ANNUAL REVIEW

AND

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

FARM AFRICA LIMITED

REGISTERED CHARITY NO: 326901

REGISTERED COMPANY NO: 01926828

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PRESIDENT
Sir Martin Wood OBE FRS DL

TRUSTEES/DIRECTORS
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Professor Jonathan Kydd (deputy chair)
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John Young (board secretary)
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Laketch Mikael (appointed 23 June 2016)

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Paul Dillon-Robinson (non-trustee member, appointed 01 December 2016)

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Jonathan Kydd
John Shaw
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Nicolas Mounard (appointed 22nd February 2016)

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REPORT FROM THE CHAIR

Welcome to Farm Africa's Annual Report, looking back at a milestone year for the organisation. Despite operating in a challenging environment, we're proud to have reached a record number of people in 2016, with 1.9 million people across eastern Africa benefiting from our support.

But we didn't just help people. Environmental protection is central to our work and to ensuring we have a lasting impact. Over the last ten years, we have supported communities to sustainably manage 908,847 hectares of forest and rangeland, an area slightly larger than Cornwall. We will continue to add to this, hectare by hectare, year on year, knowing that once communities have the opportunity to earn money in a manner that also protects the environment the incentives are stacked in favour of conservation and future generations.

A recent ground-breaking achievement was official verification that the trees saved through our forestry projects in Bale, Ethiopia have reduced carbon emissions by 5.5 million tonnes of carbon dioxide. This impressive figure could generate sales of carbon credits worth upwards of $18 million, 60% of which will benefit the local community – read more on page 11.

Our core focus of building farmers' links to profitable markets also saw significant expansion. In January 2016 we launched a fish farming project helping Kenyan farmers improve the production and marketing of fish. In April 2016 we initiated a new project, funded by the UK Government, helping Tanzanian and Ugandan rice, maize and bean farmers market their crops more effectively to high-value buyers – read more on page 9.

This report also focuses on our work to support rural African communities' access to appropriate and affordable financial services. Savings, credit and insurance are tools Farm Africa is increasingly using to build rural communities' prosperity and resilience to climatic and environmental shocks.

I hope you are inspired by the stories in this report that show how we are driving prosperity in rural Africa through agriculture. We can only carry out our work thanks to the support of people like you: heartfelt thanks to everyone who has generously contributed to our work.

In concluding, can I say a big thank you to my fellow Trustees for all they do for Farm Africa. We have a great team of people who all give a lot. Also I particularly want to express my thanks to Nicolas Mounard our CEO, his fellow directors and all our staff in Africa and London. Nico joined us last year and has done a superb job, re-writing our strategy and bringing great focus, quality and energy to our work. Our increased activity is very much due to Nico and his team and we are excited about our growing plans for this next year and beyond.

Richard Macdonald CBE, chair
May 2017

REPORT FROM THE CHIEF EXECUTIVE

Thank you for the warm welcome I've received since joining Farm Africa in February 2016. Over my first year I was excited to develop and begin implementing a new strategy for the period 2016-2020.

The new strategy builds on the organisation's successful track record of more than three decades of overcoming poverty by investing in small-scale farmers. It outlines how we will work with local communities to transform rural Africa by investing in three core areas: **developing agricultural expertise**, **sustainably managing the environment**, and **boosting farmers' businesses** by linking them to markets.

Today, almost half of the world's extreme poor live in sub-Saharan Africa. The vast majority work in agriculture in rural areas. By focusing on sustainable farming, we maximise our effectiveness in tackling poverty in rural Africa.

Over the next four years, Farm Africa's inspiring team of world-class experts in agriculture, natural resource management and market engagement will:

REACH MORE PEOPLE
Small changes are not enough. That means scaling up. By 2020 we will increase our footprint from four to six countries, and double the number of farmers we work with, reaching 3.6 million people a year. We will create more programmes that are effective across regions.

SHARE OUR EXPERTISE
We will document our tried and tested approaches in subjects ranging from forest management to climate-smart agriculture to access to finance, so they can be effectively replicated, not just by us, but by others who share our vision.

GET MARKETS MOVING
Farmers' abilities to build thriving businesses depend on well-functioning markets. We will build farmers' links with private sector players, ranging from agricultural input suppliers to finance brokers to export companies acting as gateways to international markets.

LEARN FROM EXPERIENCE
Rigorous evidence of what does and doesn't work is the foundation of all our work. In 2016 we developed new monitoring and evaluation systems that will enable us to compare different models of interventions, and continually sharpen our insights on how to achieve the most impact.

INNOVATE
We will build on our strong track record of innovative thinking. We'll focus on how we can effect systemic change, and strive to build links between our work in different locations, so that our programmes work in synergy, increasing our regional impact.

RAISE OUR VOICE
We will harness the power of digital communications to engage with new audiences, share the lessons we learn and shine a spotlight on the stories of farmers whose lives we've changed. We'll scale up our partnerships with corporate and institutional partners alike.

I hope we can count on your support as we work to unleash the potential of farmers across eastern Africa to grow their incomes in an environmentally sustainable way.

Nicolas Mounard, Chief Executive
May 2017

ANNUAL REPORT OF THE BOARD OF TRUSTEES

The board of trustees of Farm Africa Limited, which is also its board of directors, hereby presents its report (incorporating the strategic review and the directors' report) together with the financial statements for the year ended 31 December 2016.

FARM AFRICA'S 2016 PERFORMANCE

The first section of the annual report looks back at our performance in 2016. This covers three areas: Firstly, our impact, which will cover our overall impact, and a more detailed review of our work with financial services. Secondly, our organisation wide performance, including results against 2016 goals. Third and finally, our financial performance.

IMPACT

Beneficiary data

2016 was a record year for Farm Africa in terms of the number of people we were able to reach.

The people we reach come from a range of backgrounds, and the term 'farmer' is often an inadequate way to describe them. Our projects touch the lives of men, women and children, who may belong to farming families, who may rely on specific ecosystems we have helped to transform, or who merely have benefited from the growth in a specific value chain through obtaining a job.

Table to show number of people reached over the past five years

Year	People reached
2012	900,000
2013	1,500,000
2014	1,400,000
2015	1,800,000
2016	1,900,000

In 2016, we expanded our scope of work to include new value chains, worked to deepen the economic impact of our natural resource management activities, expanded our range of private sector partners, and reached a record number of people. We supported 10,982 people to participate in village banking schemes. And over the longer term, by the end of 2016, we also covered a ground breaking 908,847 ha of forest under sustainable management. The year's impact report takes a deep dive into Farm Africa's work in financial services.

Why finance matters

Financial services such as savings accounts, loans and insurance may not be the most obvious of needs for families living in poverty in rural Africa, many of whom lack access to basic services such as clean water, secondary education or adequate healthcare. But in a continent where droughts, floods and erratic rainfall regularly take their toll on agricultural yields, millions of farming families risk being plunged into extreme poverty when their harvests fail, simply because they have no financial buffer to fall back on.

Extreme weather events, such as the droughts caused by El Niño in 2016 that caused crops to fail and pasture to dry up, often result in vulnerable households selling valuable assets, such as land and livestock, that are essential to their future ability to earn money. Sudden changes in domestic and international markets add to the unpredictability farmers face.

Farm Africa works to ensure farmers have access to the funds they need to cover their daily expenses, investment needs and ambitions for growth, as well as protect themselves against shocks. For small-scale farmers to thrive, it's important the agribusinesses that supply their inputs and buy their produce are also able to thrive. In addition to supporting smallholder farmers directly, Farm Africa helps small and medium agribusinesses, especially those that work directly with smallholders, gain access to finance.

This report explores different models we have used to expand smallholders and agribusinesses' access to affordable finance, varied according to context. In it you will find descriptions of village banking, leveraging international finance from forest protection, mobilising value through better functioning markets, and our early experiences with micro-insurance.

Micro-credit and savings

Over the course of 2016 we worked with **521 village saving groups**, comprising a total of **10,982 members**, of whom almost **70% were women** (7,533). Together, they accumulated almost **US $260,000** which, through the groups, they can access to borrow and reinvest. The savings average nearly **$24 per person** taking part. In areas where many people survive on less than $2 a day, and experience huge seasonal fluctuations in their earning power, this is a vital financial safety net.

Farm Africa works with a range of different micro-credit and savings models to stimulate investment in smallholder farmers' production and ownership of assets. These need to be tailored to local contexts to ensure sustainability.

Rotating loan funds are a mechanism Farm Africa has operated for many years, whereby an asset, often a goat, is given to a poor household on the condition that the goat's offspring are passed on to another family in need in the following season. This model has proven hugely successful at increasing households' asset bases without exposing them to debt or interest rates. However, it's important to ensure that technical support on animal rearing is available and that there is a robust system in place for distribution of the goats.

Village Savings and Loans Associations (VSLAs) or other forms of 'village' or 'table-top' banking are groups of people who save together and take small loans from these savings. The interest accrued by members on loans are usually shared out amongst members on an annual basis. Often comprised mainly of women, VSLAs are a cost-effective way to stimulate good saving practice in a community. They can help households meet their unexpected needs, as well as make funds available for women to start their own small businesses, which also builds women's sense of self-worth.

Savings and Credit Cooperatives (SACCOs) are more formalised groups set up to solve a common problem. Funds deposited by members are invested by SACCO management in local commercial ventures and are made available for individual loans. They are often seen as a potential further step towards inclusion in formal financial systems, since these groups are required to participate in a regulated market with its tax and governance obligations.

As a next step in the ladder towards full access to commercial financial services, SACCOs play a vital intermediate role, especially for farmers' groups trying to raise finance to participate more effectively in a particular value chain.

How goats boosted food security in Tigray, Ethiopia

Land in Tigray's rugged mountains is scarce, and many farm sizes are very small. Many women, especially widows, and young people, have little access to land and struggle to produce enough to feed their families. With funding from the UK Department for International Development and Irish Aid, Farm Africa worked in Tigray for more than 20 years to help vulnerable people like Aster Fasil, a widow who struggled to cope after her husband died, bolster their income through farming and rearing livestock.

The project distributed three goats to women in need, on the condition they would each pass on three of the goats' offspring to another woman in need once their herds had grown. In 2016, 3,593 families, mainly single mothers and widows, received goats from the project: 2,788 received goats directly from Farm Africa, and 805 were given baby goats by families who had received pregnant goats from us. The recipients of goats were able to earn an average annual income of ETB 4,218 (c. £142) from the goat scheme, enabling them to afford to improve their dietary diversity.

We also introduced insurance to cover any unusual losses of the goats: premiums were charged at 7% of the value of the herd, with 2% financed by Farm Africa and 5% paid by the goats owners.

"Being able to hand over three goats to another woman made me really proud and happy that I could hand the benefit on," said Aster. "I want women who benefitted from the project to come together, a club of sorts so that they can work together."

Photo of Aster Fasil with her goats: Nichole Sobecki

Getting markets moving

Many farmers have limited access to market information and therefore don't grow the most profitable crops. Farm Africa helps farmers identify which crops are in high demand, and helps build their links to markets. We help farmers form cooperatives so they can store their produce together and sell it in bulk for higher prices. We also support 'first mile' businesses that link smallholder farmers to wider markets.

Stimulating trade in Tanzania and Uganda

With funding from the UK government, in April 2016 Farm Africa started working with FoodTrade ESA, VECO East Africa and Rural Development Initiatives to drive up incomes for 70,000 rice, maize and beans smallholder farmers in Uganda and Tanzania by helping them access lucrative markets within eastern Africa.

Many farmers don't have links with high-value buyers, and instead are forced to sell at the farm gate – and without well-managed warehouses to safely store crops, they often have little to sell.

We're helping farmers safely store their grain in dry warehouses certified as meeting international standards, and market their produce using the innovative digital platform G-Soko and other market opportunities.

Ruth Emolu, a farmer from Katine in Uganda who is taking part in the project said she now has an incentive to grow a bigger surplus of crops, which previously she wouldn't have been able to sell.

Social return on investing in a small agribusiness
In 2016 we commissioned a study to assess the social return generated by our investment in Pricon, a small Ugandan enterprise providing services to cassava growers, which benefitted from the support of Farm Africa's Maendeleo Agricultural Enterprise Fund (MAEF) challenge fund. The study found that **for every Ugandan Shilling (UGX) that Farm Africa invested, the intervention generated 4.1 Ugandan Shillings (UGX) in social value** (value attributed to outcomes such as women's empowerment, increased food security and increased profitability of millers).

One female farmer interviewed in December 2016 commented on how she valued the financial independence gained as a result of the project: "Now I have some input as now we make money together. We all sit at the table and decide together. Before, the man used to decide as I used to fear him. I like being able to work for my own money. Free money is not sustainable, what if the man dies?"

"I am very excited because the middle-men will be eliminated. The new project arrangement links our cooperative to regional buyers in Kenya and other areas. These middle-men have been cheating us with their measurements, but we had no option but to sell to them. When you are constrained with school fees, you have no choice but to sell produce at their price and in small quantities, hoping for better prices with time. But instead I could end up selling for even lower prices than before, because we didn't have good storage facilities and the crops easily went bad."

"*Selling in bulk and getting money at once will give me an opportunity to plan what to do with my money. This will give me an opportunity to educate my children and grandchildren."*
Ruth Emolu, a farmer from Katine, Uganda

Sustainable finance from ecosystems

Over the last ten years, Farm Africa has supported communities to sustainably manage 908,847 hectares of forest and rangeland, an area slightly larger than Cornwall.

Farm Africa helps rural communities reduce agriculture's damage to the environment, and make conservation profitable. Examples include participatory forest and rangeland management, where local communities are authorised to make a living from grazing their animals or selling forest products, in return for sustainably managing those landscapes.

Payments for environmentally friendly activities give communities an economic incentive to look after the ecoystems they live in. This includes carbon credit payments to communities who prevent deforestation, as illustrated in the following example.

Generating carbon credits in Bale Eco-region, Ethiopia

The Government of Ethiopia is about to release an estimated $18 million worth of carbon credits for sale on the voluntary carbon trading market. The credits have been generated through the local communities' work, supported by Farm Africa and SOS Sahel, to significantly reduce deforestation and forest degradation in the area. This will be the largest number of carbon credits ever to go on sale on the voluntary carbon market in one go.

Home to the country's second largest tropical forest, the Bale Eco-region is an area of magnificent natural beauty and biodiversity. Deforestation and forest degradation is a big threat to the region's water supplies, biodiversity and livelihood opportunities for farmers in the region, many of whom live in poverty. Between 2000 and 2011 alone, Bale lost 178,000 hectares of high forest, causing emissions of about 70 metric tons of carbon dioxide.

Farm Africa has tackled deforestation in Bale since 2006, helping local communities form forest management cooperatives, who are tasked with protecting the forest, but also granted legal rights to produce and market forest products, such as honey, essential oils and wild coffee. This gave local communities a financial incentive to preserve the forest instead of clearing it for agricultural expansion.

In 2012 Farm Africa started participating in the REDD+ initiative, which is designed to earn carbon credits by reducing emissions from deforestation and forest degradation. By 2015 the project had achieved a verified carbon emission reduction equivalent of 5.532 million tons of carbon dioxide, which are the credits that are now ready to sell. With the current price of about $3.30 per ton, the emission reduction achieved so far could generate at least $18 million in carbon credits.

The money from the carbon credit sales will be shared on a 40:60 basis between the Government of Ethiopia and the forest management cooperatives in Bale. The Government's 40% share will be spent on strengthening their capacity to generate further credits. The forest management cooperatives' 60% share will be used to invest in their businesses, for example by buying coffee production equipment such as drying beds and washing machines that will help push up the quality of coffee produced. This will increase the chances of selling into international specialist coffee markets. Helping making the forest-friendly businesses profitable will further help protect the forest long-term.

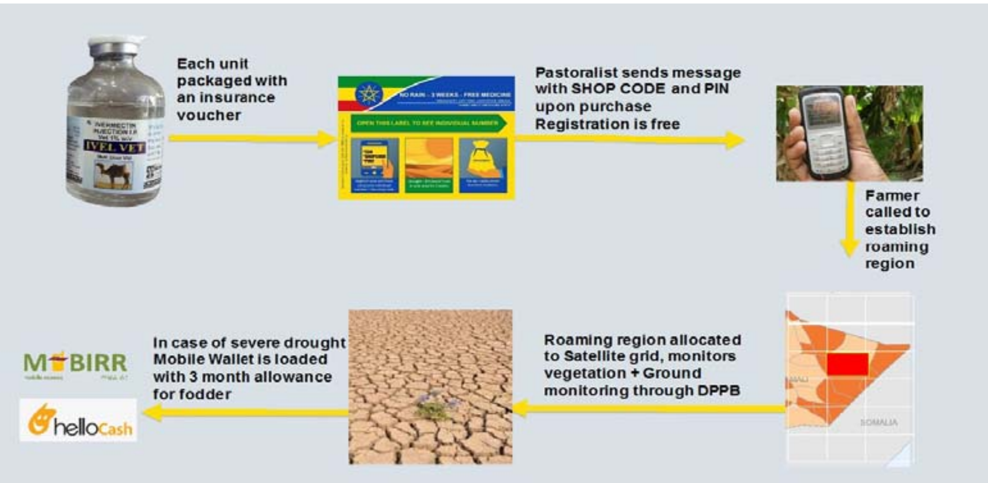
Micro-insurance

Farm Africa works in some of the most drought-prone and vulnerable parts of Ethiopia, namely Afar and Somali regions, and North and South Omo zones of the Southern Nations region through our Markets Approaches to Resilience (MAR) project. This project is part of the wider Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED) programme funded by the UK's Department for International Development,

One aspect of the MAR project is working with leading Ethiopian insurance company Nyala Insurance and consultancy firm Pula Advisers to pilot the use of **micro-insurance** as a protection mechanism for pastoralists' [1]main asset: their livestock. The aim is to help pastoralists respond to shocks in ways that contribute to their recovery, rather than weaken them further.

Many pastoralist communities are characterised by a weakening of traditional coping mechanisms, such as intra-clan redistribution of livestock. They face large variations in herd size, in response to increasing uncertain climate, and poorly functioning markets. This means that many pastoralists vary between being asset-rich and very asset-poor over a relatively short period of time, making their situation suitable for some form of insurance. Recent investments in strengthening the livestock value chain also mean that the value of their herds is growing over time.

To date we have designed a number of different models livestock insurance targeted at pastoralists. As part of the design process we have undertaken in-depth consultations with NGOs, the Government, the insurance and microfinance industries, livestock brokers, and of course potential clients. Our discussions with pastoralists demonstrated the need for significant work to build their awareness about insurance, but in collaboration with Pula Associates we have identified a cost-effective way of reaching them by packaging insurance with the sale of animal health supplies, such as vaccines (*see diagram below*).

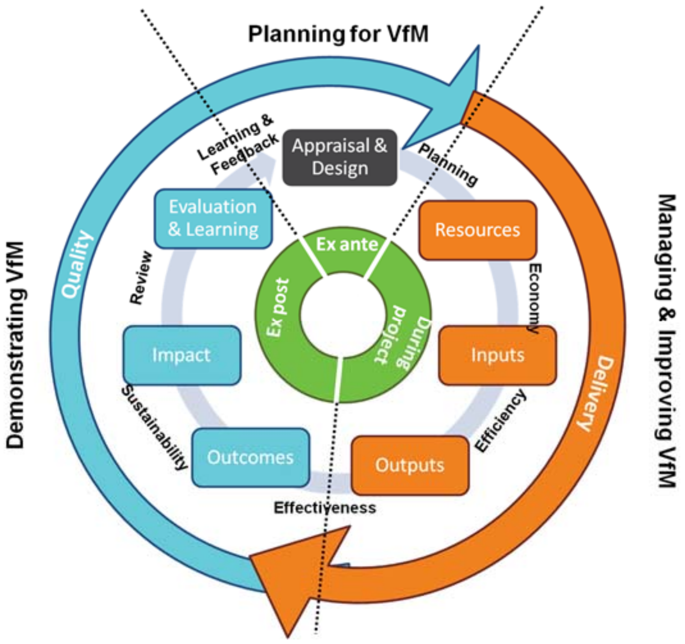


Most importantly, however, consultations with pastoralists in North Omo, Afar and Somali regions have demonstrated that access to insurance can help people make **appropriate investment decisions**. A pastoralist household cannot alter the certainty of an impending drought, but equipped with the right incentives in the form of insurance, they can make the right decisions in response to that drought.

[1] Pastoralist communities are those communities where a significant part of the economic activity relates to livestock.

VALUE FOR MONEY APPROACH

During 2016 we have continued to apply the VfM (value for money) framework developed in 2013 to track, manage and improve the VfM of our work. Our framework is grounded in the widely-used '3Es'[2] approach, but expands the components of VfM to incorporate sustainability and learning. Sustainability is vital for achieving VfM in the work we do: if a project's results do not last beyond our direct involvement, it cannot be said to deliver good VfM. We also recognised the need for a stronger organisational focus on learning and feedback loops. The expectation is that greater VfM will be achieved over time if the learning from one context is shared and systematically influences the design of another.



Demonstrating VfM – successes in 2016

Our best example of VfM in practice in 2016 was our use of VSLAs. During the design of our Ethiopia BRACED programme, we cited the cost efficiency of the intervention in remote, drought-prone, areas, which we calculate to be 45p per person. During the implementation of the programme, alongside more innovative and experimental interventions, VSLAs have proven their worth to vulnerable communities over and over.

In addition to the overall figure of savings generated, one VSLA participant in explained the value of the intervention thus:

> *Dukan Hussein, who lives in the Somali region of Ethiopia, supports her family from the proceeds she makes from her water selling business. Every day, she collects 2,000 litres of water from a nearby river to distribute and sell to villagers in her neighbourhood and beyond. To do this, she uses a cart and two donkeys, one in the morning and one in the afternoon. Her business was put at risk when one of her donkeys suddenly disappeared while it was out grazing. The remaining overworked donkey grew weaker every day. Frightened of losing this donkey too, and with no savings to buy a new one, Dukan considered closing the business. The VSLA established by the programme came to Dukan's rescue by lending her 4,000 Birr, that allowed her to buy three baby goats as well as that vital donkey.*

We have found VSLAs to be a powerful means of building cohesive social networks who support each other, and who can discuss more complex issues, such as sustainable environmental management. And in addition to basic training by our staff, the cost per VSLA group amounts to an upfront investment of a mere $25 per group.

[2] Economy, efficiency and effectiveness

PUBLIC BENEFIT

Charity trustees have a duty to report in the trustees' annual report on their charity's public benefit. They should demonstrate that:

- The benefits generated by the activities of the charity are clear. This report sets out in some detail the activities which Farm Africa has carried out in the year to further each of our strategic objectives
- The benefits generated relate to the objectives of the charity. All activities undertaken are intended to further Farm Africa's charitable objectives
- The people who receive support are entitled to do so according to criteria set out in the charity's objectives. All Farm Africa projects are centred around rural African farmers (pastoralists, agro-pastoralists, smallholders and forest-dwellers), the target beneficiary group specified in our first charitable object.

The trustees have therefore satisfied themselves that Farm Africa meets the public benefit requirements and they confirm that they have taken due regard of guidance contained in the charity commission's general guidance on public benefit and the specific guidance on the prevention or relief of poverty for the public benefit where applicable.

ORGANISATIONAL PERFORMANCE

2016 represented the final year of Farm Africa's current strategic plan. This plan identified six key priority organisational areas to ensure we are properly equipped to deliver our organisational goals. We have achieved substantial progress against the 2016 targets which is described below.

Programmes

- Raise £15 million of contracted funding
- Strengthen our geographical footprint with a particular focus on Uganda
- Deepen Farm Africa's technical expertise across key areas of agriculture, natural resource management and market engagement.

Key achievements in this year include:

2016 was a very successful year with regards to grant funding. Farm Africa secured new, large, multi-year grants with SIDA (Swedish International Development Co-Operation Agency) and Netherlands Embassy of Kenya. Total grant funding during 2016 was £11.6m, and the total lifetime value of grants secured was £12.5m. This was below the £15m target primarily due to delays in final decisions from several multi-million pound applications which Farm Africa has submitted into 2017.

We achieved our goals of strengthening our geographical footprint in Uganda through the FoodTrade project and by preparing to work on a project with Orange Sweet Flesh Potato production.

Outcomes and impact

- Maintain our position as one of the leaders in this area by publishing our first ever annual impact report
- Increase the use of structured community feedback mechanisms to continue to improve the impact of our work

Key achievements this year include:

During 2016 we published our first Annual Impact report, covering impact data from 2015. This report was very well received by our stakeholders and the second impact report will be published alongside the annual review, thereby linking our financial reporting with our impact reporting.

Programmes with strong community ownership are typically our most successful. During 2016 we also made progress on structuring community feedback into our work, and went as far as to tag an overall organisational Key Performance Indicator to how we listen to communities in programme implementation. We also undertook some experimentation with different models of community feedback to eliminate 'survey bias', which yielded valuable lessons for how to take this forward in 2017.

Relationships

- Engage more effectively across our relationship base

Key achievements this year include:

During 2016 we focused on fostering and strengthening our relationships with the food industry. One particular area of success was a new partnership with Aldi to fund our Growing Futures project in Kenya – a deeper way for Farm Africa to work with a corporate partner.

Research and development

- Continue to disseminate our learning through a minimum of four "roadshows."
- Develop a fully integrated research function and strengthen Farm Africa's engagement in research and innovation.

Key achievements this year include:

The primary focus for our research and development activities shifted as a result of the new strategy to focus on codifying Farm Africa's approach in the areas of natural resource management, agriculture and markets. This culminated in the production of 11 papers, initially for internal use which will ensure the best technical practice and learning from across our project portfolio is incorporated into each project.

External relations

- Scale up our digital fundraising activity
- Empower all our staff to talk confidently and appropriately about Farm Africa and our work

Key achievements this year include:

During 2016 we laid the foundations for scaling up our digital fundraising by working closely with several digital media organisations in order to develop a digital funding plan. This led to the appointment of Farm Africa's first digital manager during the first quarter of 2017 and this will remain a key priority during 2017.

As part of our new strategy we our refreshing our brand and ensuring all staff are aware of Farm Africa's values, work and impact and can communicate clearly about each of these areas.

Corporate organisation and culture

- Increase ownership of learning and sharing with a focus on cross-organisational learning activities including leadership development, management training and expertise in certain technical areas.

Key achievements this year include:

During 2016 we looked to strengthen cross team working, in particular through strengthening our management grade staff. We laid the foundations to build upon our technical expertise through the approach paper development. We also continued a programme of 'learning lunches' to provide more learning opportunities to our staff.

FINANCIAL REVIEW

2016 FINANCE OVERVIEW

2016 saw Farm Africa record our highest ever levels of income of £17.9m (2015 £12.1m). These results consolidate those of our subsidiary undertaking, Sidai Africa Kenya Limited. Programme expenditure also increased significantly to £15.6m (2015 £11.1m) reflecting our focus on timely high quality project implementation.

INCOME

As noted above, our total income has increased to **£17.9m** (2015: £12.1m), an overall increase of £5.8m (47% increase).

Fundraising income decreased to **£2.0m** (2015: £2.5m), due primarily to a £270k decrease in legacy income. 2016 was also the final year of the PPA grant with £2.3m income in 2016 (£3.0m 2015).

Our project income, which is principally income from our government, institutional and other major donors, **increased significantly to £11.6m** (2015: £4.7m). This increase included a broadening of the institutional donor base with new grants from SIDA (Swedish International Co-operation Development Agency) and the Netherlands Embassy in Kenya.

EXPENDITURE

Our total expenditure has **increased by £3.8m to £16.5m** (2015: £12.7m). The whole of this increase was due to higher expenditure on our charitable activities. This was driven by the broader range of grants and a strong focus on timely project implementation.

Fundraising expenditure decreased to £0.9m (2015: £1.5m) to reflect our strategic focus on improving the net margin from fundraising income and by reducing the costs and activities associated with new individual donor recruitment.

FINANCIAL RESULTS

Overall we generated **a surplus of £1.4m of which £2.1m was a surplus on restricted funds and there was a deficit on unrestricted funds of £0.64m.**

The large restricted fund surplus was due to a number of institutional donors paying quarterly or six-monthly in advance of implementation.

There were two distinct elements within the unrestricted fund financial result. The first element was an unrestricted surplus of £0.27m relating to Farm Africa's core charitable activities. Secondly, as part of Sidai's business plan and growth strategy, and in line with many developing social businesses, Sidai's group accounts (incorporating Sidai Africa Limited and Sidai (Kenya) Limited reported a deficit of £0.91m. Sidai continued to invest in building its brand, expanding its reach and developing Sidai own branded products. This analysis is shown in the table below which disaggregates Farm Africa's consolidated unrestricted funds into these two elements.

Table to show a separate analysis of Farm Africa's charitable unrestricted financial results and Sidai's unrestricted financial results.[3]

			Unrestricted		
	Note		FA charity	Sidai	Total
			£'000	£'000	£'000
INCOME FROM					
Donations and legacies	2		4,374		**4,374**
Charitable activities					
Social enterprise trading income				1,787	**1,787**
Total income from charitable activities	3		**4,374**	**1,787**	**6,161**
Other income	4		104		**104**
Total income			**4,478**	**1,787**	**6,265**
EXPENDITURE ON					
Raising funds	6		904		**904**
Charitable activities					
Building income & food security					
Social enterprise				2,870	**2,870**
Programme activities			1,923		**1,923**
Natural resource management			1,385		**1,385**
Total expenditure on charitable activities	7		**3,308**	**2,870**	**6,178**
Total expenditure			**4,212**	**2,870**	**7,082**
Net income/ (expenditure) for the year	5		**266**	**(1,083)**	**(817)**
(Surplus)/ deficit attributable to the minority			0	173	173
(Surplus)/ deficit attributable to the parent			**266**	**(910)**	**(644)**

RESERVES

As at 31 December 2016, total reserves were £6.1m (2015: £4.7m). This is broken down into restricted reserves of £4.5m and unrestricted reserves of £1.6m.

The unrestricted reserves of £1.6m are comprised of three elements. **Firstly, the parent charity's remaining unrestricted funds increased from £1.2m to £1.7m.** Secondly, £0.35m of our unrestricted funds are designated to facilitate the transition of Farm Africa's

[3] Sidai is 84% owned by Farm Africa and 16% owned by the AHL Foundation. The bottom two lines show this split of the loss in the year between the two organisations.

unrestricted funding in the first year after the PPA grant has finished. These funds will be utilised in 2017 to further diversify Farm Africa's income streams. Finally, **Sidai** has a net deficit of **(£0.42m)** reflecting the business expansion funded partially by debt finance.

In summary, we begin 2017 in a solid financial position with reserves necessary to deliver our ambitious goals for growth through the new strategy, and plans in place to increase our income to offset the completion of the PPA funding and deliver this growth in 2017 and beyond.

GOING CONCERN

We have set out above a review of financial performance and the charity's reserves position. We believe that we have adequate financial reserves to continue to deliver against our plans and adequate resources to continue in operational existence for the foreseeable future. We believe that there are no material uncertainties that call into doubt the charity's ability to continue. The accounts have therefore been prepared on the basis that the charity is a going concern.

STRATEGY AND GOALS

2016 – 2020 STRATEGY

During 2016 Farm Africa finalised our new strategy for the period 2016-2020 called 'Driving prosperity through agriculture.'

> ***"The central idea which guides our strategy is that investing in small holder farming is the number one way to tackle poverty in rural Africa."***

This depends upon making agriculture work better, using natural resources well and creating stronger markets for what farmers produce.

Therefore Farm Africa aims to be the leading technical specialist NGO in the fields of agriculture, natural resources and markets – which we refer to as the pillars of our approach – as illustrated in the graphic below.

2016 – 2020 STRATEGIC GOALS

How do we plan to do this? Our eight strategic goals

- **Goal 1: To be a leading specialist NGO**

We will define ourselves as an agriculture, environment and market engagement specialist in a landscape featuring mainly generalist NGOs and generalist private consultancies.

- **Goal 2 : To comprehensively codify our approach**

We will codify, strengthen and disseminate our approach and tools by collating the cutting edge knowledge of our technical staff and drawing upon existing best practice from across our portfolio of projects.

- **Goal 3 : To strengthen our commercial expertise**

We will deepen our understanding of agricultural value chains and the stakeholders and businesses that operate within them. We will increase our ability to facilitate trade.

- **Goal 4 : To develop an organisational M&E framework**

Currently our M&E framework is mainly project specific, with different indicators and measurements for different projects. We will create an organisational M&E framework to measure, aggregate and analyse our overall successes and impact.

- **Goal 5 : To build a high performance culture**

We will improve our cross departmental ways of working. We will enhance our knowledge management capacity. We will role out an organisational learning and development framework.

- **Goal 6 : To ensure sustainable income streams**

With the ending of the PPA funding we expect to shift from a funding model financed more by restricted funding than unrestricted funding. We will ensure our central operating costs are highly lean and efficient. We will look to improve our cost recovery on institutional funding income.

- **Goal 7 : To embrace digital**

We need to progressively move direct marketing to digital to engage new audiences and recruit new supporters efficiently and effectively.

- **Goal 8 : Expand our footprint**

We aim to expand our footprint in Africa to manage bigger programmes, reach more farmers and generate more impact.

More detail on these and all our future plans is given in Farm Africa's *Strategic plan* which can be downloaded from our website www.farmafrica.org.

2017 OBJECTIVES

In order to maximise our impact we have broken down the strategic goals into a set of annual objectives. These objectives are more specific and time-bound than the strategic goals – and represent the key steps for Farm Africa in the next year towards achieving the strategic goals. We have grouped the objectives into the areas of impact, organisation, finance and innovation and cross referenced which strategic goals they underpin.

- **Impact objectives (Supporting strategic goals 1,4)**
    - Achieving impact at scale

Small changes are not enough. That means scaling up. During 2017 we will reach more than 2m people for the first time.

We will sign one regional grant with a value of at least £3m.

We will consolidate our strong project level impact metrics into a set of organisational level impact metrics which will be published in our 2017 impact report.

- **Organisation objectives (Supporting strategic goals 2,3,7)**
    - Roll out the approach work

We will invest time in documenting and sharing our tried and tested approaches in subjects ranging from forest management to aquaculture to international trade so they can be effectively and consistently replicated, not just by us, but by others who share our vision.

This will culminate in a set of 12 approach papers. Each of these 12 papers will have an internal version and a published external version. The approach papers will be underpinned by a set of at least 50 tools which will be used in our projects to maximise effective project delivery.

- Deepen our partnerships with the private sector

Farmers' abilities to build thriving businesses depend on well-functioning markets. We will scale up work with a wide range of private sector organisations from those providing agricultural inputs or access to finance to companies acting as gateways to international export markets.

We will deepen our expertise and level of partnership with commercial coffee companies, in particular connecting Ethiopian produced forest coffee with export markets.

We aim to sign at significant partnerships with at least two corporate organisation from the food industry with a value of £500k per annum.

- Develop our digital communication

We will recruit a lead digital specialist to help us harness the power of digital communications to engage with new audiences, share the lessons we learn and shine a spotlight on the stories of farmers whose lives we've changed.

- **Financial goals (supporting strategic goals 5,6)**
    - o Income & fundraising

We aim to raise a total of £13.0m, including unrestricted income of £2.0m, restricted income of £7.9m and income from Sidai of £3.1m.

We will also integrate our funding strategy with our digital strategy and corporate partnership development in order to broaden out our income streams.

- o Sustainable financial model

The end of the PPA funding period requires Farm Africa to shift its financial model to a different basis. We will pursue four factors to achieve this transition to a sustainable financial model post PPA.

- ➢ We will increase our cost recovery from c£900k to £1.2m;
- ➢ We will improve the net margin on our unrestricted fundraising
- ➢ We will increase the volume of restricted grants we bid for by at least 25%; and
- ➢ We will reduce our central cost structure by 16% (£700k) from 2015 levels;

- **Innovation goal (Supporting strategic goal 8)**

We will build on our strong track record of innovative thinking. We'll focus on how we can effect systemic change, and strive to build stronger and deeper links between our work in different locations, so that our programmes work in synergy, increasing our regional impact.

ORGANISATIONAL INFORMATION

This section includes important information about Farm Africa and how we operate as an organisation. It covers our

- charitable objects; which define in law the aims of the charity;
- vision, mission and values; which cover what we are trying to achieve and how we aim to achieve it;
- legal structure; the legal form which Farm Africa operates within; and
- governance and management structure; which outlines how the organisation is managed and important decisions are made and scrutinised.

CHARITABLE OBJECTS

While there has been huge progress in bringing global poverty levels down, sub-Saharan Africa has benefitted the least. Today, almost half of the world's extreme poor live in sub-Saharan Africa. The vast majority work in agriculture in rural areas. We tackle the three big challenges trapping people in rural Africa in poverty: ineffective agriculture, environmental destruction and their lack of access to markets.

This work is guided by our charitable objects:

- to relieve the poverty of farmers, agricultural workers and herders enabling them to improve the effective management of their natural resources,
- to promote the improvement of agriculture, horticulture, food production, storage and distribution and conduct research in these subjects. To publish the results of such

research and to disseminate knowledge for the benefit of the public and to encourage skill and industry in husbandry,
- to promote the improvement of livestock and poultry and the prevention and eradication of disease therein, and
- to promote the education of the public in, and the furthering of, the interests of agriculture, horticulture, arboriculture, apiculture, animal husbandry and related industries.

We implement these objects through pursuing our organisational vision and mission:

VISION, MISSION & VALUES

OUR VISION: a prosperous rural Africa.

OUR MISSION: we reduce poverty permanently by unleashing African farmers' abilities to grow their incomes and manage their natural resources sustainably.

We have been working in eastern Africa for 30 years and currently have programmes in Ethiopia, Kenya, Tanzania and Uganda. We focus on crops, livestock and forestry and have a track record of world-class technical expertise and delivery. We take a holistic systems approach, recognising the differing aims of different stakeholders to protect the natural environment and maximise the economic benefits from farming.

We are recognised for the quality of our 200 plus staff in eastern Africa who work closely with rural communities to ensure an approach that combines a deep understanding of the local culture and context coupled with a solid knowledge in our fields of expertise.

We are known for delivering projects that produce long-term sustainable solutions grounded in robust evidence. Combined with our innovative thinking, this approach has enabled us to increase our impact in helping Africa's farmers feed Africa's people.

OUR VALUES: we believe smallholder farmers can and will play a key role in achieving rural prosperity in Africa.

We deliver this by:

- **being experts in our field:** delivering insightful and impactful evidence-based solutions,
- **pushing boundaries:** being creative with old and new solutions and approaches,
- **acting for the long-term:** building relationships and delivering long-lasting change for farmers,
- **working flexibly:** taking advantage of the most effective solutions, whether from communities, the private sector, civil sector or government, and
- **sharing knowledge with others:** reaching more farmers than we could alone and ensuring effective technologies are widely accessed.

LEGAL STRUCTURE

Farm Africa is a registered charity (registration number 326901) and is constituted as a company registered in England and Wales and limited by guarantee (registration number 01926828) approved & adopted on 29 May 1985 and last updated by special resolution on 23 June 2004. Its objects and powers are set out in its Memorandum and Articles of Association. Details of Farm Africa's subsidiary entities are included in note 13 to the accounts.

TAX STATUS

Farm Africa has charitable status and is exempt from corporation tax as all of its income is charitable and is applied for charitable purposes.

AUDITOR APPOINTMENT

A resolution concerning the reappointment of Crowe Clark Whitehill LLP as auditors will be proposed at the Farm Africa annual general meeting of **26 June 2017**.

GOVERNANCE AND ORGANISATIONAL STRUCTURE

Farm Africa's officers and advisers are as shown on pages 3 to 4 of this report.

Mr Michael Palin CBE and Sir Martin Wood OBE FRS DL both kindly agreed to continue as patron and president respectively of Farm Africa during 2016.

Farm Africa is governed by a board of trustees based in the UK and authority is delegated by them to the chief executive to manage the organisation. Changes to the board of trustees are shared in the officers and advisors section on page 3.

Trustee recruitment is undertaken through a range of routes dependent on the identified needs. For example, when seeking a trustee with audit experience, we have targeted advertising through selected accountancy firms. This is followed by an interview process with a panel of trustees and approval by the board. The trustees are then formally elected by the members at the next annual general meeting. New trustees receive a personalised induction, including briefings from the chair, chief executive and other senior management team members. They are encouraged to visit our project work when the opportunity arises. Trustees also receive ongoing training, either one to one or through briefings at board meetings and as and when specific training needs are identified.

The finance risk and audit committee (FRAC) meets regularly under the chairmanship of John Shaw, Farm Africa's Treasurer. FRAC normally comprises at least two trustees, together with external members as required. FRAC agrees the external audit plan, reviews the external auditor's management letter and monitors the implementation of resulting actions. FRAC also undertakes a detailed review of the annual budget, quarterly management accounts, the risk register and the annual review and accounts before their submission to the board. It approves the annual internal audit plan and oversees the implementation of recommendations arising from internal audit reports.

The programme advisory committee (PAC) met throughout 2016 under the chairmanship of Professor Jonathan Kydd. PAC comprises at least two trustee members and external members from a wide range of disciplines. PAC has two objectives:

- to ensure, on behalf of the board, that systems are in place to monitor programme quality and strategic fit, and
- to provide management with advice and a sounding-board and on aspects of its programme work.

The nomination and remuneration committee also continued its work during the year. It is chaired by Richard Macdonald and comprises no fewer than three trustees appointed by the board, with the chief executive and director of resources as a non-voting members of the committee. The committee takes responsibility for identifying and proposing new board members and for their induction, support and development. It also approves salary increments for the senior management team and the annual cost of living increase for UK staff, and makes a recommendation to the board on the salary of the chief executive.

We are supported by Farm Africa U.S.A Inc. which is a US non-profit 501(c)(3) organisation that promotes and improves agriculture, natural resource management and food production in an effort to alleviate hunger and poverty in Africa.

SUBSIDIARIES

During 2016, Farm Africa had two directly owned and active subsidiaries:

- Sidai Africa Limited, which acts as an investment holding company for Sidai Africa Kenya Limited, our veterinary franchise operation in Kenya, and
- Farm Africa Trading Limited, which enables us to receive sponsorship income from corporate partners in a tax efficient manner.

The detailed results for our active subsidiaries are shown in note 13. Farm Africa Trading made a profit for the year before gift aid of £5,000 (2015: profit of £89,000). Our corporate sponsorship income is variable as it is dependent on the number of high profile events in a particular year and thus results in variable results across different financial years. We expect Farm Africa Trading to make a profit in 2017 and for significant growth in our corporate partnerships.

During 2016, Sidai Africa (Kenya) Limited, the wholly owned subsidiary of Sidai Africa Limited, made a loss for the year of £969,000 (2015 £808,000). Like many growing businesses Sidai continued to invest in growth by building its brand, expanding its reach and developing Sidai own branded products. Sidai's strategy is to continue to grow and is seeking external investment to facilitate this growth.

POLICIES & LEGAL INFORMATION

The final section of the annual report covers important policies and legal information which give more technical insight into how Farm Africa operates.

GRANT-MAKING POLICY

Farm Africa works with a number of delivery or implementation partners. These are generally structured where Farm Africa is the lead grant recipient and the delivery partners act as sub-grant recipients.

Partner selection is done on a grant by grant basis. The criteria for partner selection includes specialist expertise that will broaden Farm Africa's technical expertise (for example, the International Water Management Institute), geographical reach to enable more effective programme delivery (for example, VredesEilanden in Uganda), and a complementary core competence.

Before a formal grant agreement is signed all potential grantees are subject to a due diligence process based upon the OCAT (Organisational Capacity Assessment Tool).

A signed grant agreement is put in place with all partners, which covers joint ways of working, delivery criteria and reporting requirements. Grant reporting requirements are generally governed by Farm Africa's grant agreement with the primary donor.

REMUNERATION POLICY

Farm Africa is determined to reach as many smallholder farmers and their families as we possibly can. We do not compete with salaries in the private sector but our salaries are pitched at a level to allow us to attract effective, energetic and innovative leaders who will enable us to increase our impact and achieve our vision of a prosperous rural Africa.

Farm Africa had an annual income of £18m, has a track record of world class technical expertise and delivery and has around 200 staff internationally. This provides the organisational context in which to set our remuneration policy.

Farm Africa aims to pay around the median level for a charity of our size; for this purpose we benchmark all salaries in the UK and internationally annually against sector specific salary surveys and cross reference them against local cost of living indices. This data is translated into salary scales for the UK and each operational country and approved by Farm Africa's senior team. All staff are paid in line with these salary scales.

The nomination and remuneration committee uses the benchmark data to review and fix annual senior salary increases. We believe that our senior salaries paid as a result of this process are a proper reflection of the skills, knowledge and experience required to run an organisation like ours. The bandings for senior staff remuneration are disclosed in Note 10.

RESERVES POLICY

The board has determined that Farm Africa needs unrestricted reserves for the following purposes:

- to provide working capital and manage seasonality of income, for the effective running of the organisation,
- to protect against unrestricted income fluctuations,
- to protect against unforeseen project expenditure due to working in inherently risky situations and to manage foreign exchange volatility,
- to enable Farm Africa to invest in unforeseen funding and growth opportunities should it choose to do so.

The board considers that unrestricted reserves target should be set by applying the following methodology:

- income risk: an assessment of the percentage risk in each unrestricted income stream (including forecast hub recovery and co-funding) of between 5% and 40% dependent on source, and
- programmatic expenditure: an assessment of the unplanned unrestricted expenditure needs being calculated as 5 - 7% of projected restricted expenditure

These measures imply an unrestricted reserves target at **31 December 2016 of £1.2m.** This compares with an actual figure of unrestricted funds, including those designated, of **£1.6m**.

Through prudent financial management Farm Africa's reserves are £450k above the target level. The trustees have carefully considered the right balance between ensuring a strong and stable financial footing for Farm Africa and putting funds to use to further support farmers.

There are three planned uses of these surplus reserves: firstly, to cover some organisational costs during 2017, as the completion of the PPA grant in 2016 will result in a significant reduction in unrestricted income in 2017, which has led Farm Africa to set a deficit budget of £350k in this transitional year. Secondly, to provide seed funding to develop our digital activities following the completion of our digital strategy during 2017. Thirdly, to support retention and progression for key project based technical staff who might otherwise have left Farm Africa.

INVESTMENT POLICY

Farm Africa has an agreed investment policy covering both programme related investments and assets held to fund planned expenditure. As the majority of Farm Africa's funds are held to support planned expenditure the aim of the investment policy is to minimise risk and protect capital security and therefore such assets are held as cash, invested to obtain a low yield where possible.

Farm Africa's policy towards programme related investments (PRI) is to be open towards PRI's subject to assessing a number of tests. These tests are (1) the PRI must primarily be focused on Farm Africa's social impact, (2) the PRI should be in the area of expertise (in particularly African agricultural value chains), (3) subject to the assessment of a business case by the board – in particular to assess financial sustainability on a case by case basis. The business case will also include the financing mechanism needed for the PRI investment, (4) the level of governance and management involvement associated with the PRI.

RISK MANAGEMENT

The board is responsible for ensuring that there is an appropriate process for the management of any risks faced by Farm Africa. Assisted by senior staff, the board regularly reviews and assesses the major risks to which Farm Africa is exposed, in particular those relating to the operations and finances of the organisation, and receives a report regarding the status of those risks and the mitigating actions and controls that are in place.

The four most significant risk areas identified by the board are:

- maintaining financial strength and sustainability,
- reliance on a small number of key staff and managing significant organisational change,
- political and security risks arising in the countries where we operate, and
- ensuring high quality, timely programmatic delivery in challenging operating contexts.

The external environment in which Farm Africa works is inherently risky. The security situation in some parts of East Africa is difficult and NGO regulation in our countries of operation is becoming more burdensome. Farm Africa seeks to manage the resulting risks by spreading its work over a number of countries and contexts and by sourcing funding from as wide a variety of funders as possible.

The strategic goals address all the main risk areas, recognising the inherent risk within the operations. A regular programme of internal audit provides additional support for the trustees in considering the effectiveness of key controls in place to manage risk.

Farm Africa's approach is to recognise and accept an appropriate level of risk, in particular ensuring that risk management does not deter innovation and learning. The board fully supports this strategy, and is satisfied that the management systems in place provide reasonable assurance that identifiable risks are managed appropriately.

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The trustees (who are also the directors for the purposes for company law) are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom generally accepted accounting practice (United Kingdom accounting standards) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the trustees are aware, there is no relevant audit information of which the charitable company's auditor is unaware. The trustees have taken all the steps that they ought to have taken as trustees in order to make themselves aware of any relevant audit information and to establish that the charitable company's auditor is aware of that information.

Approved by the board of trustees of Farm Africa Limited on
including, in their capacity as company directors, the strategic report contained therein, and signed on its behalf by

Richard Macdonald CBE, chair

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FARM AFRICA LIMITED

We have audited the financial statements of Farm Africa Limited for the year ended 31 December 2016 which comprise the Group Statement of Financial Activities, the Group and Charity Balance Sheets, the Group Statement of Cash Flows and the related notes numbered 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees (who are also the directors of the charitable company for the purpose of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic report and the Trustees' Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the charitable company's affairs as at 31 December 2016 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the Strategic Report and the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees' Annual Report and Strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the trustees' annual report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate accounting records; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

N. Hashemi

Naziar Hashemi

Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP

Statutory Auditor

London

2 June 2017

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

(incorporating Income and Expenditure account) for the year ended 31 December 2016

		2016			2015		
	Note	**Unrestricted funds £'000**	**Restricted funds £'000**	**Total funds £'000**	Unrestricted Funds £'000	Restricted Funds £'000	Total funds £'000
INCOME FROM							
Donations and legacies	2	**4,374**	**-**	**4,374**	5,639	8	5,647
Charitable activities							
General		**-**	**10,348**	**10,348**	-	4,672	4,672
Social enterprise trading income		**1,787**	**1,287**	**3,074**	1,645	-	1,645
Total income from charitable activities	3	**1,787**	**11,635**	**13,422**	1,645	4,672	6,317
Other trading activities	4	**65**	**-**	**65**	151	-	151
Investments	4	**4**	**-**	**4**	6	-	6
Other income	4	**35**	**-**	**35**	-	24	24
Total income		**6,265**	**11,635**	**17,900**	7,441	4,704	12,145
EXPENDITURE ON							
Raising funds	6	**904**	**-**	**904**	1,553	-	1,553
Charitable activities							
Building income & food security							
Social enterprise		**2,870**	**450**	**3,320**	2,203	389	2,592
Programme activities		**1,923**	**6,492**	**8,415**	2,142	3,487	5,629
Natural resource management		**1,385**	**2,487**	**3,872**	1,553	1,356	2,909
Total expenditure on charitable activities	7	**6,178**	**9,429**	**15,607**	5,898	5,232	11,130
Total expenditure		**7,082**	**9,429**	**16,511**	7,451	5,232	12,683
Net income/ (expenditure) for the year	5	**(817)**	**2,206**	**1,389**	(10)	(528)	(538)
(Surplus)/ deficit attributable to the minority		**173**	**(134)**	**39**	(27)	83	56
(Surplus)/ deficit attributable to the parent		**(644)**	**2,072**	**1,428**	(37)	(445)	(482)
Other recognised gains and losses							
Profit on partial disposal of subsidiary		**-**	**-**	**-**	453	(64)	389
Exchange differences on revaluation of subsidiary	18	**-**	**22**	**22**	(46)	(9)	(55)
Transfers between funds							
Net movements on funds		**(644)**	**2,094**	**1,450**	370	(518)	(148)
Total funds brought forward		**2,288**	**2,428**	**4,716**	1,918	2,946	4,864
Total funds carried forward	18	**1,644**	**4,522**	**6,166**	2,288	2,428	4,716

All the above results derived from continuing activities. There are no recognised gains and losses other than those stated above. The notes on pages 33 to 48 form an integral part of these financial statements.

CONSOLIDATED & CHARITY BALANCE SHEETS

As at 31 December 2016

	Notes	2016 Group £'000	2016 Charity £'000	2015 Group £'000	2015 Charity £'000
FIXED ASSETS					
Tangible assets	11	**507**	**41**	290	56
Intangible assets	12	**36**	**-**	26	-
Investments (social)	13	**-**	**1**	-	629
		543	**42**	316	685
CURRENT ASSETS					
Stock: goods for resale		**452**	**-**	542	-
Debtors	14	**1,786**	**1,705**	2,203	2,268
Cash at bank and in hand		**5,819**	**4,830**	3,205	2,462
Short term deposits		**637**	**637**	589	589
		8,694	**7,172**	6,539	5,319
Creditors					
Amounts falling due within one year	15	**(1,827)**	**(965)**	(1,407)	(862)
Net current assets		**6,867**	**6,207**	5,132	4,457
Total assets less current liabilities		**7,410**	**6,249**	5,448	5,142
Creditors: amounts falling due in more than one year	16	**(739)**	**-**	(478)	-
Provisions for liabilities and charges	17	**(278)**	**(278)**	(180)	(180)
NET ASSETS		**6,393**	**5,971**	4,790	4,962
Net assets attributable to the minority interest	19	**(227)**		(74)	
		6,166		4,716	
THE FUNDS OF THE CHARITY					
Restricted funds	18	**4,522**	**3,904**	2,428	3,160
Unrestricted funds	18				
- General funds		**1,717**	**1,717**	1,242	1,242
- Designated funds (strategic investment)		**350**	**350**	560	560
- Designated funds (Sidai)		**(423)**	**-**	486	-
TOTAL FUNDS	18	**6,166**	**5,971**	4,716	4,962

Approved by the board and authorised for issue on 25 May 2017 and signed on their behalf by:

Richard Macdonald
Chairman
Registered Company No: 01926828

John Shaw
Treasurer

The notes on pages 33 to 48 form an integral part of these financial statements.
The surplus for the financial year dealt with in the financial statements of the parent company was £1,021,000.

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities:			
Net cash provided by / (used in) operating activities	A	**2,532**	(1,088)
Cash flows from investing activities:			
Dividends, interest, and rents from investments		**4**	6
Disposal of tangible fixed assets and capital grants		**125**	16
Purchase of tangible fixed assets		**(260)**	(190)
Part disposal of subsidiary undertaking		**-**	519
Net cash (used in) / provided by investing activities		**(131)**	351
Cash flows from financing activities:			
Cash inflows from new borrowing		**261**	222
Net cash provided by financing activities		**261**	222
Change in cash and cash equivalents in the reporting period		**2,662**	(515)
Cash and cash equivalents at the beginning of the reporting period		**3,794**	4,309
Cash and cash equivalents at the end of the reporting period		**6,456**	3,794

NOTES TO THE STATEMENT OF CASHFLOWS

A. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES	2016 £'000	2015 £'000
Net income/(expenditure) for the reporting period (as per the Statement of Financial Activities)	**1,389**	(538)
Adjustments for:		
Depreciation	**112**	99
(Profit) on the disposal of fixed assets	**-**	(11)
Decrease/(increase) in debtors	**427**	(938)
Increase in creditors falling due within one year	**420**	429
Increase/(decrease) in provisions	**98**	(18)
Decrease/(increase) in stocks	**90**	(105)
Dividends, interest and rents from investments	**(4)**	(6)
Net cash provided by / (used in) operating activities	**2,532**	(1,088)

B. ANALYSIS OF CASH AND CASH EQIVALENTS	2016 £'000	2015 £'000
Short term deposits held in UK	**637**	589
Cash at bank and in hand in the UK and overseas	**5,819**	3,205
	6,456	3,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The charity is a private limited company (registered number 1926828) which is incorporated and domiciled in the UK. The address of the registered office is 9th floor, Bastion House, 140 London Wall, LONDON, EC2Y 5DN. The charity is a public benefit entity. More detail on how the trustees have satisfied themselves that Farm Africa has met the public benefit requirements is given in the trustees report on pages 8 to 15.

a) Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention and in accordance with the charities SORP (FRS102), applicable accounting standards and the Companies Act 2006. The financial statements have been prepared on a going concern basis as discussed in the trustee's report on page 18. There are no material uncertainties about the charity's ability to continue as a going concern.

The results and balance sheet of the charitable company's subsidiaries have been consolidated using the acquisition method of accounting and minority interest is shown as a separate line in the financial statements. The results of subsidiary undertakings are included from the date of acquisition. The charity has taken advantage of the exemptions in FRS 102 from the requirements to present a charity only Cash Flow Statement and certain disclosures about the charity's financial instruments.

No statement of financial activities is presented for the charitable company alone as the results of the subsidiary companies are separately identified within the group accounts and the charitable company is exempt from presenting such a statement under s408 Companies Act 2006. The net surplus of the charitable company was £1,021,000 (2015: £339,000).

b) Key areas of estimation uncertainty

In the application of the charity's accounting policies, trustees are required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors what are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects the current and future periods.

In the view of the trustees, no assumptions concerning the future or estimation uncertainly affecting assets and liabilities at the balance sheet date are likely to result in a material adjustment to their carrying amounts in the next financial year.

c) Fund accounting

Funds held by the charitable company are:

- restricted funds – these are funds which are subject to specific conditions imposed by the donors or when funds are raised for particular restricted purposes,
- unrestricted funds: general – these are funds which can be used in accordance with the charitable objects at the discretion of the trustees, and
- unrestricted funds: designated – these are funds which the trustees have designated for a particular use.

d) Income

Income, including donations, gifts and legacies, gifts in kind and grants are recognised where there is entitlement, there is probability of receipt and the amount is measurable. In respect of legacy income we consider entitlement to be the earlier of finalised estate accounts or receipt of the income. Tax recovered from income received under gift aid is recognised when the related income is recognised and is allocated to the income category to which the income relates. Where income is received in advance of the point of recognition it is deferred.

Gifts in kind for use by the charity and donated services are included in the accounts at their approximate market value at the date of receipt. No amount has been included in the financial statements for services donated by volunteers.

When donors specify that donations and grants given to the charitable company must be used in future accounting periods, the income is deferred until those periods.

Income from other trading activities is recognised as it is earned, that is as the related goods or services are provided.

Investment and rental income are recognised on a receivable basis.

e) Expenditure

Expenditure is recognised when a liability is incurred. Irrecoverable VAT is included within the expense item to which it relates.

Expenditure on charitable activities is reported as a functional analysis of the work undertaken by Farm Africa, against our two strategic outcomes of building income and food security and natural resource management. Under these headings are included grants payable and costs of activities performed directly by the charitable company, together with associated support costs. These costs include salaries and associated employment costs including pensions and any termination payments required.

Grants payable to other institutions for development projects are included in the statement of financial activities when funds are transferred to these institutions on the basis that future funds are only payable upon receipt of satisfactory expenditure reports for all amounts previously advanced.

Expenditure on raising funds comprises salaries, direct expenditure and overhead costs of UK based staff who promote fundraising from all sources including institutional donors, trusts, companies and individuals.

Support costs include UK central functions, and have been allocated to cost categories on a basis consistent with the level of activity.

f) Pension costs

The charitable company operates a defined contribution group personal pension plan for the benefit of its employees, and also makes payments to other defined contribution schemes for employees who are not members of the group scheme. Pension costs are recognised in the month in which the related payroll payments are made.

g) Foreign currencies

The functional currency of Farm Africa is considered to be pounds sterling because that is the currency of the primary economic environment in which the group operates. The consolidated financial statements are presented in pounds sterling.

Transactions in foreign currencies are recognised at the rate of exchange at the date of the transaction or at an average exchange rate for the month. All non-sterling current assets and liabilities are translated into sterling at the exchange rate on the balance sheet date. All exchange differences are recognised through the statement of financial activities.

h) Operating leases

Rental payments under operating leases are charged as expenditure incurred evenly over the term of the lease. The benefit of any reverse premium received is also spread evenly over the term of the lease.

i) Fixed assets

Fixed assets used within specific projects and purchased from funds donated for those projects are not capitalised but are written off on acquisition as direct project expenditure. This policy is employed as ownership of the property does not always pass to Farm Africa upon project completion. The initial cost of fixed assets purchased within the last four years and presently employed in current projects is referred to in note 11.

All other assets costing more than £500 are included in the financial statements as fixed assets at cost less depreciation. Depreciation has been calculated to write off the cost of tangible fixed assets by equal instalments over their expected useful lives as follows:

Leasehold improvements	over the life of the lease
Vehicles	25% per annum
Computer equipment	33% per annum
Machinery & machinery	25% per annum

Where the recoverable amount of a tangible asset is found to be below its net book value, the asset is written down to its recoverable amount and the loss on impairment is charged to the relevant expenditure category in the statement of financial assets. Where an asset is not primarily used to generate income its impairment is assessed by reference to its service potential on its initial acquisition. The charitable company currently has no tangible fixed assets to which impairment provisions apply.

j) Intangible fixed assets

Intangible fixed assets represent the costs associated with acquiring and bringing in to use computer software licences. Amortisation is calculated using the reducing balance method (at 30% per annum) to write down the cost to its estimated residual value.

k) Stock: goods for resale

Stock comprises goods held for resale and are valued at the lower of cost and net resale value.

l) Provisions

Provisions are recognised when Farm Africa has a present legal or constructive obligation arising as a result of a past event, it is probably that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

m) Financial instruments

Farm Africa has financial assets and liabilities of a kind that qualify as basic financial instruments. Financial assets comprise cash at bank and in hand, short term deposits, trade and other debtors. Financial liabilities include trade and other creditors and loans. Basic financial instruments are recognised at transaction value and subsequently measured at amortised cost. Details and carrying value of these financial assets and liabilities are given in notes 12, 13, 14, 15, 16 and 17.

Investments in subsidiary undertakings are held at cost net of any provision for impairment.

2. INCOME FROM DONATIONS AND LEGACIES

	Unrestricted funds 2016 £'000	**Restricted funds 2016 £'000**	**Total funds 2016 £'000**	Total funds 2015 £'000
General				
Committed giving	**592**	**-**	**592**	622
Appeals and donations	**738**	**-**	**738**	850
Legacies	**233**	**-**	**233**	502
Fundraising events	**270**	**-**	**270**	285
Corporate donations	**55**	**-**	**55**	103
Gifts in kind: donated services	**108**	**-**	**108**	151
	1,996	**-**	**1,996**	2,513
Grants				
DFID programme partnership arrangement	**2,309**	**-**	**2,309**	3,078
Trusts and foundations	**69**	**-**	**69**	56
	2,378	**-**	**2,378**	3,134
Total donations and legacies	**4,374**	**-**	**4,374**	5,647

3. INCOME FROM CHARITABLE ACTIVITIES:

Grants from government, institutional and other similar donors	**Restricted 2016 £'000**	Restricted 2015 £'000
Adeso	**454**	44
Ashden Trust	**52**	-
Ajahma Charitable Trust	**60**	-
Aldi	**78**	-
Amref	**56**	-
Barr Foundation	**-**	266
Bill & Melinda Gates Foundation	**818**	102
Big Lottery Fund ICB/2/010438249	**166**	260
CARE Ethiopia	**-**	65
Comic Relief	**529**	492

European Union	**1,444**	1,749
Embassy of Ireland to Ethiopia	**160**	-
Food and Agricultural Organisation of the United Nations	**48**	50
Jersey Overseas Aid Commission	**78**	76
Medicor Foundation	**-**	63
Netherlands Embassy of Kenya	**1,050**	-
Red Een Kind	**75**	81
Royal Norwegian Embassy	**636**	225
SOS Sahel	**313**	-
Swedish International Development Co-operation Agency	**1,294**	-
The Ford Foundation	**-**	93
The Rockefeller Foundation	**-**	118
UK aid from the Department for International Development – Building resilience & food secure households in Tigray	**133**	105
UK aid from the Department for International Development - BRACED	**2,914**	589
UK aid from the Department for International Development - FoodTrade	**1,200**	-
Other international agencies and other donors	**77**	294
Total grants from government, institutional and other similar donors	**11,635**	4,672
Other social enterprise trading income*	**1,787**	1,645
Total income from charitable activities	**13,422**	6,317

All income from charitable activities is restricted except where indicated *.

4. OTHER INCOME

	Unrestricted funds 2016 £'000	**Restricted funds 2016 £'000**	**Total funds 2016 £'000**	Total funds 2015 £'000
Other trading activities				
Community fundraising	**1**	**-**	**1**	-
Trading	**64**	**-**	**64**	151
	65	**-**	**65**	151
Investment income				
Deposit interest	**4**	**-**	**4**	6
	4	**-**	**4**	6
Other income				
Profit on sale of assets	**35**	**-**	**35**	24
	35	**-**	**35**	24
	104	**-**	**104**	181

5. NET INCOME FOR THE YEAR

This is stated after charging	**Total 2016 £'000**	Total 2015 £'000
Depreciation and amortisation	**112**	99
Payments under operating leases	**63**	96
Auditor's remuneration for the annual external audit:		
Charitable company	**24**	28
Subsidiary companies`	**12**	3

6. EXPENDITURE ON RAISING FUNDS

	2016 £'000	2015 £'000
Donations and legacies		
Fundraising costs	**767**	1,323
Support costs allocated (note 9)	**57**	116
	824	1,439
Charitable activities		
Fundraising costs	**24**	56
Support costs allocated (note 9)	**2**	6
	26	62
Other trading activities		
Fundraising costs	**50**	48
Support costs allocated (note 9)	**4**	4
	54	52
	904	1,553

7. EXPENDITURE ON CHARITABLE ACTIVITIES

	Operational programmes £'000	**Grants payable £'000**	**Support costs* £'000 (note 9)**	**Total 2016 £'000**	Total 2015 £'000
Building income and food security					
Social enterprises	**3,320**	**-**	**-**	**3,320**	2,592
Programme activities	**5,284**	**2,552**	**579**	**8,415**	5,629
	8,604	**2,552**	**579**	**11,735**	8,221
Natural resource management	**2,329**	**1,277**	**266**	**3,872**	2,909
	10,933	**3,829**	**845**	**15,607**	11,130

* It is not appropriate to split support costs between activities undertaken directly and grant making activities due to the method of operation of the programme support team.

8. GRANTS TO PARTNER ORGANISATIONS

	2016 £000	2015 £000
Europe		
Self Help Africa	**1,125**	1,425
Ethiopia projects		
SOS Sahel	**-**	217
PHE Ethiopia Consortium	**127**	-
International Water Management Institute	**308**	86
Frankfurt Zoological Society	**434**	168
Mercy Corps	**624**	276
Assosa Environmental Protection Association	**20**	-
Kenya projects		
Kitui Development Centre	**47**	-
BoP Innovation Centre	**66**	-
Centre for Development Innovation	**18**	-
Larive International B.V.	**65**	-
Stichting PUM	**40**	-
World Fish Centre	**33**	-
Maendeleo Agricultural Enterprise Fund	**-**	364
Tanzania projects		
Cosita	**86**	52
Inades	**137**	86
Mviwata	**41**	6
Trufood	**30**	51
VredesEilanden Country Office (East Africa)	**92**	-
Rural Urban Development Initiatives	**290**	-
Sokoine University Graduate Entrepreneurs Co-operative	**46**	-
Uganda projects		
VredesEilanden Country Office (East Africa)	**200**	-
	3,829	2,731

Grants were payable during the year to partners working on restricted projects. At year end there was one payment of £546,000 outstanding to Mercy Corps (2015: £nil).

9. ANALYSIS OF SUPPORT COSTS

	Mgt costs £'000	Office costs £'000	Finance & IT £'000	HR costs £'000	Gov costs £'000	Total 2016 £'000	Total 2015 £'000
Charitable activities							
Building income and food security	**111**	**138**	**180**	**119**	**31**	**579**	701
Natural resource management	**51**	**64**	**83**	**54**	**14**	**266**	253
	162	**202**	**263**	**173**	**45**	**845**	954
Expenditure on raising funds							
Donations and legacies	**11**	**14**	**18**	**12**	**3**	**58**	116
Charitable activities	**-**	**1**	**1**	**-**	**-**	**2**	6
Other trading activities	**1**	**1**	**1**	**1**	**-**	**4**	4
	12	**16**	**20**	**13**	**3**	**64**	126
	174	**218**	**283**	**186**	**48**	**909**	1,080

Support costs allocated are UK costs only. They have been apportioned proportionally to activity. Overseas office costs have been directly attributed to the costs of delivering charitable activities in country.

10. EMPLOYEES

	2016 £'000	2015 £'000
Staff costs		
Wages and salaries (including life assurance)		
Overseas contracted staff	**3,373**	2,389
UK contracted staff	**1,681**	1,640
	5,054	4,029
Social security costs	**175**	154
Pension costs	**50**	71
	5,279	4,254

Wages and salaries includes £33,000 (2015: £28,000) of redundancy and termination payments which are paid out in accordance with our redundancy policy and the legal requirements of each country we work in.

The key management personnel of the charitable company comprise the Chief Executive, the Director of Resources, the Director of External Relations, the Director of Research and Development, the Director of Programmes, and Country Directors. The total employee benefits paid to these individuals was £638,000 (2015 re-stated: £509,000).

	2016 No.	2015 No.
Employees with remuneration in the range of £60,000 to £70,000	**1**	3
Employees with remuneration in the range of £70,000 to £80,000	**3**	2
Employees with remuneration in the range of £80,000 to £90,000	**3**	2

The average number of employees of the charitable company during the year analysed by function were:

	2016 No.	2015 No.
Overseas contracted staff	**199**	174
UK contracted staff:		
Fundraising and communications	**17**	21
Programmes support	**11**	12
Management and administration of charity	**9**	12
	236	219

Neither the trustees nor any persons connected with them have received any remuneration during the current or preceding year.

Two trustees were reimbursed £3,000 (2015: £3,000) in travel expenses incurred on behalf of the organisation. In addition, £12,000 travel costs were paid directly to suppliers (2015: nil) in respect of nine trustees. These costs were mainly in respect of board meetings held in Tanzania. The cost incurred by the charity for the trustee indemnity insurance was £1,000 in 2016 (2015: £1,000).

Farm Africa makes contributions for its employees to various defined contribution schemes. The amount of contributions due to these schemes at the year end 31 December 2016 was £76,000 (2015: £9,000).

11. TANGIBLE FIXED ASSETS

Group

	Leasehold Improvements £'000	Vehicles £'000	Machinery & Equipment £'000	Computer Equipment £'000	Total £'000
Cost					
At 1 January 2016	121	173	204	131	629
Exchange differences	19	44	42	9	114
Additions	34	152	30	31	247
At 31 December 2016	**174**	**369**	**276**	**171**	**990**
Depreciation					
At 1 January 2016	(54)	(115)	(71)	(99)	(339)
Exchange differences	(8)	(17)	(13)	(5)	(43)
Charge for the year	(31)	(22)	(30)	(18)	(101)
At 31 December 2016	**(93)**	**(154)**	**(114)**	**(122)**	**(483)**
Net book value					
At 31 December 2016	**81**	**215**	**162**	**49**	**507**
At 31 December 2015	67	58	133	32	290

Charity

	Leasehold Improvements £'000	Vehicles £'000	Machinery & Equipment £'000	Computer Equipment £'000	Total £'000
Cost					
At 1 January 2016	82	-	40	92	214
Additions	-	-	-	19	19
At 31 December 2016	**82**	**-**	**40**	**111**	**233**
Depreciation					
At 1 January 2016	(50)	-	(30)	(78)	(158)
Charge for the year	(16)	-	(8)	(14)	(38)
At 31 December 2016	**(66)**	**-**	**(38)**	**(92)**	**(196)**
Net book value					
At 31 December 2016	**16**	**-**	**2**	**19**	**37**
At 31 December 2015	32	-	10	14	56

The tangible fixed assets purchased within the last four years, presently employed in current projects but not capitalised in these financial statements, have a total initial cost of approximately £1,274,000 (2015: £1,080,946). The accounting policy relating to fixed assets is referred to in note 1(i).

12. INTANGIBLE FIXED ASSETS

Group

	Software £'000
Cost	
At 1 January 2016	40
Exchange differences	11
Additions	13
Disposals	-
At 31 December 2016	**64**
Amortisation	
At 1 January 2016	(14)
Exchange differences	(3)
Charge for the year	(11)
Disposals	-
At 31 December 2016	**(28)**
Net book value	
At 31 December 2016	**36**
At 31 December 2015	26

Intangible fixed assets comprise acquired application software for accounting, sales and payroll. There are no intangible fixed assets held by the Charity.

13. INVESTMENTS

	Investment in subsidiary undertakings £'000
Net book value	
At 1 January 2016	629
Investment impairment	(628)
At 31 December 2016	1

During 2016 Farm Africa's board took the strategic decision to plan to dispose of its stake in Sidai. Farm Africa have incubated Sidai from its inception through to its current status as an established operation with a broad reach across Kenya. Sidai achieves significant social impact but is incurring operating losses as it invests in expansion. Sidai requires additional capital in order to continue to grow and achieve the scale necessary to ensure its financial sustainability in the longer term.

As a programme related investment (PRI), Farm Africa's first objective through the sale is to protect the primacy of Sidai's social mission. To protect the social mission and to facilitate Sidai raising the necessary capital requires the maximum investment directly into the business. Therefore Farm Africa aims to dispose of its stake in a way that will achieve this – in particular by not seeking a financial return through the disposal. Additionally, the funds Farm Africa originally received for Sidai were provided from a restricted fund (restricted to Sidai's activities and costs) so Farm Africa will not incur any loss to its unrestricted funds.

Therefore Farm Africa's board have taken the decision to write down the investment to a nominal value of £1,000 in the charity's accounts.

Company	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
Farm Africa Trading Limited (company number: 7398449)*	UK	100% owned by Farm Africa	Trading activities
Farm Africa Enterprises Limited (company number: 9359340)*	UK	100% owned by Farm Africa	Holding company
Sidai Africa Limited (formerly Farm Africa Enterprises Limited) (company number: 7401522)*	UK	84% owned by Farm Africa Enterprises Limited	Holding company
Farm Africa Intellectual Property Limited (company number: 7401279)*	UK	100% owned by Farm Africa	IP and registered trade marks
Sidai Africa (Kenya) Limited (formerly Sidai Africa Limited)**	Kenya	796,073 shares owned by Sidai Africa & 1 share owned by Farm Africa[4]	Provision of veterinary services

* Registered office: 9th Floor, Bastion House, 140 London Wall, London EC2Y 5DN
** Registered office: 2nd Floor, Axis Kenya Centre, Ring Road, Westlands, PO Box 41968, 00100 Nairobi

The results for the year of the active subsidiaries are shown below.

	Sidai Africa (Kenya) Limited		**Sidai Africa Limited**		**Farm Africa Trading Limited**	
	2016	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Total incoming resources	**2,248**	1,688	**-**	-	**65**	153
Total resources expended	**(3,217)**	(2,496)	**(114)**	(96)	**(60)**	(121)
Retained surplus/(deficit) for the year	**(969)**	(808)	**(114)**	(96)	**5**	32
Total assets	**2,070**	1,172	**13**	1,148	**147**	222
Total liabilities	**(1,592)**	(1,022)	**(42)**	(96)	**(142)**	(222)
	478	150	**(29)**	1,052	**5**	-

14. DEBTORS

	2016 Group	**2016 Charity**	2015 Group	2015 Charity
	£'000	**£'000**	£'000	£'000
Amounts owed by subsidiary undertakings	**-**	**155**	-	329
Trade debtors	**74**	**4**	164	24
Other debtors	**224**	**72**	276	167
Prepayments	**113**	**113**	42	42
Accrued income – other	**141**	**137**	31	16
Accrued income – project grants	**1,224**	**1,224**	1,690	1,690
	1,776	**1,705**	2,203	2,268

[4] Sidai Africa (Kenya) Limited is 100% owned by Sidai Africa Limited. Sidai Africa is 84% owned by Farm Africa and 16% owned by the AH Lundin Foundation.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 Group £'000	2016 Charity £'000	2015 Group £'000	2015 Charity £'000
Trade creditors	**466**	**21**	402	101
Deferred income	**-**	**-**	411	411
Other creditors and accruals	**372**	**355**	439	292
Loan from Adolf H. Lundin Charitable Foundation	**373**	**-**	97	-
Grant obligations	**547**	**547**	-	-
Other tax and social security costs	**46**	**42**	58	58
Bank loan	**23**	**-**	-	-
	1,827	**965**	1,407	862

16. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2016 Group £'000	2016 Charity £'000	2015 Group £'000	2015 Charity £'000
Loan from the Adolf H. Lundin Charitable foundation to Sidai Africa (Kenya) Limited	**739**	**-**	478	-

The above loan represents three loan agreements. The first is a 5 year $1m loan facility signed in October 2014. The repayment is required to be paid on a half yearly basis, with the first repayment instalment to be paid on the date which is six months following the drawdown end date. The loan accrues interest at a rate of 7% per annum.

The second and third represent $180,000 and $260,000 loan facilities signed on 20 April 2016 and 13 July 2016 respectively. The repayment is required to be paid on a half yearly basis, with the first repayment instalment to be paid on the date which is six months following the drawdown end date. The loan accrues interest at a rate of 9% per annum.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Group £'000	**Charity £'000**
At 1 January 2016	180	180
Amount released to the statement of financial activities	(176)	(176)
Amount charged to the statement of financial activities	274	274
As at 31 December 2016	**278**	**278**

Provisions comprise the following:

- Contract severance provisions for staff on non-UK contracts. Under employment law in some of the countries where Farm Africa operates there is an entitlement to severance payments when an employee leaves. The amount payable is determined by the salary and length of service of each employee. The provision represents the accumulated entitlements of all such employees. The provision is released when payments are made to employees upon their departure from Farm Africa.
- A provision in respect of a grant containing a payment by results element. The provision represents a proportion of the grant income which could be withheld by the donor if performance-related targets for the grant were not met. The provision is released once the grant agreement expires and the project has concluded.

- Provisions for potential costs arising from legal actions overseas. The provision represents a prudent estimate of the potential future cost if Farm Africa did not win the legal cases. This is calculated taking in to account the probability of an adverse outcome to Farm Africa and an estimate of the size of the financial impact. Provisions are released once legal actions are concluded.
- A provision for probable future costs in respect of Farm Africa's previous activities in South Sudan (Farm Africa ceased operations in South Sudan due to the unstable operating context). The provision includes an estimate of costs relating to the storage and repatriation of project documentation. The provision will be released once the documents have been repatriated to the UK and there are no other probable liabilities.
- Dilapidation provisions to cover estimated future costs of restoring properties to their required condition at the end of their lease. The provision will be released at the end of the lease, based on dilapidation costs required, provided the lease is not renewed.

18. MOVEMENTS IN FUNDS

	At 1 January	Income	Expenditure	On revaluation	Minority Interest[5]	**At 31 December**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Ethiopian programmes	1,962	6,667	(5,575)	-	-	**3,054**
Kenyan programmes	266	1,578	(1,713)	-	-	**131**
Tanzanian programmes	191	2,043	(1,688)	-	-	**546**
Uganda programmes	4	60	(3)	-	-	**61**
Sidai programme	(106)	1,287	(450)	22	(134)	**619**
Forestry programme	59	-	-	-	-	**59**
Other miscellaneous restricted funds	52	-	-	-	-	**52**
Movement on restricted reserves	2,428	11,635	(9,429)	22	(134)	**4,522**
Designated funds – strategic investment	560	2,309	(2,519)	-	-	**350**
Designated funds – Sidai Africa	486	1,787	(2,869)	-	173	**(423)**
General funds	1,242	2,169	(1,694)	-	-	**1,717**
Movement on unrestricted reserves	2,288	6,265	(7,082)	-	173	**1,644**
Total movement on reserves	**4,716**	**17,900**	**(16,511)**	**22**	**39**	**6,166**

The movement on restricted reserves represents the net of monies received and expended on projects which are funded by grants from specific donors. The movement on restricted funds above has been aggregated by country. A more detailed analysis by individual fund is available on request.

Negative balances are only carried forward on funds where there is a reasonable expectation that funds will be received in a future period from a donor or funder to meet the costs incurred.

As at 31 December 2016, we have chosen to designate £350,000 for to smooth the transition in Farm Africa's unrestricted funds budget following the completion of the PPA funding period (2015: 560,000)

[5] This relates to the 16% share owned by the AH Lundin Foundation

19. MINORITY INTEREST

	Unrestricted Funds £'000	Restricted Funds £'000	Total Funds £'000
At 1 January 2016	93	(19)	74
Movement in the year	(153)	306	153
At 31 December 2016	**(60)**	**287**	**227**

20. NET ASSETS ANALYSIS (GROUP)

	Unrestricted Funds	Restricted Funds	Total Funds
Fund balances at 31 December 2016	£'000	£'000	£'000
are represented by:			
Tangible and intangible fixed assets	543	-	543
Net current assets	1,101	4,522	5,623
	1,644	**4,522**	**6,166**

21. CONSTITUTION

The charitable company, which is limited by guarantee, does not have share capital and is constituted as a charity. Every member undertakes to contribute an amount not exceeding £2 in the event of winding-up. The income and property of the charitable company cannot be transferred to the members by way of dividend.

22. COMMITMENTS: OPERATING LEASES

At 31 December 2016, Farm Africa has the following commitments under non-cancellable operating leases:

	Equipment	**Property**	**2016 Total**	2015 Total
	£'000	**£'000**	**£'000**	£'000
In less than 1 year	**9**	**84**	**93**	147
Between one and two years	**16**	**51**	**67**	185
Later than five years	**-**	**-**	**-**	-
	25	**135**	**160**	332

23. RELATED PARTY TRANSACTIONS

There were no related party transactions requiring disclosure other than transactions with subsidiaries (2015: none).

Farm Africa charged a service fee of £11,000 (2015: £16,000) and also paid costs totalling £3,000 (2015: £84,000) on behalf of Sidai Africa. At the year end, Sidai Africa owed £14,000 (2015: owed £103,000) to Farm Africa.

Farm Africa has historically paid a number of items on behalf of Sidai Africa (Kenya) and Sidai Africa (Kenya) on behalf of Farm Africa. At 31 December 2016 Sidai Africa (Kenya) owed Farm Africa £9,000 in respect of these items (2015: £13,000).

Farm Africa Limited charged a management fee of £17,000 (2015: £16,000) to Farm Africa Trading Limited. At the year end, Farm Africa Trading owed £148,000 (2015: £153,000) to Farm Africa Limited. Farm Africa Trading will make a donation of £nil (2015: £57,000) to Farm Africa in 2016.

24. PARENT COMPANY RESULT

The parent company generated a surplus of £1,021,000 (2015: £339,000).

25. PENSION COSTS

As at 31 December 2016, Farm Africa operated one defined contribution scheme in the UK, provided by Friends Life part of the Aviva Group. It also makes contributions into other individual employee pension schemes. Farm Africa paid contributions at a rate of 7% of employee salary during the accounting period.

Prior to 1 October 2016, for employees not in a pension scheme Farm Africa made a provision at a rate of 7% of employee salary. From 1 October 2016 all employees are automatically enrolled unless they opt out of enrolment.

The pension cost included in the Statement of Financial Activities for UK employees was £103,000 (2015: £97,000).

26. LEGACIES

There were no legacies (2015: £57,000) notified to the charity that did not meet the recognition criteria, and therefore all legacies notified to the charity been accounted for within these financial statements.

27. CAPITAL COMMITMENTS

	2016 Group £'000	**2016 Charity £'000**	2015 Group £'000	2015 Charity £'000
Accounting and sales software	**-**	**-**	70	-
	-	**-**	70	-