

**ADDITIONAL FINANCING TO THE NATIONAL WATER RESOURCES
MANAGEMENT PROJECT**

SWISS GRANT NUMBER TFOB1013

**IMPLEMENTED BY PROJECT IMPLEMENTATION UNIT
UNDER THE WATER RESOURCES SERVICE
UNDER THE MINISTRY OF WATER RESOURCES, AGRICULTURE, AND PROCESSING INDUSTRY
OF THE KYRGYZ REPUBLIC**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2023

**BISHKEK
June 2024**

ADDITIONAL FINANCING TO THE NATIONAL WATER RESOURCES MANAGEMENT PROJECT

SWISS GRANT NUMBER TFOB1013

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STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

The management of the Project Implementation Unit under the Water Resources Service under the Ministry of Water Resources, Agriculture, and Processing Industry of the Kyrgyz Republic (“PIU WRS”) is responsible for the preparation of the special purpose financial statements for the year ended 31 December 2023 of “Additional Financing to the National Water Resources Management Project” (“Project”) financed by Grant Agreement: Swiss Grant Number TFOB1013 dated 5 November 2019, in compliance with the International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting, (“IPSAS-Cash Basis”) issued by the International Public Sector Accounting Standards Board (“IPSASB”) and the Standard Conditions for Grants Made by the World Bank Out of Various Funds (“WB Guidelines”).

In preparing the special purpose financial statements, PIU WRS’s management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional required disclosures for the year ended 31 December 2023.

PIU WRS’s Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project’s transactions, and which enable them to ensure that the special purpose financial statements comply with *IPSAS - Cash Basis* and the *WB Guidelines*;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Grant Agreement SWISS GRANT NUMBER TFOB1013 dated 5 November 2019, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided; and
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the year ended 31 December 2023 were authorized for issue on 12 June 2024 by the PIU WRS’s Management.

On behalf of the PIU WRS’s Management:


Ulanbek Torogeldiev
Director PIU WRS


Nurzat Rysbekova
Financial Manager PIU WRS

INDEPENDENT AUDITOR'S REPORT

To the management of the Project Implementation Unit under the Water Resources Service under the Ministry of Water Resources, Agriculture, and Processing Industry of the Kyrgyz Republic ("PIU WRS")

Opinion

We have audited the special purpose financial statements of "Additional Financing to the National Water Resources Management Project" ("Project") financed by Grant Agreement Swiss Grant Number TFOB1013 dated 5 November 2019 ("Grant Agreement"), and implemented by PIU WRS which comprise the statement of cash receipts and payments, and the statement of expenditures per components for the year ended 31 December 2023, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose financial statements for the year ended 31 December 2023 are prepared, in all material respect, in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, ("IPSAS-Cash Basis").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as issued by International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Project and of the PIU WRS in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled out other ethical requirements in accordance with 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- Cash Basis of Accounting

Without modifying our opinion, we draw your attention to Note 2 to the special purpose financial statements, which describes that financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes.

Emphasis of Matter-Slow progress of the Project implementation

Without qualifying our opinion, we draw your attention to Note 7 of these special purpose financial statements disclosing slow progress in the Project implementation.

Responsibilities of the Management for the Financial Statements

Management of the PIU WRS is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board ("IPSASB") and Standard Conditions for Grants Made by the World Bank Out of Various Funds ("WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and 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 special purpose financial statements.

Additional Financing to the National Water Resources Management Project
Swiss Grant Number TFOB1013

Statement of cash receipts and payments

For the year ended 31 December 2023

(Amounts are shown in US dollars)

	Note	Actual		Cumulative as at 31 Dec 2022	Year ended 31 Dec 2022	Cumulative as at 31 Dec 2022	Budget Cumulative as at 31 Dec 2023	Variance Cumulative as at 31 Dec 2023
		Year ended 31 Dec 2023	Year ended 31 Dec 2022					
TOTAL OPENING CASH	6	608,251	-	682,946	-	-		
Sources of Funds								
Swiss Grant Number TFOB1013	8	576,278	2,615,105	810,745	2,038,827			
TOTAL FUNDS		576,278	2,615,105	810,745	2,038,827			
Other income	9	13,007	47,836	15,771	34,829			
Project Expenditures								
1. Goods, Consultants' services, Training, and Operating Costs for Parts 4 (as described in Schedule 1 of the Original Project), 5, and 6 under the Project								
Goods		50,060	548,530	357,915	498,470		550,569	2,040
Consultants' services		234,608	630,052	201,727	395,444		630,044	(8)
Training		17,983	174,135	118,703	156,152		177,752	3,617
Operating costs		301,797	697,279	203,009	395,482		697,292	13
TOTAL PROJECT EXPENDITURES	7	604,447	2,049,995	881,354	1,445,548		2,055,657	5,662
Other outflows	10	15,147	35,004	19,857	19,857			
TOTAL CLOSING CASH	6	577,942	577,942	608,251	608,251			



Ulanbek Topogeldiev
Director PIU WRS

Nurzat Rysbekova
Financial Manager PIU WRS

12 June 2024

The notes on pages 8-15 form an integral part of these special purpose financial statements.

Additional Financing to the National Water Resources Management Project
 Swiss Grant Number TFOB1013

Statement of expenditures per components
 For the year ended 31 December 2023
 (Amounts are shown in US dollars)

Activity	Actual		Budget		Variance
	FY2023	FY2022	Cumulative as at 31 Dec 2023	Cumulative as at 31 Dec 2023	
Part 5. Strengthening National Water Management Capacity	197,901	224,772	600,688	604,798	4,109
5.a. Water resources management at the national level	114,797	87,894	318,372	329,475	11,102
5.b. Water resources management at the river basin level	83,103	136,878	282,316	275,323	(6,993)
Part 6. Irrigation and Drainage Management	240,442	444,599	874,140	874,747	608
6.a. Preparation of an irrigation and land improvement sector policy and a strategy for irrigation management	42,079	267,569	365,122	365,623	501
6.b. Preparation of irrigation and land improvement investment plan	4,642	-	4,642	4,690	48
6.c. Improved management of both canal/off-farm and on-farm system	193,722	177,030	504,376	504,434	58
Part 4. Project Management	166,104	211,982	575,166	576,112	946
Total	604,447	881,354	2,049,994	2,055,657	5,663

12 June 2024
 The notes on pages 8-15 form an integral part of these special purpose financial statements.


 Nurzat Rysbekova
 Financial Manager PIU WRS


 Ulanbek Torogeldiev
 Director PIU WRS

Additional Financing to the National Water Resources Management Project
Swiss Grant Number TF0B1013

Notes to the special purpose financial statements

For the year ended 31 December 2023

(Amounts are shown in US dollars)

1. General information

1.1. The Project

According to the Grant Agreement between the Kyrgyz Republic and the International Development Association (“IDA”, “WB”) on 5 November 2019, Swiss Grant Number TF0B1013, the IDA acting as administrator of Kyrgyz Republic National Water Resources Management Project Single Donor Trust Fund, provided to the Kyrgyz Republic grant in the amount of 4,490,000 United States dollars (USD).

The Grant is provided for implementation of “Additional Financing to the National Water Resources Management Project” (the Project).

The Grant Agreement became effective on 11 May 2020.

The Closing date of Swiss Grant Number TF0B1013 was amended and set April 01, 2024 (as updated). The updated Grace Period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing dates: August 1, 2024.

1.2. The Project objectives

The purpose of the Project is to build Kyrgyz Republic water resources management capability and irrigation service delivery for the benefit of water users.

The Project comprises of the following parts:

Part 4: Project Management

Carrying out Project management, including, administration, coordination, procurement, financial management and monitoring, management of environmental and social safeguards, and evaluation of the Project.

Part 5: Strengthening National Water Resources Management Capacity

- (a) Provide support to establish, at the national level, institutional structure for national water resources management.
- (b) Provide support to establish institutional capacity, at the river basin level, namely the river basin water resources management offices, and the river basin council of stakeholder participation.

Part 6: Irrigation and Drainage System Management

Provide support to improve operation and maintenance of both main canal/off-farm and on-farm systems through, inter alia:

- (a) preparation of an irrigation and land improvement sector policy and a strategy for irrigation management decentralization and transfer;
- (b) preparation of irrigation and land improvement investment plan; and
- (c) improvement management of both canal/off-farm and on-farm systems.

Additional Financing to the National Water Resources Management Project
Swiss Grant Number TFOB1013

Notes to the special purpose financial statements

For the year ended 31 December 2023

(Amounts are shown in US dollars)

1.3. Budget

The percentage of expenditures to be financed (inclusive of taxes) from Swiss Grant Number TFOB1013 is set 100%.

The total budget of the project is as follows:

Category	SWISS GRANT NUMBER TFOB1013	Total
	USD	USD
(1) Goods, Consultants' services, Training, and Operating Costs for Parts 4 (as described in Schedule 1 of the Original Project), 5, and 6 under the Project	4,490,000	4,490,000
Total	4,490,000	4,490,000

1.4. Project Implementation

The Project is implemented by the Project Implementation Unit under the Water Resources Service under the Ministry of Water Resources, Agriculture, and Processing Industry of the Kyrgyz Republic ("PIU WRS").

The PIU WRS was established for the purpose of the Project implementation by the Decree #118 dated 1 June 2006 of the Ministry of Agriculture of the Kyrgyz Republic.

According to the KR President decree N354 dated December 25, 2023, the Ministry of Agriculture was renamed into Ministry of Water Resources, Agriculture, and Processing Industry of the Kyrgyz Republic.

The address of the PIU WRS is 4a Toktonaliev str., Bishkek, 720055, Kyrgyz Republic.

Notes to the special purpose financial statements

For the year ended 31 December 2023

(Amounts are shown in US dollars)

2. Summary of significant accounting policies

2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB), and presented in accordance with the Standard Conditions for Grants Made by the World Bank Out of Various Funds (WB Guidelines).

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below.

2.2. Cash basis of accounting

Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of project funds when the payments are made.

2.3. Reporting currency

The reporting currency of these special purpose financial statements is United States dollars (USD). Project expenditures, other incomes and expenditures made denominated in KGS are translated into USD at the exchange rate determined by the account holder bank, OJSC "Aiy Bank" (AB), on the date of transaction.

Cash balances held in AB at the reporting date are translated into USD at the exchange rate determined by the AB on that date.

The effect of exchange rate changes on cash held on foreign currency is reported as separate line item in the statement of cash receipts and payments.

The exchange rate defined by the AB as at 31 December 2023 is USD 1 = 88.70 KGS.

The exchange rate defined by the AB as at 31 December 2022 is USD 1 = 84.80 KGS.

2.4. Taxes

The taxes are paid in accordance with the tax regulation of the Kyrgyz Republic.

2.5. Budget

Annual budgets for funding and expenditures are based on approved budget of the project agreement.

Expenditure budget is created based on actual accumulated expenditures for the last period, if any, plus the updated procurement plans for the period.

2.6. Petty cash

Petty cash is cash held at authorized staff of the Project, to carry out cash expenditures for the Project purposes. The expenditures from the petty cash are recorded in the financial reports based on the expenditure reports submitted by the authorized staff.

Additional Financing to the National Water Resources Management Project
Swiss Grant Number TFOB1013

Notes to the special purpose financial statements
For the year ended 31 December 2023
(Amounts are shown in US dollars)

3. Summary of Summary Reports and SOEs

Withdrawal application No	Withdrawal application value date	Payment categories	Total
		1. Goods, Consultants' services, Training, and Operating Costs for Parts 4 (as described in Schedule 1 of the Original Project), 5, and 6 under	
14	30-Mar-2023	269,452.26	269,452.26
15	16-Jun-2023	150,812.51	150,812.51
016	23-Oct-2023	156,012.83	156,012.83
Total		576,277.60	576,277.60

4. Statement of Designated Account

Grant	Swiss Grant Number TFOB1013
Designated account number	1350108036380514
Bank	OJSC "Aiyl Bank"
Bank location	Logvinenko 14, Bishkek, Kyrgyz Republic
Account currency	USD

	FY2023	FY2022
1. Opening balance	559,567	663,888
2. Add: opening discrepancy	-	-
3. IDA advance/replenishment	576,278	810,745
4. Less: Refund to IDA from DA	-	-
5. Present outstanding amount advanced to DA	1,135,845	1,474,633
6. DA closing balance	565,110	559,567
7. Add: Amount of eligible expenditures paid	604,447	881,354
8. Less: interest earned (if credited to DA)	-	-
9. Total advance accounted for	1,169,557	1,440,921
10. Closing discrepancy (5)-(9)*	(33,712)	33,712

*Advances made to employee to incur project expenses (Note 6).

Additional Financing to the National Water Resources Management Project
Swiss Grant Number TFOB1013

Notes to the special purpose financial statements

For the year ended 31 December 2023

(Amounts are shown in US dollars)

5. Statement of Financial Position

	Note	31-Dec-23 USD	31-Dec-22 USD
ASSETS			
Cash	6	577,942	608,251
Prepayments		-	-
Total assets		577,942	608,251
LIABILITIES			
Payables		-	-
Total liabilities		-	-
NET ASSETS			
Cumulative income			
Swiss Grant Number TFOB1013	8	2,615,105	2,038,827
Other income	9	47,836	34,829
		2,662,941	2,073,656
Cumulative expenses			
Project expenses	7	2,049,995	1,445,548
Other outflows	10	35,004	19,857
		2,084,999	1,465,405
Total net assets		577,942	608,251

6. Cash

	Underlying Currency	31-Dec-23 USD	31-Dec-22 USD
Swiss Grant Number TFOB1013			
Designated Account	USD	565,110	559,567
		565,110	559,567
Other			
Interest account	USD	12,833	14,964
Interest account	KGS	-	8
Receivables account (b)	KGS	-	33,712
		12,833	48,684
		577,942	608,251

(a) All accounts are held at OJSC "Aiyl Bank".

(b) Advance payments held at authorized staff of the Project, to carry out cash expenditures for the Project purposes.

Additional Financing to the National Water Resources Management Project
Swiss Grant Number TFOB1013

Notes to the special purpose financial statements

For the year ended 31 December 2023

(Amounts are shown in US dollars)

7. Project expenditure progress

Project Activity	Cumulative Expenditures as at 31 Dec 2023	Total budget	Implementation*
	USD	USD	%
Part 5. Strengthening National Water Management Capacity	600,689	1,452,000	41%
Part 6. Irrigation and Drainage Management	874,139	2,418,000	36%
Part 4. Project Management	575,166	620,000	93%
Total	2,049,995	4,490,000	46%

Project Category	Cumulative Expenditures as at 31 Dec 2023	Total budget	Implementation*
	USD	USD	%
1. Goods, Consultants' services, Training, and Operating Costs			
Goods	548,530	2,299,911	24%
Consultants' services	630,052	1,159,084	54%
Training	174,135	218,837	80%
Operating costs	697,279	812,167	86%
Total	2,049,995	4,490,000	46%

(*) The project became effective on 11 May 2020, however, as at 31 December 2023, only 46% of the project budget is implemented.

The implementation of the project was delayed due to the pandemic that began almost immediately after the start of the project and the entry of institutional changes into force in the water sector in 2021.

Due to the separation of water management functions, the implementation of activities under Component 1 was transferred to the Ministry of Natural Resources, Ecology and Technical Supervision.

To ensure an effective cooperation between the two ministries, a Protocol of Intentions and Interaction was signed between the Ministry of Agriculture and the Ministry of Natural Resources, Ecology and Technical Supervision of the Kyrgyz Republic on April 28, 2022. Based on this, an approval was required on an updated action plan, as well as for making changes to the procurement plan. These circumstances significantly affected the implementation of the Project and utilization of funds.

8. Financing

8.1. SWISS GRANT NUMBER TFOB1013

	FY2023 USD	FY2022 USD	Cumulative as at 31 Dec 2023 USD
Advances/ (advance recovery)	-	-	750,000
SOE and Summary Report	576,278	810,745	1,865,105
Total	576,278	810,745	2,615,105

Notes to the special purpose financial statements

For the year ended 31 December 2023

(Amounts are shown in US dollars)

Total financing budget	4,490,000
Percentage of finance provided as at 31 Dec 2023	58%

9. Other income

	FY2023 USD	FY2022 USD	Cumulative as at 31 Dec 2023 USD
Interest accrued*	13,007	15,771	47,836
Total	13,007	15,771	47,836

* Interest accrued on the designated account.

10. Other outflow

	FY2023 USD	FY2022 USD	Cumulative as at 31 Dec 2023 USD
Transfer of interest to state budget	14,972	19,058	34,030
Other expenditures (bank charges)	175	799	974
Total	15,147	19,857	35,004

11. Event after reporting date

11.1. SOE applications

The application N 17 for the amount of 185,363.42 USD and including expenditures relating to the reporting period in the amount of 184,890.12 USD was submitted to WB on 23 January 2024 and approved on 06 February 2024.

The application N 18 for the amount of 163,162.58 USD for the expenditures incurred during the year 2024, was submitted to WB on 11 March 2024 and approved on 13 March 2024

11.2. *Military conflict between Russian Federation and Republic of Ukraine*

On February 24, 2022, Russia launched a large-scale military conflict against Ukraine. In order to resist Russia, the EU and the United States, and other countries around the world, have imposed economic and political sanctions, as a result of which the Russian economy is facing significant issues. At present, the course of the war, the impact of sanctions, and the extent of the consequences are unpredictable.

Taking into consideration of Russia's political and economic influence on the Kyrgyz Republic, as well as the fact that country is a member of the Russia lead Eurasian Economic Union (EEU), the current situation may indirectly affect the stability of Kyrgyz Republic's financial and economic systems.

At the moment, given the unpredictability of these circumstances, the Project management finds it difficult to assess the potential impact on the Project implementation.

12. Litigations

There are no pending litigations related to the Project as at reporting date and as at approval date of these financial statements.

Additional Financing to the National Water Resources Management Project
 Swiss Grant Number TFOB1013

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PIU WRS AND DISBURSED BY THE WORLD BANK

For the year ended 31 December 2023

(Amounts are shown in US dollars)

Swiss Grant Number TFOB1013

Expenditure Category	Application N	PIU WRS	WB	Difference
		USD	USD	USD
1. Goods, Consultants' services, Training, and Operating Costs for Parts 4 (as described in Schedule 1 of the Original Project), 5, and 6 under the Project	14	269,452.26	269,452.26	-
	15	150,812.51	150,812.51	-
	016	156,012.83	156,012.83	-
Total		576,277.60	576,277.60	-