

# **MUNICIPAL DEVELOPMENT FUND OF GEORGIA**

LOAN NO.8148-GE  
(REGIONAL DEVELOPMENT PROJECT)

Special Purpose Project Financial Statements  
and Independent Auditor's Report  
For the Year Ended 31 December 2016

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO.8148-GE**

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## MUNICIPAL DEVELOPMENT FUND OF GEORGIA

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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Management of the Regional Development Project (the "Project") financed under the Loan Agreement No. 8148-GE dated 28 March 2012, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present fairly the project's statement of financial position as at 31 December 2016, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements, in compliance with the basis of accounting described in Note 2 of accompanying these special purpose project financial statements and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

In preparing the special purpose project financial statements, 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 disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts;
- Making an assessment of the Projects ability to continue as a going concern.

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 disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank's Financial Management Sector Board;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2016 were authorised for issue on 30 May 2017 by the Management.

**On behalf of Management:**

  
\_\_\_\_\_  
**Galaktion Buadze**  
**Executive Director**

30 May 2017

  
\_\_\_\_\_  
**Natalie Godziashvili**  
**Head of Financial Management**  
**and Investments Unit**

30 May 2017

## **INDEPENDENT AUDITOR'S REPORT**

### **To the management of the Municipal Development Fund of Georgia:**

#### **Opinion**

We have audited the accompanying special purpose project financial statements of the Regional Development Project (the "Project") financed under the Loan Agreement No. 8148-GE dated 28 March 2012, implemented by the Municipal Development Fund of Georgia, which comprise the Project's statement of financial position as at 31 December 2016, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements for the year ended 31 December 2016 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements"). The special purpose project financial statements are prepared by management of the Municipal Development Fund of Georgia in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Financial Management Manual for World Bank Financed Investment Operations.

In our opinion, the accompanying special purpose financial statements of the Project for the year ended 31 December 2016 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Guidelines.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). 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 Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use**

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreement referred to above. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management, the Government of Georgia and International Bank for Reconstruction and Development. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

## **Responsibility of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Financial Management Manual for World Bank Financed Investment Operations and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organisation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organisation or to cease operations, or has no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and access the risks of material misstatement of the 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 Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

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

*Deloitte & Touche*

30 May 2017  
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

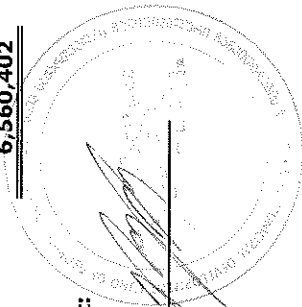
**SUMMARY OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

	Actual		Planned		Variance		PAD Life of the project the project Unaudited
	Year ended 31.12.2016	Cumulative as at 31.12.2016	Year ended 31.12.2016 Unaudited	Cumulative as at 31.12.2016 Unaudited	Year ended 31.12.2016 Unaudited	Cumulative as at 31.12.2016 Unaudited	
<b>OPENING WORKING CAPITAL</b>							
Cash	6,507,928	-					
Prepayments	1,091,502	-					
Payables	(416,112)	-					
	<b>7,183,318</b>	-					
<b>SOURCES OF FUNDS</b>							
IBRD Loan 8148-GE	3,092,880	59,400,708					60,000,000
Government of Georgia	1,158,135	15,651,649					15,000,000
MDF Funds	-	44,788					-
Other income	-	94,976					-
<b>TOTAL</b>	<b>4,251,015</b>	<b>75,192,121</b>					<b>75,000,000</b>
<b>EXPENDITURE</b>							
Works and goods	3,997,119	62,902,424	5,000,000	63,905,305	1,002,881	1,002,881	69,640,000
Consulting services and training	832,332	4,339,574	1,000,000	4,507,242	167,668	167,668	3,680,000
Operating costs	11,889	1,294,710	-	1,282,821	(11,889)	(11,889)	1,530,000
Resettlement costs	-	102,911	-	102,911	-	-	-
Front-end fee	-	150,000	-	150,000	-	-	150,000
<b>TOTAL</b>	<b>4,841,340</b>	<b>68,789,619</b>	<b>6,000,000</b>	<b>69,948,279</b>	<b>1,158,660</b>	<b>1,158,660</b>	<b>75,000,000</b>
Foreign exchange gain&loss	(32,591)	157,900					
<b>CLOSING WORKING CAPITAL</b>							
Cash	6,086,170	6,086,170					
Prepayments	895,937	895,937					
Payables	(421,705)	(421,705)					
<b>TOTAL</b>	<b>6,560,402</b>	<b>6,560,402</b>					

On behalf of Management:

Galaktion Buadze  
Executive Director

30 May 2017



*6.6/2016*

Natalie Godzhashvili  
Head of Financial Management and  
Investments Unit

30 May 2017

The notes on pages 9 to 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
IBRD Designated Account		6,086,170	6,507,928
Prepayments	7	895,937	1,091,502
<b>TOTAL ASSETS</b>		<b>6,982,107</b>	<b>7,599,430</b>
<b>LIABILITIES</b>			
Payables		421,705	416,112
<b>TOTAL LIABILITIES</b>		<b>421,705</b>	<b>416,112</b>
<b>NET ASSETS</b>		<b>6,560,402</b>	<b>7,183,318</b>
<b>Cumulative Funds received:</b>			
IBRD Loan 8148-GE		59,400,708	56,307,828
Government of Georgia		15,651,649	14,493,514
MDF Funds		44,788	44,788
Other income		94,976	94,976
<b>Total funds received</b>		<b>75,192,121</b>	<b>70,941,106</b>
<b>Cumulative expenditure:</b>			
Cumulative project expenditure:	8	68,789,619	63,948,279
		<b>68,789,619</b>	<b>63,948,279</b>
Foreign exchange gain		157,900	190,491
<b>TOTAL NET ASSETS</b>		<b>6,560,402</b>	<b>7,183,318</b>

On behalf of Management:

Galaktion Buadze  
Executive Director

30 May 2017

Natalie Godziashvili  
Head of Financial Management and  
Investments Unit

30 May 2017

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

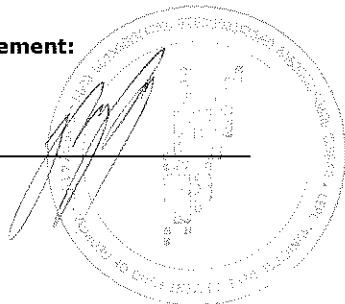
**SUMMARY OF EXPENDITURE BY ACTIVITY  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

Project activities	Actual		Planned		Variance	
	Year ended 31.12.2016	Cumulative as at 31.12.2016	Year ended 31.12.2016 <i>Unaudited</i>	Cumulative as at 31.12.2016 <i>Unaudited</i>	Year ended 31.12.2016 <i>Unaudited</i>	Cumulative as at 31.12.2016 <i>Unaudited</i>
<b>Component 1:</b>						
Infrastructure investment	3,997,119	63,005,335	5,000,000	64,008,216	1,002,881	1,002,881
<b>Component 2:</b>						
Institutional development	844,221	5,634,284	1,000,000	5,790,063	155,779	155,779
Front end fee	-	150,000	-	150,000		
<b>TOTAL EXPENDITURE</b>	<b>4,841,340</b>	<b>68,789,619</b>	<b>6,000,000</b>	<b>69,948,279</b>	<b>1,158,660</b>	<b>1,158,660</b>

On behalf of Management:

Galaktion Buadze  
Executive Director

30 May 2017



Natalie Godziashvili  
Head of Financial Management and  
Investments Unit

30 May 2017

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

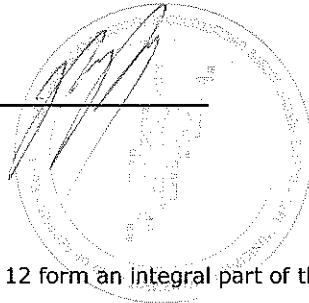
**STATEMENT OF EXPENDITURE ("SOE")  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

<b>Withdrawal No.</b>	<b>Withdrawal application date</b>	<b>Total SOE</b>	<b>Works and Goods</b>	<b>Consulting services and training</b>	<b>Operating costs</b>
23	<b>01.08.2016</b>	1,204,308	1,191,725	12,583	-
24	<b>10.11.2016</b>	1,301,812	1,290,368	11,444	-
		<b><u>2,506,120</u></b>	<b><u>2,482,093</u></b>	<b><u>24,027</u></b>	<b><u>-</u></b>

Part of the expenditure in amount of USD 155,840 under withdrawal application No. 23 is attributable to 2015 and recorded as expenditure in the 2015 financial statements respectively. The withdrawal application for these expenses were submitted to International Bank for Reconstruction and Development in 2016.

**On behalf of Management:**

\_\_\_\_\_  
**Galaktion Buadze**  
**Executive Director**



30 May 2017

\_\_\_\_\_  
**Natalie Godziashvili**  
**Head of Financial Management and Investments Unit**

30 May 2017

The notes on pages 9 to 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**STATEMENT OF DESIGNATED ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

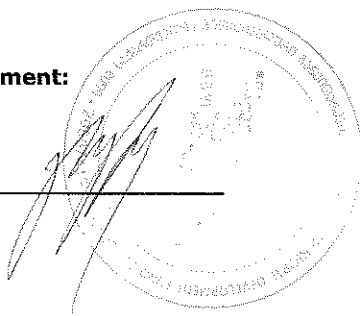
<b>Account No.</b>	202250930
<b>Depository Bank</b>	State Treasury
<b>Address</b>	16 V. Gorgasali street Tbilisi, 0114 Georgia

<b>Opening Balance</b>	<b>Note</b>	<u>6,507,928</u>
Funds received from IBRD		3,092,880
Less: Refund to WB from Designated Account ("DA")		-
<b>Present outstanding amount advanced to DA</b>		<u><b>9,600,808</b></u>
DA closing balance as at 31 December 2016		6,086,170
Add: Amount of eligible expenditure paid	<b>9</b>	<u>3,514,638</u>
<b>Total advance accounted for</b>		<u><b>9,600,808</b></u>

**On behalf of Management:**

\_\_\_\_\_  
**Galaktion Buadze**  
**Executive Director**

30 May 2017



\_\_\_\_\_  
**Natalie Godziashvili**  
**Head of Financial Management and**  
**Investments Unit**

30 May 2017

The notes on pages 9 to 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in US Dollars)**

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**1. BACKGROUND**

Municipal Development Fund ("MDF") was established by the Government of Georgia by Presidential Decree # 294 of June 7, 1997 to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank ("ADB") and the European Investment Bank (EIB) and monitor the implementation of infrastructure sector projects.

The International Bank for Reconstruction and Development Loan Agreement No. 8148-GE (the "Agreement") in the amount of 60 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 28 March 2012 ("inception").

The main objectives of the loan are: providing support to Local Self Governments to carry out investment subprojects for urban regeneration, including the rehabilitation of municipal infrastructure and utilities in the central historical areas, the conservation and upgrading of public spaces, carrying out investment subprojects to attract private sector investments in tourism and agroprocessing; Enhance the institutional capacity and performance of the Georgia National Tourism Administration, the Agency for Culture Heritage Preservation of Georgia, MDF and other local and regional entities. The closing date of the loan is 31 December 2017.

**2. ACCOUNTING POLICIES**

**Basis of accounting** – These special purpose project financial statements have been prepared in accordance with the *Accrual Basis of Accounting* and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the Guidelines on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank's Financial Management Sector Board.

**Funds received** – Project financing is recognised as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable.

**Expenditure** - Expenditure is recognised on an accruals basis as a use of project funds when liabilities are incurred.

**Functional currency** – These special purpose project financial statements are expressed in United States Dollars ("US Dollar" or "USD").

**Transactions in other currencies** – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction. Monetary items are translated into US Dollars at the National Bank of Georgia ("NBG") official exchange rate at the reporting date.

**Cash** – Cash comprises balances with State Treasury.

**3. DESIGNATED ACCOUNT**

Designated account is a special disbursement account of the Project maintained in US Dollars at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorisation from IBRD in accordance with the Agreement.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

**4. BASIS OF FUNDING**

According to the terms of the Agreement, the expenditure is co-financed by proceeds received from IBRD and the Government of Georgia ("GoG") at a proportional rate of 80% and 20%, respectively.

	<u>IBRD</u>	<u>GoG</u>	<u>Total</u>
Works and goods	55,681,000	13,959,000	<b>69,640,000</b>
Consulting services and training	2,945,000	735,000	<b>3,680,000</b>
Operating costs	1,224,000	306,000	<b>1,530,000</b>
Front-end fee	150,000	-	<b>150,000</b>
<b>Total:</b>	<b><u>60,000,000</u></b>	<b><u>15,000,000</u></b>	<b><u>75,000,000</u></b>

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2016 were as follows:

**(a) Designated Account**

Municipal Development Fund withdraws the eligible amounts from the designated account and prepares and sends replenishment requests to the World Bank with authorized signatures. The replenishment requests and respective documentation are reviewed by the World Bank and an approved amount is transferred to the designated account.

**(b) Direct Payment**

Available amounts are drawn from time to time within limits determined under the loan agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by the World Bank directly to third parties. MDF forms withdrawal applications for request of direct payments and sends it to the World Bank, for settlement.

**(c) GoG Current Account**

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

**6. STATEMENT OF EXPENDITURE**

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditures for works valued at less than USD 4,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for Goods valued at less than USD 300,000;

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

**7. PREPAYMENTS**

	<u>31 December 2016</u>	<u>31 December 2015</u>
Advances to contractors	895,937	1,091,502
<b>Total:</b>	<b><u>895,937</u></b>	<b><u>1,091,502</u></b>

Payments of advances to contractors are made at the beginning of the contract in amount of 10%-20% of total contract amount. Retention of advance is done periodically upon submission of works completed certificates by contractors.

**8. PROJECT EXPENDITURE BY FUND**

<b>Project activities</b>	<b>Actual</b>	
	<u>Year to date</u>	<u>Cumulative to date</u>
Works and goods	3,193,759	49,543,071
Consulting services and training	664,720	2,828,342
Operating costs	-	1,019,497
Front-end fee	-	150,000
<b>IBRD TOTAL</b>	<b><u>3,858,479</u></b>	<b><u>53,540,910</u></b>
Works and goods	803,360	13,221,014
Consulting services and training	167,611	1,511,232
Operating costs	11,890	275,213
Resettlement costs	-	102,911
<b>GoG TOTAL</b>	<b><u>982,861</u></b>	<b><u>15,110,370</u></b>
Works and goods	-	138,339
<b>MDF TOTAL</b>	<b><u>-</u></b>	<b><u>138,339</u></b>
<b>TOTAL PROJECT EXPENDITURE</b>	<b><u>4,841,340</u></b>	<b><u>68,789,619</u></b>

The Project consists of the following main components:

Component 1 – Infrastructure Investment

- Provision of financial resources to local self-governments to carry out investment subprojects for Urban regeneration: an integrated approach for renewal of Telavi, Kvareli and the heritage village of Dartlo;
- Tourism circuit development: Integrated approach to culture heritage site upgrading and improved management in the most attractive 11 cultural heritage sites located along the main tourism circuit/route in Kakheti.
- Provision of financial resources to local self-governments to carry out Investment Subprojects for public infrastructure to attract private sector investments in tourism and agro-processing

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in US Dollars)**

Component 2 – Institutional Development

Enhancing the institutional capacity and performance of the Georgia National Tourism Administration (“GNTA”), the Agency for Culture Heritage Preservation of Georgia (“ACHP”), the Project Implementing Entity (MDF), and other local and regional entities to carry out the following activities:

- Destination management and promotion, including local outreach campaign
- Geo-tourism routes and tourism portal
- Skilled workforce development and capacity building
- Construction supervision and sustainable site management of cultural heritage
- Performance monitoring and evaluation activities

**9. RECONCILIATION OF DESIGNATED ACCOUNT**

	<u>WB</u>	<u>GoG</u>	<u>Total</u>
Expenditures incurred during the year	3,858,479	982,861	<b>4,841,340</b>
Change in prepayments	(321,682)	126,117	<b>(195,565)</b>
Change in payables	8,831	(3,238)	<b>5,593</b>
Foreign exchange	(30,990)	63,581	<b>32,591</b>
<b>Amount of eligible expenditure paid</b>	<b><u>3,514,638</u></b>	<b><u>1,169,321</u></b>	

**10. COMMITMENTS AND CONTINGENCIES**

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2016 and on the funds received and disbursed during the year then ended.

**11. OPERATING ENVIRONMENT**

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Throughout 2016 Georgia’s neighbouring countries, which are the large trading partners of Georgia, have experienced significant political and economic turmoil which has had a knock-on effect on the Georgian economy. This has resulted in a significant devaluation of the Georgian Lari against the US dollar and other major currencies.

**12. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

There were no significant events subsequent to the balance sheet date.

**13. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS**

These special purpose financial statements were authorised for issue by the Management of MDF on 30 May 2017.