

**"RURAL ECONOMY DEVELOPMENT PROJECT"
GRANT NO. D4980-TJ.**

**The project financial statements
for the period from January 15, 2020 to December 31, 2020
and independent auditor's report**

"RURAL ECONOMY DEVELOPMENT PROJECT" GRANT NO. D4980-TJ.

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"RURAL ECONOMY DEVELOPMENT PROJECT" GRANT No. D4980-TJ

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 15, 2020 TO DECEMBER 31, 2020

The following statement, which should be read in conjunction with the independent auditors' responsibilities is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the project financial statements of the "Rural Economy Development Project" Grant No. D4980-TJ. (the "Project").

Management is responsible for the preparation of the project financial statements that present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components for the period from January 15, 2020 to December 31, 2020 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

In preparing the project financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the project financial statements; and
- preparing the project financial statements on a going concern basis, unless it is inappropriate to presume that the Project will be implemented in accordance with the established period.

Management is also responsible for:

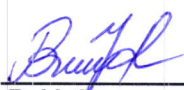
- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the project financial statements of the Project comply with IPSAS and WB Guidelines;
- compliance with laws and regulations of the Republic of Tajikistan, accounting system of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud and other irregularities.

The project financial statements for the period from January 15, 2020 to December 31, 2020 were approved and authorized for issue on June 21, 2021 by the management of the Project.

On behalf of the Management:


Majidi Yusuf Khairullo
Acting Director of PIU

June 21, 2021
Dushanbe, Republic of Tajikistan


Gafforov Bakhtiyor
Chief Accountant

June 21, 2021
Dushanbe, Republic of Tajikistan

INDEPENDENT AUDITORS' REPORT

To the management of the “Rural Economy Development Project” under the Ministry of Finance and the State Committee on Investments and Government Property Management of the Republic of Tajikistan:

Report on the project financial statements

Opinion

We have audited the accompanying project financial statements of the “Rural Economy Development Project” Grant No. D4980-TJ. (the “Project”) which comprise the summary of funds received and expenditures paid and the summary of expenditures paid by project parts for the period from January 15, 2020 to December 31, 2020, and a summary of significant accounting policies and other explanatory information (the “project financial statements”).

In our opinion, the accompanying project financial statements present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project parts of the Project for the period from January 15, 2020 to December 31, 2020 in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the project financial statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without further qualifying our opinion, we draw attention to Note 2 to the project financial statements, which describe the basis of accounting. These project financial statements were prepared for complying with the appropriate World Bank Guidelines and Financing and Grant agreements requirements.

Other matter

The project financial statements are prepared to assist the project to comply with the requirements of the World Bank. As a result, the project financial statements may not be suitable for another purpose.

Responsibilities of management and those charged with governance for the project financial statements

Management is responsible for the preparation and fair presentation of these project financial statements in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Accounting Standards Board of the International Federation of Accountants, and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”), and for such internal control as management determines is necessary to enable the preparation of the project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the project financial statements

Our objectives are to obtain reasonable assurance about whether these project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Baker Tilly Klitou and Partners

Baker Tilly Klitou and Partners SRL

Chisinau, Republic of Moldova
June 21, 2021



“RURAL ECONOMY DEVELOPMENT PROJECT” GRANT No. D4980-TJ

SUMMARY OF FUNDS RECEIVED AND EXPENDITURES PAID FOR THE PERIOD FROM JANUARY 15, 2020 TO DECEMBER 31, 2020

(in US dollars)

	Notes	For the period from January 15, 2020 to December 31, 2020	Cumulative
Opening balance	4	-	-
Funding sources			
Grant No. D4980-TJ	5	400,000	400,000
Total financing		<u>400,000</u>	<u>400,000</u>
Project expenses			
Goods, works, non-cons. serv., cons. serv., incremental operating costs and training for the project (except for Parts 1.2 and 2)	6	149,243	149,243
Total project expenses		<u>149,243</u>	<u>149,243</u>
Closing balance	4	<u>250,757</u>	<u>250,757</u>

On behalf of the Management:


Majidi Yusuf Khairullo
 Acting Director of PIU

June 21, 2021
 Dushanbe, Republic of Tajikistan


Gafforov Bakhtiyor
 Chief Accountant

June 21, 2021
 Dushanbe, Republic of Tajikistan

The notes on pages 7-12 form an integral part of the project financial statements. The independent auditor's report is on pages 3-4.


“RURAL ECONOMY DEVELOPMENT PROJECT” GRANT No. D4980-TJ

SUMMARY OF EXPENDITURES PAID BY PROJECT PARTS FOR THE PERIOD FROM JANUARY 15, 2020 TO DECEMBER 31, 2020


(in US dollars)

	For the period from January 15, 2020 to December 31, 2020	Cumulative
Part 3. Capacity building and business development services in tourism, agribusiness and related sectors	22,489	22,489
Part 4. Project coordination, implementation and Grant Program Management and Administration	<u>126,754</u>	<u>126,754</u>
	<u><u>149,243</u></u>	<u><u>149,243</u></u>

On behalf of the Management:


Majidi Yusuf Khairullo
 Acting Director of PIU

June 21, 2021
 Dushanbe, Republic of Tajikistan


Gafforov Bakhtiyor
 Chief Accountant

June 21, 2021
 Dushanbe, Republic of Tajikistan

The notes on pages 7-12 form an integral part of the project financial statements. The independent auditor's report is on pages 3-4.

“RURAL ECONOMY DEVELOPMENT PROJECT” GRANT No. D4980-TJ

NOTES TO THE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 15, 2020 TO DECEMBER 31, 2020

(in US dollars)

1. GENERAL INFORMATION

According to the Financing Agreement between the Republic of Tajikistan and International Development Association (the “IDA”) dated January 15, 2020, the World Bank provided a Grant No. D4980-TJ in the amount of 21,700,000 Special Drawing Rights (“SDR”) to the Republic of Tajikistan.

The Grant were provided for implementation of the “Rural Economy Development Project” (the “Project”).

Project purpose

The objective of the Project is to improve the sources of livelihood for local populations in GBAO and Khatlon through tourism and agribusiness.

The Project consists of the following parts:

Part I. Improve public infrastructure for development of tourism, agribusiness and related sectors.

1.1. Public investments in historical and cultural tourism sites

Provide support for the rehabilitation, beautification, landscaping, and general improvement of selected sites in GBAO and Khatlon through:

a) Investments for the Yamchun Fortress through carrying out, inter alia: (i) a comprehensive diagnostic campaign, including feasibility study, preliminary and detailed engineering designs, bill of quantities, and technical specifications, to assess the status of the fortress and determine all needed measures and interventions; and (ii) implementation of conservation, presentation, and management measures as identified in the diagnostic campaign the restoration works, including, but not limited to structural stabilization works, conservation of walls and towers, protection of the features that are important in defining the historic character of the fortress, development of a pedestrian access route to the fortress, and other measures to enhance presentation to tourists.

b) Investments in three sites in the Khatlon region, namely Hulbuk Castle, Khoja Mashad Madrassa and Chiluchorchashma to develop a historical and religious circuit through carrying out inter alia', (i) the technical design of the interventions to be carried out under Part 1.1 (b) (ii); (ii) rehabilitation works for general improvements of the landscape surrounding the said sites.

1.2. Improve tourism and agribusiness infrastructure and develop tourism attractions through provision of Sub-grants to Eligible Beneficiaries for Sub-projects to:

a) promote tourism, including inter alia', (i) rehabilitating local recreational sites (such as theatres, parks, and museums), (ii) improving hiking or cultural trails, or (iii) organizing local fairs and other cultural events.

b) to improve infrastructure in public agricultural markets (bazaars), including but not limited to: (i) building or improving trading areas, (ii) building or improving sanitary facilities, (iii) building or improving (cold) storage facilities, (iv) repairing of facilities or buying equipment for food safety control labs in the bazaars, and (v) any other public investments pertaining the bazaars identified by the Recipient and agreed with the Association.

1.3. Public investments in touristic signage

Provision of support for the preparation, purchase, and installation of tourist signs across the major travel routes and for key tourism sites in Khatlon and GBAO, including road signage, as well as entrance and interpretative signage.

Part 2. Support to MSMEs and entrepreneurs in the tourism, agribusiness and related sectors

Provision of Matching Grants to Eligible Beneficiaries for Sub-projects to:

(a) support post-harvest storage and processing, through goods and services for inter alia', (i) drying or packaging machines, (ii) (cold) storage facilities, (iii) equipment to produce small-size uniquely packaged products that can be sold on the local market or bought by tourists as present, or (iv) changes to production processes to obtain food safety and quality certifications;

(b) support the farmers and processors at the value chain level by removing demand and supply bottlenecks; and

(c) improve tourism-related services and offerings and upgrade the quality of their products and services to tourists, including the development and promotion of agritourism services.

Part 3. Capacity building and business development services in tourism, agribusiness and related sectors

3.1. Provision of technical assistance and capacity building, including skill development to tourism and agribusiness through carrying out inter alia? training and advisory for public institutions on tourism and agribusiness development; (ii) promoting tourism and agribusiness by organizing and taking part in trade fairs, familiarization or learning tours (for tour operators and agribusinesses), and media and marketing activities, including the elaboration and dissemination of online, in-print and visual materials; and (iii) training for skilled professionals, semi-skilled workers, and relevant entrepreneurs in the tourism sector.

3.2. Provision of technical assistance to provide support to the Eligible Beneficiaries through the recruitment of service providers ("enablers") to inter alia', (i) outreach activities and training of Eligible Beneficiaries, particularly targeting vulnerable groups; (ii) support for the origination and preparation of the Sub-Grants and Matching Grants proposals; and (iii) provision of implementation and follow up support to the Eligible Beneficiaries.

Part 4. Project coordination, implementation and Grant Program Management and Administration

4.1. Provide support for (i) Project management activities, including overall coordination and supervision of Project implementation, Project audits, and financing of Incremental Operating Costs, (ii) Project monitoring and evaluation activities, Project transparency and citizen feedback, and (iii) manage a Beneficiary Feedback Mechanism, including a GRM.

4.2. Provide support, through the hiring of a Grant Management Company, to structure and manage the operational and administrative activities related to the Sub-grants and Matching Grants, including preparing calls for proposals, advertising the said programs, gathering applications, providing an initial assessment and preparing them for evaluation by the Grant Program Committee to be set up under the project, communicating results to beneficiaries, and monitoring the process of implementation.

Project management

The Ministry of Finance is the authorized body responsible for the preparation and implementation of the Project.

Duration of the Project is from January 15, 2020 to December 30, 2024.

2. PRESENTATION OF THE PROJECT FINANCIAL STATEMENTS

Basis of preparation

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the "IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Under the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received or provided.

The Project's approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

These project financial statements consist of:

- Summary of funds received and expenditures paid;
- Summary of expenditures paid by project parts;
- Notes to the project financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these project financial statements is US dollars (the "USD").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash basis of accounting

Project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the project. Project financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the project financial statements is balances of cash and changes therein.

Foreign currency

Operations in foreign currency initially are counted in functional currency by the official currency exchange rate settled by the National Bank of Tajikistan (the "NBT") on a date of operation.

Funds received are translated into US dollars at official exchange rate of Special Drawing Rights (the "SDR") at the date of funds receipt. All payments made in local currency are translated into US dollars at the official exchange rate defined by NBT, at the date of transaction.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the NBT.

All foreign exchange differences resulted from maturity or recounting are included in the summary of funds received and expenditures paid.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term. Balances of advances paid to employees at the end of the period are also part of closing cash position.

Taxes

Calculation and payment of personal income tax and social security contributions from income of local staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Republic of Tajikistan and relevant legislation of the Republic of Tajikistan.

Project expenses

The expenses are recorded in the period when they were actually paid.

Sources of funds

The funds were provided by the IDA to the Project by advance.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2020 comprise:

	Currency	December 31, 2020
Designated account	USD	250,439
Transit Account	TJS	263
Advances to employees	USD	55
		<u>250,757</u>

5. FUNDS RECEIVED

The funds received were provided by the following methods and sources of financing:

Financing method	For the period from January 15, 2020 to December 31, 2020	Cumulative
Advance	400,000	400,000
	<u>400,000</u>	<u>400,000</u>

6. PROJECT EXPENSES

The Project expenses by parts are presented in the summary of expenditures paid by project parts. The Project expenses on major categories are presented in the summary of funds received and expenditures paid. Breakdown of the Project expenses by nature is presented as follows:

	For the period from January 15, 2020 to December 31, 2020	Cumulative
Payroll and related taxes	45,231	45,231
Goods	44,667	44,667
Services	22,489	22,489
Equipment	18,185	18,185
Accounting software	12,553	12,553
Communication services and Advertising	1,967	1,967
Fuel and spare parts	1,618	1,618
Insurance	1,026	1,026
Business trips	678	678
Stationery and office supplies	467	467
Bank charges	272	272
Other	90	90
	<u>149,243</u>	<u>149,243</u>

7. FINANCIAL POSITION

Financial position as at December 31, 2020 is as follows:

	December 31, 2020
ASSETS AND EXPENDITURES	
Cash and cash equivalents	250,757
Cumulative project expenditures	<u>149,243</u>
TOTAL ASSETS AND EXPENDITURES	<u>400,000</u>
FINANCING	
Funds received	<u>400,000</u>
TOTAL FINANCING	<u>400,000</u>

8. WITHDRAWAL APPLICATIONS

Withdrawal applications for the period from January 15, 2020 to December 31, 2020 comprise of:

Application	Currency	Value Date	Advance	Total
1	USD	September 23, 2020	<u>400,000</u>	<u>400,000</u>
			<u>400,000</u>	<u>400,000</u>

9. STATEMENT OF DESIGNATED ACCOUNT

Statement of designated account for the period from January 15, 2020 to December 31, 2020 comprises:

	Grant No. D4780-TJ
Designated account	US dollar
Currency	20206840400020100689
Bank account	OJSC "Bank Eshkata"
Bank	Khujand, Tajikistan
Bank's location	
Balance as at January 15, 2020	<u>-</u>
Advances received for the reporting period	<u>400,000</u>
Total funds received to designated account	<u>400,000</u>
Transferred to a transit account	112,611
Expenses paid	36,910
Bank charges	<u>40</u>
Balance as at December 31, 2020	<u>250,439</u>

10. UNDRAWN FUNDS

As at December 31, 2020 undrawn funds are presented as follows:

	Grant No. D4980-TJ in XDR
Approved amount	21,700,000
Disbursed for the period from January 15, 2020 to December 31, 2020	<u>284,141</u>
Undrawn amount	<u>21,415,859</u>

11. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan. As at December 31, 2020 the Project had following commitments:

Counterparty	Contract No.	Cost per Contract	Paid up to December 31, 2020	Remaining amount to be paid
Village to village press LLC		22,353	3,353	19,000
Adventure travel trade association		23,529	-	23,529
University of Central Asia		60,374	-	60,374
JV of ARS Progetti SPA		525,765	-	525,765

12. LEGAL CASES

There were no any legal claims related to the Project.

13. EVENTS AFTER THE REPORTING DATE

During 2021 until the date of issue of these project financial statements the World Bank provided financing to the Project as follows:

Sources of financing	Application	Currency	Value Date	Advance	Total
Grant No. D4980-TJ	2	USD	March 19, 2021	<u>600,000</u>	<u>600,000</u>

As at the date of issue of the project financial statements no other significant events or transactions occurred, except for the events or transactions described above.