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**HORTICULTURAL DEVELOPMENT PROJECT  
(LOAN AGREEMENT No. 8393-UZ)**

**INDEPENDENT AUDITOR'S REPORT  
ON THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE PERIOD FROM JANUARY 1, 2017 TO DECEMBER 31, 2017**

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## INDEPENDENT AUDITOR'S REPORT

### To: Rural Restructuring Agency

We have audited the accompanying Special Purpose Financial Statement of the Horticultural Development Project No. 8393-UZ ("the Project"), implemented by Rural Restructuring Agency ("the Agency") and financed by the International Bank for Reconstruction and Development ("the IBRD", "the Bank") against the proceeds of the Loan Agreement No.8393-UZ dated April 8, 2015 ("the Loan Agreement"), the grant funds of European Union ("EU"), and the Grant Agreement of the Europe and the Central Asia Region Capacity Building Development (ECAPDEV) Trust Fund No.TF0A3025-UZ dated November 3, 2016, for the period from 1 January 2017 to 31 December 2017.

The Special Purpose Financial Statements comprise: (i) Balance, (ii) Statement of Sources and Uses of Funds, (iii) Statement of Uses of Funds by Project Components, (iv) Statement of Uses of Funds by Project Categories, (v) PIU's Special Accounts Statements, and (vi) Summary of significant accounting policies and other explanatory information.

The Special Purpose Financial Statements have been prepared by the management of the Agency according to the International Public Sector Accounting Standards (hereinafter - IPSAS) under the Cash Basis of Accounting and the World Bank's requirements.

### Management's Responsibility for the Special Purpose Financial Statements

The management of the Agency is responsible for preparation and fair presentation of these Special Purpose Financial Statements in accordance with IPSAS under the Cash Basis of Accounting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the special purpose financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying Special Purpose Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA), issued by International Auditing and Assurance Standards Board of the International Federation of Accountants. Those standards require that we should follow ethical norms, plan and perform the audit to obtain reasonable assurance that there is no incorrect or false data in the Special Purpose Financial Statements.

Audit stipulates carrying out the procedures, which are aimed to get audit proofs as regards numeric data and information, contained in the Special Purpose Financial Statements. Choosing the procedures is based on auditor's professional judgment, including the estimation of risks of substantial misrepresenting of financial statement as a result of fraud or mistakes. In the process of estimation of above-mentioned risks, Auditor considers internal control system related to the preparation and authentic submission of financial statement of the organization to develop audit procedures, which are necessary in the present circumstances, but not to express opinion on the effectiveness of organization's internal control system.

An audit also includes evaluating principles of accounting policies used and estimates made by the management, as well as evaluating the overall presentation of the Special Purpose Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the above-stated Special Purpose Financial Statements give a true and fair view of the sources and uses of funds of the Horticultural Development Project for the period from 01 January 2017 to 31 December 2017 and complies with conditions of the Agreements and IPSAS under the Cash Basis of Accounting.

Moreover, (a) adequate supporting documentation has been maintained to support claims to the Bank for reimbursement of expenditures incurred; and (b) the expenditures comply with objectives stipulated in the Agreement's.

In our opinion, the Special Accounts Statements on IBRD Credit No.8393-UZ for the period from 01 January 2017 to 31 December 2017 give a true and fair view of the financial position of the Special Accounts of the Project as at 31 December 2017 and of the cash flows for the for the year then ended and complies with the World Bank's guidelines.

**Explanatory paragraph**

Without expressing modified audit opinion, Auditor would like to focus attention on the Note 10 disclosing the fact of no financing from the EU grant funds that has been made during the year ended on 31st December 2017.

**Basis of Accounting**

We draw attention to Note 2 to the Special Purpose Financial Statements, which describes the basis of accounting. The Special Purpose Financial Statements are prepared to assist the Project to comply with the financial reporting provisions on the requirements conditions of the Financing Agreement and IPSAS. As a result, the Special Purpose Financial Statements may not be suitable for another purpose.

**Other Matter**

Financial Audit reports and opinions, as ruled by the requirements set by the World Bank, shall be uploaded, published and publicly accessible on the World Bank's website.

Auditor:

TSIAR-FINANS, LLC  
 2A, Chust Street  
 Tashkent, 100077  
 Republic of Uzbekistan

*TSIAR-FINANS LLC*



Tashkent, 11 June 2018

**BALANCE SHEET**  
as at 31 December 2017  
(USD)

| <i>Indicator</i>                           | <i>Note</i> | <i>as at 31 December 2017</i> | <i>as at 1 January 2017</i> |
|--|-------------|-------------------------------|-----------------------------|
| <b>ASSETS</b>                              |             |                               |                             |
| Cash and cash equivalents                  | 5.1         | 7 266                         | 3 417 297                   |
| <b>TOTAL ASSETS</b>                        |             | <b>7 266</b>                  | <b>3 417 297</b>            |
| <b>OWN FUNDS/FINANCING</b>                 |             |                               |                             |
| IBRD financing                             | 4.1         | 140 039 989                   | 98 658 874                  |
| Cumulative expenditure, net:               | 9           | (140 032 723)                 | (95 241 577)                |
| <i>including: Exchange rate difference</i> |             | (748)                         | (4)                         |
| <b>TOTAL OWN FUNDS/FINANCING</b>           |             | <b>7 266</b>                  | <b>3 417 297</b>            |

Signed by the management of the Agency on 1 May 2018

Deputy General Director of Rural Restructuring  
Agency



Kamalov B.

Chief Accountant of Rural Restructuring Agency



Gubieva G.

*Balance* to be read in conjunction with Notes (pages from 12 to 19) thereto forming an integral part of the Project special purpose financial statements.

**STATEMENT OF SOURCES AND USES OF FUNDS**  
**For 2017**  
**(USD)**

| Indicator  | Note | Budget                    | Actual                     |                            |  |
|--|------|---------------------------|----------------------------|----------------------------|--|
|  |      |                           | 2017                       | 2016                       | Cumulative from the beginning of the Project |
| <b>FINANCING</b>   |      |                           |                            |                            |  |
| <b>IBRD Financing</b>  |      |                           |                            |                            |  |
| - Direct payments  | 7    |                           | 0                          | 0                          | 375 000                                      |
| - Replenishment of the PIU's USD Special Account                           | 5.1  |                           | 41 381 115                 | 97 833 709                 | 139 664 989                                  |
| <b>Total IBRD Financing</b>  |      |                           | <b>41 381 115</b>          | <b>97 833 709</b>          | <b>140 039 989</b>                           |
| <b><u>TOTAL FINANCIANG</u></b>   |      |                           | <b><u>41 381 115</u></b>   | <b><u>97 833 709</u></b>   | <b><u>140 039 989</u></b>                    |
|  |      |                           |                            |                            |  |
| <b>EXPENSES</b>  |      |                           |                            |                            |  |
| <b>Expenses by IBRD</b>  |      |                           |                            |                            |  |
| Goods  |      | 1 207 600                 | 0                          | (62 486)                   | (62 486)                                     |
| Works and Consultants' services (including auditing services and training) | 5.1  | 1 476 200                 | (12 187)                   | (8 619)                    | (20 806)                                     |
| Investment and working capital sub-loans and lease financing               | 5.1  | 144 466 200               | (44 507 036)               | (94 491 642)               | (138 998 678)                                |
| Incremental Operating Costs  | 5.1  | 2 475 000                 | (271 179)                  | (275 477)                  | (575 005)                                    |
| Unallocated  |      | 0                         | 0                          | 0                          | 0  |
| Front-end fee  |      | 375 000                   | 0                          | 0                          | (375 000)                                    |
| <b>Total expenses by IBRD</b>  |      | <b>150 000 000</b>        | <b>(44 790 402)</b>        | <b>(94 838 224)</b>        | <b>(140 031 975)</b>                         |
| <b><u>TOTAL EXPENSES</u></b>   |      | <b><u>150 000 000</u></b> | <b><u>(44 790 402)</u></b> | <b><u>(94 838 224)</u></b> | <b><u>(140 031 975)</u></b>                  |
| <i>Exchange rate difference</i>  |      |                           | (744)                      | (4)                        | (748)  |
| <b>Excess of Receipts over Payments</b>                                    |      |                           | <b>(3 410 031)</b>         | <b>2 995 481</b>           | <b>7 266</b>                                 |

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| Indicator  | Note | Budget | Actual                  |                         |  |
|--|------|--------|-------------------------|-------------------------|--|
|  |      |        | 2017                    | 2016                    | Cumulative from the beginning of the Project |
| <b>Balance as at 1 January 2017</b>                      |      |        |                         |                         |  |
| <b>IBRD funds</b>  |      |        |                         |                         |  |
| PIU's USD Special Account                                | 5.1  |        | 3 417 287               | 421 816                 | 0  |
| PIU's UZS Special Account                                | 5.1  |        | 10                      | 0                       | 0  |
| <b>Total IBRD funds</b>                                  |      |        | <b>3 417 297</b>        | <b>421 816</b>          | <b>0</b>                                     |
| <b><u>Total Project funds as at 1 January 2017</u></b>   |      |        | <b><u>3 417 297</u></b> | <b><u>421 816</u></b>   | <b><u>0</u></b>                              |
|  |      |        |                         |                         |  |
| <b><u>Net Available Funds</u></b>                        |      | -      | <b><u>7 266</u></b>     | <b><u>3 417 297</u></b> | <b><u>7 266</u></b>                          |
| <b>Balance as at 31 December 2017</b>                    |      |        |                         |                         |  |
| <b>IBRD funds</b>  |      |        |                         |                         |  |
| PIU's USD Special Account                                | 5.1  |        | 5 533                   | 3 417 287               | 5 533  |
| PIU's UZS Special Account                                | 5.1  |        | 1 733                   | 10                      | 1 733  |
| <b>Total IBRD funds</b>                                  |      |        | <b>7 266</b>            | <b>3 417 297</b>        | <b>7 266</b>                                 |
| <b><u>Total Project funds as at 31 December 2017</u></b> |      |        | <b><u>7 266</u></b>     | <b><u>3 417 297</u></b> | <b><u>7 266</u></b>                          |

Signed by the management of the Agency on 1 May 2018

Deputy General Director of Rural Restructuring Agency

Chief Accountant of Rural Restructuring Agency

Kamalov B.

Gubieva G.

Statement of Sources and Uses of Funds to be read in conjunction with Notes (pages from 12 to 19) thereto forming an integral part of the Project special purpose financial statements.

**STATEMENT OF USES OF FUNDS BY PROJECT COMPONENTS**  
**For 2017**

(USD)

| <b>Components</b>             | <b>Actual</b>     |                   |   | <b>Budget</b>   | <b>Available Funds</b>  |
|-------------------------------|-------------------|-------------------|---|---|---|
|                               | <b>2017</b>       | <b>2016</b>       | <b>Cumulative<br/>from the<br/>beginning of<br/>the Project</b> | <b>Cumulative<br/>from the<br/>beginning of<br/>the Project</b> | <b>Cumulative<br/>from the<br/>beginning of<br/>the Project</b> |
| Agricultural Support Services | 12 187            | 8 619             | 395 806   | 1 851 200   | 1 455 394   |
| Access to Credits             | 44 507 036        | 94 491 642        | 138 998 678   | 144 466 200   | 5 467 522   |
| Project Management            | 271 179           | 337 963           | 637 491   | 3 682 600   | 3 045 109   |
| <b>Total</b>                  | <b>44 790 402</b> | <b>94 838 224</b> | <b>140 031 975</b>  | <b>150 000 000</b>  | <b>9 968 025</b>  |

Signed by the management of the Agency on 1 May 2018

**Deputy General Director of Rural Restructuring Agency**

**Chief Accountant of Rural Restructuring Agency**

  
Kamalov B.

  
Gubieva G.

Statement of Uses of Funds by Project Components to be read in conjunction with Notes (pages from 12 to 19) thereto forming an integral part of the Project special purpose financial statements



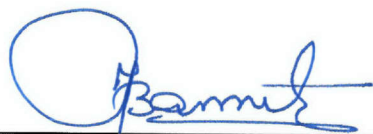
**STATEMENT OF USES OF FUNDS BY PROJECT CATEGORIES**  
**For 2017**

(USD)

| Categories   | Actual            |                   |  | Budget                                       | Available Funds                              |
|--|-------------------|-------------------|--|--|--|
|  | 2017              | 2016              | Cumulative from the beginning of the Project | Cumulative from the beginning of the Project | Cumulative from the beginning of the Project |
| Goods  | 0                 | 62 486            | 62 486                                       | 1 207 600                                    | 1 145 114                                    |
| Works and Consultants' services (including auditing services and training) | 12 187            | 8 619             | 20 806                                       | 1 476 200                                    | 1 455 394                                    |
| Investment and working capital sub-loans and lease financing               | 44 507 036        | 94 491 642        | 138 998 678                                  | 144 466 200                                  | 5 467 522                                    |
| Incremental Operating Costs  | 271 179           | 275 477           | 575 005                                      | 2 475 000                                    | 1 899 995                                    |
| Unallocated  | 0                 | 0                 | 0  | 0  | 0  |
| Front-end fee  | 0                 | 0                 | 375 000                                      | 375 000                                      | 0  |
| <b>Total</b>   | <b>44 790 402</b> | <b>94 838 224</b> | <b>140 031 975</b>                           | <b>150 000 000</b>                           | <b>9 968 025</b>                             |

Signed by the management of the Agency on 1 May 2018

Deputy General Director of Rural Restructuring Agency



Kamalov B.

Chief Accountant of Rural Restructuring Agency



Gubieva G.

Statement of Uses of Funds by Project Categories to be read in conjunction with Notes (pages from 12 to 19) thereto forming an integral part of the Project special purpose financial statements.

**STATEMENT OF PIU's USD SPECIAL ACCOUNT  
For 2017**

Account No: 2021 0840 4039 6563 7027  
Depository bank: Tashkent city regional branch of JSCB "Uzpromstroybank"  
Address: 5, Mustakillik st., Tashkent, Uzbekistan  
Related loan: 8393-UZ  
Currency: USD

|  | <i>USD</i>        |
|--|-------------------|
| <b>Balance as at 1 January 2017</b>    | <b>3 417 287</b>  |
| <b>Inflow:</b>                         |                   |
| IBRD financing                         | 41 381 115        |
| Returned funds for travel expenses     | 3 549             |
| Returned funds from suppliers          | 2 326             |
| Returned invalid transactions          | 1 340             |
| <b>Total inflow:</b>                   | <b>41 388 330</b> |
| <b>Outflow:</b>                        |                   |
| Transfers to PIU's UZS Special Account | 640 850           |
| Sub-projects financing                 | 44 145 677        |
| Paid to suppliers                      | 6 457             |
| Travel expenses                        | 5 760             |
| Invalid Transactions                   | 1 340             |
| <b>Total outflow:</b>                  | <b>44 800 084</b> |
| <b>Balance as at 31 December 2017</b>  | <b>5 533</b>      |

Signed by the management of the Agency on 1 May 2018

Deputy General Director of Rural Restructuring  
Agency

Chief Accountant of Rural Restructuring Agency

  
Kamalov B.

  
Gubieva G.

"Statement of PIU's USD Special Account to be read in conjunction with Notes (pages from 12 to 19) thereto forming an integral part of the Project special purpose financial statements.

**STATEMENT OF PIU's UZS SPECIAL ACCOUNT  
For 2017**

Account No: 2021 0000 9039 6563 7033  
Depository bank: Tashkent city regional branch of JSCB "Uzpromstroybank"  
Address: 5, Mustakillik st., Tashkent, Uzbekistan  
Related loan: 8393-UZ  
Currency: UZS

|  | <i>USD</i>     | <i>000`UZS</i>   |
|--|----------------|------------------|
| <b>Balance as at 1 January 2017</b>      | <b>10</b>      | <b>32</b>        |
| <b>Inflow:</b>                           |                |                  |
| Transfers from PIU's USD Special Account | 640 850        | 2 800 765        |
| Returned invalid transactions            | 456            | 2 589            |
| <b>Total inflow</b>                      | <b>641 306</b> | <b>2 803 354</b> |
| <b>Outflow</b>                           |                |                  |
| Sub-projects financing                   | 361 359        | 1 440 190        |
| Payroll                                  | 184 129        | 949 267          |
| Travel expenses                          | 5 696          | 23 513           |
| Paid to suppliers                        | 51 031         | 218 783          |
| Bank charge                              | 16 758         | 72 254           |
| Corporate card replenishment             | 19 410         | 82 717           |
| Invalid transactions                     | 461            | 2 589            |
| Exchange rate difference                 | 739            |                  |
| <b>Total outflow</b>                     | <b>639 583</b> | <b>2 789 313</b> |
| <b>Balance as at 31 December 2017</b>    | <b>1 733</b>   | <b>14 073</b>    |

Signed by the management of the Agency on 1 May 2018

Deputy General Director of Rural Restructuring  
Agency

Chief Accountant of Rural Restructuring Agency



Kamalov B.



Gubieva G.

"Statement of PIU's UZS Special Account to be read in conjunction with Notes (pages from 12 to 19) thereto forming an integral part of the Project special purpose financial statements.

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NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
For 2017

**1. Project background**

In accordance with the Loan Agreement between the Republic of Uzbekistan and International Bank for Reconstruction and Development ("Bank", "IBRD") dated April 8, 2015 ("Loan Agreement"), the Bank agreed to lend the Republic of Uzbekistan the amount of USD 150,000,000 (one hundred and fifty million) on the terms and conditions stipulated in the Loan Agreement, for the purpose of co-financing the Horticultural Project ("Project").

Decree No.2410 dated 21 September 2015 of the President of the Republic of Uzbekistan designates the Ministry of Agriculture and Water Resources as an executive agency responsible for the target and effective use of loan proceeds. Rural Restructuring Agency ("the Agency") is responsible for the steering, implementation coordinating and managing the Project. Participating commercial banks are responsible for the credit management, timely disbursement and eligible use of IBRD's funds, monitoring and reporting on the sub-project implementation progress.

To ensure the coordination of works under the Project Agency has established the Project Implementation Unit (hereinafter –PIU) responsible for the overall Project Management, control and accounting of the Project funds in compliance with the Bank guidelines and relevant national regulatory requirements.

The objective of the Project is to enhance the productivity and profitability of the horticulture sector in the Project Area. The project will be implemented in the Republic of Karakalpakstan, Andijan, Jizzakh, Kashkadarya, Namangan, Samarkand, Tashkent, Ferghana and Khorezm regions.

The Project consists of the following parts:

1. «Agricultural Support Services»;
2. «Access to Credit»;
3. «Project Management».

Part 1: Agricultural Support Services

1. *Institutional Support Services*

(a) Strengthening the capacity of Participating Research Institutes to conduct research and genetic material multiplication activities through, *inter alia*: (i) the improvement of their laboratory facilities; (ii) the provision of Training to their staff on the horticultural sector value chain development; (iii) the development of pest surveillance maps of horticulture crops; and (iv) the creation of a seed storage facility for the Research Institute for Vegetables, Melons and Potatoes;

(b) improving food production and handling practices through, *inter alia*: (i) the carrying out of comparative studies between existing domestic regulations and international standards on food safety; (ii) the development of manuals for quality management and packaging requirements; and (iii) the provision of support for gathering and dissemination of information about private-sector standards for food safety and quality in destination markets

2. *Market-led agricultural technology transfer*

Bridging the knowledge and experience gap in the horticulture sector related to new production techniques, storage methods, post-harvest handling, marketing and business management knowledge by:

(a) (i) Establishing a knowledge management and market information system aimed to collect, organize, analyze and disseminate data on the horticulture value chain development; and (ii) carrying out of market studies.

(b) Carrying out of open-field demonstration activities and Training for Beneficiaries on, *inter alia*, greenhouse vegetables and potatoes, fruits and berries production techniques, post-harvesting handling and storage methods.

(c) Developing the value chain through, *inter alia*: (i) the creation of partnerships between producers, processors and traders; (ii) the establishment of a promotional association for fruits and vegetables; (iii) the provision of support to producer participation in national and international trade events; and (iv) the assessment of the Borrower's export and domestic marketing policies and the subsequent development of recommendations to improve said policies.

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Part 2: Access to Credit

(a) Provision through selected PFIs of Investment and Working Capital Sub-Loans and Lease Financings to Beneficiaries.

(b) Provision of technical assistance and Training to PFIs to increase their capacity in managing a range; of innovatively structured finance products that support, *inter alia*, the development of value chains.

Part 3 Project Management

Provision of goods, technical assistance and Training to RRA for the implementation of the Project (including the areas of financial management, procurement, disbursement, monitoring and evaluation) and financing of Incremental Operating Costs.

The total cost of the Loan is estimated to be USD 150 million. The breakdown of various cost items of the Project is shown in the Table below:

|     |  | USD                |
|-----|--|--------------------|
| No. | Project Components   | IBRD Loan          |
| 1   | Goods  | 1 207 600          |
| 2   | Works and Consultants' services (including auditing services and training) | 1 476 200          |
| 3   | Investment and working capital sub-loans and lease financing               | 135 599 200        |
| 4   | Incremental Operating Costs  | 7 216 000          |
| 5   | Unallocated  | 4 126 000          |
| 6   | Front-end fee  | 375 000            |
|     | <b>Total</b>   | <b>150 000 000</b> |

Project Budget was revised following the IBRD letter dated 12<sup>th</sup> September 2017.

Following is the final Project Financing Plan:

|     |  | USD         |
|-----|--|-------------|
| No. | Project Components   | IBRD Loan   |
| 1   | Goods  | 1 207 600   |
| 2   | Works and Consultants' services (including auditing services and training) | 1 476 200   |
| 3   | Investment and working capital sub-loans and lease financing               | 144 466 200 |
| 4   | Incremental Operating Costs  | 2 475 000   |
| 5   | Unallocated  | 0           |
| 6   | Front-end fee  | 375 000     |

In order to implement and finance component 1. "Agriculture support services" of the Horticulture Development project, it is expected the allocation of grant funds of the European Union (EU) for total of EURO 21.5 min.

EU grant to be directed to finance following activities of the "Agriculture support services" component: (i) To modernize and strengthen the material and technical base of scientific research institutes, and plant protection services, by providing the central and regional laboratories of institutions necessary laboratory equipment to improve the quality of soil analysis, detection and control of agricultural pests and diseases, and quarantine objects; (ii) Create demonstration sites for the cultivation of fruit and vegetable crops, demonstration of modern water and energy saving technologies, the selection of high-yielding and adapted to soil and climatic conditions of project areas of seeds and seedlings, the demonstration of modern methods of storage, sorting, processing, packaging and export of fruit and vegetables produced, for farmers and agricultural firms;

**2. Going concern**

Project Implementation Term is from 2015 throughout 2021.

### **3. Project's Accounting Policy**

These Special Purpose Financial Statements have been prepared, in accordance with requirements of International Public Sector Accounting Standards (hereinafter - IPSAS) under the Cash Basis of Accounting, issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, following the IBRD recommendations.

#### **3.1. Basis for the preparation of financial statements**

Balance, Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Components, Statement of Uses of Funds by Project Categories, PIU's Special Accounts Statements and Notes to the Project Special Purpose Financial Statements were prepared based on the cash flow basis to reflect operations conducted in the Project's framework, in accordance with below-stated principles.

#### **3.2. Financing**

The Project financing is recognized when suppliers of material resources or services are paid by the Bank under Direct payment procedures (pls. refer to the Note 7). The Project financing is recognized when the funds from IBRD's Account were transferred to the PIU's USD Special Account opened with the Tashkent city regional Branch of the JSCB "Uzpromstroybank" (pls. refer to the Note 5.1).

#### **3.3. Expenditures**

Project expenditures are recognized as such and stated in the Project Special Purpose Financial Statements, when the payment is made to suppliers of goods, works and/or services. The payments are made either directly from Account administered by the IBRD, either from Special Accounts of Project.

#### **3.4. Reporting currency and exchange rate methodology**

The reporting currency of the Project is United States Dollar (USD). Operations conducted in currencies other than USD are exchanged into USD based on the following principles:

- In order to generate the Statement of Expenditure (SOE) the UZS (Uzbek Soum) revenues and expenditures are converted into USD at the respective CBU (the Central Bank of Uzbekistan) exchange rate effective on the date of receipt or payment of particular expenditures;
- IBRD fund expenditures under the procedure of Direct payments in currency other than US dollar are exchanged into US dollars according to exchange rate presented in Client Connection;
- UZS balance on Project bank accounts are revalued at the official exchange rate of CBU effective at the reporting date. As at 31 December 2017 CBU's official exchange rate was UZS 8 120,07/USD 1.

### **4. Presented Financial Statements**

Project Special Purpose Financial Statements for the reporting period are prepared in accordance with IPSAS based on the cash method by the Project Implementation Unit of the Horticultural Development Project. The Project Special Purpose Financial Statements have been signed by Mr. Kamalov B., the Deputy General Director of Rural Restructuring Agency, and by Mrs. Gubieva G., the PIU Accountant, on 01 May 2018.

Project Special Purpose Financial Statements for the reporting period are generated as follows:

#### **4.1. Balance Sheet**

This report includes data on the accumulated Project funds, financing and cumulative Project expenditures as on December 31, 2017.

#### **4.2. Statement of Sources and Uses of Funds**

This Statement reports the sources of Project's funds and detailed breakdown of Project expenditures by the cost components. During the reporting period the Project expenditures were covered by the IBRD financing for total of USD 41,381,115 as a replenishment of the PIU's USD Special Account (pls. refer to the Note 5.1).

#### 4.3. Statement of Uses of Funds by Project Components

This Statement has detailed the information on the Expenditures of the Project Reported Period by the Project components.

#### 4.4. Statement of Uses of Funds by Project Categories

This Statement has detailed the information on the Expenditures of the Project Reported Period by the Project categories.

Total Project expenditures for the reporting period are USD 44,790,402 including by the categories:

| Category   | USD amount        |
|--|-------------------|
| Goods  | 0                 |
| Works and Consultants` services (including auditing services and training) | 12 187            |
| Investment and working capital sub-loans and lease financing               | 44 507 036        |
| Incremental Operating Costs  | 271 179           |
| Unallocated  | 0                 |
| Front-end fee  | 0                 |
| <b>Total</b>   | <b>44 790 402</b> |

#### 5. Cash and cash equivalents

The Project has a number of bank accounts. The Project's accounts and their purposes are listed below:

##### 5.1. PIU's Special accounts

The PIU has established two Special Accounts: USD Special account and UZS Special accounts to cover the PIU recurrent costs eligible for IBRD financing.

##### – PIU's USD Special Account

From 1 January 2017 to 31 December 2017 the PIU's USD Special Account was transferred from IBRD in the amount of USD 41,381,115. The total of USD 640,850 was converted and transferred to the PIU's UZS Special Account. The total of USD 44,145,677 was transferred to sub-project financing. The amount of USD 4,131 was paid to suppliers and the amount of USD 2,211 was paid to staff for travel.

##### – PIU's UZS Special Account

PIU's UZS Special Account is intended to cover payments billed by the suppliers of services and goods. From 1 January 2017 to 31 December 2017 the total of USD 184,129 was transferred to cover the payroll costs, income tax duties and eligible social charges from PIU staff payroll, the total of USD 5,696 was transferred to cover the travel expenses, the total of USD 361,359 was paid for sub-projects financing, the total of USD 51,031 was paid to cover the costs billed by the suppliers, the total of USD 16,758 was transferred to cover the bank charge and the total of USD 19,410 was transferred to replenish corporate cards.

The balances of the Project's bank account are provided in the following table:

| Balance as at 1 January 2017   | USD              | 000`UZS           |
|--------------------------------|------------------|-------------------|
| PIU's USD Special Account      | 3 417 287        | 11 042 895        |
| PIU's UZS Special Account      | 10               | 32                |
| <b>Total</b>                   | <b>3 417 297</b> | <b>11 042 927</b> |
|                                |                  |                   |
| Balance as at 31 December 2017 | USD              | 000`UZS           |
| PIU's USD Special Account      | 5 533            | 44 928            |
| PIU's UZS Special Account      | 1 733            | 14 073            |
| <b>Total</b>                   | <b>7 266</b>     | <b>59 001</b>     |

## 6. Statement of Expenditure (SOE) procedures

SOE procedure is used by the Project to replenish funds to the PIU's USD Special Account in accordance with the conditions of the Loan Agreement and IBRD Guidelines' requirements. Summary data on funds recovered and reimbursed through SOE procedures is stated in the following table:

|   |                    |
|---|--------------------|
| <b>Total amount reported under SOEs</b>                     | <b>44 791 035</b>  |
| Less: expenditures no submitted to IBRD on 31 December 2017 | (4 992 130)        |
| <b>Subtotal:</b>  | <b>39 798 905</b>  |
| <b>Reimbursed to the PIU's USD Special Account</b>          | <b>41 381 115</b>  |
| <b>Less: reimbursed expenditures for 2016 under:</b>        | <b>(1 582 699)</b> |
| WA No.51  | (1 571 945)        |
| WA No.52  | (10 754)           |
| <b>Subtotal reimbursed:</b>                                 | <b>39 798 416</b>  |
| <b>Subtotal not reimbursed under:</b>                       | <b>489</b>         |
| WA No.64  | 489                |
| <b>Subtotal reimbursed and not reimbursed:</b>              | <b>39 798 905</b>  |
| <b>Deviation:</b>   | <b>0</b>           |

Including the breakdown by the cost category:

| No. of<br>Withdrawal<br>application | Cost category * |               |                   |                | Total to be<br>reimbursed | Not<br>reimbursed | Reimbursed        |
|-------------------------------------|-----------------|---------------|-------------------|----------------|---------------------------|-------------------|-------------------|
|                                     | 1               | 2             | 3                 | 4              |                           |                   |                   |
| 52**                                | 0               | 0             | 2 697 304         | 0              | 2 697 304                 | 0                 | 2 697 304         |
| 53                                  | 0               | 0             | 4 714 575         | 7 505          | 4 722 080                 | 0                 | 4 722 080         |
| 54                                  | 0               | 0             | 4 163 050         | 7 826          | 4 170 876                 | 0                 | 4 170 876         |
| 55                                  | 0               | 0             | 1 500 000         | 3 397          | 1 503 397                 | 0                 | 1 503 397         |
| 56                                  | 0               | 0             | 1 554 391         | 11 975         | 1 566 366                 | 0                 | 1 566 366         |
| 57                                  | 0               | 0             | 2 448 000         | 7 214          | 2 455 214                 | 0                 | 2 455 214         |
| 58                                  | 0               | 0             | 2 507 469         | 7 917          | 2 515 386                 | 0                 | 2 515 386         |
| 59                                  | 0               | 0             | 1 791 371         | 12 617         | 1 803 988                 | 0                 | 1 803 988         |
| 60                                  | 0               | 0             | 4 126 322         | 4 769          | 4 131 091                 | 0                 | 4 131 091         |
| 61                                  | 0               | 0             | 636 500           | 6 067          | 642 567                   | 0                 | 642 567           |
| 62                                  | 0               | 0             | 1 983 950         | 15 276         | 1 999 226                 | 0                 | 1 999 226         |
| 63                                  | 0               | 0             | 1 455 922         | 2 068          | 1 457 990                 | 0                 | 1 457 990         |
| 64                                  | 0               | 0             | 2 143 810         | 8 568          | 2 152 378                 | 489               | 2 151 889         |
| 65                                  | 0               | 0             | 900 000           | 0              | 900 000                   | 0                 | 900 000           |
| 66                                  | 0               | 2 064         | 2 566 759         | 13 413         | 2 582 236                 | 0                 | 2 582 236         |
| 67                                  | 0               | 7 132         | 715 681           | 48 215         | 771 028                   | 0                 | 771 028           |
| 68                                  | 0               | 2 814         | 1 561 187         | 46 912         | 1 610 913                 | 0                 | 1 610 913         |
| 69                                  | 0               | 178           | 2 066 667         | 50 020         | 2 116 865                 | 0                 | 2 116 865         |
| <b>Total</b>                        | <b>0</b>        | <b>12 188</b> | <b>39 532 958</b> | <b>253 759</b> | <b>39 798 905</b>         | <b>489</b>        | <b>39 798 416</b> |

\* Cost Categories in wording are in the Note 1 to the Special Purpose Financial Statements

\*\* Total expenses under the Statement of Expenditures No.52 is actually USD 2,708,058 including USD 10,754 are the expenses of 2016.

## 7. Direct Payment Procedures

Direct payment procedure has not been used by the Project in the current year because of the financing was provided by Statement of Expenditure (SOE) procedure.



## 8. Credit line

Sub-lending agreements were signed with number of Uzbek Commercial Banks (Participating Financial Intermediaries or PFIs) in line with the terms and provisions of the Financing Agreement No.8393-UZ in order to facilitate implementation of the « Access to Credits » Component.

In 2017 Project has provided financing to the following PFIs under above sub-lending agreements:

– Credits in USD:

| Commercial bank              | Beneficiary                           | Credit objective   | USD<br>Credit amount |
|------------------------------|---------------------------------------|--|----------------------|
| JSCB «ASAKA»                 | LLC "Agro Dry Gold Fruite"            | Procurement of the equipment to manufacture paper base for corrugated cardboard, equipment to manufacture, equipment to size-screening for raisins | 562 804              |
| NB FEA RU                    | FARMING "Yusufov Xojakbar"            | Cold storage   | 156 000              |
| NB FEA RU                    | LLC "Jomboy Intensive Boglari"        | Procurement of the production line to manufacture cans   | 1 978 500            |
| NB FEA RU                    | PE "Quvasoy Suxofrukt"                | Vegetable and fruits drying equipment  | 100 000              |
| NB FEA RU                    | PE "Mega Trading Progress"            | Cold storage   | 188 800              |
| NB FEA RU                    | СП "Jalilov Sohibnazar Sara Mevalari" | Cold storage   | 107 000              |
| NB FEA RU                    | PE "Kompozit Panel Servis"            | Cold storage   | 393 300              |
| NB FEA RU                    | LLC "Damir Hamkor Mevalari"           | Vegetable and fruits drying equipment  | 215 000              |
| NB FEA RU                    | FARMING "Orzu Aminov Agro Meva"       | Greenhouse and vegetable farming   | 1 996 775            |
| NB FEA RU                    | LLC "Marakand Food Product"           | Procurement of the production line to process raisins  | 985 000              |
| JSCB «ASAKA»                 | LLC "Kushon Agro Servis"              | Cold storage   | 230 000              |
| NB FEA RU                    | LLC "Shahrisabz Meva-Sabzavot"        | Cold storage, Vegetable and fruits drying equipment and Procurement of the equipment to manufacture plastic crates                                 | 498 700              |
| NB FEA RU                    | СП LLC "Afrosiyob Temir Binokor"      | Cold storage   | 1 988 000            |
| NB FEA RU                    | LLC "Real Expert Pharm"               | Vegetable and fruits drying equipment  | 597 500              |
| NB FEA RU                    | СП LLC "Mehr-Saodat"                  | Horticulture and vineyards   | 997 750              |
| JSCB «ASAKA»                 | LLC "GREEN DREAM"                     | Greenhouse and vegetable farming   | 579 800              |
| NB FEA RU                    | СП LLC "Pastdarg'om Saxovati"         | Greenhouse and vegetable farming   | 1 500 000            |
| NB FEA RU                    | LLC "Farovon Hayot Kaliti"            | Greenhouse and vegetable farming   | 652 915              |
| NB FEA RU                    | LLC "Samarali Savdo Niyat"            | Greenhouse and vegetable farming   | 781 475              |
| NB FEA RU                    | PE "Urgut Kamol Jamol"                | Procurement of the dehuller, screener and packaging production line for grains, seeds and legumes  | 120 000              |
| JSCB «ASAKA»                 | LLC "O'zmatbaa T aminot"              | Cold storage   | 1 948 000            |
| JSCB «QISHLOQ QURILISH BANK» | FARMING "Universal Agro Lux"          | Greenhouse and vegetable farming   | 500 000              |
| NB FEA RU                    | LLC "Parkent Yahshi Niyat"            | Cold storage   | 799 240              |
| NB FEA RU                    | LLC "Oriental Fresh Food"             | Cold storage   | 1 708 229            |
| NB FEA RU                    | FARMING "FRAKHOD"                     | Irrigation, equipment for destoning sour cherry fruits   | 684 050              |
| NB FEA RU                    | LLC "Oriental Fresh Food"             | Cold storage   | 67 471               |
| JSCB «QISHLOQ QURILISH BANK» | LLC "Texno-Progress Parranda"         | Greenhouse and vegetable farming   | 550 000              |
| JSC «TURONBANK»              | LLC "Bekobod-9"                       | Cold storage   | 489 850              |
| GK «HALKBANK»                | LLC "Imid Universal Savdo"            | Cold storage   | 167 200              |
| NB FEA RU                    | JSC FI "Kombinat Tashkent vino"       | Greenhouse and vegetable farming   | 1 881 532            |
| NB FEA RU                    | FARMING "Intensiv Eco                 | Cold storage and horticulture  | 1 997 590            |

|                              | Garden"                                     |   |                   |
|------------------------------|---|---|-------------------|
| JSCB «HAMKORBANK»            | LLC "Nodirbek Mebel Lyuks"                  | Procurement of aseptic sacks  | 80 000            |
| GK «HALKBANK»                | FARMING "Salar Nuritdinov Pahriddin"        | Greenhouse and vegetable farming  | 497 000           |
| JSCB «QISHLOQ QURILISH BANK» | PE "Arsenal Universal"                      | Cold storage  | 139 500           |
| NB FEA RU                    | FARMING "Fresh Fruits"                      | Horticulture and vineyards  | 1 983 950         |
| JSICB «IPAK YULI»            | LLC "G'azalkent Qurilish Mollari"           | Greenhouse and vegetable farming  | 1 455 922         |
| JSCB «QISHLOQ QURILISH BANK» | LLC "Delta Muhandis"                        | Equipment to manufacture juiced drinks  | 88 930            |
| JSCB «QISHLOQ QURILISH BANK» | LLC "Bog'ot Qishloq Qurilish O'tkir Invest" | Greenhouse and vegetable farming  | 624 880           |
| JSCB «HAMKORBANK»            | LLC "East Agro International"               | Procurement of the equipment to manufacture metal lids for canned foods   | 1 430 000         |
| JSCB «QISHLOQ QURILISH BANK» | LLC "Nano Plast Servis"                     | Greenhouse and vegetable farming  | 900 000           |
| JSCB «ASAKA»                 | LLC "Kamoliddin-Xusniddin-Temur"            | Irrigation, seedling, tractor   | 1 997 159         |
| JSCB «ASAKA»                 | PE "Otabek Sarvonoz Mohinur"                | Vegetable and fruits farming equipment  | 210 000           |
| JSCB «ASAKA»                 | LLC "Hosiyatli Bog` Plyus"                  | Irrigation, seedling  | 260 000           |
| JSCB «ASAKA»                 | LLC "Oromgoh Ikromi"                        | Cold storage  | 99 600            |
| JSCB «HAMKORBANK»            | LLC "Shahrisabz Farm"                       | Cold storage  | 250 000           |
| JSCB «HAMKORBANK»            | LLC "Vodil Kibriyo Ali Saxovati"            | Cold storage  | 350 000           |
| JSCB «HAMKORBANK»            | LLC "Afruz Kurkam Doyori"                   | Cold storage  | 223 000           |
| GK «HALKBANK»                | LLC "Bulungur Obod Fayz"                    | Cold storage  | 132 700           |
| NB FEA RU                    | LLC "Avesta"                                | Greenhouse and vegetable farming  | 959 810           |
| JSCB «ASAKA»                 | LLC "Oltiariq Sara Mevalari"                | Cold storage  | 333 000           |
| GK «HALKBANK»                | LLC "Shahzoda-Janona"                       | Greenhouse and vegetable farming  | 231 267           |
| JSCB «ASAKA»                 | FARMING "Bakhodir-Mahsud"                   | Greenhouse and vegetable farming  | 396 500           |
| JSCB «ASAKA»                 | FARMING "Riv Makon"                         | Horticulture and vineyards, irrigation, seedling  | 447 700           |
| JSC «TURONBANK»              | LLC "Saidkamol Saidnazar"                   | Cold storage  | 58 200            |
| JSC «TURONBANK»              | LLC "Eskianhorkanalqurilish"                | Cold storage  | 600 000           |
| JSICB «IPAK YULI»            | LLC "G'azalkent Qurilish Mollari"           | Greenhouse and vegetable farming  | 194 078           |
| JSICB «IPAK YULI»            | LLC "Green Organics"                        | Cold storage  | 1 500 000         |
| JSCB «QISHLOQ QURILISH BANK» | LLC "Oloy Gulzor Servis"                    | Purchase of equipment for production of the corn starch and glucose-fructose molasses   | 1 172 000         |
| JSCB «QISHLOQ QURILISH BANK» | LLC "Oloy Gulzor Servis"                    | Purchase of equipment for production of the corn starch and glucose-fructose molasses   | 828 000           |
| JSICB «IPAK YULI»            | PE "Pure Fruit Trade"                       | Procurement of the dehuller, screener and packaging production line for cherries, hydro-cooler for cherries cooling and chiller water cooling | 1 280 000         |
| <b>Total</b>                 |   |   | <b>44 145 677</b> |

– Credits in UZS:

|                   |                            |                                      | USD            |
|-------------------|----------------------------|--------------------------------------|----------------|
| Commercial bank   | Beneficiary                | Credit objective                     | Credit amount  |
| JSICB «IPAK YULI» | LLC "Agro Pharm Group"     | Spare parts for irrigation           | 84 482         |
| GK «HALKBANK»     | LLC "Toshkent Global NICH" | Horticulture and vineyards, seedling | 31 199         |
| JSC «TURONBANK»   | PE "Zaxro Hayot Orzusi"    | Cold storage                         | 245 678        |
| <b>Total</b>      |                            |                                      | <b>361 359</b> |

## 9. Cumulative expenditures

Cumulative Project expenditures include Direct payments for the consultancy services, expenditures from the Project Special Accounts to the suppliers of goods (works and services), including exchange losses.

| <i>Expenses of the Project</i>   | <i>2017</i>       | <i>2016</i>       | <i>From 1 October<br/>2015 to 31<br/>December 2015</i> | <i>Cumulative from<br/>the beginning of<br/>the Project</i> |
|--|-------------------|-------------------|--|---|
| Goods  | 0                 | 62 486            | 0  | 62 486  |
| Works and Consultants` services<br>(including auditing services and<br>training) | 12 187            | 8 619             | 0  | 20 806  |
| Investment and working capital<br>sub-loans and lease financing                  | 44 507 036        | 94 491 642        | 0  | 138 998 678   |
| Incremental Operating Costs  | 271 179           | 275 477           | 28 349   | 575 005   |
| Unallocated  | 0                 | 0                 | 0  | 0   |
| Front-end fee  | 0                 | 0                 | 375 000  | 375 000   |
| Exchange loss  | 744               | 4                 | 0  | 748   |
| <b>Total cumulative expenditures</b>   | <b>44 791 146</b> | <b>94 838 228</b> | <b>403 349</b>   | <b>140 032 723</b>  |

## 10. European Union Grant

During the year finished on 31<sup>st</sup> December 2017 the Grant Agreement (EU grant financing) for implementation of the component 'Agriculture Technical Assistance' was not signed and, therefore, there was no financing of the Grant activities.

## 11. Legal Status, Taxes and Fees

Services and goods acquired from IBRD funds are exempted from all taxes and levies based on Tax Code of the Republic of Uzbekistan.