work initiated by MOSAP and is designed to support smallholder farmers to increase agricultural productivity, production and market linkages that generate self-sustaining agricultural growth over a larger area that was covered under MOSAP. The SADCP will scale up the geographic area to reach additional beneficiaries in more municipalities and communes within the same three provinces: Bié, Huambo, and Malanje. Additionally, the project will include the rehabilitation of 1,000 ha of small-scale gravity-fed irrigation schemes as a pilot program for smallholders. Building on lessons learned from MOSAP, the SADCP strongly emphasizes capacity building, institutional development, and sustainability by strengthening MINAGRI's capacity for statistics, policy analysis, market information, irrigation development, and agricultural research and extension. Also building on lessons learned, the SADCP aims to mainstream environmental considerations and climate-smart agriculture (CSA) practices into the project design through
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investments in more efficient use of water resources, promotion of soil conservation techniques, and integrated natural resource management.

Project Description
The objective of the SADCP Project is to increase smallholder agriculture productivity, production and marketing for selected crops in the Project areas. The project area is expected to cover 80 communes that are part of 26 municipalities in the three selected provinces of Bié, Huambo, and Malanje. The population census of 2014 estimates that these three provinces have a total population of 4.2 million people, representing about 16 percent of Angola’s total population, and 43.6 percent of the total rural population in the country. An estimated 175,000 smallholder farmers are expected to be direct project beneficiaries.

The Project has three components: (i) Capacity Building and Institutional Development; (ii) Support for Increased Production and Commercialization; and (iii) Project Management, Monitoring and Evaluation.

Presentation Currency
The presentation currency is the United States Dollars which is different from the official currency in Angola, presently the Kwanza ("AKZ"). The reasons for having the USD as the presentation currency relates to the fact that this currency is the currency in which the loan was granted and is deposited in Angolan bank account. The amounts stated in currencies different from presentation currency deposited in banks are converted to USD at the spot exchange rate prevailing at December 31 each year.

Fiscal Regime
The Entity itself is currently exempt from any corporate income taxes. In relation to third parties is currently subject to the following:

i) Social security ("SS"): This contribution amounts to a total of 11%, being 3% of the employee's responsibility. During the year ended the Entity did not held any employee's, being all functions of the Project assumed by hired individual consultants, whose contracts include payment to social security as described above.

ii) Personal income tax: This tax is withheld by the Company and deducted from employees salaries, being calculated based on their remuneration. Executive Decree 18/14 of October 22, defined thirteen variable increasing rates, the maximum rate being 17%. During the year ended the Entity did not held any employee's, being all functions of the Project assumed by hired individual consultants, whose taxes were withheld and paid by the Entity;
iii) **Real estate tax**: Law 18/11, of April 21 (which replaces the previous real estate tax regime) establishes that the payment of real estate tax on real estate income obtained after May 31, 2011, operates by withholding tax at the rate of 15% if the owner is not exempt. Additionally, income with rentals are no longer taxed under the corporate income tax regime, with the taxation being computed based on the annual rents accounted for using a tax rate of 15%;

iv) **Corporate income tax**: Law no. 19/14 of October 22nd, establishes the tax regime for the settlement and provisional anticipated payments related to corporate income tax, and services rendered (at the rate of 6.5%), operating as a withholding tax;

v) **Consumption tax**: This tax established rate for the Consumption Tax is 10% except for goods which are listed in Tables I, II and III annexed to the Consumption Tax Rules (which were revised by the Presidential Legislative Decree n. ° 3/14, of October 21).

In accordance with current legislation, tax returns are subject to review and adjustment by the tax authorities for a period of five years. Accordingly, the Entity’s tax returns for 2017 are still subject to review and adjustment. The Entity’s Management believes that any adjustments resulting from reviews made by the tax authorities will not have result in additional payment of taxes in related to the year of 2017.

2. **RECEIPTS – Designated Account**

During the year ended December 31, 2017, under the loan agreement described in Note 1 above, the Entity has received the following amounts in the "Designated Account": (i) 4,999,973 USD on the 9th of February 2017; (ii) 643,956 USD on the 28th of June 2017; (iii) 588,477 USD on the 3rd of October 2017; and (iv) 469,210 USD on the 28th of November 2017. The differences between the amount requested and the ones received (114 USD) were recorded as receipts in the revenue account (to reflect the total amount disbursed by the World Bank), and as bank charges in the designated account.

3. **RECEIPTS – Direct Payments**

During the year ended December 31, 2017, under the loan agreement described in Note 1 above, the Entity has benefited from direct payments made by the World Bank towards the project as follows: (i) the amount of 1,565,116 USD as part of the component "Strengthening Capacity of Smallholder Farmers and Farmers’ Organizations through Farmer Field Schools"; (ii) the amount of 1,033,227 USD as part of the component "Institutional Strengthening of Local, Provincial and
National”; (iii) the amount of 24,500 USD as part of component “Strengthening Capacity and Global Knowledge to address Emerging Research Problems”; (iv) the amount of 981,618 USD as part of component “Operational costs”. We have also included here included the front-end fee deducted by the World Bank on the disbursement of Loan in the amount of 175,000.

4. **PAYMENTS - Strengthening Capacity of Smallholder Farmers and Farmers’ Organizations through Farmer Field Schools.**

This caption includes the payments made under “Sub-Component 1.1” of the Project. Under this activity of the Project, the capacity of smallholder farmers and farmers’ organizations will be strengthened in all critical aspects related to agriculture by using and scaling up the Farmer Field School (FFS) initiative that is currently being implemented by FAO, jointly with local ADI/EDA extension service, in the three Provinces to be covered by the proposed project. The FFS training is expected to benefit 150,000 smallholder farmers. The FFS methodology empowers smallholder farmers to set their own agenda and take steps to improve their agricultural knowledge and economic situation. It also includes training of master trainers (mainly EDAs agricultural extension staff), who will in turn train other government extension staff and farmer facilitators by using the enhanced and improved FFS curriculum.

During the year ended December 31, 2017, this caption includes a payment made to “FAO – Food and Agriculture Organization of the United Nations” in the amount of 1,565,116 USD towards consultancy services on “Strengthening Fields Farmer’ Schools and Extensive Agriculture Services”. This payment was made directly by the World Bank under the modality of “Direct Payments” established in the Loan Agreement.
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5. PAYMENTS - Institutional Strengthening of Local, Provincial and National
This caption includes the payments made under “Sub-Component 1.2” of the Project. The second sub-component aims to strengthen the institutional capacity of MINAGRIF at the national and decentralized levels to provide the complementary services needed for SADCP farm level investments in the critical areas of agricultural extension, irrigation services, market information, agricultural statistics and policy analysis. Investments would take place at national level and in the provinces and municipalities where SADCP will operate. Investments under the sub-component are designed to: (i) expand the regular collection and dissemination of data on crop forecasts, crop production, prices and other market information – particularly in the MOSAP project area; (ii) strengthen platforms for discussing relevant policy issues that may arise as part of SADCP implementation; and (iii) strengthen extension service delivery and technical backstopping to farmers by building capacity at ADI (provincial level) and EDA (municipal level), both of which are constrained by a lack of technical knowledge among front-line staff, limited mobility, and poor infrastructure.

During the year ended December 31, 2017, the main payments included in this caption includes, essentially: (i) the purchase of 18 Toyota vehicles in the amount of 660,986 USD to supplier “UNOPS - United Nations Office for Project Services”; (ii) the payment of 46,936 USD to the Irrigation Consultant Mr. Wosenu Asfaw Adem; (iii) the purchase of 60 motorbikes to supplier “UNOPS - United Nations Office for Project Services” totaling 108,626 USD; and (iv) the purchase of several IT equipment from supplier “NCR” totaling 216,678 USD.

6. PAYMENTS – Operational Costs
During the year ended December 31, 2017, this caption includes, essentially: (i) the payment of the consultancy services rendered by the individuals hired by the Project’s Implementation Unit in the amount of 1,822,300 USD; (ii) the purchase of 6 vehicles for Project Implementation Unity (PIU) to supplier “Organizações Chana” in the amount of 351,000 USD; and (iii) other payments related to the activity of the project, in which is included the front-end fee deducted by the World Bank on the disbursement of Loan in the amount of 175,000 USD.
7. **CASH**

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks and investment in short-term money market instruments. A cash equivalent must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Appropriations and other cash receipts are deposited in the Entity’s bank account.

Cash included in the statement of cash receipts and payments comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on-hand</td>
<td>2,915</td>
</tr>
<tr>
<td>Balances with banks in Kwanza</td>
<td>562,275</td>
</tr>
<tr>
<td>Balances with banks in USD</td>
<td>3,775,122</td>
</tr>
<tr>
<td>Advances</td>
<td>678</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,340,991</td>
</tr>
</tbody>
</table>

As of December 31, 2017, there weren’t any cash balances not available to the Entity.

The usage of the cash balances funds are subject to the loan conditions entered between The Government of Angola and the International Bank for Reconstruction and Development (IBRD). The proceeds of the loan should only be used to finance the following Eligible Expenses:
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<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated</th>
<th>Percentage of Expenditures to be financed (inclusive of taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consulting services and Training for Part. A.1 of the Project</td>
<td>10,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, works, non-consulting services, consulting services Operating Costs and Training for Part. A.2 of the Project</td>
<td>9,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, works, non-consulting services, consulting services Operating Costs and Training for Part. A.3 of the Project</td>
<td>4,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Non-consulting services and consulting services for Part. B.1 of the Project</td>
<td>7,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Matching Grants under Part B.2 of the Project</td>
<td>30,000,000</td>
<td>100% of the amounts disbursed by the Borrower under the Matching Grant</td>
</tr>
<tr>
<td>(6) Goods, works, non-consulting services, consulting services Operating Costs and Training for Part C of the Project</td>
<td>9,825,000</td>
<td>100%</td>
</tr>
<tr>
<td>(7) Fron-end Fee</td>
<td>175,000</td>
<td>Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>70,000,000</td>
<td></td>
</tr>
</tbody>
</table>

Undrawn borrowing facilities that are available for the future activities of the project amounted to 59,518,809 USD.

8. **TRANSFER**
During the year there were no amounts transferred to eligible recipients in accordance with operating mandate and authority of the Entity.

9. **SIGNIFICANT ENTITIES**
During the year ended December 31, 2017, the Entity did not involve significant entities from the Government, as part of its activities besides the fact that the Project Implementation Unit is managed by the Agriculture Development Institute, an entity part of the Ministry of Agriculture of Angola.

10. **AUTHORIZATION DATE**
The financial statements were authorized for issue in 31ST March, 2018 by the Agriculture Development Institute.

The Project Coordinator

The Financial Manager