AGRICULTURE POLICY MONITORING AND EVALUATION CAPACITY BUILDING PROJECT

PHRD GRANT No. TFOA4449

IMPLEMENTED BY MINISRY OF ECONOMY OF THE REPUBLIC OF ARMENIA

Special Purpose Project Financial Statements
and
Independent Auditor's Report

For the period January 1st, 2021, to December 31, 2021

YEREVAN
May 2022

IMPLEMENTATION OF AGRICULTURE POLICY MONITORING AND EVALUATION CAPACITY BUILDING PROJECT

PHRD GRANT No. TFOA4449

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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The management of the Ministry of Economy of the Republic of Armenia is responsible for the preparation of the special purpose financial statements for the year ended 31 December 2021 of "Agriculture Policy Monitoring and Evaluation Capacity Building Project" financed by the PHRD Grant No. TF0A4445 dated 23 March 2017 , 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 Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines).

In preparing the special purpose financial statements, WS PIB'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 Dec 2021.

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 of the Project 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 Loan Agreement, 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 Dec 2021 were signed on 30 May 2022 by the management of the project "Agriculture Policy Monitoring and Evaluation Capacity Building Project".

Garnik Sevoyan
Project Manager

Shushanik Grigoryan
Financial management consultant

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INDEPENDENT AUDITOR'S REPORT

To the Ministry of Economy of the Republic of Armenia,

Opinion

We have audited the accompanying special purpose financial statements of the "Agriculture Policy Monitoring and Evaluation Capacity Building Project" (the Project) financed by the PHRD Grant No. TF0A4445 dated 23 March 2017 (Letter Agreement) and implemented by the Ministry of Economy of the Republic of Armenia (Ministry), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the year ended 31 December 2021, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the special purpose financial statements prepared in all material respects in accordance with the cash receipts and payments of the Project for the year ended 31 December 2021 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 Ministry 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 attention to Note 2 to the financial statements, which describes those 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 project implementation

Without modifying our opinion, we draw attention to Note 7.2 to the financial statements, which describes the slow progress of the project implementation.

Management's Responsibility for the Special Purpose Financial Statements

The management of the Ministry is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB), and Financial Management Manual for World Bank Financed Investment Operations (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 misstatements, whether due to fraud or error.

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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.
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 special purpose 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

Report on Other Legal Requirements

To comply with the terms of the Letter Agreement, the Ministry shall insure that:

1. funds have been used in accordance with the conditions of the Letter Agreement concluded between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
2. supporting documents, records and accounts have been maintained to support expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the Letter Agreement; Interim Unaudited Financial Reports (IFRs) issued by Project during the Reporting period are in agreement with the underlying books of account;
3. The Designated account used have been maintained in accordance with the provision of the Letter Agreement, and World Bank related guidelines;
4. Goods and Services financed have been procured in accordance with the Letter Agreement and World Bank related guidelines.

In our opinion, the Ministry has complied with the above requirements during the year ended 31 December 2021.

30 May 2022
"BDO Armenia" cjsc

Vahagn Sahakyan, FCCA
Managing partner

Gnel Khachatryan, FCCA
Engagement partner

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Statement of cash receipts and payments
For the year ended 31 December 2021
(Amounts are shown in US dollars)

	Actual				Planned	Variance	PAD
	Year ended 31-Dec-2020	Cumulative as at 31-Dec-2020	Year ended 31-Dec-2021	Cumulative as at 31-Dec-2021	Cumulative as at 31-Dec-2021	Cumulative as at 31-Dec-2021	Life of project
Opening Working Capital							
Designated Account	71,393.1		54,318.1				
Government Co-financing Account	-		-				
Total	**71,393.1**		**54,318.1**				
Sources of Funds							
PHRD TF Grant	164,665.7	244,665.7	306,565.3	551,230.9			
Government of Armenia	27,339.9	30,218.2	62,692.0	92,910.2			
Total	**192,005.6**	**274,883.9**	**369,257.3**	**644,141.2**			
Foreign Exchange gain/(loss)	**(3,040.8)**	**(2,966.8)**	**4,273.6**	**1,306.8**			
Uses of Funds							
CATEGORY 1							
Goods, non-consulting services and consulting services under Part 1 of the Project	161,277.8	166,198.2	330,301.4	496,499.6	1,052,888.5	(556,388.9)	1,638,000.0
CATEGORY 2							
Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	44,757.6	51,400.8	65,377.0	116,777.7	132,640.6	(15,862.9)	162,000.0
Total	**206,035.4**	**217,599.0**	**395,678.4**	**613,277.3**	**1,185,529.1**	**(572,251.8)**	**1,800,000.0**
Closing Working Capital							
Designated Account	54,318.1		32,158.2	32,158.2			
Government Co-financing Account	-		12.5	12.5			
Total	**54,318.1**	**54,318.1**	**32,170.6**	**32,170.6**			

The project special purpose financial statements were approved by the management of the Project on 30 May 2022 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Garnik Sevoyan
Project Manager

Shushanik Grigoryan
Financial management consultant

Statement of uses of funds by Project activity
For the year ended 31 Dec 2021
(Amounts are shown in US dollars)

Project Activities	Actual				Planned	Variance	PAD
	Year ended 31-Dec-2020	Cumulative as at 31-Dec-2020	Year ended 31-Dec-2021	Cumulative as at 31-Dec-2021	Cumulative as at 31-Dec-2021	Cumulative as at 31-Dec-2021	Life of Project
Part 1: Capacity building for evidence-based policy making analysis and formulation	161,277.8	166,198.2	330,301.4	496,499.6	1,052,888.5	(556,388.9)	1,638,000.0
Part 2: Project Management and Administration, Monitoring and Evaluation, and Knowledge Dissemination	44,757.6	51,400.8	65,377.0	116,777.7	132,640.6	(15,862.9)	162,000.0
Total Project Expenditure	206,035.4	217,599.0	395,678.4	613,277.3	1,185,529.1	(572,251.8)	1,800,000.0

The project special purpose financial statements were approved by the management of the Project on 30 May 2022 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Garnik Sevoyan
Project Manager

Shushanik Grigoryan
Financial management consultant

1. General information

1.1. The Project

The Letter Agreement No. TFOA4449 was concluded on 23 March 2017 between the Republic of Armenia and the International Bank for Reconstruction and Development (IBRD), according to which IBRD provided a grant in an amount of 1,800,000 USD.
The Letter Agreement becomes effective on October 16, 2017.

The grant is provided for the purpose of implementation of "Agriculture Policy Monitoring and Evaluation Capacity Building Project" (the Project).

According to the Letter Agreement, the Closing Date of the Project is set on 31 May 2022. The Grace Period for submitting withdrawal applications for the expenditures incurred before the Closing date is four months following the Closing date.
Transactions on the Project started in August 2019.

1.2. The Project objective

The objective of the Project is to strengthen the Recipient's monitoring and evaluation capacity and systems to enable itself to carry out evidence-based agriculture policy analysis and formulation.

The Project consists of two components:
•Component I: Capacity Building for Evidence-Based Policy-Making Analysis and Formulation
•Component II: Project Management and Administration, Monitoring & Evaluation, Knowledge Dissemination

Component 1: Capacity building for evidence-based policy making analysis and formulation

- Staff training program for capacity building
- Skills building for survey design and analysis
- Specific economic evaluations
- Information technology support and database management
- Technical assistance

Component 2: Project Management and Administration, Monitoring and Evaluation, and Knowledge Dissemination

- Project Management and Administration
- Monitoring and Evaluation
- Knowledge Dissemination

The Project will be implemented under the leadership of the Project Steering Committee (PSC).

1.3. The Project Budget and Financing

The Project is being financed by the following sources:

- Grant No. TFOA4449 - 100% exclusive of taxes,
- The Government of the Republic of Armenia (Government of RoA) - taxes.

Category	Grant No. TFOA4449	Government of the RoA	Total
	USD	USD	USD
1.Goods, non-consulting services and consulting services under Part 1 of the Project	1,638,000.00	477,000.00	2,115,000.00
2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	162,000.00	49,000.00	211,000.00
Total	**1,800,000.00**	**526,000.00**	**2,326,000.00**

1.4. Project Implementation

The Project is implemented by Ministry of Economy of the Republic of Armenia ("Ministry").

The address of the Ministry is: Mher Mkrtchyan 5, Yerevan 10, Republic of Armenia.

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 Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 - Financial Reporting and Auditing.

The special purpose project financial statements consist of:

- Statement of cash receipts and payments,
- Statement of uses of funds by project activity,
- Summary of significant accounting policies and other explanatory notes.

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 *Cash basis of accounting*

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised 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 dollar (USD).
The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into USD based at the exchange rate defined by the Treasury of the Republic of Armenia at the date of the transaction.
The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

2.4 *Foreign currency transactions*

Foreign currency is a currency other than the reporting currency of the Project.
Project accounts are maintained in USD and Armenian Drams (AMD).
Transactions in foreign currencies are translated to presentation currency at exchange rates at the dates of these transactions. The exchange rate:

1) Before March 1, 2021 is settlement average rate of foreign currency over functional currency as of the transaction date established by the Central Bank of the Republic of Armenia (the CBA).
2) Since March 1, 2021:
   - For the inflows is used the foreign exchange purchase rate as of the transaction date set by the Central Bank of the RA.
   - For outflows is used the foreign exchange selling rate as of the transaction date set by the Central Bank of the RA.

2.5. *Taxes*

Taxes are paid in accordance with the tax regulations of the Republic of Armenia.

2.6. *Budget*

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

2.7. Procurement

Goods and non-consultant services estimated to cost less than US$1.0 million were procured through Request for Bid, and less than US$100,000 through Request for Quotation. Direct Selection, which is in agreement with the provisions of the World Bank ''Procurement Regulations for IPF Borrowers'' dated July 2016, could be applied also. The procurement of goods/non-consulting services following method of "Request of Quotations" and RFB were conducted through the local e-procurement system (ARMEPS).

3.Summary of Summary Reports and SOEs

For the year ended 31 December 2021

		Payment categories		
Withdrawal No	Withdrawal application value date	1.Goods, non-consulting services and consulting services under Part 1 of the Project	2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	Total
		USD	USD	USD
TF A4449 05 ADDA	25-Mar-2021	47,761.9	17,559.7	65,321.6
TF A4449 06 ADDA	21-May-2021	17,701.4	5,375.2	23,076.6
TF A4449 07-ADDA	7-Jun-2021	70,913.8	7,452.2	78,366.0
TF A4449 08-ADDA	16-Jul-2021	61,255.9	3,532.2	64,788.1
TF A4449 09 -ADDA	1-Nov-2021	65,062.5	9,950.5	75,013.0
Total		**262,695.5**	**43,869.8**	**306,565.3**

4.Statement of Designated Account

Bank account number	900000903956
Bank	Central Treasury
Bank location	1 Meliq-Adamyan str. Yerevan, Republic of Armenia 0010
Currency	USD

	PHRD Grant No. TFOA4449	
	Year ended 31-Dec-2021	**Year ended 31-Dec-2020**
1. Opening balance	54,318.1	71,393.1
2. Add: opening discrepancy	-	-
3. IBRD advance/replenishment	306,565.3	164,665.7
4. Less: Refund to IBRD from DA	-	-
5. Present outstanding amount advanced to DA	***360,883.4***	***236,058.7***
6. DA closing balance	32,158.2	54,318.1
7. Add: Amount of eligible expenditures paid	328,725.2	181,740.6
8. Less: interest earned (if credited to DA)	-	-
9. Total advance accounted for	***360,883.4***	***236,058.7***
10. Closing discrepancy (5)-(9)	-	-

5.Statement of financial position

The Statement of financial position discloses assets, liabilities, and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	note	Year ended 31-Dec-2021 USD	Year ended 31-Dec-2020 USD
ASSETS			
Cash	6	32,170.6	54,318.1
Prepayments		-	-
Total assets		**32,170.6**	**54,318.1**
LIABILITIES			
Payables		-	-
Total liabilities		-	-
NET ASSETS			
Cumulative income	8		
PHRD Grant No. TFOA4449		551,230.9	244,665.7
Government of RoA		92,910.2	30,218.2
		644,141.2	**274,883.9**
Cumulative expenses			
Project expenses	7	(613,277.3)	(217,599.0)
		(613,277.3)	**(217,599.0)**
Foreign exchange gain/(loss)		1,306.8	(2,966.8)
Total net assets		**32,170.6**	**54,318.1**

6.Cash

	Account held at	Underlying Currency	Year ended 31-Dec-2020 USD	Year ended 31-Dec-2021 USD
Designated account (PHRD Grant No. TFOA4449)	Treasury RA	USD	54,318.10	32,158.15
Project account (Government of RoA)	Treasury RA	AMD	-	12.50
Total			**54,318.10**	**32,170.65**

7.Project Expenditures

7.1 Project expenditures financing per funds

Expenditure category	PHRD Grant No. TFOA4449	Government of RA	Total
	USD	USD	USD
	Cumulative as at 31 Dec 2020		
1.Goods, non-consulting services and consulting services under Part 1 of the Project	152,354.8	13,843.4	166,198.2
2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	37,992.8	13,408.0	51,400.8
Total	**190,347.6**	**27,251.4**	**217,599.0**
	Year ended 31 Dec 2021		
1.Goods, non-consulting services and consulting services under Part 1 of the Project	280,451.3	49,850.1	330,301.4
2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	48,274.0	17,103.0	65,377.0
Total	**328,725.2**	**66,953.1**	**395,678.3**
	Cumulative as at 31 Dec 2021		
1.Goods, non-consulting services and consulting services under Part 1 of the Project	432,806.0	63,693.5	**496,499.6**
2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	86,266.8	30,511.0	**116,777.7**
Total	**519,072.8**	**94,204.5**	**613,277.3**

7.2 Project expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2021 USD	Total budget USD	Progress* %
1.Goods, non-consulting services and consulting services under Part 1 of the Project	496,499.6	2,115,000.00	23%
2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	116,777.7	211,000.00	55%
Total	**613,277.3**	**2,326,000.00**	**26%**

(*) Closing Date of the Project is set on 31 May 2022. As at 31 Dec 2021, 26% of the project is implemented.

The project started in October 2019, during which an international consulting company (AARC) was contracted to conduct a needs assessment based on which further implementation was going to take place. The need assessment was supposed to be within 6 month, but due to COVID-19 travel restrictions the consultants were not able to travel to Armenia, which delayed the work for another 6 months.

As the Project is mainly includes technical assistance, contracting different consultants to provide ad hoc assessments and surveys, the pandemic lockdown didn't allow consultants to travel. Further delays were caused by the 2020 war in Armenia. As a result of implementation delays and reasons described, the project closing date was extended from May 2021 to May 2022.

During this period the main project activities were implemented, which is mentioned in the progress report. Some delays also were caused by the contracting process, from TOR to final approval and contracting.

8.Financing

8.1PHRD Grant No. TFOA4449

	Year ended 2019-12-31 USD	Year ended 2020-12-31 USD	Year ended 2021-12-31 USD	Cumulative as at 31 Dec 2021 USD
Advances/ (advance recovery)	80,000.0	-	-	80,000.0
SOE and Summary Report	-	164,665.7	306,565.3	471,230.9
Total	**80,000.0**	**164,665.7**	**306,565.3**	**551,230.9**
Total financing budget				**1,800,000.0**
Percentage of finance provided as at 31 Dec 2021				**31%**

8.2Government of RA

	Year ended 2019-12-31 USD	Year ended 2020-12-31 USD	Year ended 2021-12-31 USD	Cumulative as at 31 Dec 2021 USD
Financed	2,878.3	27,339.9	62,692.0	92,910.2
Total	**2,878.3**	**27,339.9**	**62,692.0**	**92,910.2**
Total financing budget				**526,000.0**
Percentage of finance provided as at 31 Dec 2021				**18%**

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

Agriculture Policy Monitoring and Evaluation Capacity Building Project
PHRD Grant No. TFOA4449
For the year ended December 31, 2021
In USD

Expenditure Category	Transfer No	Project	WB	Difference
1.Goods, non-consulting services and consulting services under Part 1 of the Project	5	47,761.9	47,761.9	-
	6	17,701.4	17,701.4	-
	7	70,913.8	70,913.8	-
	8	61,255.9	61,255.9	-
	9	65,062.5	65,062.5	-
	Total	**262,695.5**	**262,695.5**	-
2.Goods, non-consulting services, consulting services and operating costs under Part 2 of the Project	5	17,559.7	17,559.7	-
	6	5,375.2	5,375.2	-
	7	7,452.2	7,452.2	-
	8	3,532.2	3,532.2	-
	9	9,950.5	9,950.5	-
	Total	70,186.4	70,186.4	-
Grand Total		**306,565.3**	**306,565.3**	