

Innovation, Inclusion and Quality Project - I2Q

LOAN NO. 8955-GE
(INNOVATION, INCLUSION AND QUALITY PROJECT
GEORGIA (I2Q))

Special Purpose Project Financial Statements

For the Year Ended 31 December 2022

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

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Innovation, Inclusion and Quality Project - I2Q

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Management of the Innovation, Inclusion and Quality Project - I2Q (the "Project") implemented by the Municipal Development Fund of Georgia ("MDF") and the Ministry of Education (MES) are responsible for the preparation of the special purpose project financial statements that present fairly, Statement of Sources and Uses of Funds for the period from 1 January 2022 to 31 December 2022, the Statement of Balance Sheet as at 31 December 2022, Statements of Expenditure Withdrawal Schedule, Direct Payment Schedule and Designated Account for the period from 1 January 2022 to 31 December 2022, and notes, comprising a summary of significant accounting policies and other explanatory information in compliance with the Cash Basis International Public Sector Accounting Standard, Financial Reporting under the Cash Basis of Accounting ("IPSAS - Cash Basis"), 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 when compliance with the specific requirements in IPSAS – Cash Basis are insufficient to 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;

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 2022 were authorized for issue on 30 June 2023 by the Management.

On behalf of Management:



Davit Tabidze
Executive Director
on behalf of implementing Agencies



Levan Sharvadze
Deputy Director, CFO
on behalf of implementing Agencies

30 June 2023

30 June 2023



KPMG Georgia LLC
5th Floor GMT Plaza
Mtatsminda District, Liberty Square N4 (plot 66/4)
0105 Tbilisi, Georgia
IN 404437695
Telephone +995 322 93 5713
Internet www.kpmg.com/ge

Independent Auditors' Report on Special Purpose Project Financial Statements

To the management of Innovation, Inclusion and Quality Project (I2Q)

Opinion

We have audited the special purpose project financial statements of the Innovation, Inclusion and Quality Project (I2Q) (the "Project"), which comprise Statement of Sources and Uses of Funds for the period from 1 January 2022 to 31 December 2022, the Statement of Balance Sheet as at 31 December 2022, Statements of Expenditure Withdrawal Schedule, Direct Payment Schedule and Designated Account for the period from 1 January 2022 to 31 December 2022, and notes, comprising a summary of significant accounting policies and other explanatory information. The special purpose project financial statements have been prepared by management in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting 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") as described in Note 2 to the special purpose project financial statements.

In our opinion, the accompanying special purpose project financial statements present fairly, in all material respects, the financial position of the Project as at 31 December 2022, and its sources and uses of funds for the year ended 31 December 2022 in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and the World Bank Guidelines.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Special Purpose Project Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit for the special purpose project 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

Planned and prospective data included on pages 4 to 17 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 Use

The project is financed under the International Bank for Reconstruction and Development (the "IBRD"), Loan Agreement No. 8955-GE, dated 18 June 2019 and is implemented by the Municipal Development Fund of Georgia ("MDF", "the Fund"). 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 Fund to comply with the requirements of IBRD and for providing information to the Government of Georgia and IBRD to assist them in evaluating the Project implementation. As a result, the special purpose project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Project Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and the World Bank Guidelines, for determining the acceptability of the basis of accounting 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 Fund's financial reporting process.

Auditors' 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 auditors' 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose 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.
- Evaluate the overall presentation, structure and content of the special purpose project financial statements, including the disclosures, and whether the special purpose project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

The engagement partner on the audit resulting in this independent auditors' report is:

Vakhtang Kezheradze



KPMG Georgia LLC
Tbilisi, Georgia
30 June 2023



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STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

	Planned as at 31-Dec-2022		Actual as at 31-Dec-2022		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") funds			4,626,388	11,463,697		
Government of Georgia ("GoG") co-financing			174,726	257,934		
TOTAL FUNDS RECEIVED			4,801,114	11,721,631		
LESS: EXPENDITURES						
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (IBRD)	512,380	588,380	491,568	567,682	(20,812)	(20,698)
Component 2 - Fostering Quality Teaching and Learning in General Education (IBRD)	6,225,714	9,032,453	2,687,941	6,162,681	(3,537,773)	(2,869,772)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (IBRD)	301,182	1,077,081	31,589	807,487	(269,593)	(269,594)
Component 4 - System Strengthening and Stakeholder Communication (IBRD)	267,523	807,154	236,947	776,579	(30,576)	(30,575)
Component 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	774,408	1,539,859	977,559	1,884,966	203,151	345,249
IBRD TOTAL	8,081,206	13,044,926	4,425,604	10,199,395	(3,655,602)	(2,845,581)
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (GoG)	-	-	-	-	-	-
Component 2 - Fostering Quality Teaching and Learning in General Education (GoG)	1,556,429	2,258,113	149,397	183,080	(1,407,032)	(2,075,033)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (GoG)	-	-	-	-	-	-
Component 4 - System Strengthening and Stakeholder Communication (GoG)	-	-	-	-	-	-
Component 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	193,602	384,965	25,428	74,836	(168,174)	(310,129)
GoG TOTAL	1,750,031	2,643,078	174,825	257,916	(1,575,206)	(2,385,162)
TOTAL EXPENDITURES BY COMPONENTS	9,831,237	15,688,004	4,600,429	10,457,211	(5,230,808)	(5,230,693)
UNALLOCATED						
Front end fees	-	-	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURES	-	-	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	9,831,237	15,688,004	4,600,429	10,682,311	(5,230,808)	(5,230,693)
NET FLOWS OF FUNDS			200,769	1,039,253		

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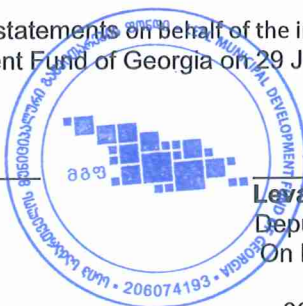
STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

	Planned as at 31-Dec-2021		Actual as at 31-Dec-2021		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") funds			6,017,309	6,837,309		
Government of Georgia ("GoG") co-financing			49,416	83,140		
TOTAL FUNDS RECEIVED			6,066,725	6,920,449		
LESS: EXPENDITURES						
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (IBRD)	76,000	76,000	76,114	76,114	114	(114)
Component 2 - Fostering Quality Teaching and Learning in General Education (IBRD)	3,844,149	3,844,149	3,474,914	3,474,914	(369,235)	(369,235)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (IBRD)	799,371	799,371	775,898	775,898	(23,473)	(23,473)
Component 4 - System Strengthening and Stakeholder Communication (IBRD)	649,626	649,626	539,632	539,632	(109,994)	(109,994)
Component 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	640,927	912,656	635,454	907,183	(5,473)	(5,473)
IBRD TOTAL	6,010,073	6,281,802	5,502,012	5,773,741	(508,061)	(508,061)
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (GoG)	-	-	-	-	-	-
Component 2 - Fostering Quality Teaching and Learning in General Education (GoG)	1,283,268	1,283,268	33,509	33,509	(1,249,759)	(1,249,759)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (GoG)	-	-	-	-	-	-
Component 4 - System Strengthening and Stakeholder Communication (GoG)	-	-	-	-	-	-
Component 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	89,376	123,100	15,907	49,631	(73,469)	(73,469)
GoG TOTAL	1,372,644	1,406,368	49,416	83,140	(1,323,228)	(1,323,228)
TOTAL EXPENDITURES BY COMPONENTS	7,382,717	7,688,170	5,551,428	5,856,881	(1,831,289)	(1,831,289)
UNALLOCATED				225,000		
Front end fees	-	-	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURES				225,000		
TOTAL PROJECT EXPENDITURES	7,382,717	7,382,717	5,551,428	6,081,881	(1,831,289)	(1,831,289)
NET FLOWS OF FUNDS			515,297	838,568		

The special purpose project financial statements on behalf of the implementing agencies were approved by the management of Municipal Development Fund of Georgia on 29 June 2022 and were signed on its behalf by:


Davit Tabidze
Executive Director
On behalf of implementing Agencies

30 June 2023




Levan Sharvadze
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2023

The notes on pages 10 to 14 from an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

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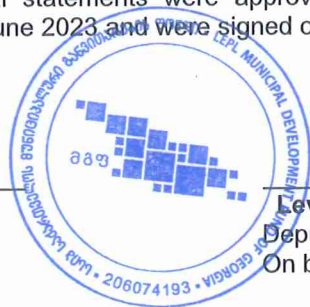
STATEMENT OF BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

ASSETS	31-Dec-22	31-Dec-21
IBRD Designated account	1,039,253	838,568
DA-A (MES)	415,461	555,186
DA-B (MDF)	623,792	283,382
TOTAL ASSETS	1,039,253	838,568
Funds received:		
Funds received from IBRD	11,463,715	6,837,309
MES (include frond-end fee)	9,941,874	6,341,309
MDF	1,521,841	496,000
Funds received from GoG	257,916	83,140
MES	30,001	30,001
MDF	227,915	53,139
TOTAL FUNDS RECEIVED	11,721,631	6,920,449
Project expenditures:		
Financed by IBRD	10,199,444	5,773,741
MES	9,301,413	5,561,122
MDF	898,031	212,619
Financed by GoG	257,934	83,140
MES	30,001	30,001
MDF	227,915	53,139
Unallocated - Front end fees	225,000	225,000
TOTAL PROJECT EXPENDITURES	10,682,378	6,081,881
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	1,039,253	838,568

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2023 and were signed on its behalf by:


Davit Tabidze
Executive Director
On behalf of implementing Agencies

30 June 2023




Levan Sharvadze
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2023

The notes on pages 10 to 14 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

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STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2022 and 2021:

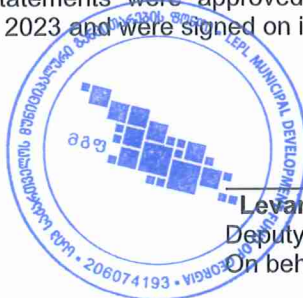
Counterparty	Withdrawal No.	Withdrawal application date	Total in withdrawal schedule	Attributable to 2022	Attributable to 2023
MDF	WA 18	1-Apr-22	100,000	100,000	-
MES	WA 19	15-Apr-22	500,000	500,000	-
MES	WA 20	20-Jun-22	800,000	800,000	-
MDF	WA 21	08-Jul-22	400,000	400,000	-
MES	WA 24	20-Nov-22	813,000	813,000	-
MDF	WA 28	21-Dec-21	500,000	159,609	340,391
TOTAL			3,113,000	2,772,609	340,391

Counterparty	Withdrawal No.	Withdrawal application date	Total in withdrawal schedule	Attributable to 2021	Attributable to 2022
MES	WA 07	19-May-21	300,000	300,000	-
MDF	WA 010	15-Jun-21	456,000	197,727	258,273
MES	WA 11-1	26-Jul-21	500,000	500,000	-
MES	WA 13	13-Oct-21	500,000	442,976	57,024
MES	WA 16	22-Dec-21	200,000	-	200,000
TOTAL			1,956,000	1,440,703	515,297

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2023 and were signed on its behalf by:


Davit Tabidze
 Executive Director
 On behalf of implementing Agencies

30 June 2023




Levan Sharvadze
 Deputy Director, CFO
 On behalf of implementing Agencies

30 June 2023

The notes on pages 10 to 14 form an integral part of these special purpose project financial statements

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF DIRECT PAYMENTS SCHEDULE FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

Statement of Direct payments Schedule for the year ended 31 December 2022 and 2021:

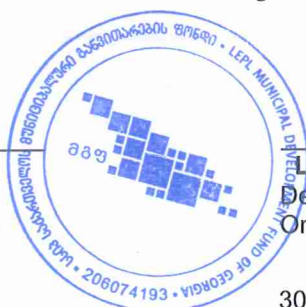
Counterparty	Withdrawal No.	Direct Payment date	Total Direct Payment	Attributable to 2022	Attributable to 2023
MES	WA 22	19-Jul-22	222,683	222,683	-
MES	WA 23	19-Sep-22	716,852	716,852	-
MES	WA 25	7-Nov-22	148,840	148,840	-
MES	WA 26	5-Dec-22	294,576	294,576	-
MES	WA 27	5-Dec-22	104,614	104,614	-
MDF	WA 29	27-Dec-22	25,860	25,860	-
TOTAL			1,513,406	1,513,406	-

Counterparty	Withdrawal No.	Direct Payment date	Total Direct Payment	Attributable to 2021	Attributable to 2022
MES	WA 05	17-Mar-21	1,497,644	1,497,644	-
MES	WA 06	17-Mar-21	414,152	414,152	-
MES	WA 08	7-Jun-21	285,000	285,000	-
MES	WA 09	14-Jun-21	234,144	234,144	-
MES	WA 12	29-Sep-21	1,064,321	1,064,321	-
MES	WA 14	17-Nov-21	267,717	267,717	-
MES	WA 15	27-Dec-21	298,331	298,331	-
TOTAL			4,061,309	4,061,309	-

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2023 and were signed on its behalf by:


Davit Tabidze
 Executive Director
 On behalf of implementing Agencies

30 June 2023




Levan Sharvadze
 Deputy Director, CFO
 On behalf of implementing Agencies

30 June 2023

The notes on pages 10 to 14 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

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NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

Account No. MES (DA-A) _ 202258581
MDF (DA-B) _ 202259032
Depository Bank State Treasury
Address 16 V. Gorgasali street
Tbilisi, 0114
Georgia

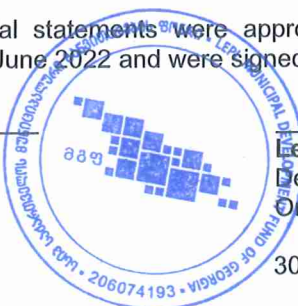
	DA-A	DA-B	Total
Balance as at 1 January 2022	555,186	283,382	838,568
ADD			
Found received from IBRD in 2022	2,113,000	1,000,000	3,113,000
Direct Payment	1,487,565	25,841	1,513,406
DEDUCT			
Funds used for the Project Expenditures in 2022 via Designated Accounts	2,252,725	659,609	2,912,334
Direct Payment	1,487,565	25,841	1,513,406
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2022	415,461	623,773	1,039,253

	DA-A	DA-B	Total
Balance as at 1 January 2021	298,162	25,109	323,271
ADD			
Found received from IBRD in 2021	1,500,000	456,000	1,956,000
Direct Payment	4,061,309	-	4,061,309
DEDUCT			
Funds used for the Project Expenditures in 2021 via Designated Accounts	1,242,976	197,727	1,440,703
Direct Payment	4,061,309	-	4,061,309
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2021	555,186	283,382	838,568

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2022 and were signed on its behalf by:


Davit Tabidze
Executive Director
On behalf of implementing Agencies

30 June 2023




Levan Sharvadze
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2023

The notes on pages 10 to 14 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(in EUR)

1. BACKGROUND

The Project is implemented by the Municipal Development Fund of Georgia (the "Fund") and the Ministry of Education and Science (MES). The Fund has been established by the Presidential Decree # 294 dated 7 June 1997.

The legal address of the Fund and MES is 150, Aghmashenebeli Avenue, 0112, Tbilisi, Georgia and 58 Dimitri Uznadze St, 0102, Tbilisi, Georgia.

The Fund and MES implements the Innovation, Inclusion and Quality (I2Q) project (the "Project") financed by the International Bank for Reconstruction and Development (the "IBRD") and the Government of Georgia. The Loan Agreement No.8955-GE (the "Agreement") in the amount of 90 million EUR was signed between the Government of Georgia ("GoG") and IBRD on 18 June 2019. The project restructuring was finalized on October 15, 2020 to accommodate the Government request to eliminate the requirement of 20 percent of co-financing with respect to the part of the project implemented by MES, as a result of severe budget cuts for education sector during the COVID-19 pandemic.

The main objectives of the Project are: to expand access to quality preschool education and foster quality teaching and learning in general education through innovative sustainable infrastructure design, scaling up the ongoing whole-school improvement pilot, building capacity of teachers and school leaders and developing a national assessment framework. Furthermore, the project proposes to strengthen the quality of pre-service teacher education programs and support innovation and international competitiveness in higher education.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These special purpose project financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under a Cash Basis of Accounting*, 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").

The purpose of these special purpose project financial statements is to provide information to the Government of Georgia and International Bank for Reconstruction and Development (IBRD) to assist them in evaluating the Project implementation.

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

Presentation currency – The national currency of Georgia is the Georgian Lari ("GEL"). These special purpose project financial statements are presented in EURO ("EUR"), in conformity with World Bank Guidelines. All financial information presented in EUR has been rounded to the nearest EUR unless otherwise stated.

Transactions in other currencies – Transactions in currencies other than presentation currency are converted to EUR at the exchange rate prevailing at the date of the transaction.

Cash – Cash represents balances with State Treasury Service of the Ministry of Finance of Georgia.

3. DESIGNATED ACCOUNT

Designated account is a designated disbursement account of the Project that is maintained in EUR at the State Treasury Service of the Ministry of Finance of Georgia to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from IBRD in accordance with the Agreement.

Innovation, Inclusion and Quality Project - I2Q

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NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

4. BASIS OF FUNDING

The total original cost of the Project is estimated at EUR 112.5 million, out of which EUR 90 million (80% of total project expenditure) is financed by IBRD. The expenditures of all works, goods and consultant service contracts, including all applicable taxes amount to EUR 112.5 million. Out of 90 mln financing, 60 million EUR will be spent by MDF, 30 million EUR (including front-end fee of EUR 225 thousand, which is deducted from the MES share) will be spent by MES.

The GoG finances 20% of each expenditure incurred by project implementing agencies (MES and MDF). From October 30, 2020, IBRD fully finances the project components implemented by MES according to the amendment of the Loan Agreement #8955-GE. According to this amendment, total project cost has been changed and amounts to EUR 105,03 million.

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2022 and 2021 were as follows:

(a) Designated account

The Fund and MES withdraw 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. The Fund and MES prepare withdrawal applications for Direct Payments and submit them to the World Bank, for settlement.

(c) GoG Current Account

The Project maintains a separate account for Government co-financing. The funds envisaged under the State budget are further disbursed to contractors based on the share of expenditures to be incurred.

6. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE IBRD TO ACTUAL EXPENDITURES OF THE PROJECT

Application of Withdrawals Schedule	31-Dec-21	31-Dec-20
Expenses incurred as per the Applications of Withdrawals Schedule	2,912,315	1,440,703
IBRD funds received	3,113,000	1,956,000
Foreign Exchange difference:	-	-
Add:		
Opening Balance		
Designated account	828,567	323,271
DA-A (MES)	555,186	298,162
DA-B (MDF)	283,381	25,109
Less:		
Closing Balance		
Designated account	1,039,253	838,568
DA-A (MES)	415,461	555,186
DA-B (MDF)	623,792	283,382
TOTAL EXPENDITURES INCURRED	2,912,315	1,440,703

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

7. PROJECT EXPENDITURES BY COMPONENTS

	Planned as at 31-Dec-22		Actual as at 31-Dec-22		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
Component 1:						
Improving the quality of ECEC programs across the country	512,380	588,494	491,568	567,682	(20,812)	(20,698)
TOTAL COMPONENT 1	512,380	588,494	491,568	567,682	(20,812)	(20,698)
Component 2:						
Improving the educational infrastructure to support learning	5,505,538	5,673,199	732,880	900,541	(4,772,658)	(4,772,658)
Supporting the scaling up of the whole-school improvement pilot	1,992,351	5,303,323	1,890,941	5,201,914	(101,410)	(101,410)
	36,000	36,000	28,671	28,671	(7,329)	(7,329)
Wages and Salaries	248,254	278,044	184,845	214,635	(63,409)	(63,409)
TOTAL COMPONENT 2	7,782,141	11,290,566	2,837,337	6,345,761	(4,944,806)	(4,944,805)
Component 3:						
Development of new options for higher education financing	253,499	217,904	-	217,904	-	-
Establishment of a competitive innovation fund for public and private universities	14,023	859,177	31,589	589,583	(269,593)	(269,593)
TOTAL COMPONENT 3	267,522	1,077,081	31,589	807,487	(269,593)	(269,593)
Component 4:						
Supporting data-driven decision-making accessible the entire education system	850,906	713,398	223,965	683,864	(29,534)	(29,534)
Communication and stakeholder consultations for education reform	117,104	93,756	12,982	92,715	(1,041)	(1,041)
TOTAL COMPONENT 4	968,010	1,924,824	236,947	776,579	(30,576)	(140,570)
Component 5:						
Service expenses	392,833	781,123	403,542	557,805	10,709	(223,318)
PPE, Intangible assets & Inventory	112,177	223,056	7,715	57,877	(104,462)	(165,179)
Wages and Salaries	463,000	920,645	591,731	1,344,120	(128,731)	423,475
TOTAL COMPONENT 5	968,010	1,924,824	1,002,988	1,959,802	34,978	34,978
TOTAL EXPENDITURES BY COMPONENTS	9,831,237	15,588,118	4,600,429	10,457,311	(5,230,808)	(5,230,693)
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	9,831,237	15,913,118	4,600,429	10,682,311	(5,230,808)	(5,230,693)

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(in EUR)

	Planned as at 31-Dec-21		Actual as at 31-Dec-21		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
Component 1:						
Improving the quality of ECEC programs across the country	76,000	76,000	76,114	76,114	(114)	(114)
TOTAL COMPONENT 1	76,000	76,000	76,114	76,114	(114)	(114)
Component 2:						
Improving the educational infrastructure to support learning	1,283,268	1,283,268	167,661	167,661	1,115,607	1,115,607
Supporting the scaling up of the whole-school improvement pilot	3,792,469	3,792,469	3,310,972	3,310,972	481,497	481,497
Wages and Salaries	51,680	51,680	29,790	29,790	21,890	21,890
TOTAL COMPONENT 2	5,127,417	5,127,417	3,508,423	3,508,423	2,709,366	2,709,366
Component 3:						
Development of new options for higher education financing	242,011	242,011	217,904	217,904	24,107	24,107
Establishment of a competitive innovation fund for public and private universities	557,360	557,360	557,994	557,994	(634)	(634)
TOTAL COMPONENT 3	799,371	799,371	775,898	775,898	23,473	23,473
Component 4:						
Supporting data-driven decision-making accessible the entire education system	553,588	553,588	459,899	459,899	93,689	93,689
Communication and stakeholder consultations for education reform	96,038	96,038	79,733	79,733	16,305	16,305
TOTAL COMPONENT 4	649,626	649,626	539,632	539,632	109,994	109,994
Component 5:						
Service expenses	188,927	197,059	146,131	154,263	42,796	42,796
PPE, Intangible assets & Inventory	50,000	73,318	26,844	50,162	23,156	23,156
Wages and Salaries	491,376	765,379	478,386	752,389	12,990	12,990
TOTAL COMPONENT 5	730,303	1,035,756	651,361	956,814	78,942	78,942
TOTAL EXPENDITURES BY COMPONENTS	7,382,717	7,688,170	5,551,428	5,856,881	1,831,289	1,831,289
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	7,382,717	7,913,170	5,551,428	6,081,881	(1,831,289)	(1,831,289)

The Project consists of the following main components:

- Component 1 – Improving Quality of and Access to Early Childhood Education and Care;
- Component 2 – Fostering Quality Teaching and Learning in General Education;
- Component 3 – Strengthening Financing Options and Promoting Internationalization in Higher Education;
- Component 4 – System Strengthening and Stakeholder Communication;
- Component 5 – Supporting Project Management, Monitoring, and Evaluations.

The categories of expenditures incurred are presented in line with the categories specified in the Agreement.

Innovation, Inclusion and Quality Project - I2Q

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NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (in EUR)

8. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on this special purpose project financial statements as at 31 December 2022 and for the period then ended.

9. GEORGIAN OPERATING ENVIRONMENT

The Fund's operations are located in Georgia. Consequently, the Fund is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

10. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were authorized for issue by the management of the Fund on 30 June 2023.