

**SUGAR CANE GROWERS
FUND
2018 ANNUAL REPORT**

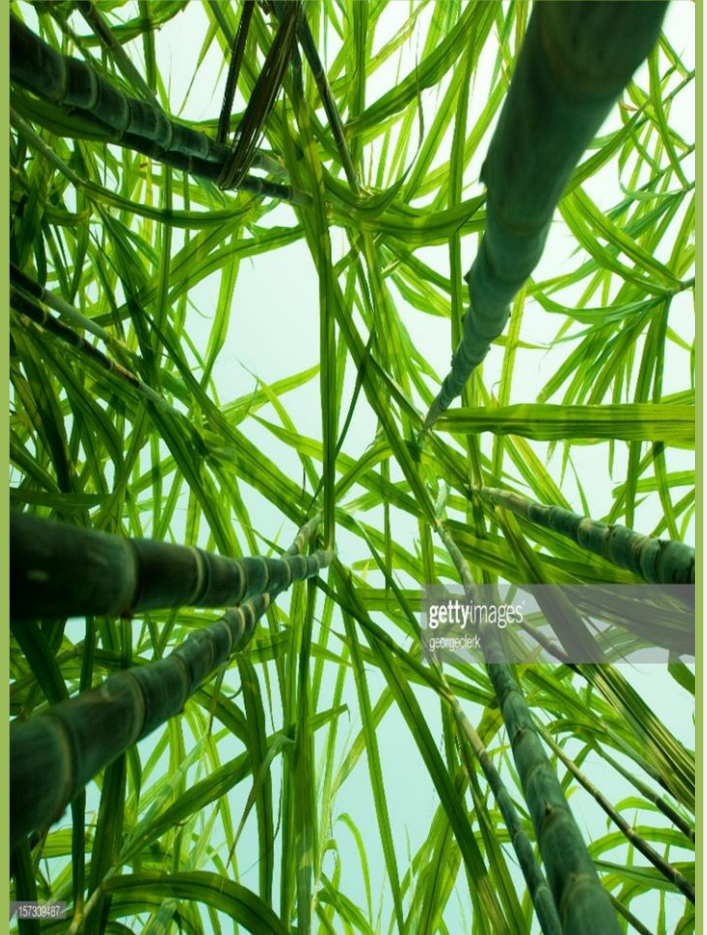


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Letter to the Minister

28 November 2019

The Honorable Prime Minister and Minister for Sugar Industry
Office of the Prime Minister
Government Buildings
Suva

Dear Honorable Prime Minister

Enclosed herewith is a copy of the Annual Report and the Audited Accounts for the Sugar Cane Growers Fund and the consolidated Financial Statements of the Group (the Group being the Fund and its Subsidiary – South Pacific Fertilizers Pte Limited) for the year ended 31 December 2018, in accordance with Section 16 of the Act.

Yours faithfully

.....
FAIZUL ARIFF ALI
CHAIRMAN

Corporate Statement

Vision will ensure efficient and dependable financial services to its customers. As the premier service provider to cane farmers, will take its best people, best practices and best products to new dimensions and expanded opportunities.

Mission to provide efficient, affordable and sustainable financial services to meet the diverse needs of our customers and contribute to the development of the economy and in particular the Sugar Industry.

Values exercise sound management, prudent lending and investment policies.

- i. Maintain integrity and objectivity;
- ii. Put our customers first and in doing so will provide quality service promptly, effectively and courteous transparent and accountable corporate practices;
- iii. Good corporate citizens and act in the best interest of Fiji; and
- iv. Provide opportunities for all our employees to develop their full potential in a sage and cooperative working environment.

Chairman's Report

Introduction

I am pleased to submit the report for Sugar Cane Growers Fund (SCGF) for the year 2018. It has been a challenging but at the same time exciting year for us. We continued to provide services to our growers in accordance with functions mentioned in the Act.

Results

SCGF and its subsidiary, South Pacific Fertilizers Pte Limited (SPFL), had one of the strongest financial year, recording a group a net profit after taxes of \$8.5 million. SCGF on its own had highest record surplus of \$2.4 million, compared to \$1.7 million in 2017. This out turn was achieved without any increase of fees and charges or interest rate, but through strong governance of the two entities and prudent management, embedding stewardship for its core functions and values.

SCGF had steady growth in lending activities whereby it processed 2,855 applications amounting to \$7.8 million. It continued to support the Bundled Insurance Product as the founding institution, paying \$52 annual insurance premium for each producing grower. For the year ending, SCGF paid a total premium of \$603,512 processed claims for 99 cases amounting to \$389,000.

One key achievement for the SCGF in the financial year was the implementation of International Financial Report standard (IFRS 9) and I would like to acknowledge the efforts of the Management and auditors, PricewaterhouseCoopers (PWC).

The industry is no doubt faced with many challenges despite government's assistance and grants. SCGF is no exception and our predicaments included weak information technology platform, data security and accuracy, loan impairments, resource capacity and, policies and process. We continue to work on these gaps.

Appointments

On 9th June 2018, Board appointed Chief Executive Officer; Raj Sharma, a professional banker who took the office on 10th September 2019. With his appointment, other management positions were created and appointments made. Mr. Francis Pesamino was appointed Manager Finance & Administration and Manager Information Technology was taken by Mr. Rajniel Lal. All these appointments went through comprehensive and robust selection process. The Board also appointed acting Chief Executive Officer, Mr. Vimal Dutt to a new executive role of General Manager Operations and Lending.

These appointments steered the new direction of **Transformation** and **Sustainability** of SCGF, first with inner focused strategy for quick fixes in identifying the institutional gaps and putting up action plans to narrow such gaps.

The priority of the management was to look at the acquisition of the new information technology platform, review loan approval processes and documentation, arrears management, act review initiation, improve governances and policy environment, and enhance representation and reach of SCGF. In addition, equally important was the human resource and organizational capacity plans in expediting conclusion of the Staff Collective Agreement with Fiji Bank & Finance Sector Employees Union.

Outlook

I am pleased to advise that we have progressed well in setting the platforms in concluding the year. The outlook for next financial remains strategically progress of the Act review, selection and acquisition of the new ICT system, effective workout and arrears management programs, improve in key policies and processes, implementation of audit and compliance findings, and improved service delivery for stakeholders, in particular the growers. Furthermore, high priority remains in implementation of Human Resource strategy with dedicated resource to complement the needs of our people.

We will continue to explore opportunities for the product and services for the growers not only support the Government agenda for the industry but also sustainability of SCGF and the growers.

Acknowledgement

Commitment, hard work and perseverance has been the key to success this year. I thank the Government, in particular the Honorable Prime Minister and Minister for Sugar Industry, Permanent Secretary for the Ministry, Ministry of Economy, Ministry of Agriculture, Ministry of Lands & Mineral Resources, iTaukei Land Trust Board, Sugar Cane Growers Council, Sugar Industry Tribunal, Fiji Sugar Corporation Limited, Sugar Research Institute of Fiji, South Pacific Fertilizers Pte Limited, the trading Banks, my fellow Directors of SCGF and SPFL board for valued contributions and continued support during the year.

To our growers, you are most valuable part of the SCGF. We thank you for your support and look forward in deepening our relationship.

I also thank the Chief Executive Officer and his leadership team for their commitment and perseverance and the staff for all the good work for the year. We are also thankful to Mr. Vimal Dutt for acting in the leadership role.

.....
CHAIRMAN
SUGAR CANE GROWERS FUND

Chief Executive Officer's Report

I am honored and privileged to head the institution that is very close to me and to my roots. I am thankful to the Chairman and the Board of Directors having confidence in me for the stewardship of SCGF.

The key foundation of SCGF as mentioned in Chairman's report is ***Transformation*** and ***Sustainability*** of the Sugar Cane Growers Fund (SCGF). It has been nearly four months in the reporting year which had allowed me to settle down and pick up the activities which were high priorities of SCGF. Then moved with gradual organizational culture change through complete engagement of the staffs, their views, ideas, meeting and open communication lines. At the same time giving them empowerment and documented Board approved policy for Authorities and Limits for necessary operational functions. We continued to build the foundation of trust and result orientated work plans, hence recognizing with awards and appreciation.

Thereafter, we progressed with the stock take of the Loan Portfolio, Compliance, Arrears Management, and Security Documentation and moved to set some clear work plans with delegation and monitoring mechanism.

We identified eight transformation areas not limiting to the following:

1. Review and Assessment of current position of asset quality and lending activities through effective approval, administration, documentation and enforcement processes;
2. Look at sustainable *growth strategy* with loan underwriting and lending activities in advocating Government, Industry & Grower aspiration;
3. Ensuring improved *revenue strategy* with progressive execution of diversified (investment) income streams within the Act;
4. Having adequate resource and building organizational capacity to support the objectives and strategies;
5. Concurrently enhancing the governance and risk management platform by initiating review of the SCGF Act through support of the line ministry (Ministry of Sugar Industry) thus allowing *diversification* strategy for sustainability;
6. Setting policies, processes and timely review and/or introduction of products and promotions in the transformation journey with awareness and engagement of all the stakeholders and in particular the growers;
7. Transformation journey embedded through a new integrated financial system acquisition; and
8. Having sustainable and prudent value adding services for growers and community, including climate change initiatives.

At the end of the year, we have made some good progressive breakthrough with our work plans, brand and image.

Moving forward, my vision is to make this Fund a dynamic, modern but prudent more than a lending institution, financially empowering the sugar industry and even beyond but within its appetite.

I must thank the Honorable Prime Minister, Permanent Secretary and the Ministry of Sugar Industry staff, Board Chairman and Directors for all the support and direction, fellow Management team and staff for all their dedication and commitment to the work. My utmost sincere appreciation also goes out to all the relevant industry stakeholders and special thanks to our growers, for whom we exist.

Thank you very much.

.....
RAJ SHARMA
CHIEF EXECUTIVE OFFICER

About SCGF

The Sugar Cane Growers Fund Authority (Fund) was established by Act No. 9 of 1984 enacted by the Parliament of Fiji on 26 July 1984. All monies and Assets of the Sugar Cane Price Support Fund were transferred to the Sugar Cane Growers Fund under the Act. The name has been changed to Sugar Cane Growers Fund (SCGF) by amendment Act 12 of 1996.

Functions

The function of SCGF is to provide loans to Sugar Cane Growers for the following purposes: -

- (a) Purposes which, in the opinion of the Board, will increase the production of Sugar Cane;
 - (b) Purposes which, in the opinion of the Board will improve efficiency in the planting, growing, harvesting and transportation of Sugar Cane;
 - (c) The carrying out of work which the Board considers necessary or desirable to rehabilitate farms, buildings and other installations damaged, destroyed or affected by floods, cyclones, droughts or other natural disasters;
 - (d) The carrying out of work which the Board considers necessary or desirable to establish sugar cane farms and to construct buildings and other installations on those farms;
 - (e) The carrying out of work which the Board considers necessary or desirable for crop diversification;
 - (f) The making of provision to such extent as the Board considers necessary, for the personal family needs of Growers during periods of financial distress or hardship; and
 - (g) To enable cane growers to participate in commercial ventures, which, in the opinion of the Board, are intended to benefit the cane growing industry.
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Financial Assistance to Cane Growers

Under section 17 (1) of the Act, a loan to a cane grower is a first charge on all cane proceeds due to him/her provided the loan is for those purposes only, set out in paragraph (a), (b), (c) and (f) of sub-section 1 of section 4 of the Act and the loan does not exceed \$5,000.00. Repayment of advances by the Fiji Sugar Corporation Limited, or other payments of whatsoever nature made to the cane growers or on his/her behalf and Land Rent under the Master Award take precedence.

Corporate Governance

The governance of SCGF maps out a pathway transparency, accountability and oversight of the institutions by the Board embedded through Mission, Vision, Corporate and Strategic Objectives.

The Board provides strategic guidance and advices to Management ensuring the sound management and good governance is maintained. The Board comprises of five members. Chairman Mr. Ariff Ali and Board Member Mr. Pradeep Lal were appointed on 19 January 2017. Other three members were appointed on 18 November, 2015. They are Mr. Sundresh Chetty (re-appointed on 9 January 2019), Mr. Timothy Brown and Mr. David Veremo, both terms expired on 18 November 2018.

Table 1: Board Attendance

Board Meetings and Attendance for the Period of 28 March 2018 to 24 September 2018

Board Members	Board	
	No. of meetings	
	Held	Attended
Mr Ariff Ali	3	3
Mr Pradeep Lal	3	2
Mr Sundresh Chetty	3	3
Mr Timothy Brown	3	3
Mr David Veremo	3	3

Lending Activities During the Year

Loans to Growers

Currently, SCGF has the following loan facilities available for Cane Farmers:

Table 2: SCGF Products

Type of Loans	Portfolio
Priority Loans	Limited up to \$5,000 for Farm Development and Planting for Sugar Cane, Repair of Farm Equipment, House Repairs, Education Expenses, Wedding , Drainage, Roding, Weedicides, Borehole Drilling, Medical and Purchase of Working Bullocks and Horses, etc.
Specialised Lending	Maximum lending of \$75,000 for the Purchase of Cane Farms, Farm Machinery, Cane Trucks, Construction of Farm House and for other purposes provided in the Act.
Loans to Tenants for New Leases	Loans to enable growers to acquire New Leases from the iTaukei Land Trust Board, Department of Lands and other Landowners.
Refinance of Sugar Cane Growers Loan	Loans to Refinance Sugar Cane Growers loans with Commercial Banks and other Lenders. Loans are approved only for the purposes provided in the Sugar Cane Growers Fund Act.

Loans Cumulative to 2018

Table 3: Accumulative Details

Particulars	Priority Loans	Specialised Loans	New Leases	Refinance
Application count	34,44	8,253	4,652	672
Value	\$40,900,957	\$52,761,036	\$21,480,756	\$7,741,516

Cane Development Revolving Fund

The Board of Management of the Sugar Cane Growers Fund agreed to provide \$3million towards establishment of a Cane Development Revolving Fund initiated by the Fiji Sugar Corporation Limited with the \$6 million the Government allocated in the 2011 Budget for Sugar Cane Planting.

The Industry Stakeholders – the Fiji Sugar Corporation Limited, Sugar Cane Growers Fund, Sugar Cane Growers Council, the Sugar Industry Tribunal, South Pacific Fertilizers Pte Limited and the Sugar Research Institute of Fiji signed a Memorandum of Agreement to support the initiative taken by the Fiji Sugar Corporation Limited.

Money from the Revolving Fund is an interest free loan repayable over four years. Recovery would commence from the second year and deductions shall take place from the delivery payments.

The Sugar Cane Growers Fund is responsible for the assessment of loan applications and release of loan funds.

For the Financial year funds available was \$2,337,335.

Table 4: Accumulative CDRF

CDRF Loan	Count	Value
Applications Paid	4,284	\$8,664,952

District Offices

SCGF has offices in Lautoka, Labasa, Seaqaqa, Rakiraki, Tavua, Ba and Nadi to provide services to sugar cane growers. Growers from the Sigatoka districts are provided services by the Nadi staff once a week from the Sugar Cane Growers Council office, in Sigatoka. Loans applications are received at the district offices, the approvals and payments are processed at the Head office.

During the year, the Fund approved loans under Priority Loans to the value of \$2.1M and loans under Specialised Lending to the value of \$1.9M.

Table 5: Applications Received at District office

District	Application Count	Value of Loans Paid
Labasa	581	\$ 2,067,321
Seaqaqa	307	\$ 590,429
Rakiraki	212	\$ 603,086
Tavua	113	\$ 280,226
Ba	829	\$ 1,898,159
Nadi	236	\$ 904,089
Sigatoka	222	\$ 477,483
Lautoka	355	\$ 1,017,388
Total	2855	\$ 7,838,184

Micro Insurance Bundled Product

This new insurance scheme initiative was approved by the SCGF Board to benefit approximately 12,000 cane growers in the cane belt areas effective 01 July 2017. The Pacific Financial Inclusive Programme (PFIP) and Fiji Care Insurance Limited collaborated with SCGF to provide financial support towards the administration, marketing and awareness of this insurance product.

This special insurance product, the first of its kind to in Fiji, provided by Fiji Care Insurance Limited and provides the following covers:

• Death	-	\$3,000.00
• Fire	-	\$3,000.00
• Personal Accident	-	\$3,000.00
• Funeral	-	<u>\$1,000.00</u>
TOTAL	-	<u>\$10,000.00</u>

SCGF has agreed to pay the insurance scheme premiums of \$52 per farmer per year for the next three years at no cost to the growers. Cane growers below the age of 65 years are covered for death, personal injury, funeral costs and house fire. The premium payment for the product is funded by SCGF operations.

For farmers above the age of 65 years, this new initiative provides a cover for their house while their next of kin is covered for death, personal injury and funeral costs.

A review of the Scheme will be undertaken in 2020.

Table 6: Growers Assisted in 2018

Particulars	Count	Amount Paid
Fire	7	\$ 21,000
Funeral/Term Life	92	\$368,000
Total	99	\$389,000

Finance & Administration

Overview

The reporting year 2018 was the most successful trading year for SCGF (table below shows the income and expenditure for previous years) whereby the group made a net profit after taxes of \$8,534,324 (SCGF = \$2,445,651) for the year ended 31 December 2018. Maximising revenue from investments is the goal for the SCGF so that benefits to the farmers could be maximised AND as a result, SCGF has continued to pay the insurance premium for all registered producing growers. The insurance premium will be paid until June 2020. Improved performance was also recorded from SPFL and SPFL did not owe any loan to SCGF as at 31 December 2018.

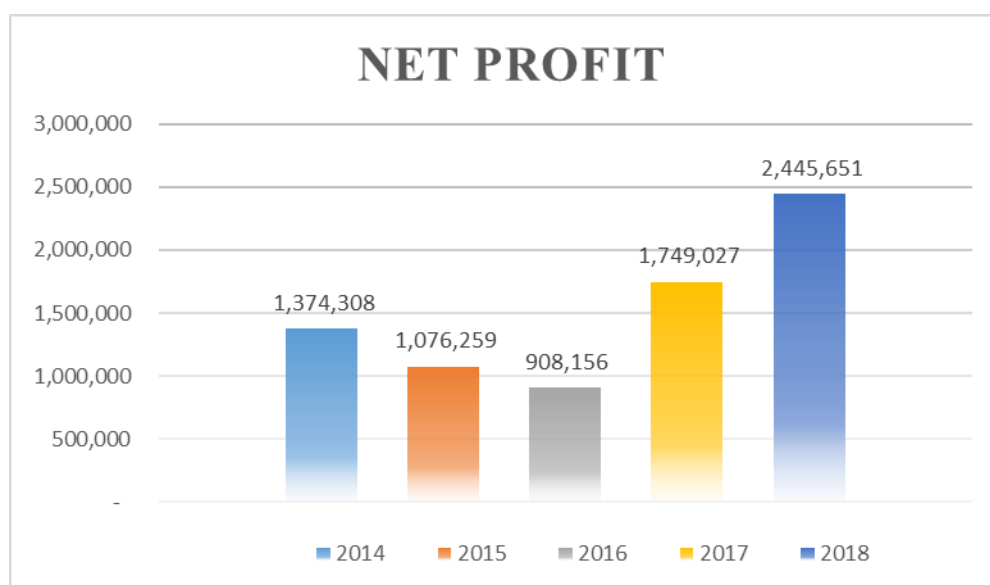


Table below shows in detail the financial results from 2014 to 2018.

Table 7: Financial Results

SCGF FINANCIAL PERFORMANCE ANALYSIS 2014 - 2018					
Details	2014	2015	2016	2017	2018
Revenue	\$	\$	\$	\$	\$
Interest Income	2,310,506	2,049,498	2,086,287	2,271,182	2,675,240
Other Operating Income	166,345	233,753	245,641	1,160,029	1,464,147
	2,476,851	2,283,251	2,331,928	3,431,211	4,139,387
Administrative and Other operating expenses	1,102,543	1,206,992	1,423,772	1,682,184	1,693,736
Net Profit after tax	1,374,308	1,076,259	908,156	1,749,027	2,445,651

Revenue Recognition

Interest income is derived from loans (Priority & Specialised) to growers, industry related parties – FSC and terms deposits of the Group and is recognised on an accrual basis. For financial assets measured at amortised cost, the effective interest rate method is used to measure the interest income recognised in the statement of Profit or Loss and other Comprehensive Income. For financial assets measured at fair value, interest income is recognised on an accrual basis, either daily or on a yield to maturity basis.

Dividends – South Pacific Fertilizers Pte Ltd

During the year dividend of \$90,600 was received from the SPFL as final dividend for the FY 2017. Subsequent to year end, SPFL approved an interim dividend of \$500,000 for the financial year ended 31 December 2018. Dividend income of \$453,000 will be accounted for as other income in the 2019 financial year.

Administrative Expenses

The details of the administrative expenses are reflected on Note 7 of the audit report. These expenses consist of items such as audit fees and services, depreciation, directors' fees and insurance, grower's insurance, expected credit loss allowances, staff cost.

It is also noted that Chairman (Mr. Ariff Ali) and Director (Mr. Pradeep Lal) have opted not to receive board fees and allowances. Board fees for Director (Mr. Sundresh Chetty) are paid directly to his employer – Sugar Cane Growers Council (SCGC).

IFRS 9 Implementation & Provisions

The adoption of IFRS 9 has resulted in changes to accounting policies for recognition, classification and measurement of financial assets and financial liabilities and their respective impairments.

The table below shows these differences between the old accounting standard (IAS 39) and IFRS 9 for SCGF financial assets and liabilities at 01 Jan 2018.

Fund	IAS 39	Carrying Amount	IFRS 9	Carrying Amount
	Measurement Category		Measurement Category	
Financial Assets		(\$)		(\$)
Cash and cash equivalents	Amortised cost (Loans and receivables)	6,493,978	Amortised cost	6,493,978
Loans and advances	Amortised cost (Loans and receivables)	26,298,261	Amortised cost	23,044,537
Trade and other receivables	Amortised cost (Loans and receivables)	662,982	Amortised cost	662,982
Related party advances	Amortised cost (Loans and receivables)	8,567,653	Amortised cost	8,445,992
Investments at amortised cost	Amortised cost (Held to maturity)	10,861,000	Amortised cost	10,816,331
Investment at fair value through profit or loss	Fair value through P&L	4,259,663	Fair value through P&L	4,259,663
		<u>\$57,143,537</u>		<u>\$53,723,483</u>

There were no changes to the classification and measurement of financial liabilities.

Credit Risk – Loans to Growers

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails in further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. SCGF measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Fund's internal rating scale for assessing the performance of loans is set out below:

1. **Performing** – Customers have a low risk of default and a strong capacity to meet contractual cash flows;
2. **Underperforming** – Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principle repayments are 4 quarters past due; and
3. **Default** – Interest and/or principle are 8 quarters past due and there is no reasonable expectation of recovery.

Summary of Loans and Investments

INSTITUTION	AMOUNT (\$)
SCGF - Loans to Growers (CDRF inclusive)	25,817,728
Loans to FSC	6,609,111
SPFL Equity Shares	13,401,405
Investments	19,668,219
Total	65,496,463

The SCGF is dedicated to continue its operations and performance, thus enhancing its services and that would bring opportunities to the sugar cane farmers of Fiji.

Information Technology

In the reporting period, Information Technology had been focused on calling up Expression of Interest and information gathering for the change of Core Business Solutions. There have been improvement also, in business process and scope the work in terms of the audit implementation programs for the Change Management and Data Security Test.

Staffing

In the reporting period, SCGF has 27 employees, majority of whom are members of the Fiji Bank & Finance Sector Employees Union (FB&FSEU) and are employed under Terms & Conditions contained in an agreement between SCGF and the Fiji Bank & Finance Sector Employees Union (FB&FSEU).

Appropriate Human Resource strategy had been rolled out towards end of the quarter that included, rewards and recognition, negotiations and discussion with Union for the collective agreement, enhance training and development programs, and the review of the Human Resource policy. In addition to this, gradual organisational culture change had been brought about with total engagement and open door policy.

Financial Statements for the Year Ending 31 December 2018

2018 Highlights – Last Page



Launch of Employee of the Month



Launch of SCGF Facebook



Launching of SCGF Back to School Education Loan Promotion by Hon George Vengnathan-Assistant Minister for Sugar Industry at SCGF Labasa branch office



SCGF Management Strategic Planning



Meeting held with International Finance Corporation(IFC)



Staff meeting with growers

