

AUDITED PROJECT FINANCIAL STATEMENTS

Project N° : 1650

IFAD Loans No. L-I-2000000429

TRUST Loan No. 2000000430

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

Rural Finance Expansion Programme (RUFEP)

Prepared by: Auditor General

Received on 29/06/2018

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MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
PROJECT NUMBER – 2000000429 & 2000000430
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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Institutional Details/Information:

Implementing agency Ministry of Finance
Rural Finance Expansion Programme
Plot No. 34810
Unit 2, Ground Floor
Mount Building, Thabo Mbeki Rd
PO Box 51061, Lusaka - Zambia

Management Mr Michael Mbulo – Programme Coordinator
Mr Ezra Chibwe – Financial Controller
Ms Womba Kawanu Phiri – M&E Specialist
Mr John Loongo – Procurement Specialist
Mr Cephas Moonga – Knowledge Management Specialist.
Mr Caiaphas Habasonda – National Technical Advisor
Mr Gareth Evans – International Technical Advisor

Programme Steering Committee

Mrs. Pamela C. Kabamba
Mr. Jacob Mkandawire
Ms. Freda Tamba
Mrs. Kezia Katyamba
Mrs. Rachel Zyambo
Mr. Thomas Phiri
Mr. Joseph Tumba

The Programme Steering Committee (PSC) continue to be committed to high standards of corporate governance, which are fundamental in providing oversight, policy direction and coordination between government institutions. During the year four (4) meetings were held by the PSC.

Employees

The average number of employees during the year was as follows:

Description	Status
Number of employees at the beginning of the year	12
Number of new employees employed during the year	1
Number of employees that have separated in the year	1
Number of employees at the end of the year	12

Health and Safety Measures

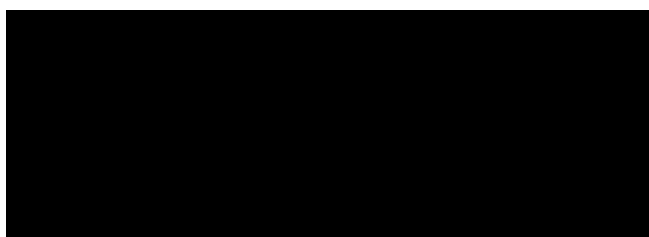
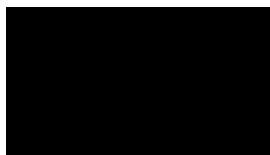
The Programme is aware of its responsibilities regarding the health and safety of employees and has put appropriate measures in place to safeguard the health and safety of employees

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Auditors

Auditor General of the Republic of Zambia
PO Box 50071
Ridgeway
Lusaka - Zambia

Main Bankers
(At Head Office)



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Background Information on the Project:

The Rural Finance Expansion Programme (RUFEP) aims to increase access to and use of sustainable financial services by poor rural men, women and youth in Zambia. The overall goal of RUFEP is to improve livelihoods of the rural poor through sustainable economic growth. The Programme is an initiative by the Government of the Republic of Zambia (GRZ) under the Ministry of Finance (MoF) funded by the International Fund for Agricultural Development (IFAD).

The Ministry of Finance is the Lead Programme Implementing Agency. The Programme Coordinating Office falls under the Investment and Debt Management Department (IDMD) of the Ministry of Finance.

The Rural Finance Expansion Programme (RUFEP) is a follow up of the Rural Finance Programme (RFP) that completed its implementation on the 30th September, 2013. The Financing Agreement for RUFEP between the Government of the Republic of Zambia, the International Fund for Agricultural Development (IFAD) and the Spanish Food Security Facility Trust Fund (SFSFTF) was signed on 22nd July 2014. The Programme has an eight year operating time line with a completion date of 21st July 2022. The Programme Implementation commenced in September 2015.

The Programme consists of three components:

- a) Component 1 - Strategic Partnerships
- b) Component 2 - Innovation and Outreach Facility
- c) Component 3 - Knowledge Management and Programme Implementation.

The Financing Agreement provides for a total sum of USD 26.3 million and is co-financed between the IFAD loan of USD 8.4 Million and a Spanish Trust loan of USD 12 million. The GRZ will contribute USD 2.6 million which is the estimate of the tax element in RUFEP transactions while the participating institutions contribution has been estimated as USD 3.3 million.

Financing Plan by Components (for the entire lifespan of the project)

Components by Financiers (USD '000)	Spanish Trust Participating				Total
	GRZ	IFAD	Fund	Institutions	
1. Strategic Partnerships	1,744	4,216	3,989	1,138	11,087
2. Innovation and Outreach Facility	-	4,200	2,690	2,160	9,050
3. Knowledge Management and Programme Implementation	869	-	5,309	-	6,178
Total Project Costs	2,613	8,416	11,988	3,298	26,315

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Financing Plan by Categories (for the entire lifespan of the project)

Categories by Financiers (USD '000)	Spanish Trust Participating				Total
	GRZ	IFAD	Fund	Institutions	
1. Equipment and Materials	328	297	236	-	861
2. Training	658	2,724	696	85	4,164
3. Consultancies	1,108	482	4,407	1,053	7,049
4. Grants	-	4,200	2,690	2,160	9,050
5. Operating Expenses	519	713	3,959	-	5,191
Total Project Costs	2,613	8,416	11,988	3,298	26,315

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Statement of management's responsibilities

It is the responsibility of the Programme Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Programme as at the end of the financial year and of the surplus or deficit for that period. In preparing these financial statements, management is required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent
- maintain financial records and prepare the financial statements in accordance with the policies and procedures of Rural Finance Expansion Programme.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the organisation will continue its operations.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the organisation. They have a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the organisation and to prevent and detect fraud and other irregularities.


Management of the Programme confirm that in their opinion the financial statements give a true and fair view of:

1. The financial performance of the Rural Finance Expansion Programme for the year ended 31st December 2017 prepared in accordance with the Cash Basis of Accounting of the International Public Sector Accounting Standards (IPSAS).
2. The sources and applications of funds of the Rural Finance Expansion Programme for the year ended 31st December 2017 prepared in accordance with the Cash Basis of Accounting of the International Public Sector Accounting Standards (IPSAS).

Signed at Lusaka on.....26/06/2018.....



Michael Mbulo
Programme Coordinator
Rural Finance Expansion Programme



Emmanuel Mulenga Pamu (Dr.)
Permanent Secretary – Budget and Economic Affairs
Ministry of Finance



Ezra Chabuka Chibwe
Financial Controller
Rural Finance Expansion Programme



INDEPENDENT AUDITOR'S REPORT

Stand No.7951
Haile Selassie Avenue, Longacres
P.O Box 50071
Lusaka, Zambia

E-mail: auditor@ago.gov.zm
Website: www.ago.gov.zm
Telephone: +260252611/252771

To the Permanent Secretary – Budget and Economic Affairs, Ministry of Finance

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of Ministry of Finance Rural Finance Expansion Programme (RUFEP), which comprise the statement of special account reconciliation as at 31st December 2017, and the statements of sources and utilisation of funds by category and by component for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements of Ministry of Finance Rural Finance Expansion Programme (RUFEP) have been prepared, in all material respects, in accordance with International Public Sector Accounting Standards (IPSASs) Cash Basis of Accounting and the Financing Agreement between the International Fund for Agricultural Development (IFAD) and the Government of the Republic of Zambia.

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Ministry of Finance Rural Finance Expansion Programme (RUFEP) in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Code of Ethics together with the ethical requirements that are relevant to my audit of the financial statements in Zambia, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the INTOSAI Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSASs) Cash Basis of Accounting, 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. The Permanent Secretary for Ministry of Finance is responsible for overseeing the Programme's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of my audit 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. I 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.
- 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My 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 Project to cease to continue as a going concern.

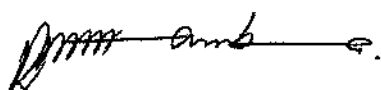
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

OFFICE OF THE AUDITOR GENERAL

Report on requirements of the Financing Agreement

I report that:

- The special account activities and reconciliation has been maintained in accordance with IFAD guidelines;
- Expenditures by category and component are eligible for financing under IFAD Loan Agreement No. 2000000429 and Spanish Trust Fund Loan No. 2000000430;
- With respect to the statement of expenditure, adequate supporting documentation has been maintained to support claims to IFAD for reimbursement of expenditure incurred.



Ron M. Mwambwa, *FCMA, FZICA, CGMA, MSc, CFE*

ACTING AUDITOR GENERAL

OFFICE OF THE AUDITOR GENERAL

DATE: *27/06/*.....2018

MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
PROJECT NUMBER – 2000000429 & 2000000430
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

STATEMENT OF RECEIPTS AND PAYMENTS (BY CATEGORY)				
	Notes	2017	2016	Cumulative to date
		ZMW	ZMW	ZMW
Cash Balance B/F		10,016,228	13,915,763	-
FINANCING				
IFAD Loan				
Start-up Funds		-	-	1,902,822
Initial Deposit		-	-	3,324,000
Replenishments to Special Account		4,972,379	-	4,972,379
IFAD Direct Payments	5	3,414,002	979,970	4,393,972
Spanish Trust Loan				
Initial Deposit		-	-	9,966,600
Replenishments to Special Account		14,194,160	4,829,635	19,023,795
IFAD Direct Payments	5	-	1,223,468	1,223,468
Total funds disbursed by IFAD		22,580,541	7,033,073	44,807,036
Government Counterpart Funds	6	2,000,000	1,000,000	3,000,000
Participating Institutions Funds	7	10,450,821	-	10,450,821
Other Receipts – Exchange gains/(loss)	8	(143,479)	333,342	1,369,670
Total funds by Other Funders		12,307,342	1,333,342	14,820,491
TOTAL FINANCING		44,904,111	22,282,178	59,627,527
PROJECT EXPENDITURES: (BY CATEGORY)				
CAT I - Equipment and Materials	9	407,288	2,953,638	4,189,626
CAT II - Training	9	4,546,078	531,119	5,291,450
CAT III - Consultancies	9	2,880,647	1,099,416	3,980,062
CAT IV - Grants	9	16,699,256	1,973,110	18,672,366
CAT V - Operating Expenses	9	7,512,133	5,708,667	14,635,314
TOTAL PROJECT EXPENDITURES		32,045,402	12,265,950	46,768,818
BALANCE C/F	4	12,858,709	10,016,228	12,858,709

Signed on behalf of Rural Finance Expansion Programme on.....26/12/2018.....



Michael Mbulo
Programme Coordinator



Ezra Chabuka Chibwe
Financial Controller

MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
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STATEMENT OF RECEIPTS AND PAYMENTS (BY COMPONENT)				
	Notes	2017	2016	Cumulative to date
		ZMW	ZMW	ZMW
Cash Balance B/F		10,016,228	13,915,763	-
FINANCING				
IFAD Loan				
Start-up Funds				1,902,822
Initial Deposit		-	-	3,324,000
Replenishments to Special Account		4,972,379	-	4,972,379
IFAD Direct Payments	5	3,414,002	979,970	4,393,972
Spanish Trust Loan				
Initial Deposit		-	-	9,966,600
Replenishments to Special Account		14,194,160	4,829,635	19,023,795
IFAD Direct Payments	5	-	1,223,468	1,223,468
Total funds disbursed by IFAD		22,580,541	7,033,073	44,807,036
Government Counterpart Funds	6	2,000,000	1,000,000	3,000,000
Participating Institutions Funds	7	10,450,821	-	10,450,821
Other Receipts – Exchange gains/(loss)	8	(143,479)	333,342	1,369,670
Total funds by Other Funders		12,307,342	1,333,342	14,820,491
TOTAL FINANCING		44,904,111	22,282,178	59,627,527
PROJECT EXPENDITURES: (BY COMPONENT)				
Component 1 – Strategic Partnerships	10	4,489,301	1,638,422	6,340,176
Component 2 - Innovation and Outreach	10	16,699,256	1,973,110	18,672,366
Component 3 - Knowledge Management & PI	10	10,856,845	8,654,419	21,756,276
TOTAL PROJECT EXPENDITURES		32,045,402	12,265,950	46,768,818
Cash Balance C/F	4	12,858,709	10,016,228	12,858,709

Signed on behalf of Rural Finance Expansion Programme on... 26/04/2018



Michael Mbulo
Programme Coordinator



Ezra Chabuka Chibwe
Financial Controller

MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS					
			2017 Budget	2017 Actual	Variance
	Notes		ZMW	ZMW	ZMW
Balance B/F			-	10,016,228	(10,016,228)
FINANCING					
IFAD Loan					
Initial Deposit			-	-	-
Replenishments to SA			11,136,908	4,972,379	6,164,529
IFAD Direct Payments			7,854,000	3,414,002	4,439,998
Spanish Trust Funds					
Initial Deposit			-	-	-
Replenishments to SA			22,632,885	14,194,160	8,438,725
IFAD Direct Payments			7,014,000	-	7,014,000
Total funds disbursed by IFAD			48,637,793	22,580,541	26,057,252
Government Funds			2,138,956	2,000,000	138,956
Participating Institutions Funds			12,215,902	10,450,821	1,765,081
Other receipts – Exchange gains			-	(143,479)	143,479
Total funds by Other Funders			14,354,858	12,307,342	2,047,516
TOTAL FINANCING			62,992,651	44,904,111	28,104,768
PROJECT EXPENDITURES: (BY CATEGORY)					
CAT I - Equipment and Materials	11		2,752,000	407,288	2,344,712
CAT II - Training	11		9,692,200	4,546,078	5,146,122
CAT III - Consultancies	11		7,760,807	2,880,647	4,880,160
CAT IV - Grants	11		32,307,520	16,699,256	15,608,264
CAT V - Operating Expenses	11		10,480,124	7,512,133	2,967,991
TOTAL PROJECT EXPENDITURES			62,992,651	32,045,402	30,947,249
Surplus/Deficit for the period	20		-	12,858,709	(12,858,709)

Signed on behalf of Rural Finance Expansion Programme on... 26/06/2018

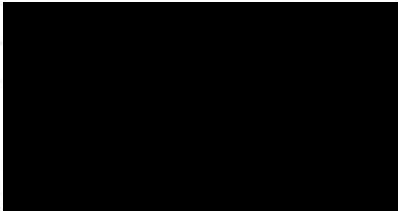


Michael Mbulo
Programme Coordinator



Ezra Chabuka Chibwe
Financial Controller

MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
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STATEMENT OF SPECIAL ACCOUNT ACTIVITIES				
				
	Notes	USD	ZMW	
Opening Balance as at 01/01/2017		665,606	6,503,642	
Add:				
IFAD Replenishments:				
Withdrawal Applications – 2017	12	1,965,293	19,166,539	
Bank Interests		-	-	
Total		2,630,899	25,670,181	
Deduct:				
Transfers to Operating Account - 2017	13	1,932,123	18,562,732	
Bank Charges		110	1,057	
Total		1,932,233	18,563,789	
Exchange Rate Difference			241,998	
Closing Balance as at 31/12/2017 (as per Bank Statement)		698,666	6,864,394	

Signed on behalf of Rural Finance Expansion Programme on... 26/02/2018



Michael Mbulo
Programme Coordinator



Ezra Chabuka Chibwe
Financial Controller

MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
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SPECIAL ACCOUNT RECONCILIATION STATEMENT		
	NOTES	USD
1. TOTAL ADVANCED BY IFAD		1,500,000
2. LESS: TOTAL AMOUNT RECOVERED BY IFAD		-
3. EQUALS PRESENT OUTSTANDING AMOUNT ADVANCED TO THE SPECIAL ACCOUNT (Line 1 less line 2)		1,500,000
4. BALANCE OF SPECIAL ACCOUNT AS AT 31/12/2017		698,666
5. PLUS BALANCE OF THE PROGRAMME ACCOUNTS		452,521
PLUS BALANCE OF CASH EQUIVALENT		-
PLUS CASH ON HAND		169
Sub-total of 5:		452,690
TOTAL OF BANK BALANCES, PROGRAMME ACCOUNT & CASH IN HAND BALANCE (4+5):		1,151,356
6. PLUS: TOTAL AMOUNTS CLAIMED BUT NOT YET CREDITED AS AT 31/12/2017		-
7. PLUS: TOTAL AMOUNT WITHDRAWN FROM THE SPECIAL ACCOUNT/PA AND NOT YET CLAIMED		607,685
8. MINUS: INTEREST EARNED		-
9. TOTAL ADVANCE ACCOUNTED FOR (NO.4 THROUGH NO.8)		1,759,041
DIFFERENCE BETWEEN LINE 3 AND LINE 9		259,041
EXPLANATION OF ANY DIFFERENCE BETWEEN THE TOTALS ON LINES 3 AND 9		
Counterpart Financial resources due to the Government of the Republic of Zambia		

Signed on behalf of Rural Finance Expansion Programme on.....26/08/2018



Michael Mbulo
Programme Coordinator



Ezra Chabuka Chibwe
Financial Controller

**MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
PROJECT NUMBER - 2000000429 & 2000000430
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

WITHDRAWAL APPLICATION STATEMENT by Category of Expenditures in Zambian Kwacha – IFAD LOAN											
Category Description CAT No.	Equipment & Materials I	Training II	Consultancies III	Grants IV	Operating Expenses V	Total ZMW	USD Equivalent	Rejected from IFAD	Net Reimbursed USD	Value Date	ZMW Equivalent
WA No.											
1	-	-	-	-	-	1,902,822	300,000	-	300,000	15/12/2014	1,902,822
2	-	-	-	-	-	3,324,000	300,000	-	300,000	14/12/2015	3,324,000
6 REN 4	-	-	-	979,970	-	979,970	100,000	-	100,000	23/12/2016	979,970
8 REN 3	114,681	240,063	-	191,862	58,354	604,960	53,351	-	53,351	05/01/2017	528,895
5	-	124,136	37,858	278,121	18,158	458,273	40,411	-	40,411	27/03/2017	381,783
6	274,657	98,336	-	152,225	230	525,448	46,335	-	46,335	13/06/2017	424,401
7	-	1,228,459	477,734	-	-	1,706,193	187,700	-	187,700	13/06/2017	1,706,193
8	470,100	481,750	755,959	-	-	1,707,809	192,105	-	192,105	05/09/2017	1,707,809
9	221,660	457,352	-	1,906,212	3,530	2,588,754	275,455	-	275,455	27/10/2017	2,725,156
10	7,891	231,301	-	628,400	(3500)	864,092	92,001	-	92,001	19/12/2017	912,144
Total	1,088,989	2,861,397	1,271,551	4,136,790	76,772	14,662,321	1,587,358	-	1,587,358		14,593,173
WA Pending Submission											
14	59,807	1,246,324	-	527,526	-	1,833,657	193,810	-	193,810	-	-
TOTAL	59,807	1,246,324	-	527,526	-	1,833,657	193,810	-	193,810	-	-

Signed on behalf of Rural Finance Expansion Programme on... 26/02/2018



**Michael Mbulo
Programme Coordinator**



**Ezra Chabuka Chibwe
Financial Controller**

**MINISTRY OF FINANCE - RURAL FINANCE EXPANSION PROGRAMME
PROJECT NUMBER – 2000000429 & 2000000430
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FOR THE YEAR ENDED DECEMBER 31, 2017**

WITHDRAWAL APPLICATION STATEMENT											
by Category of Expenditures in Zambian Kwacha – SPANISH TRUST LOAN											
Category Description CAT No.	Equipment & Materials I	Training II	Consultancies III	Grants IV	Operating Expenses V	Total ZMW	USD Equivalent	Rejected from IFAD	Net Reimbursed USD	Value Date	ZMW Equivalent
WA No.											
2	-	-	-	-	-	9,966,600	900,000	-	900,000	15/12/2015	9,966,600
3	954,122	143,967	-	64,205	2,742,991	3,905,285	348,507	-	348,507	28/06/2016	3,356,230
4	40,444	58,075	171,027	10,924	1,387,680	1,668,150	147,099	-	147,099	19/09/2016	1,473,405
5	1,223,468	-	-	-	-	1,223,468	124,094	-	124,094	21/10/2016	1,223,468
7 REN 6	996,443	74,598	243,157	123,391	1,431,791	2,869,379	253,025	-	253,025	04/01/2017	2,508,363
7	263,670	71,555	642,335	268,699	1,332,382	2,578,641	204,137	-	204,137	27/03/2017	1,928,580
8	(263,670)	396,473	658,434	200,192	1,517,212	2,508,641	221,215	-	221,215	13/06/2017	2,026,216
9	-	198,155	750,068	-	1,349,602	2,297,825	242,189	-	242,189	03/11/2017	2,405,176
10	-	363,011	514,048	1,271,438	2,906,156	5,054,654	537,176	-	537,176	15/12/2017	5,325,825
Total	3,214,477	1,305,834	2,979,069	1,938,849	12,667,814	32,072,643	2,977,442	-	2,977,442		30,213,863
WA Pending Submission											
12	-	361,819	666,419	1,584,413	1,496,301	4,108,953	413,875	-	413,875	-	-
TOTAL	-	361,819	666,419	1,584,413	1,496,301	4,108,953	413,875	-	413,875	-	-

Signed on behalf of Rural Finance Expansion Programme on.....



Michael Mbulo
Programme Coordinator



Ezra Chabuka Chibwe
Financial Controller

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NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting.

Cash Basis of Accounting - The cash basis of accounting recognizes transactions and events only when cash is received or paid by the entity.

2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of RURAL FINANCE EXPANSION PROGRAMME.

The principle accounting policies adopted in the preparation of these financial statements are set out below:

A. Income

Incoming resources are recognised by inclusion in the statement of financial activities only when received in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Funds received represent:

- (i) Statement of Expenditure Advances from IFAD;
- (ii) Direct payments by IFAD on behalf of the Programme;
- (iii) Counterpart Funds from GRZ; and
- (iv) Contributions from Beneficiaries.

B. Expenditure

Expenditure is recognised and recorded on a cash basis.

Expenditure is analysed according to category and component costs.

The costs of each category are accumulated, disclosed and analysed separately according to their major components.

C. Foreign Currency Transactions

Foreign currency translation for the income and expenditure account items are converted using the actual historic exchange rate at the conversion from the special

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account to the programme account. Where part of the expenditures has to be met from the proceeds of subsequent drawdowns from the special account to the programme account, this is done on a First in First out (FIFO) basis.

All local expenditures paid from the local currency are translated back to the USD at the actual rate used for the transfer from the special to the programme account.

Cash balances held in foreign currency are reported using the bank closing rate. Gains/Losses on foreign currency transactions/balances are dealt within the Statement of Special Account Activities

D. Functional and Presentation Currency

These financial statements are presented in Zambian Kwacha (ZMW), which is the programme's functional currency.

E. Taxation

There is no charge to taxation as RUFEP has been granted charitable exemption.

F. Capital Expenditure

All items of capital nature are expensed to the statement of receipts and payments in the year of acquisition. These include Motor Vehicles, Computers, Office Equipment and Office Furniture and Fittings.

G. Stocks

All stock items are expensed to the statement of receipts and payments on acquisition.

3 BUDGET

The budget is developed on the same accounting basis (cash basis), using same classification for the same period as the financial statements. Material variances have been explained as notes to the financial statements.

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4 CASH/FUND BALANCES

Reconciliation

	2017 ZMW	2016 ZMW
Cash Accounts	11,190,344	10,024,959
Advance to Strategic Partners – [REDACTED]	1,342,543	-
Advance to Strategic Partners [REDACTED]	805,318	-
Office Rent - Deposit	114,492	114,492
Staff Advance	20,260	9,300
[REDACTED] - Vehicle Service Deposit	20,065	-
Motor Vehicles – Fuel Prepaid	10,203	17,035
Trade Creditors	(494,815)	-
Statutory Obligations Control A/c	(149,701)	(149,558)
Total	12,858,709	10,016,228

4-a CASH DETAILS

	2017 ZMW	2016 ZMW
[REDACTED]	6,864,395	6,503,642
[REDACTED]	2,640,107	3,518,884
[REDACTED]	1,684,258	-
Petty cash	1,584	2,433
Total	11,190,344	10,024,959

5 DIRECT PAYMENTS

This represents payments made directly by IFAD from the Loan/Grant account to the specified supplier/service provider in accordance with the terms and conditions of the financing Agreement

There were two direct payments amounting to ZMW3, 414,002 (USD 379,805) made during the period under review:

Date	WA No.	Amount in USD	Amount in ZMW
13/06/2017	7	187,700	1,706,193
05/09/2017	8	192,105	1,707,809
Total		379,805	3,414,002

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6 GOVERNMENT COUNTERPART FUNDS

Government contributions are in the form of taxes forgone. The proceeds of the IFAD Loan and the Trust Loan shall to the fullest extent possible be exempt from all taxes. During the year ended 31 December 2017, the programme received **ZMW2, 000,000** counterpart funds from the GRZ.

Date	Receipt Number	Amount in ZMW	Cumulative to date
19/02/2016	REC0007	1,000,000	1,000,000
18/05/2017	REC0012	1,000,000	2,000,000
09/08/2017	REC0015	1,000,000	3,000,000

7 PARTICIPATING INSTITUTIONS FUNDS

Name of Institution	Component/Window	Cumulative to date Beneficiary Contribution - ZMW
VisionFund	Window 2 - Mobile Money and Agency Banking	7,569,259
KZF	Window 1 - CBFI Linkage	1,106,193
ETP	Window 2 - Mobile Money and Agency Banking	877,177
CHAZ	Window 1 - CBFI Linkage	278,212
Microloan	Window 2 - Mobile Money and Agency Banking	178,487
VisionFund	Window 1 - CBFI Linkage	164,672
NACRO	Window 2 - Mobile Money and Agency Banking	114,478
KCCC	Window 1 - CBFI Linkage	99,240
REEs	Window 1 - CBFI Linkage	41,131
DBZ	Strategic Partners	21,972
Total		10,450,821

8 OTHER RECEIPTS

Date	2017 31 Dec 2017	2016 31 Dec 2016
US Dollar Balance	870,092	665,607
Historical Rate	9.9899	9.27
Old ZMW Balance	8,692,132	6,170,300
Year End Rate	9.8250	9.77
New ZMW Balance	8,548,653	6,503,642
Exchange Gain/(Loss)	(143,479)	333,342

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9 PROJECT EXPENDITURE BY CATEGORY BY FUNDER

CAT #	CATEGORY	IFAD	SPANISH FUND	GRZ	PI	TOTAL
I	Equipment & Materials	630,384	(263,670)	40,574	-	407,288
II	Training	2,934,188	1,326,750	263,168	21,972	4,546,078
III	Consultancies	112,522	2,768,053	72	-	2,880,647
IV	Grants	3,214,364	3,056,043	-	10,428,849	16,699,256
V	Operating Expenses	260	7,269,271	242,602	-	7,512,133
TOTAL		6,891,718	14,156,447	546,416	10,450,821	32,045,402

10 PROJECT EXPENDITURE BY COMPONENT BY FUNDER

COMP #	COMPONENT	IFAD	SPANISH FUND	GRZ	PI	TOTAL
1	Strategic Partnerships	3,177,502	1,026,474	263,353	21,972	4,489,301
2	Innovation and Outreach	3,214,364	3,056,043	-	10,428,849	16,699,256
3	Knowledge Management	499,853	10,073,929	283,063	-	10,856,845
TOTAL		6,891,719	14,156,446	546,416	10,450,821	32,045,402

11 DETAILED ANNUAL WORKPLAN AND BUDGET BY CATEGORY

CAT #	CATEGORY	IFAD	SPANISH FUND	GRZ	PI	TOTAL
I	Equipment & Materials	472,500	370,124	1,790,276	119,100	2,752,000
II	Training	4,307,200	4,819,367	94,483	471,150	9,692,200
III	Consultancies	2,498,438	4,301,468	-	960,901	7,760,807
IV	Grants	11,352,769	10,289,999	-	10,664,752	32,307,520
V	Operating Expenses	360,000	9,865,927	254,197	-	10,480,124
TOTAL		18,990,907	29,646,885	2,138,956	12,215,903	62,992,651

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12 RECEIPTS FROM WITHDRAWAL APPLICATIONS - 2017

WA No.	Funder	Total USD	Total ZMW
8 REN 3	IFAD Loan	53,350	528,895
7 REN 6	Spanish Trust Loan	253,025	2,508,363
5	IFAD Loan	40,411	381,783
6	IFAD Loan	46,335	424,402
7	Spanish Trust Loan	204,137	1,928,580
8	Spanish Trust Loan	221,215	2,026,216
9	IFAD Loan	275,455	2,725,156
9	Spanish Trust Loan	242,189	2,405,175
10	IFAD Loan	92,001	912,144
10	Spanish Trust Loan	537,175	5,325,825
Total		1,965,293	19,166,539

13 TRANSFERS FROM DA TO PA – 2017

Date	Reference	Total USD	Total ZMW
18/04/2017	PYT0008	1,051,158	9,872,686
18/09/2017	PYT0009	381,020	3,601,401
07/12/2017	PYT0010	300,000	3,106,590
13/12/2017	PYT0011	199,945	1,982,055
Total		1,932,123	18,562,732

14 NON-CURRENT ASSETS (for disclosure purposes only)

Zambian Kwacha								
	Furniture		Computers		Office Equipment		Motor Vehicles	
	2017	2016	2017	2016	2017	2016	2017	2016
Opening Balance	416,884	356,975	414,608	205,980	383,793	68,081	2,021,655	-
Additions	29,246	59,909	59,700	208,628	25,735	315,712	-	2,021,655
Disposals	-	-	-	-	-	-	-	-
Closing Balance	446,130	416,884	474,308	414,608	409,528	383,793	2,021,655	2,021,655

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15 YEARLY PROCUREMENTS

S/N	Description	Procurement Method	Status
1	Create Technical Service Provider (TSP) Database & Engage at least three (3) Individual Consultants.	ICS	Completed
2	Media, Communications and Knowledge Survey in Selected Rural Areas.	ICS	Outstanding
3	Storage Unit shelving for PSU & RUFEP - RFU	NS	Outstanding
4	Computers for Treasury Counsel	NS	Completed
5	Printer for Treasury Counsel	NS	Completed
6	Laptop for Treasury Counsel	NS	Completed
7	Microsoft Office 2016 for Treasury Counsel	NS	Outstanding
8	Purchase of data analysis software	NS	WIP
9	Office Furniture - RFU	NS	Outstanding
10	Network Cables	NS	Completed
11	Extension Cables	NS	Completed
12	Laptop Power Pack	NS	Completed
13	Servicing of Office Equipment	NS	Completed
14	UPS for the server	NS	Completed
15	Anti-Virus for the server - 20 Users	NS	Completed
16	Computer Tool Kit (Includes blower, tools etc.)	NS	Completed
17	Network Tool Kit	NS	Completed
18	Microsoft Office 2016	NS	Completed
19	Laptop for IT Officer	NS	Completed

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16 ALLOCATION AND USE OF THE FUNDS OF THE LOAN

16a – IFAD LOAN

Category	Allocated		Disbursed		Disbursement Rate	Available Balance	
	IFAD Loan Amount (In SDR '000)	Equiv (USD '000)	Amount (SDR '000)	Equiv (USD '000)		Amount (SDR '000)	Equiv (USD '000)
Equipment and Materials	180	275	80	112	44.32%	100	163
Training	1,320	2,020	218	303	16.52%	1,102	1,717
Consultancies	560	857	100	141	17.93%	460	716
Grants	2,470	3,779	307	424	12.43%	2,163	3,355
Operating Expenses	420	643	5	7	1.18%	415	636
Start-up Costs	-	-	205	300	0.00%	-205	-300
Initial Advance	-	-	216	300	0.00%	-216	-300
Unallocated	550	842	-	-	0.00%	550	842
Total	5,500	8,416	1,131	1,587	20.56%	4,369	6,829

16b – SPANISH TRUST LOAN

Category	Allocated		Disbursed		Disbursement Rate	Available Balance	
	Spanish Trust Loan Amount (In EUR '000)	Equiv (USD '000)	Amount (EUR '000)	Equiv (USD '000)		Amount (SDR '000)	Equiv (USD '000)
Equipment and Materials	160	213	255	272	159.2%	(95)	(59)
Training	470	625	110	124	23.33%	360	501
Consultancies	3,000	3,990	254	285	8.47%	2,746	3,705
Grants	1,800	2,394	169	193	9.40%	1,631	2,201
Operating Expenses	2,670	3,551	1,077	1,203	40.35%	1,593	2,348
Initial Advance	-	-	823	900	0.00%	(823)	(900)
Unallocated	900	1,197	-	-	0.00%	900	1,197
Total	9,000	11,970	2,688	2,977	29.87%	6,312	8,993

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17 RECONCILIATION OF FUNDS DISBURSED BY IFAD AND FUNDS RECEIVED BY THE PROGRAMME

Withdrawal Application No.	Date Received	Details	Amount Disbursed by IFAD(USD)	Amount Received by Programme (USD)	Amount Received by Programme (ZMW)
1	15 Dec 2014	Start-up funds	300,000	300,000	1,902,822
2	14 Dec 2015	Initial Advance	300,000	300,000	3,324,000
2	15 Dec 2015	Initial Advance	900,000	900,000	9,966,600
3	06 July 2017	Replenishment	348,507	348,507	3,356,230
4	22 Sept 2017	Replenishment	147,099	147,099	1,473,405
5	21 Oct 2017	Direct Payment	124,094	124,094	1,223,468
6 REN 4	26 Dec 2017	Direct Payment	100,000	100,000	979,970
8 REN 3	05 Jan 2017	Replenishment	53,351	53,351	528,895
7 REN 6	06 Jan 2017	Replenishment	253,025	253,025	2,508,363
5	27 Mar 2017	Replenishment	40,411	40,411	381,783
7	29 Mar 2017	Replenishment	204,137	204,137	1,928,581
6	13 Jun 2017	Replenishment	46,335	46,335	424,402
7	13 Jun 2017	Direct Payment	187,700	187,700	1,706,193
8	15 Jun 2017	Replenishment	221,215	221,215	2,026,216
8	09 Sept 2017	Direct Payment	192,105	192,105	1,707,809
9	27 Oct 2017	Replenishment	275,455	275,455	2,725,156
9	07 Nov 2017	Replenishment	242,189	242,189	2,405,175
10	19 Dec 2017	Replenishment	92,001	92,001	912,144
10	20 Dec 2017	Replenishment	537,175	537,175	5,325,825
Total			4,564,799	4,564,799	44,807,037

18 GOING CONCERN

As far as the Programme Managers are aware, the Programme is a going concern, expected to continue for its planned future, and has neither the intention nor necessity of liquidation or curtailing, materially, the scale of its operations.

19 CONTINGENT MATTERS AND EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

There are no known contingencies, or events occurring after the end of the financial period, whose occurrence could have a material effect on these financial statements, or whose non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions on the Programme.

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20 EXPLANATION OF VARIANCE

As at 31 December 2017, the overall execution of the Annual Work Plan and Budget (AWPB) for the year 2017 stood at 51% (ZMW32, 045,402 of the approved Annual Budget of ZMW62, 992,651).

During the implementation of the 2017 AWPB, there were a number of assumptions made that did not turn out as expected. In terms of implementing the matching grant facility, there were changes introduced to the processes and procedures to enhance and make the process more efficient.

At the macro level, it was assumed that commitment to improve the rural finance sector was a given, but in reality, the processes had taken longer than expected to have buy-in which is reflective of the said commitment. For example the governance challenges that AMIZ faced made it difficult to proceed with the development of an MOU. It is important however to note that notable progress has so far been made with a draft Partnership Framework in place. The AMIZ proposal was also approved by the PVC by the end of year.

In addition the delayed establishment of the RFU has also been a constraint to programme implementation. Significant resources were budgeted for to ensure that RFU was able to begin operations and begin to internalise processes related to rural finance. This had also affected the disbursement rate due to lack of expenditure under this budget item.

There are a number of positives which can be registered including the launch of the Rural Finance Policy and Strategy as well as the National Financial Sector Development Policy and National Financial Inclusion Strategy, which are directing how the issues of financial inclusion will be handled at a national level. Also, another assumption was that FSPs were willing to explore potential growth in rural areas, but the reality is that there is still some uncertainty and what has been observed is that the Fintechs are taking more to developing ideas at a quicker pace than the FSPs. It seems they can only move in once they are absolutely sure of having minimal risk. The PCO has had to employ different ways of engaging with potential partners as well as existing partners to make sure that implementation is aligned to that of RUFEP's objectives. The description of the Programme has had to be simplified in more ways to ensure that the target audience understand what the Programme was looking for. Potential Partners are engaged at pre-proposal phase as well as after their proposals are approved. This process has clearly brought in better quality proposals with the prospect of reaching out to RUFEP's target beneficiaries.

The logical framework was revised during the year and this was also responding to a number of indicators which were not clear on the intervention logic. The revision was done with the view of assisting the Programme improving its measurement of implementation progress.

The performance of the 2017 AWPB compared to previous years has shown the most improvement and the Programme will continue on the same path and catch up with the delayed implementation.