

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 2024

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	3
INDEPENDENT AUDITORS' REPORT	4-5
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2024:	
Statement of Sources and Uses of Funds	6-7
Statement of Balance Sheet	8
Statement of Expenditure Withdrawal Schedule	9
Statement of Direct Payment Schedule	10
Statement of Designated Account	11
Notes to the Special Purpose Project Financial Statements	12-18

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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 2024 to 31 December 2024, the Statement of Balance Sheet as at 31 December 2024, Statements of Expenditure Withdrawal Schedule, Direct Payment Schedule and Designated Account for the period from 1 January 2024 to 31 December 2024, 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;
- Preparing the special purpose project financial statements that are free from material misstatements including omissions and errors, and are fairly presented;
- 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:

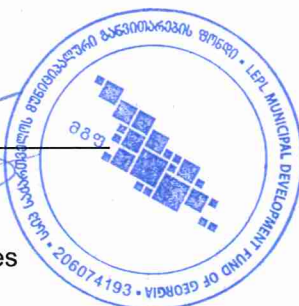
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of 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 2024 were authorized for issue on 30 June 2025 by the Management.

On behalf of Management:


Bekar Urushadze
Executive Director
on behalf of implementing Agencies

30 June 2025




Tamar Pitskhelauri
Deputy Director, CFO
on behalf of implementing Agencies

30 June 2025



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.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 2024 to 31 December 2024, the Statement of Balance Sheet as at 31 December 2024, Statements of Expenditure Withdrawal Schedule, Direct Payment Schedule and Designated Account for the period from 1 January 2024 to 31 December 2024, 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 2024, and its sources and uses of funds for the year ended 31 December 2024 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 15 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:

Nino Chikhladze

KPMG Georgia LLC
Tbilisi, Georgia
30 June 2025



Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

	Planned as at 31-Dec-2024		Actual as at 31-Dec-2024		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
	Unaudited	Unaudited			Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") funds			24,288,934	47,364,513		
Government of Georgia ("GoG") co-financing			4,340,079	6,420,788		
TOTAL FUNDS RECEIVED			28,629,013	53,785,301		
LESS: EXPENDITURES						
Part 1* - Improving the Quality of and Access to Early Childhood Education and Care (IBRD)	1,874,576	2,832,662	1,735,346	2,693,432	(139,230)	(139,230)
Part 2 - Fostering Quality Teaching and Learning in General Education (IBRD)	17,250,584	30,442,098	17,359,082	31,871,983	108,498	1,429,885
Part 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (IBRD)	3,708,084	6,935,418	3,264,308	6,491,642	(443,776)	(443,776)
Part 4 - System Strengthening and Stakeholder Communication (IBRD)	215,739	1,029,138	156,608	970,008	(59,131)	(59,130)
Part 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	721,447	3,019,173	767,424	3,535,346	45,977	516,173
IBRD TOTAL	23,770,430	44,258,489	23,282,768	45,562,411	(487,662)	1,303,922
Part 1 - Improving the Quality of and Access to Early Childhood Education and Care (GoG)	-	-	-	-	-	-
Part 2 - Fostering Quality Teaching and Learning in General Education (GoG)	4,312,646	7,610,525	4,288,185	6,264,677	(24,461)	(1,345,848)
Part 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (GoG)	-	-	-	-	-	-
Part 4 - System Strengthening and Stakeholder Communication (GoG)	-	-	-	-	-	-
Part 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	180,362	754,793	51,894	156,128	(128,468)	(598,665)
GoG TOTAL	4,493,008	8,365,318	4,340,079	6,420,805	(152,929)	(1,944,513)
TOTAL EXPENDITURES BY PARTS	28,263,438	52,623,807	27,622,847	51,983,216	(640,591)	(640,591)
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURES	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	28,263,438	52,848,807	27,622,847	52,208,216	(640,591)	(640,591)
NET FLOWS OF FUNDS	(28,263,438)	(52,848,807)	1,006,166	1,577,085	640,591	640,591

* Previously "Parts" were named as "Components" in the special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

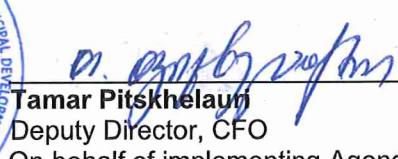
STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

	Planned as at 31-Dec-2023		Actual as at 31-Dec-2023		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") funds			11,611,882	23,075,579		
Government of Georgia ("GoG") co-financing			1,822,842	2,080,709		
TOTAL FUNDS RECEIVED			13,434,724	25,156,288		
LESS: EXPENDITURES						
Part 1 - Improving the Quality of and Access to Early Childhood Education and Care (IBRD)	440,404	1,008,086	390,404	958,086	(50,000)	(50,000)
Part 2 - Fostering Quality Teaching and Learning in General Education (IBRD)	5,837,369	10,913,978	8,350,171	14,512,901	2,512,802	3,598,923
Part 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (IBRD)	2,580,249	3,387,737	2,419,847	3,227,334	(160,402)	(160,403)
Part 4 - System Strengthening and Stakeholder Communication (IBRD)	91,553	868,132	36,821	813,400	(54,732)	(54,732)
Part 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	818,894	2,386,735	882,974	2,767,922	64,080	381,187
IBRD TOTAL	9,768,469	18,564,668	12,080,217	22,279,643	2,311,748	3,714,975
Part 1 - Improving the Quality of and Access to Early Childhood Education and Care (GoG)	-	-	-	-	-	-
Part 2 - Fostering Quality Teaching and Learning in General Education (GoG)	1,459,342	2,728,494	1,793,394	1,976,492	334,052	(752,002)
Part 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (GoG)	-	-	-	-	-	-
Part 4 - System Strengthening and Stakeholder Communication (GoG)	-	-	-	-	-	-
Part 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	204,723	596,684	29,447	104,234	(175,276)	(492,450)
GoG TOTAL	1,664,065	3,325,178	1,822,841	2,080,726	158,776	(1,244,452)
TOTAL EXPENDITURES BY PARTS	11,432,534	21,889,846	13,903,058	24,360,369	2,470,524	2,470,523
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURES	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	11,432,534	22,114,846	13,903,058	24,585,369	2,470,524	2,470,523
NET FLOWS OF FUNDS	(11,432,534)	(22,114,846)	(468,334)	570,919	(2,470,524)	(2,470,523)

The special purpose project financial statements on behalf of the implementing agencies were approved by the management of Municipal Development Fund of Georgia on 30 June 2025 and were signed on its behalf by:


Bekar Urushadze
Executive Director
On behalf of implementing Agencies

30 June 2025


Tamar Pitskhelauri
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2025

The notes on pages 12 to 18 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

ASSETS	31-Dec-24	31-Dec-23
IBRD Designated account	1,577,085	570,919
DA-A (MES)	1,337,389	374,657
DA-B (MDF)	239,696	196,262
TOTAL ASSETS	1,577,085	570,919
Funds received:		
Funds received from IBRD	47,364,513	23,075,579
MES (include frond-end fee)	21,557,157	14,316,278
MDF	25,807,356	8,759,301
Funds received from GoG	6,420,788	2,080,709
MES	30,001	30,001
MDF	6,390,787	2,050,708
TOTAL FUNDS RECEIVED	53,785,301	25,156,288
Project expenditures:		
Financed by IBRD	45,562,411	22,279,643
MES	19,994,769	13,716,622
MDF	25,567,642	8,563,021
Financed by GoG	6,420,805	2,080,726
MES	30,001	30,001
MDF	6,390,804	2,050,725
Unallocated - Front end fees	225,000	225,000
TOTAL PROJECT EXPENDITURES	52,208,216	24,585,369
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	1,577,085	570,919

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2025 and were signed on its behalf by:


Bekar Urushadze
Executive Director
On behalf of implementing Agencies

30 June 2025




Tamar Pitskhelauri
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2025

The notes on pages 12 to 18 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2024 and 2023:

Counterparty	Withdrawal No.	Payment date	Total Direct Payment	Attributable to 2024	Attributable to 2025
MESCS	WA 42	18-Jan-24	1,000,000	1,000,000	-
MESCS	WA 51	20-May-24	3,500,000	3,500,000	-
MESCS	WA 74	5-Dec-24	1,200,000	1,200,000	-
MDF	WA 43	21-Feb-24	3,000,000	3,000,000	-
MDF	WA 68	6-Aug-24	3,000,000	3,000,000	-
MDF	WA 72	22-Oct-24	2,786,532	2,786,532	-
MDF	WA 73	21-Nov-24	1,749,935	1,749,935	-
MDF	WA 75	20-Dec-24	1,766,608	1,766,608	-
MDF	WA 64	21-Jul-24	-	-	-
TOTAL			18,003,075	18,003,075	

Counterparty	Withdrawal No.	Payment date	Total Direct Payment	Attributable to 2023	Attributable to 2024
MDF	WA34	15-Jun-23	352,602	352,602	-
MDF	WA38	10-Aug-23	3,125,974	3,125,974	-
MDF	WA41	8-Dec-23	3,000,000	2,803,738	196,262
MESCS	WA31	21-Mar-23	804,000	804,000	-
MESCS	WA37	7-Jul-23	2,100,000	2,100,000	-
MESCS	WA39	13-Sep-23	1,080,000	1,080,000	-
TOTAL			10,462,576	10,266,314	196,262

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2025 and were signed on its behalf by:


Bekar Urushadze
Executive Director
On behalf of implementing Agencies

30 June 2025


Tamar Pitskhelauri
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2025

The notes on pages 12 to 18 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 2024 (in EUR)

Statement of Direct payments Schedule for the year ended 31 December 2024 and 2023:

Counterparty	Withdrawal No.	Withdrawal application date	Total in withdrawal schedule	Attributable to 2024	Attributable to 2025
MESCS	WA 44	6-Mar-24	356,641	356,641	-
MESCS	WA 45	6-Mar-24	417,935	417,935	-
MESCS	WA 70	11-Oct-24	449,390	449,390	-
MESCS	WA 71	11-Oct-24	316,913	316,913	-
MDF	WA 52	28-May-24	1,596,913	1,596,913	-
MDF	WA 65	30-Jul-24	24,683	24,683	-
MDF	WA 69	8-Aug-24	90,383	90,383	-
MDF	WA 50	5-Apr-24	597,308	597,308	-
MDF	WA 57	12-Jul-24	88,386	88,386	-
MDF	WA49	19-Mar-24	135,218	135,218	-
MDF	WA47	14-Mar-24	1,116,459	1,116,459	-
MDF	WA56	27-Jun-24	43,562	43,562	-
MDF	WA 60	15-Jul-24	85,896	85,896	-
MDF	WA 53	24-Jun-24	73,441	73,441	-
MDF	WA55	25-Jun-24	583,539	583,539	-
MDF	WA54	25-Jun-24	25,256.00	25,256.00	-
MDF	WA 58	12-Jul-24	108,328.00	108,328.00	-
MDF	WA 59	12-Jul-24	61,726	61,726	-
MDF	WA 61	23-Jul-24	26,423.00	26,423.00	-
MDF	WA 62	24-Jul-24	7,536	7,536	-
MDF	WA 63	25-Jul-24	15,262	15,262	-
MDF	WA 66	30-Jul-24	21,125	21,125	-
MDF	WA 67	30-Jul-24	43,536	43,536	-
TOTAL			6,285,859	6,285,859	-

Counterparty	Withdrawal No.	Withdrawal application date	Total in withdrawal schedule	Attributable to 2023	Attributable to 2024
MDF	WA32	4-Apr-23	311,242	311,242	-
MDF	WA36	23-Jun-23	447,660	447,660	-
MESCS	WA33	14-Jun-23	216,318	216,318	-
MESCS	WA34	14-Jun-23	174,086	174,086	-
TOTAL			1,149,306	1,149,306	-

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2025 and were signed on its behalf by:


Bekar Urushadze
Executive Director
On behalf of implementing Agencies

30 June 2025




Tamar Pitskhelauri
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2025

The notes on pages 12 to 18 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF DESIGNATED ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

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

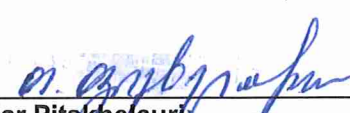
	DA-A	DA-B	Total
Balance as at 1 January 2024	374,657	196,262	570,919
ADD			
Found received from IBRD in 2024	5,700,000	12,303,075	18,003,075
Direct Payment	1,540,879	4,744,980	6,285,859
DEDUCT			
Funds used for the Project Expenditures in 2024 via Designated Accounts	4,737,268	12,259,641	16,996,909
Direct Payment	1,540,879	4,744,980	6,285,859
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2024	1,337,389	239,696	1,577,085

	DA-A	DA-B	Total
Balance as at 1 January 2023	415,461	623,792	1,039,253
ADD			
Found received from IBRD in 2023	3,984,000	6,478,576	10,462,576
Direct Payment	390,404	758,902	1,149,306
DEDUCT			
Funds used for the Project Expenditures in 2023 via Designated Accounts	4,024,804	6,906,106	10,930,910
Direct Payment	390,404	758,902	1,149,306
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2023	374,657	196,262	570,919

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2025 and were signed on its behalf by:


Bekar Urushadze
Executive Director
On behalf of implementing Agencies

30 June 2025


Tamar Pitskhelauri
Deputy Director, CFO
On behalf of implementing Agencies

30 June 2025

The notes on pages 12 to 18 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 2024

(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. On 10 December 2024, the Agreement was amended and maturity date was prolonged from 31 March 2026 till 31 March 2027.

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

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (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 Parts 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 2024 and 2023 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.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024
(in EUR)

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

Application of Withdrawals Schedule	31-Dec-24	31-Dec-23
Expenses incurred as per the Applications of Withdrawals Schedule	16,996,909	10,930,910
IBRD funds received	18,003,075	10,462,576
Foreign Exchange difference:	-	-
Add:		
Opening Balance		
Designated account	570,919	1,039,253
DA-A (MES)	374,657	415,461
DA-B (MDF)	196,262	623,792
Less:		
Closing Balance		
Designated account	1,577,085	570,919
DA-A (MES)	1,337,389	374,657
DA-B (MDF)	239,696	196,262
TOTAL EXPENDITURES INCURRED	16,996,909	10,930,910

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

PROJECT EXPENDITURES BY PARTS

	Planned as at 31-Dec-24		Actual as at 31-Dec-24		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	Unaudited	Unaudited			Unaudited	Unaudited
Part 1:						
Improving the quality of ECEC programs across the country	1,624,576	2,582,662	1,540,882	2,498,968	(83,694)	(83,694)
Increasing equitable access to Pre-School education for successful transition to school	250,000	250,000	194,464	194,464	(55,536)	(55,536)
TOTAL PART 1	1,874,576	2,832,662	1,735,346	2,693,432	(139,230)	(139,230)
Part 2:						
Improving the educational infrastructure to support learning	20,826,518	31,071,423	21,121,012	31,364,879	294,494	293,456
Supporting the scaling up of the whole-school improvement pilot	465,034	6,279,853	454,577	6,270,434	(10,457)	(9,419)
Supporting capacity-building of teachers and school leaders to adapt, develop, and implement school-based curriculum	207,342	250,349	57,342	100,349	(150,000)	(150,000)
Assisting the development of a national assessment framework	64,336	450,998	14,336	400,998	(50,000)	(50,000)
TOTAL PART 2	21,563,230	38,052,623	21,647,267	38,136,660	84,037	84,037
Part 3:						
Development of new options for higher education financing	802,288	1,188,567	794,331	1,180,610	(7,957)	(7,957)
Establishment of a competitive innovation fund for public and private universities	2,905,796	5,746,851	2,469,977	5,311,032	(435,819)	(435,819)
TOTAL PART 3	3,708,084	6,935,418	3,264,308	6,491,642	(443,776)	(443,776)
Part 4:						
Supporting data-driven decision-making accessible the entire education system	215,739	927,740	155,848	867,849	(59,891)	(59,891)
Communication and stakeholder consultations for education reform	-	101,398	760	102,159	760	761
TOTAL PART 4	215,739	1,029,138	156,608	970,008	(59,131)	(59,130)
Part 5:						
Service expenses	744,172	3,247,488	299,607	1,184,299	(444,565)	(2,063,189)
PPE, Intangible assets & Inventory	-	-	6,647	64,641	6,647	64,641
Wages and Salaries	157,637	526,478	513,064	2,442,534	355,427	1,916,056
TOTAL PART 5	901,809	3,773,966	819,318	3,691,474	(82,491)	(82,492)
TOTAL EXPENDITURES BY PARTS	28,263,438	52,623,807	27,622,847	51,983,216	(640,591)	(640,591)
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	28,263,438	52,848,807	27,622,847	52,208,216	(640,591)	(640,591)

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

(in EUR)

	Planned as at 31-Dec-23		Actual as at 31-Dec-23		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	Unaudited	Unaudited			Unaudited	Unaudited
Part 1:						
Improving the quality of ECEC programs across the country	440,404	1,008,086	390,404	958,086	(50,000)	(50,000)
TOTAL PART 1	440,404	1,008,086	390,404	958,086	(50,000)	(50,000)
Part 2:						
Improving the educational infrastructure to support learning	6,484,999	7,386,528	9,343,308	10,243,867	2,858,309	2,857,339
Supporting the scaling up of the whole-school improvement pilot	600,698	5,801,624	613,894	5,815,857	13,196	14,233
Supporting capacity-building of teachers and school leaders to adapt, develop, and implement school-based curriculum	25,000	53,671	14,336	43,007	(10,664)	(10,664)
Assisting the development of a national assessment framework	186,014	400,649	172,027	386,662	(13,987)	(13,987)
TOTAL PART 2	7,296,711	13,642,472	10,143,565	16,489,393	2,846,854	2,846,921
Part 3:						
Development of new options for higher education financing	332,969	550,873	168,375	386,279	(164,594)	(164,594)
Establishment of a competitive innovation fund for public and private universities	2,247,280	2,836,864	2,251,472	2,841,055	4,192	4,191
TOTAL PART 3	2,580,249	3,387,737	2,419,847	3,227,334	(160,402)	(160,403)
Part 4:						
Supporting data-driven decision-making accessible the entire education system	82,869	766,733	28,137	712,001	(54,732)	(54,732)
Communication and stakeholder consultations for education reform	8,684	101,399	8,684	101,399	-	-
TOTAL PART 4	91,553	868,132	36,821	813,400	(54,732)	(54,732)
Part 5:						
Service expenses	865,947	2,601,382	326,905	884,692	(539,042)	(1,716,690)
PPE, Intangible assets & Inventory	-	-	117	57,994	117	57,994
Wages and Salaries	157,670	382,037	585,399	1,929,470	427,729	1,547,433
TOTAL PART 5	1,023,617	2,983,419	912,421	2,872,156	(111,196)	(111,263)
TOTAL EXPENDITURES BY PARTS	11,432,534	21,889,846	13,903,058	24,360,369	2,470,524	2,470,523
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	11,432,534	22,114,846	13,903,058	24,585,369	2,470,524	2,470,523

The Project consists of the following main Parts:

- Part 1 – Improving Quality of and Access to Early Childhood Education and Care;
- Part 2 – Fostering Quality Teaching and Learning in General Education;
- Part 3 – Strengthening Financing Options and Promoting Internationalization in Higher Education;
- Part 4 – System Strengthening and Stakeholder Communication;
- Part 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

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

PROJECT EXPENDITURES BY CATEGORIES

Category	Planned as at 31-Dec-24		Actual as at 31-Dec-24		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Works, Goods, Non-consulting Services, Consulting Services Operating Costs and Training for the Project except for Parts 1(c), Parts 2(a) and Part 5(a) for the Project *	7,279,283	21,025,906	6,278,147	20,024,770	(1,001,136)	(1,001,136)
Works, Goods, Non-consulting Services, Consulting Services, Operating Costs and Training under Part 1(c), Part 2(a) and Part 5(a) for the Project *	20,984,155	31,597,901	21,344,700	31,958,446	360,545	360,545
Front-End Fee	-	225,000	-	225,000	-	-
TOTAL EXPENDITURES	28,263,438	52,848,807	27,622,847	52,208,216	(640,591)	(640,591)

Category	Planned as at 31-Dec-23		Actual as at 31-Dec-23		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Works, Goods, Non-consulting Services, Consulting Services Operating Costs and Training for the Project except for Parts 1(c), Parts 2(a) and Part 5(a) for the Project	4,789,865	14,121,280	4,415,208	13,746,623	(374,657)	(374,657)
Works, Goods, Non-consulting Services, Consulting Services, Operating Costs and Training under Part 1(c), Part 2(a) and Part 5(a) for the Project	6,642,669	7,768,566	9,487,850	10,613,746	2,845,181	2,845,180
Front-End Fee	-	225,000	-	225,000	-	-
TOTAL EXPENDITURES	11,432,534	22,114,846	13,903,058	24,585,369	2,470,524	2,470,523

Part 1 - Improving Quality of and Access to Early Childhood Education and Care;

- Improving the quality of ECEC programs across the country
- Increasing equitable access to Pre-School education for successful transition to school.
- Improving infrastructure to support innovative primary education, including preschool

Part 2 - Fostering Quality Teaching and Learning in General Education;

- Improving the educational infrastructure to support learning
- Supporting the scaling up of the whole-school improvement pilot
- Supporting capacity-building of teachers and school leaders to adapt, develop, and implement school-based curriculum
- Assisting the development of a national assessment framework

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024 (in EUR)

Part 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education;

- (a) Development of new options for higher education financing
- (b) Establishment of a competitive innovation fund for public and private universities
- (c) Promoting internationalization of higher education
- (d) Strengthening the quality of pre-service teacher education programs for all levels of education Professionals from the inception

Part 4 - System Strengthening and Stakeholder Communication

- (a) Supporting data-driven decision-making accessible the entire education system
- (b) Communication and stakeholder consultations for education reform

Part 5 - Supporting Project Management, Monitoring, and Evaluations

Support capacity-building for effective management and monitoring of the Project including provision of Operating Costs, Training, outreach and awareness campaigns, consulting services, monitoring and evaluation, and Project audits; for: (a) PMT; and (b) PMU.

- (a) PMT - "Project Management Team" or "PMT" means the team established within MDF referred to in Section I.A of the Schedule to the Project Agreement, or any successor thereto as agreed between the Borrower and the PIE.
- (b) PMU - "Project Management Unit" or "PMU" means the unit established within MESCS referred to in Section I.A.2 of Schedule 2 to this Agreement or any successor thereto as agreed between the Borrower and the Bank.

6. 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 2024 and for the period then ended.

7. 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.

8. 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 2025.