

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

LOAN NO. 8380-GE

LOAN NO. 9099-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 2020

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE
DEVELOPMENT PROJECT**

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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 2020

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, Loan Agreement No. 9099-GE dated 21 May 2020 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 2020, 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:

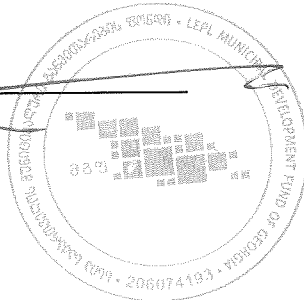
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of 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.

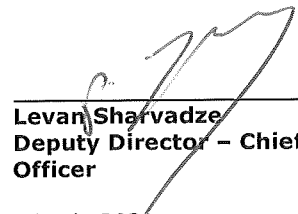
The special purpose project financial statements for the year ended 31 December 2020 were authorised for issue on 26 July 2021 by the Management.

On behalf of Management:


Giorgi Shengelia
Executive Director

26 July 2021




Levan Sharvadze
Deputy Director – Chief Financial Officer

26 July 2021

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, Loan Agreement No. 9099-GE dated 21 May 2020 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 2020, statement of financial position as at 31 December 2020, summary of expenditure by activity, statement of expenditure ("SOE") and statements of designated account for the year ended 31 December 2020 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 2020 are prepared, in all material respects, in accordance with Loan Agreement No. 8380-GE dated 18 August 2014, Loan Agreement No. 9099-GE dated 21 May 2020 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:

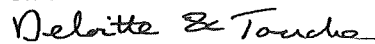
- Identify and access the risks of material misstatement of the special purposes project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

Srbuhi Hakobyan



On behalf of Deloitte and Touche LLC



26 July 2021
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in US Dollars)**

	Actual		Planned***		Variance		Project appraisal document
	Year ended 31.12.2020	Cumulative as at 31.12.2020	Year ended 31.12.2020 <i>Unaudited</i>	Cumulative as at 31.12.2020 <i>Unaudited</i>	Year ended 31.12.2020 <i>Unaudited</i>	Cumulative as at 31.12.2020 <i>Unaudited</i>	
OPENING WORKING CAPITAL							
Cash	2,685,648	-	-	-	-	-	-
Prepayments	1,060,780	-	-	-	-	-	-
Receivables from municipalities	441,098	-	-	-	-	-	-
Trade and other receivables	96,168	-	-	-	-	-	-
Payables	(246,664)	-	-	-	-	-	-
TOTAL	4,037,030	-					
SOURCES OF FUNDS							
IBRD loan 8380-GE	2,507,207	25,404,732					30,000,000
IBRD loan 9099-GE*	109,654	109,654					-
Swiss Agency for Development and Cooperation (SDC) funds	421,617	4,445,735					5,000,000
Government of Georgia	230,365	6,579,894					2,250,000
MDF funds	1,197,207	6,745,434					12,930,000
Municipal funds	284,794	6,147,310					8,750,000
Other income**	3,064	475,391					-
TOTAL	4,753,908	49,908,150					58,930,000*
EXPENDITURE							
Works and goods (part A.1(a) and part A1 (b))	3,515,657	34,016,419	4,200,000	34,700,762	684,343	684,343	47,605,000
Consultants service and training, and incremental operating costs under part A.2	523,378	4,165,603	1,000,000	4,642,225	476,622	476,622	2,500,000
Goods, consultants, training under part B	648,834	7,211,049	1,000,000	7,562,215	351,166	351,166	8,750,000
Front-end fee	109,654	184,654	109,654	184,654	-	-	75,000
TOTAL	4,797,523	45,577,725	6,309,654	47,089,856	1,512,131	1,512,131	58,930,000*
Foreign exchange loss, net	(90,336)	(427,346)					

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT**

**SUMMARY OF SOURCES AND USES OF FUNDS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

(in US Dollars)

CLOSING WORKING CAPITAL	
Cash	2,371,066
Prepayments	1,365,877
Receivables from municipalities	408,808
Trade and other receivables	70,501
Payables	<u>(313,173)</u>
TOTAL	<u>3,903,079</u>

*The loan agreement No. 9099-GE for additional financing was signed on 21 May 2020. Financing from IBRD increased by an original amount of USD 40,600,000 (equivalent of 37,100,000 mln EUR - the original amount of the commitment). Consequently, co-financing increased by USD 7,160,000. As a result, source of financing increased by USD 47,760,000 in total. These resources are to be allocated for the activities to be implemented under Part A of the Project.

**Other income for the year ended 31 December 2020 represents penalty amount from a counterparty.

***The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2020 included in the IFR (interim financial report) represent the final figures reflected in the State Budget for FY2020 adjusted to the accrual model, which have not been audited.

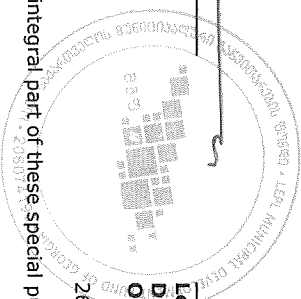
On behalf of Management:


Giorgi Shengelia
Executive Director

26 July 2021


Levan Sharvadze
Deputy Director - Chief Financial Officer

26 July 2021



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**

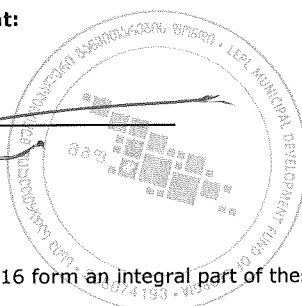
**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR EDNED 31 DECEMBER 2020
(in US Dollars)**

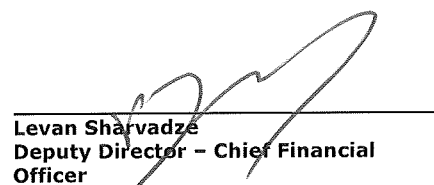
	Note	31 December 2020	31 December 2019
ASSETS			
Cash	3,8	2,371,066	2,685,648
Prepayments	7	1,365,877	1,060,780
Receivables from municipalities		408,808	441,098
Trade and other receivables		70,501	96,168
TOTAL ASSETS		4,216,252	4,283,694
LIABILITIES			
Payables		(313,173)	(246,664)
Total liabilities		(313,173)	(246,664)
NET ASSETS		3,903,079	4,037,030
Funds received:			
IBRD loan 8380-GE		25,404,732	22,897,525
IBRD loan 9099-GE		109,654	-
SDC grant		4,445,735	4,024,118
Government of Georgia		6,579,894	6,349,529
MDF funds		6,745,434	5,548,227
Funds from municipalities		6,147,310	5,862,516
Other income		475,391	472,327
Total funds received		49,908,150	45,154,242
Expenditures:			
Project expenditure	9	45,577,725	40,780,202
Total Expenditures		45,577,725	40,780,202
Foreign exchange loss, net		(427,346)	(337,010)
TOTAL NET ASSETS		3,903,079	4,037,030

On behalf of Management:


Giorgi Shengelia
Executive Director

26 July 2021




Levan Sharvadze
Deputy Director – Chief Financial
Officer

26 July 2021

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**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT**


**STATEMENT OF EXPENDITURE BY ACTIVITIES
FOR THE YEAR EDNE 31 DECEMBER 2020
(in US Dollars)**

Project activities	Actual		Planned*		Variance		PAD**
	Year ended 31.12.2020	Cumulative as at 31.12.2020	Year ended 31.12.2020 <i>Unaudited</i>	Cumulative as at 31.12.2020 <i>Unaudited</i>	Year ended 31.12.2020 <i>Unaudited</i>	Cumulative as at 31.12.2020 <i>Unaudited</i>	(in USD million) <i>Unaudited</i>
Component 1:							
Infrastructure investment	4,039,035	38,182,022	5,000,000	39,142,987	960,965	960,965	50.10
Component 2:							
Institutional development	648,834	7,211,049	1,200,000	7,762,215	551,166	551,166	8.75
Front end fee	109,654	184,654	109,654	184,654	-	-	0.075
TOTAL EXPENDITURE	4,797,523	45,577,725	6,309,654	47,089,856	1,512,131	1,512,131	58.93

* The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2020 included in the IFR (interim financial report) represent the final figures reflected in the State Budget for FY2020 adjusted to the accrual model.

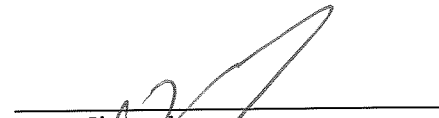
** PAD – Project Appraisal Document

On behalf of Management:


Giorgi Shengelia
 Executive Director

26 July 2021

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

26 July 2021

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT**

**STATEMENT OF EXPENDITURE (SOE)
FOR THE YEAR EDNED 31 DECEMBER 2020
(in US Dollars)**

Withdrawal applications for Loan No. 8380-GE:

<u>Withdrawal No.</u>	<u>Withdrawal Application Date</u>	<u>Total SOE</u>	<u>Category 1a: Works and Goods</u>	<u>Category 1b: Works and Goods</u>	<u>Category 2: Consultants service, Training and Incremental operating costs under Part A2</u>	<u>Category 3: Goods, Consulting Service, Training under B2</u>
30	15.06.2020	814,357	472,858	150,764	165,117	25,618
33	23.09.2020	428,581	287,251	6,207	125,598	9,525
Total:		<u>1,242,938</u>	<u>760,109</u>	<u>156,971</u>	<u>290,715</u>	<u>35,143</u>


Withdrawal applications for Grant No. TF018090:

<u>Withdrawal No.</u>	<u>Withdrawal Application Date</u>	<u>Total SOE</u>	<u>Goods, Consulting service, Training under B2</u>
32	22.12.2020	99,833	99,833
Total:		<u>99,933</u>	<u>99,833</u>

On behalf of Management:


Giorgi Shengelia
Executive Director

26 July 2021


Levan Sharvadze
Deputy Director – Chief Financial Officer

26 July 2021

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**

**STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020
(in US Dollars)**

Account No.	202250160
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening balance	Note	<u>1,615,238</u>
Funds received from IBRD (Loan 8380-GE)		1,242,938
Present outstanding amount advanced to Designated Account ("DA")		<u>2,858,176</u>
DA closing balance as at 31 December 2020	8	1,655,303
Add: Amount of eligible expenditures paid	10	1,202,873
Total advance accounted for		<u><u>2,858,176</u></u>

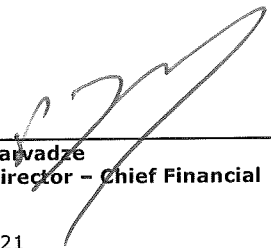
On behalf of Management:



Giorgi Shengelia
Executive Director

26 July 2021

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

26 July 2021

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT**

**STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in US Dollars)**

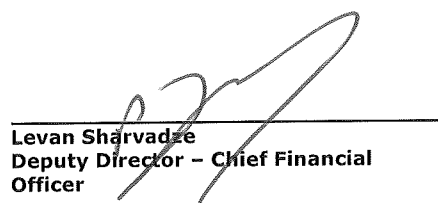
Account No.	202230160		
Depository Bank	State Treasury		
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia		
Opening balance		Note	<u>326,396</u>
Funds received from IBRD (Grant No. TF018090)			99,833
Present outstanding amount advanced to DA			<u>426,229</u>
DA closing balance as at 31 December 2020		8	369,680
Add: Amount of eligible expenditures paid		10	56,549
Total advance accounted for			<u><u>426,229</u></u>

During 2020, there was no movement on the designated account of Loan Agreement No. 9099-GE. Pursuant to the Disbursement and Financial Information Letter (DFIL), the disbursement process and flow of funds will be arranged by using the funds from Loan No. 8380-GE first and once its balance is fully disbursed, funds from Loan No. 9099-GE will be disbursed. Therefore, the Statement of Designated Account is not presented for Loan Agreement No. 9099-GE.

On behalf of Management:


Giorgi Shengelia
Executive Director

26 July 2021


Levan Sharvadze
Deputy Director – Chief Financial
Officer

26 July 2021

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**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
(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 International Bank for Reconstruction and Development Loan Agreement No. 9099-GE (the "Agreement") in the amount of 37.1 million Euro ("EUR") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 21 May 2020.

The main objectives of the Project 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, Loan Agreement No. 9099-GE dated 21 May 2020 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).

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.

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in US Dollars)**

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 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 Agreements IBRD Loan No. 8380-GE and Grant No. TF018090.

The Designated account for additional financing is maintained in EUR at the State Treasury in accordance with Loan Agreement IBRD No. 9099-GE.

Pursuant to the Disbursement and Financial Information Letter (DFIL), the disbursement process and flow of funds will be arranged by using the funds from Loan No. 8380-GE first and once its balance is fully disbursed, funds from Loan No. 9099-GE will be disbursed.

4. BASIS OF FUNDING

According to the terms of the Agreements, 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.
- Activities financed under Loan No. 9099-GE will be financed in the proportion of 85% (IBRD) and 15% (GoG). All expenditure will fall into Part A of the Project.

	IBRD (Loan No. 8380-GE)	Swiss Grant	GoG	MDF	Municipa- lities	Total
Goods and works under part A.1 (a)	12,925,000	-	-	12,925,000	6,460,000	32,310,000
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>8,755,000</u>	<u>58,930,000</u>

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	IBRD (Loan No. 9099-GE)	GOG / Municipalities	Total
Goods, works, non-consulting services and consulting services, Incremental Operating Costs, and Training for Part A of the Project	40,498,500	7,146,794	47,645,294
Front-end Fee	101,500	-	101,500
Total:	40,600,000	7,146,794	47,746,794

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2020 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 expenditure 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 expenditure for goods and non-consulting services valued at less than USD 300,000;

7. PREPAYMENTS

	31 December 2020	31 December 2019
Advances to contractors	1,365,877	1,060,780
Total:	1,365,877	1,060,780

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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.

8. CASH

	31 December 2020	31 December 2019
Balance on designated account (Loan No. 8380-GE)	1,655,303	1,615,238
Balance on designated account (Grant No. TF018090:)	369,680	326,396
Local account	346,083	744,014
Total:	<u>2,371,066</u>	<u>2,685,648</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))	1,690,364	18,319,445
Consulting services, training and incremental operating costs under Part A.2	415,327	3,045,471
Goods, consultants, training under Part B	147,917	1,745,671
Front-end fee	109,654	184,654
IBRD TOTAL	<u>2,363,262</u>	<u>23,295,241</u>
Works and Goods (part A.1(a) & part A1 (b))	-	-
Consulting services, training and incremental operating costs under Part A.2	3,375	46,106
Goods, consultants and training under Part B	371,133	4,029,997
GRANT TOTAL	<u>374,508</u>	<u>4,076,103</u>
Works and Goods (part A.1(a) & part A1 (b))	-	639,555
Consulting services, training and incremental operating costs under Part A.2	104,676	1,072,772
Goods, consultants and training under Part B	129,784	1,421,126
GoG TOTAL	<u>234,460</u>	<u>3,133,493</u>
Works and Goods (part A.1(a) & part A1 (b))	1,153,728	9,427,162
Consulting services, training and incremental operating costs under Part A.2	-	-
Goods, consultants and training under Part B	-	-
MDF TOTAL	<u>1,153,728</u>	<u>9,427,162</u>
Works and Goods (part A.1(a) & part A1 (b))	671,565	5,630,217
Consulting services, training and incremental operating costs under Part A.2	-	1,254
Goods, consultants and training under Part B	-	14,255
MUNICIPALITIES TOTAL	<u>671,565</u>	<u>5,645,726</u>
TOTAL PROJECT EXPENDITURE	<u>4,797,523</u>	<u>45,577,725</u>

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The Project consists of the following main components:

Component 1 – Infrastructure investment

Provision of financial resources to local self-governments to:

- Finance Investment Subprojects for the rehabilitation and expansion of priority municipal services and infrastructure needs on a sustainable basis; through the carrying out of works and provision of goods; and
- Finance Investment Subprojects for selected municipal services and infrastructure projects, through the carrying out of works and provision of goods.
- Preparation of feasibility studies, engineering designs, construction supervision, monitoring and evaluation activities for Investment Subprojects, through the provision of consultants' services and Training.

Component 2 – Institutional development

- Improving the institutional capacity and performance of local self-governments in (a) asset management planning; (b) project cycle management; and (c) fiscal discipline and accounting, through the provision of goods, consultants' services and Training.
- Improving the institutional capacity and performance of the Project Implementing Entity in: (a) technical appraisal; (b) credit risk management; and (c) fiduciary functions, through the provision of consultants' services and Training.

10. RECONCILIATION OF DESIGNATED ACCOUNT

	IBRD (Loan 8380-GE)	IBRD (Grant)	Other (GoG, MDF, Municipalities, PPP)	Total
Expenditures incurred during the year	2,363,262	374,508	2,059,753	4,797,523
Direct payment	(1,264,269)	(321,784)	-	(1,586,053)
Change in prepayments	200,168	-	104,929	305,097
Change in payables	-	-	(57,957)	(57,957)
Change in receivables	(67,010)	5,390	(4,889)	(66,509)
Foreign exchange	(29,278)	(1,565)	121,179	90,336
Amount of eligible expenditure paid	<u>1,202,873</u>	<u>56,549</u>	<u>2,223,015</u>	<u>3,482,437</u>

During 2020, there was no movement on the designated account of Loan Agreement No. 9099-GE. Pursuant to the Disbursement and Financial Information Letter (DFIL), the disbursement process and flow of funds will be arranged by using the funds from Loan No. 8380-GE first and once its balance is fully disbursed, funds from Loan No. 9099-GE will be disbursed. Therefore, the Statement of Designated Account is not presented for Loan Agreement No. 9099-GE.

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 2020 and on the funds received and disbursed during the year then ended.

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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 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 2019 and 2020 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

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 due to restructuring the Project. At the date of signing of these special purpose project financial statements, the approval from World Bank has been made.

14. SUBSEQUENT EVENTS

Subsequent to the year end, no events have occurred that require disclosure in the special purpose project financial statements or adjustment to the reported figures.