

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

LOAN NO.8380-GE
GRANT NO.TF018090
(SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE
DEVELOPMENT PROJECT)

Special Purpose Project Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2019

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE
 DEVELOPMENT PROJECT
 LOAN NO.8380-GE GRANT NO.TF018090**

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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 2019

Management of the Second Regional Development and Municipal Infrastructure Development Project (the "Project"), financed under the Loan Agreement No. 8380-GE dated 18 August 2014 and Grant Agreement No. TF018090 dated 1 May 2015, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present the Project's statement of financial position as at 31 December 2019, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and statements of designated account, in compliance with the basis of accounting described in Note 2 the accompanying special purpose project financial statements.

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; and

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;
- 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 2019 were authorised for issue on 29 June 2020 by the Management.

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020



Levan Sharvadze
Deputy Director -- Chief Financial Officer

29 June 2020

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 Second Regional and Municipal Infrastructure Development Project (the "Project") financed under the Loan Agreement No. 8380-GE dated 18 August 2014 and Grant Agreement No. TF018090 dated 1 May 2015 (the "Agreements"), implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the year ended 31 December 2019, statement of financial position as at 31 December 2019, summary of expenditure by activity, statement of expenditure ("SOE") and statements of designated account for the year ended 31 December 2019 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2019 are prepared, in all material respects, in accordance with Loan Agreement No. 8380-GE dated 18 August 2014 and Grant Agreement No. TF018090 dated 1 May 2015, as further detailed in Note 2.

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.

Other matter

Data included on pages 4 to 16 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

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 Agreements. 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 in reporting the information to the Government of Georgia and International Bank for Reconstruction and Development (IBRD). 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 Special Purpose Project 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 financial reporting provisions of the Agreement 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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

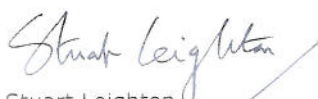
Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

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 special purpose project 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 special purposes project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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.



Stuart Leighton
On behalf of Deloitte and Touche LLC



29 June 2020
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

	Actual		Planned**		Variance		Project appraisal document
	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019 Unaudited	Cumulative as at 31.12.2019 Unaudited	Year ended 31.12.2019 Unaudited	Cumulative as at 31.12.2019 Unaudited	
OPENING WORKING CAPITAL							
Cash	1,028,878	-					
Prepayments	926,104	-					
Receivables from municipalities	155,810	-					
Payables	(448,712)	-					
TOTAL	1,662,080	-					
SOURCES OF FUNDS							
IBRD loan 8380-GE	4,928,947	22,897,525					30,000,000
Swiss Agency for Development and Cooperation (SDC) funds	1,212,745	4,024,118					5,000,000
Government of Georgia	817,205	6,349,529					2,250,000
MDF funds	1,836,541	5,548,227					12,925,000
Municipal funds	1,501,232	5,862,516					8,760,000
Public Private Partnership (PPP) funds	45,915	45,915					-
Other income*	356	426,412					-
TOTAL	10,342,941	45,154,242					58,935,000
EXPENDITURE							
Works and goods (part A.1(a) and part A1 (b))	5,002,691	30,500,762	5,300,000	30,798,071	297,309	297,309	47,610,000
Consultants service and training, and incremental operating costs under part A.2	809,676	3,642,225	1,000,000	3,832,549	190,324	190,324	2,500,000
Goods, consultants, training under part B	2,118,330	6,562,215	2,500,000	6,943,885	381,670	381,670	8,750,000
Front-end fee	-	75,000	-	75,000	-	-	75,000
TOTAL	7,930,697	40,780,202	8,800,000	41,649,505	869,303	869,303	58,935,000
Foreign exchange loss, net	(37,294)	(337,010)					

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**SUMMARY OF SOURCES AND USES OF FUNDS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

CLOSING WORKING CAPITAL		
Cash	2,685,648	2,685,648
Prepayments	1,060,780	1,060,780
Receivables from municipalities	441,098	441,098
Other receivables	96,168	96,168
Payables	<u>(246,664)</u>	<u>(246,664)</u>
TOTAL	<u>4,037,030</u>	<u>4,037,030</u>

*Other income for the year ended 31 December 2019 represent penalty amount from the counterparty.

**The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2019 included in the IFR (interim financial report) represent the final figures reflected in the State Budget for FY2019 adjusted to the accrual model, which have not been audited.

On behalf of Management:


Giorgi Shengela
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020


The notes on pages 11 to 16 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR EDNED 31 DECEMBER 2019
(in US Dollars)**

	Note	31 December 2019	31 December 2018
ASSETS			
Cash	3,8	2,685,648	1,028,878
Prepayments	7	1,060,780	926,104
Receivables from municipalities		441,098	155,810
Other receivables		96,168	-
TOTAL ASSETS		4,283,694	2,110,792
LIABILITIES			
Payables		(246,664)	(448,712)
Total liabilities		(246,664)	(448,712)
NET ASSETS		4,037,030	1,662,080
Funds received:			
IBRD loan 8380-GE		22,897,525	17,968,578
SDC grant		4,024,118	2,811,373
Government of Georgia		6,349,529	5,532,324
MDF funds		5,548,227	3,711,687
Funds from municipalities		5,862,516	4,361,284
PPP funds		45,915	-
Other income		426,412	426,056
Total funds received		45,154,242	34,811,302
Expenditures:			
Project expenditure	9	40,780,202	32,849,505
Total Expenditures		40,780,202	32,849,505
Foreign exchange loss, net		(337,010)	(299,716)
TOTAL NET ASSETS		4,037,030	1,662,080

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020

The notes on pages 11 to 16 form an integral part of these special purpose project financial statements.


Levan Sharvadze
Deputy Director – Chief Financial
Officer

29 June 2020

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**STATEMENT OF EXPENDITURE BY ACTIVITIES
FOR THE YEAR EDNED 31 DECEMBER 2019
(in US Dollars)**


Project activities	Actual		Planned*		Variance	
	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019 <i>Unaudited</i>	Cumulative as at 31.12.2019 <i>Unaudited</i>	Year ended 31.12.2019 <i>Unaudited</i>	Cumulative as at 31.12.2019 <i>Unaudited</i>
Component 1: Infrastructure investment	5,812,367	34,142,987	6,300,000	34,630,620	487,633	487,633
Component 2: Institutional development	2,118,330	6,562,215	2,500,000	6,943,885	381,670	381,670
Front end fee	-	75,000	-	75,000	-	-
TOTAL EXPENDITURES	7,930,697	40,780,202	8,800,000	41,649,505	869,303	869,303

* The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2019 included in the IFR (interim financial report) represent the final figures reflected in the State Budget for FY2019 adjusted to the accrual model.

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director - Chief Financial Officer

29 June 2020

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**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**STATEMENT OF EXPENDITURE (SOE)
FOR THE YEAR EDNED 31 DECEMBER 2019
(in US Dollars)**


Withdrawal applications for Loan:

Withdrawal No.	Withdrawal application date	Total SOE	Category 1a: Works and Goods	Category 1b: Works and Goods	Category 2: Consultants service, Training and Incremental operating costs under Part A2	Category 3: Goods, Consulting Service, Training under B2
25	13.12.2019	728,334	416,547	93,170	87,153	131,464
23	23.09.2019	1,128,055	442,262	338,593	218,948	128,252
19	21.05.2019	755,020	293,377	132,696	99,853	229,094
18	03.01.2019	1,598,028	448,991	676,971	233,916	238,150
			1,601,177	1,241,430	639,870	726,960

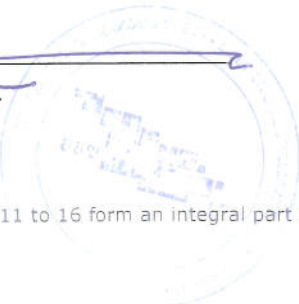
Withdrawal applications for Grant:


Withdrawal No.	Withdrawal application date	Total SOE	Goods, Consulting service, Training under B2
25	12.11.2019	197,101	197,101
18	10.06.2019	344,417	344,417
16	18.03.2019	174,084	174,084
			715,602

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020




Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020


The notes on pages 11 to 16 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
 LOAN NO.8380-GE
 GRANT NO.TF018090**

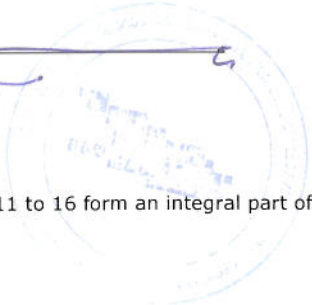
**STATEMENT OF DESIGNATED ACCOUNT
 FOR THE YEAR ENDED 31 DECEMBER 2019
 (in US Dollars)**

Account No.	202250160		
Depository Bank	State Treasury		
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia		
Opening balance		Note	<u>192,124</u>
Funds received from IBRD (Loan)			4,209,436
Present outstanding amount advanced to Designated Account ("DA")			<u>4,401,560</u>
DA closing balance as at 31 December 2019		8	1,615,238
Add: Amount of eligible expenditures paid		10	2,786,322
Total advance accounted for			<u><u>4,401,560</u></u>

On behalf of Management:


 Giorgi Shengelia
 Executive Director

29 June 2020




 Levan Sharvadze
 Deputy Director – Chief Financial Officer

29 June 2020

The notes on pages 11 to 16 form an integral part of these special purpose project financial statements.


**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
 LOAN NO.8380-GE
 GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
 (in US Dollars)**

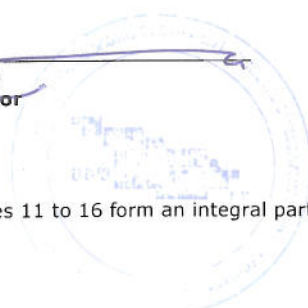
Account No.	202230160
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening balance	Note	<u>322,556</u>
Funds received from IBRD (Grant)		715,602
Present outstanding amount advanced to DA		<u>1,038,158</u>
DA closing balance as at 31 December 2019	8	326,396
Add: Amount of eligible expenditures paid	10	711,762
Total advance accounted for		<u><u>1,038,158</u></u>

On behalf of Management:


 Giorgi Shengelia
 Executive Director

29 June 2020




 Levan Sharvadze
 Deputy Director – Chief Financial
 Officer

29 June 2020

The notes on pages 11 to 16 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

1. BACKGROUND

Municipal Development Fund of Georgia (the "Fund" or "MDF") was established on 7 June 1997 by the Presidential Decree N° 294 "On management of funds for the development of municipal sector in Georgia".

The Fund is a legal Fund of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities and physical persons of Georgia in the framework of the Government Program.

The founder and governing body of the Fund is the Government of Georgia. The Fund is cooperating with majority of large investment banks and financial institutions operating in Georgia.

The International Bank for Reconstruction and Development Loan Agreement No. 8380-GE (the "Agreement") in the amount of 30 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 18 August 2014 ("inception"). Swiss Grant Agreement No. TF018090 (the "Agreement") in the amount of 5 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 1 May 2015.

The main objectives of the loan are: providing finance on the credit and grant basis to selected Local self-governments ("LSG") to finance investment sub-projects related to municipal services; preparation of feasibility studies, construction supervision, monitoring and evaluation activities for investment subprojects; enhancing the institutional capacity and performance of LSGs and MDF. Apart from donor financing, part of the amount is also financed by LSG, Public Private Partnerships (PPP), GoG and MDF as well. The closing date of the loan is 30 August 2024.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of the Loan Agreements No. 8380-GE dated 18 August 2014 and Swiss Grant Agreement No. TF018090 dated 1 May 2015 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and International Bank for Reconstruction and Development (IBRD) and Swiss Agency for Development and Cooperation (SDC).

The special purpose project financial statements have been prepared on the accrual basis of accounting.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the information to the Government of Georgia and International Bank for Reconstruction and Development. As a result these special purpose project financial statements may not be suitable for another purpose.

Sources of funds – 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. The accumulated project financing is disclosed under "Funds" in the statement of financial position. In addition current year funds received is disclosed in the Statement of Sources and Uses of Funds, showing under sources funds and expenditures respectively.

Expenditure - is recognised on an accruals basis as a use of project funds when liabilities are incurred. The accumulated project expenditures is disclosed under "Expenditure" in the statement of financial position.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

Functional currency – The functional currency of the project and its presentational currency is United States Dollars (“US Dollar” or “USD”).

Transactions in other currencies – Transactions in currencies other than the reporting currency 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.

Prepayments – Prepayments represent the amounts paid to the contractors for work.

Cash – Cash comprises of balances with State Treasury.

3. DESIGNATED ACCOUNT

The 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.

4. BASIS OF FUNDING

According to the terms of the Agreement, expenditure is co-financed by proceeds received from IBRD, Swiss Grant, the Government of Georgia (“GoG”), MDF and Municipalities.

The financing is provided from the following sources:

- Goods and Works under part A.1 (a) - IBRD, MDF and Municipalities: 40%, 40% and 20%, respectively;
- Goods and Works under part A.1 (b) – IBRD and Municipalities: 85% and 15%, respectively;
- Consultants’ services, training under Part A.2 of the project and incremental operating costs - IBRD and GoG: 80% and 20%, respectively; and
- Goods, consultants’ services and training under Part B of the Project – IBRD, Swiss Grant and GoG: 22.8%, 57.2% and 20%, respectively.

	IBRD	Swiss Grant	GoG	MDF	Municipalities	Total
Goods and works under part A.1 (a)	12,925,000	-	-	12,925,000	6,465,000	32,315,000
Goods and works under part A.1 (b)	13,000,000	-	-	-	2,295,000	15,295,000
Consultants’ services, training under Part A.2 of the Project and incremental operating costs	2,000,000	-	500,000	-	-	2,500,000
Goods, consultants’ services and training under Part B of the Project	2,000,000	5,000,000	1,750,000	-	-	8,750,000
Front-end fee	75,000	-	-	-	-	75,000
Total:	<u>30,000,000</u>	<u>5,000,000</u>	<u>2,250,000</u>	<u>12,925,000</u>	<u>8,760,000</u>	<u>58,935,000</u>

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2019 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 authorised signatures. The replenishment requests and respective documentation are reviewed by the International Bank for Reconstruction and Development 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 International Bank for Reconstruction and Development 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; and
- (iv) All expenditures for goods and non-consulting services valued at less than USD 300,000;

7. PREPAYMENTS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Advances to contractors	1,060,780	926,104
Total:	<u><u>1,060,780</u></u>	<u><u>926,104</u></u>

Payments of advances to contractors are made at the beginning of the contract in amount of 10%-30% of total contract amount. Retention of advance is done periodically upon submission of works completed certificates by contractors.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

8. CASH

	31 December 2019	31 December 2018
Balance on designated account (Loan)	1,615,238	192,124
Balance on designated account (Grant)	326,396	322,556
Local account	744,014	514,198
Total:	<u>2,685,648</u>	<u>1,028,878</u>

9. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Works and Goods (part A.1(a) & part A1 (b))	2,432,109	16,629,081
Consulting services, training and incremental operating costs under Part A.2	382,976	2,630,144
Goods, consultants, training under Part B	504,643	1,597,754
Front-end fee	-	75,000
IBRD TOTAL	<u>3,319,728</u>	<u>20,931,979</u>
Works and Goods (part A.1(a) & part A1 (b))	-	-
Consulting services, training and incremental operating costs under Part A.2	18,209	42,731
Goods, consultants and training under Part B	1,191,006	3,658,864
GRANT TOTAL	<u>1,209,215</u>	<u>3,701,595</u>
Works and Goods (part A.1(a) & part A1 (b))	-	639,595
Consulting services, training and incremental operating costs under Part A.2	407,237	968,096
Goods, consultants and training under Part B	422,681	1,291,342
GoG TOTAL	<u>829,918</u>	<u>2,899,033</u>
Works and Goods (part A.1(a) & part A1 (b))	1,617,936	8,273,434
Consulting services, training and incremental operating costs under Part A.2	-	-
Goods, consultants and training under Part B	-	-
MDF TOTAL	<u>1,617,936</u>	<u>8,273,434</u>
Works and Goods (part A.1(a) & part A1 (b))	952,646	4,958,652
Consulting services, training and incremental operating costs under Part A.2	1,253	1,254
Goods, consultants and training under Part B	-	14,255
MUNICIPALITIES TOTAL	<u>953,899</u>	<u>4,974,161</u>
TOTAL PROJECT EXPENDITURES	<u>7,930,696</u>	<u>40,780,202</u>

The Project consists of the following main components:

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

Component 1 – Infrastructure investment

- Provision of financial resources to local self-governments to carry out investment sub-projects 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; and
- 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.

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; and
- Performance monitoring and evaluation activities.

10. RECONCILIATION OF DESIGNATED ACCOUNT

	IBRD (Loan)	IBRD (Grant)	Other (GoG, MDF, Municipalities, PPP)	Total
Expenditures incurred during the year	3,319,730	1,209,215	3,401,752	7,930,697
Direct payment	(719,511)	(497,143)	-	(1,216,654)
Change in prepayments	(133,434)	(759)	268,869	134,676
Change in payables	163,838	2,851	35,359	202,048
Change in receivables	-	-	381,456	381,456
Foreign exchange	155,699	(2,402)	(115,673)	37,294
Amount of eligible expenditure paid	<u>2,786,322</u>	<u>711,762</u>	<u>3,971,057</u>	<u>7,469,847</u>

11. 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 2019 and on the funds received and disbursed during the year then ended.

12. 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

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by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Fund may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Fund's operations largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

The economic shock caused by the coronavirus and the expectations of the future development of pandemic and its impact on the Georgian economy have been reflecting on increased volatility of the foreign exchange market and weakening of Georgian Lari against other currencies

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Project. Management believes it is taking all the necessary measures to support the sustainability and development of the Project's operations.

13. PROLONGATION OF THE PROJECT'S CLOSING DATE

Due to closing date of the grant on 30 April 2021, the Ministry of Finance of Georgia requested from International Bank for Reconstruction and Development an extension of the closing date of the Second Regional and Municipal Infrastructure Development Project until 30 August 2024 for the completion of ongoing works under this Project. At the date of signing of these special purpose project financial statements, the approval from World Bank has been made.

14. SUBSEQUENT EVENTS

On 21 May 2020 additional loan agreement No.9099-GE has been signed between Government of Georgia and International Bank for Reconstruction and Development. According to the agreement, Government of Georgia will receive additional financing in the amount of EUR 37,100,000 within Second Regional and Municipal Infrastructure Development Project, The closing date for the additional financing contract is 30 August 2024.