

# **AUDITED PROJECT FINANCIAL STATEMENTS**

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Project Nº : 1618

IFAD Loans No. L-I-878-MZ  
IFAD Grant No. I-C-1391-MZ  
TRUST Loan No. E-15-MZ  
ASAP Grant No. C-ASP-1-MZ

Period covered 01/01/2017 – 31/12/2017

## **Pro-Poor Value Chain Development in the Maputo and Limpopo Corridors (PROSUL)**

Prepared by: Ernst & Young Limitada

Received on 06/08/2018

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# Financial Statements

FDA - AGRICULTURAL DEVELOPMENT FUND

PROSUL - Pro-Poor Value Chain Development Project in the  
Maputo and Limpopo Corridors

31 December 2017



Building a better  
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FDA – AGRICULTURAL DEVELOPMENT FUND

PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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## INDEPENDENT AUDITOR'S REPORT

To

**FDA - AGRICULTURAL DEVELOPMENT FUND**

**PROSUL - Pro-Poor Value Chain Development Project in Maputo and Limpopo Corridors**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of the **FDA - AGRICULTURAL DEVELOPMENT FUND - PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN MAPUTO AND LIMPOPO CORRIDRS - PROSUL**, which comprise the Statement of Income and Expenditure, Cumulative Statement of Income and Expenditure and Statement of the Designated Account for the year ended 31 December 2017 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Project are prepared, in all material respects, in accordance with the basis of accounting disclosed on Note 2 of the Financial Statements and with the Donor's requirements.

We further report as follows:

- with respect to Statement of Income and Expenditure, in particular for expenditure (SOEs), adequate supporting documentation has been maintained to support claims to the IFAD for reimbursement of expenditure incurred and such expenditure are eligible for financing under the IFAD Loans/Grants Agreements;
- the Statement of the Designated Account has been used, in all material respects in accordance with International Fund for Agricultural Development (IFAD) guidelines, and withdrawals from the Designated Account have been used for the purpose authorized in the Loans/Grants Agreement.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of **FDA - AGRICULTURAL DEVELOPMENT FUND** in accordance with the ethical requirements that are relevant to our audit of the financial statements in Mozambique, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Matters**

We have been assigned by the management on 18 June 2018 to perform the audit of the **FDA - AGRICULTURAL DEVELOPMENT FUND** financial statements as at 31 December 2017, therefore, we have not audited the financial statements for the year ended 31 December 2016. These financial statements have been audited by other auditing firm, which issued an unqualified opinion dated 29 June 2017.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with basis of accounting disclosed in Note 2 of the Financial Statements and with the Donor's requirements, and for such internal control as Management determines 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, management is responsible for assessing Project'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 Project or to cease operations, or has no realistic alternative but to do so.

Management is also responsible for overseeing the Project's financial reporting process.

### **Auditor's 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 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 ISA 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 ISA, 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 ORAM'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 Organization'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 auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

We communicate with those charged with governance 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.

The engagement partner on the audit resulting in this independent auditor's report is Eduardo Caldas.

**ERNST & YOUNG, LDA.**

*Certified Auditors Firm*

*Represented by:*



Eduardo Jorge Creio da Costa Caldas (Certified Auditor nr. 33)

Maputo, 16 July 2018

**FDA – AGRICULTURAL DEVELOPMENT FUND**

**PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS**

**STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR EDED 31 DECEMBER 2017**

*(Amounts expressed in US Dollars)*

**STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR EDED 31 DECEMBER 2017**

	Notes	2017	2016
<b>INCOME</b>			
Disbursements from IFAD	5	5.595.054	7.112.284
<b>TOTAL INCOME</b>		<b>5.595.054</b>	<b>7.112.284</b>
<b>EXPENDITURE</b>			
IFAG Loan	6	2.553.855	2.477.009
IFAG Grant	7	302.056	336.408
Spanish Trust Fund Loan	8	3.786.165	1.312.709
ASAP Grant	9	1.336.960	1.210.185
Government of Mozambique	10	-	67.879
<b>TOTAL EXPENDITURE</b>		<b>7.979.036</b>	<b>5.404.190</b>
<b>EXCESS/(DEFICIT) OF INCOME OVER EXPENDITURE</b>		<b>(2.383.982)</b>	<b>1.708.094</b>
Opening balance as at 1 January 2017	3 and 4	3.682.342	1.974.248
<b>Closing balance as at 31 December 2017</b>		<b>1.298.360</b>	<b>3.682.342</b>
<b>Represented by:</b>			
Banks	3	778.760	2.234.364
CUT - Single Treasury Account	4	519.619	1.447.978
Others		(19)	-
		<b>1.298.360</b>	<b>3.682.342</b>

The Financial Manager

*Natália Sarmiento Costa*



The Project Coordinator

*David Uzumriti*

*These financial statements should be read together with the notes to the financial statements*

**FDA – AGRICULTURAL DEVELOPMENT FUND**
**PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS**
**CUMULATIVE STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2017**
*(Amounts expressed in US Dollars)*
**CUMULATIVE STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	2013 up to 2016	Cumulative to date
<b>INCOME</b>			
IFAD Loan	1.551.472	7.077.462	8.628.934
IFAD Grant	411.676	803.443	1.215.119
Spanish Trust Fund Loan	2.385.877	4.017.070	6.402.947
ASAP Grant	1.246.029	1.760.602	3.006.631
Government of Mozambique	-	451.374	451.374
<b>TOTAL INCOME</b>	<b>5.595.054</b>	<b>14.109.951</b>	<b>19.705.005</b>
<b>EXPENDITURE</b>			
<b>IFAG Loan</b>			
Civil Works (I)	1.621.856	810.611	2.432.467
Vehicles, Equipment and materials (II)	291.879	577.961	869.840
Training, TA and Studies (III)	382.543	594.912	977.455
Contractual Services (IV)	37.272	1.714.793	1.752.065
Financial services (V)	202	78.647	78.849
Recurrent costs (VI)	220.103	1.296.752	1.516.855
	2.553.855	5.073.676	7.627.531
<b>IFAG Grant</b>			
Training, TA and Studies (III)	302.056	672.712	974.768
	302.056	672.712	974.768
<b>Spanish Trust Fund Loan</b>			
Civil Works (I)	1.177.851	350.391	1.528.242
Vehicles, Equipment and materials (II)	527.820	247.461	775.281
Training, TA and Studies (III)	821.812	349.824	1.171.636
Contractual Services (IV)	603.122	651.789	1.254.911
Financial services (V)	-	96.108	96.108
Recurrent costs (VI)	655.560	881.753	1.537.313
	3.786.165	2.577.326	6.363.491
<b>ASAP Grant</b>			
Civil Works (I)	643.183	589.604	1.232.787
Vehicles, Equipment and materials (II)	147.077	153.917	300.994
Training, TA and Studies (III)	546.700	909.135	1.455.835
	1.336.960	1.652.656	2.989.616
<b>Government of Mozambique</b>			
Civil Works (I)	-	119.350	119.350
Vehicles, Equipment and materials (II)	-	96.175	96.175
Contractual Services (IV)	-	46.562	46.562
Recurrent costs (VI)	-	189.152	189.152
	-	451.239	451.239
<b>TOTAL EXPENDITURE</b>	<b>7.979.035</b>	<b>10.427.609</b>	<b>18.406.645</b>
<b>Closing balance as at 31 December 2017</b>	<b>(2.383.982)</b>	<b>3.682.342</b>	<b>1.298.360</b>

The Financial Manager

*Natércia Samuano Costa*


The Project Coordinator

*Amir Vazir Rath*

These financial statements should be read together with the notes to the financial statements



**FDA – AGRICULTURAL DEVELOPMENT FUND**

**PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS**

**STATEMENTS OF DESIGNATED ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017**

*(Amounts expressed in US Dollars)*

**STATEMENTS OF DESIGNATED ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017**

	<u>Notes</u>	<u>2017</u>
<b>RECEIPTS</b>		
Opening balance as at 1 January 2017	3 and 4	3.682.342
Disbursements from IFAD	5	5.595.054
<b>TOTAL RECEIPTS AND OPENING BALANCE</b>		<b>9.277.396</b>
<b>PAYMENTS</b>		
IFAG Loan	6	2.553.855
IFAG Grant	7	302.056
Spanish Trust Fund Loan	8	3.786.165
ASAP Grant	9	1.336.960
<b>TOTAL PAYMENTS</b>		<b>7.979.036</b>
<b>Closing balance as at 31 December 2017</b>		<b>1.298.360</b>

The Financial Manager

*Natália Sacramento Costa*



The Project Coordinator

*Amílcar Chasmita*

*These financial statements should be read together with the notes to the financial statements.*

**FDA – AGRICULTURAL DEVELOPMENT FUND****PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017***(Amounts expressed in US Dollars)*

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**1. INTRODUCTION**

The PROSUL – Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors is an initiative of the Government of Mozambique jointly financed by the IFAD – International Fund for Agricultural Development, ASAP – Adaptation for Smallholder Agriculture Program Trust Fund and Spanish Food Security Co-Financing Trust Fund.

The objective of the project is to achieve sustainable increased returns to smallholder farmers in the target value chains by promoting increased production volumes and quality, improved market linkages, efficient farmer organization and higher farmers share over the final value.

The project goal is to improve livelihoods of smallholder farmers, including strengthened climate adaptation.

The project shall consist of the following comprises five components:

- **Component 1 – Horticulture**

- a) Sub-Component 1 - Rehabilitation and expansion of approximately 2.100 ha of existing irrigated perimeters, including (i) design, construction, and operations and maintenance of civil works; (ii) strengthening of water users associations and (iii) institutional support to irrigation staff.
- b) Sub-Component 2 - Strengthening linkages between value chain stakeholders, including (i) facilitating out grower schemes; (ii) setting up service hubs in connection with seven target irrigation clusters; (iii) offering technical assistance through joint teams of experts; (iv) promoting farmers organization, access to markets, and innovative practices; and (v) monitoring and knowledge management.

- **Component 2 – Cassava**

- a) Sub-Component 1 - Strengthening linkages between value chain stakeholders, including (i) establishing service hubs in each target district; (ii) encouraging installation of small processing units; (iii) assisting development of out grower schemes and farmers organizations; and (iv) promoting innovative agricultural practices and access to markets.
- b) Sub-Component 2 – Value chain environment, including (i) establishing a regional value chain platform; (ii) establishing multi-stakeholder innovation platforms; (iii) monitoring and knowledge management; and (iv) supporting development of a conducive policy and legislative environment.

- **Component 3 – Red Meat**

- a) Sub-Component 1 – Value chain environment, including (i) establishing a regional value chain platform; (ii) establishing innovation platforms; (iii) monitoring and knowledge management; and (iv) supporting development of a conducive policy and legislative environment.
- b) Sub-Component 2 – Production improvement, including (i) strengthening livestock producers' organization; (ii) promoting innovative practices; and (iii) promoting services such as technical assistance, financial, and animal health services.
- c) Sub-Component 3 – Market linkages, including (i) improving cattle fairs; (ii) facilitating formation of meat traders associations; (iii) facilitating out grower schemes; and (iv) building a new slaughterhouse near Maputo.

**FDA – AGRICULTURAL DEVELOPMENT FUND****PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017***(Amounts expressed in US Dollars)*

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- **Component 4 – Financial Services**

- a) Sub-Component 1 – Financial services; including (i) equity and debt financing of microfinance institutions (MFIs) and the PROSUL supported slaughterhouse; and (ii) grant financing of construction for the slaughterhouse, horticulture hubs, cassava processing hubs and livestock vet stores.
- b) Sub-Component 2- Capacity building for, (i) MFIs participating in PROSUL; (ii) small and medium enterprises created under PROSUL; and (iii) other loan beneficiaries.

- **Component 5 – Institutional Support and Project**

- a) Sub-Component 1 – Institutional support, including (i) capacity building in CEPAGRI and its GAZA Delegation; (ii) promoting climate change adaptation in policy; (iii) providing technical and legal assistance for innovative contractual arrangements; and (iv) incorporating agricultural education institutions.
- b) Sub-Component 2 – Land tenure security, including (i) mapping information on land titles; (ii) analysing tenure security issues; and possibly (iii) supporting community land delimitation.
- c) Sub-Component 3 – Project management, including the planning, budgeting contracting, supervising, managing and monitoring of project activities.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***(a) Basis of presentation***

The financial statements, compiled from the **FDA – Agricultural Development Fund – Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors - PROSUL**, accounting records, have been prepared under the historical cost convention using the cash basis of accounting. This basis, income is recognized when received in cash and expenditure is recognized against the respective payment.

Thereof, these financial statements reflect the income and expenditure of **FDA - PROSUL** Project funded by **IFAD – International Fund for Agricultural Development** during the year ended 31 December 2017, and the financial position of the year then ended and are presented in US dollar.

### ***(b) Transaction and reporting currency***

The Statement of income and expenditure is expressed in US Dollars (USD). The income and expenditure denominated in other currencies are translated to USD by using the actual exchange rate applied on the conversion from USD to local currency (MZN). The closing balances in other currencies are translated to USD by using the exchange rate prevailing at the reporting date.

**FDA – AGRICULTURAL DEVELOPMENT FUND**
**PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**
*(Amounts expressed in US Dollars)*
**(c) Fixed assets**

Fixed assets acquired by the Project are reflected as project expenditure in the year of purchase.

**(d) Procedures**

The funds are disbursed by IFAD through direct transfers into the Project designated bank account at the Bank of Mozambique. These funds are requested by the Project Management Team as the need arises and are then transferred into the National Directorate of Treasury CUT account. The payments of project expenses are made through e-SISTAFE.

**3. BANKS**

Bank balance as of 31 December 2017 and 2016 is analysed as follows:



31-Dec-2017	31-Dec-2016
773.352	2.234.364
5.408	-
<b>778.760</b>	<b>2.234.364</b>

**4. CUT – SINGLE TREASURY ACCOUNT**

CUT balance as of 31 December is analysed as follows:

E-Sistafe - Payment Account - No: FRI54FIDA

31-Dec-2017	31-Dec-2016
519.619	1.447.978
<b>519.619</b>	<b>1.447.978</b>

**5. DISBURSEMENTS**

Disbursements includes transfers received from IFAD – International Fund during the year ended 31 December 2017, for the purposes of the Project and are analysed as follows:

IFAD - RFD Reference Number	Currency	Date of tranfer	2017
001RFDB171950002	USD	18/07/2017	2.385.927
001RFDB171950009	USD	18/07/2017	618.789
001RFDB172000014	USD	21/07/2017	1.551.472
001RFDB172120001	USD	02/08/2017	265.580
001RFDB173550019	USD	26/12/2017	146.106
001RFDB173550020	USD	26/12/2017	627.180
			<b>5.595.054</b>



**FDA – AGRICULTURAL DEVELOPMENT FUND**
**PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**
*(Amounts expressed in US Dollars)*
**6. IFAG LOAN**

This category is analysed as follows:

	2017	2016
<b><u>IFAG Loan</u></b>		
Civil Works (I)	1.621.858	549.621
Vehicles, Equipment and materials (II)	291.878	217.786
Training, TA and Studies (III)	382.546	250.968
Contractual Services (IV)	37.272	892.820
Financial services (V)	202	71.931
Recurrent costs (VI)	220.102	493.883
	<b><u>2.553.858</u></b>	<b><u>2.477.009</u></b>

**7. IFAG GRANT**

This category is analysed as follows:

	2017	2016
<b><u>IFAG Grant</u></b>		
Training, TA and Studies (III)	302.057	336.408
	<b><u>302.057</u></b>	<b><u>336.408</u></b>

**8. SPANISH TRUST FUND LOAN**

This caption includes the following:

	2017	2016
<b><u>Spanish Trust Fund Loan</u></b>		
Civil Works (I)	1.177.850	250.239
Vehicles, Equipment and materials (II)	527.821	2.484
Training, TA and Studies (III)	821.810	150.220
Contractual Services (IV)	603.122	535.071
Financial services (V)	-	93.824
Recurrent costs (VI)	655.560	280.871
	<b><u>3.786.163</u></b>	<b><u>1.312.709</u></b>

**FDA – AGRICULTURAL DEVELOPMENT FUND**

**PROSUL – PRO-POOR VALUE CHAIN DEVELOPMENT PROJECT IN THE MAPUTO AND LIMPOPO CORRIDORS**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

*(Amounts expressed in US Dollars)*

**9. ASAP GRANT**

This category is analysed as follows:

	2017	2016
<b><u>ASAP Grant</u></b>		
Civil Works (I)	643.185	410.440
Vehicles, Equipment and materials (II)	147.077	67.164
Training, TA and Studies (III)	546.700	732.581
	<b>1.336.962</b>	<b>1.210.185</b>

**10. GOVERNMENT OF MOZAMBIQUE**

This caption represents the expenses supported by the Government of Mozambique for the purposes of the Project.

**11. TAXATION**

According to Tax legislation, there exists a possibility of the fiscal authorities reviewing the tax position of the Project for a period of up to ten years, which may result in eventual adjustments due to a different interpretation and/or non-compliance with the applicable legislation, namely: personal income tax and withholding tax. However, Management believes that eventual adjustments on the tax returns, as a result of those revisions, will not have a significant impact on the Financial Statements.

**12. SUBSEQUENT EVENTS**

After the reporting period, until the date on which the financial statements were authorised for issuance, there have been no favourable or unfavourable events for **FDA – Agricultural Development Fund – Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors - PROSUL** that affect these financial statements or require disclosure therein.

The Financial Manager

*Natália Samora Costa*



The Project Coordinator

*Daniel Vaz*

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