

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 2020

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	1
INDEPENDENT AUDITORS’ REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 2020:	
Statement of Sources and Uses of Funds	4
Statement of Balance Sheet	5
Statement of Expenditure Withdrawal Schedule	6
Statement of Designated Account	7
Notes to the Special Purpose Project Financial Statements	8-11

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 2020

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 and Science of Georgia (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 2020 to 31 December 2020, the Statement of Balance Sheet as at 31 December 2020, Statements of Expenditure Withdrawal Schedule and Designated Account for the period from 1 January 2020 to 31 December 2020, 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.

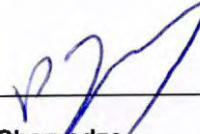
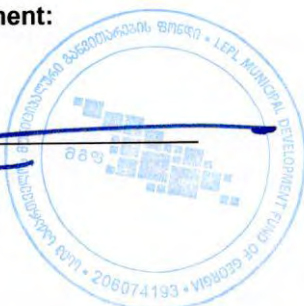
The special purpose project financial statements for the year ended 31 December 2020 were authorized for issue on 30 June 2021 by the Management.

On behalf of Management:



George Shengelia
Executive Director

30 June 2021



Levan Sharvadze
Deputy Director, CFO

30 June 2021



KPMG Georgia LLC
GMT Plaza
5th Floor, 4 Liberty Square
Tbilisi, Georgia 0105
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 2020 to 31 December 2020, the Statement of Balance Sheet as at 31 December 2020, Statements of Expenditure Withdrawal Schedule and Designated Account for the period from 1 January 2020 to 31 December 2020, 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 2020, and its sources and uses of funds for the year ended 31 December 2020 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 11 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:

Natia Tevzadze

KPMG Georgia LLC
Tbilisi, Georgia
30 June 2021


Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

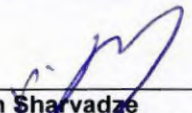
STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2020 (in EUR)

	Actual as at 12/31/2020		Planned as at 12/31/2020		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative 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	820,000	820,000				
Government of Georgia ("GoG") co-financing	33,724	33,724				
TOTAL FUNDS RECEIVED	853,724	853,724				
LESS: EXPENDITURES						
Component 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	271,729	271,729	441,738	441,738	(170,009)	(170,009)
IBRD TOTAL	271,729	271,729	441,738	441,738	(170,009)	(170,009)
Component 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	33,724	33,724	110,435	110,435	(76,711)	(76,711)
GoG TOTAL	33,724	33,724	110,435	110,435	(76,711)	(76,711)
TOTAL EXPENDITURES BY COMPONENTS	305,453	305,453	552,173	552,173	(246,720)	(246,720)
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURES	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	305,453	530,453	552,173	777,173	(246,720)	(246,720)
NET FLOWS OF FUNDS	548,271	323,271	(552,173)	(777,173)	246,720	246,720

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2021 and were signed on its behalf by:


George Shergelia
Executive Director

30 June 2021


Levan Sharvadze
Deputy Director, CFO

30 June 2021

The notes on pages 8 to 11 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 2020
(in EUR)


ASSETS	31-Dec-2020
IBRD Designated account	323,271
DA-A (MES)	298,162
DA-B (MDF)	25,109
TOTAL ASSETS	323,271
Funds received:	
Funds received from IBRD	820,000
MES (including front-end fee)	780,000
MDF	40,000
Funds received from GoG	33,724
MES	30,001
MDF	3,723
TOTAL FUNDS RECEIVED	853,724
Project expenditures:	
Financed by IBRD	271,729
MES	256,838
MDF	14,891
Financed by GoG	33,724
MES	30,001
MDF	3,723
Unallocated - Front end fees	225,000
TOTAL PROJECT EXPENDITURES	530,453
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	323,271

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2021 and were signed on its behalf by:


George Shengelia
Executive Director

30 June 2021




Levan Sharyadze
Deputy Director, CFO

30 June 2021

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

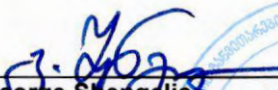
STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE FOR THE YEAR ENDED 31 DECEMBER 2020 (in EUR)

Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2020:

Counterparty	Withdrawal No.	Withdrawal application date	Total in withdrawal schedule	Total attributable to 2020	Attributable to 2020 - Component 5	Total attributable to 2021
MES	WA 01	6-Mar-20	100,000	100,000	100,000	-
MES	WA 02	11-Jun-20	215,000	215,000	156,838	58,162
MDF	WA 03	31-Jul-20	40,000	40,000	14,891	25,109
MES	WA 04	1-Dec-20	240,000	240,000	-	240,000
TOTAL			595,000	595,000	271,729	323,271

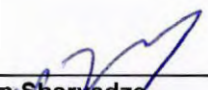
Unaudited

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2021 and were signed on its behalf by:


George Shengelia
Executive Director

30 June 2021




Levan Sharyadze
Deputy Director, CFO

30 June 2021

The notes on pages 8 to 11 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 2020 (in EUR)

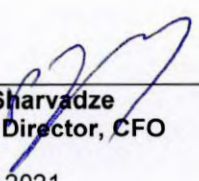
Account No. MES (DA-A) _ 202258581
MDF (DA-B) _ 202259032
Depository Bank State Treasury
Address 16 V. Gorgasali street
Tbilisi, 0114
Georgia

	DA-A	DA-B	Total
Balance as at 1 January 2020	-	-	-
ADD			
Funds received from IBRD in 2020: Replenishments	555,000	40,000	595,000
Direct Payment	-	-	-
DEDUCT			
Funds used for the Project Expenditures in 2020 via Designated Accounts	256,838	14,891	271,729
Direct Payment	-	-	-
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2020	298,162	25,109	323,271

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 30 June 2021 and were signed on its behalf by:


George Shengelia
Executive Director
30 June 2021




Levan Sharvadze
Deputy Director, CFO
30 June 2021

The notes on pages 8 to 11 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 2020

(in EUR)

1. BACKGROUND

The Project is implemented by the Municipal Development Fund of Georgia (the "Fund") and the Ministry of Education and Science of Georgia (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.

The Fund and MES implements the Innovation, Inclusion and Quality (I2Q) project (the "Project") financed under the International Bank for Reconstruction and Development (the "IBRD") and under 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 EUR ("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 2020 (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 which 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 2020 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 2020 (in EUR)

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

Application of Withdrawals Schedule	31-Dec-20
Expenses incurred in 2020 as per the Applications of Withdrawals Schedule	271,729
IBRD funds received in 2020	595,000
Foreign Exchange difference:	-
Add:	
Opening Balance	
Designated account	-
DA-A (MES)	-
DA-B (MDF)	-
Less:	
Closing Balance	
Designated account	323,271
DA-A (MES)	298,162
DA-B (MDF)	25,109
TOTAL EXPENDITURES INCURRED IN 2020	271,729

PROJECT EXPENDITURES BY COMPONENTS

	Actual as at 31-Dec-20		Planned as at 31-Dec-20		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>
Component 5 – Supporting Project Management, Monitoring, and Evaluations						
Salary	274,003	274,003	346,485	346,485	(72,482)	(72,482)
Office equipment and maintenance	23,318	23,318	130,167	130,167	(106,849)	(106,849)
Consultancy and other service expenses	8,132	8,132	75,521	75,521	(67,389)	(67,389)
TOTAL PROJECT EXPENDITURES	305,453	305,453	552,173	552,173	(246,720)	(246,720)

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in EUR)

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.

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 2020 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. The COVID-19 coronavirus pandemic has further increased uncertainty in the business environment. The special purpose project financial statements reflect management's assessment of the impact of the Georgian operating environment on the operations of the Fund. The future operating environment may differ from management's assessment.

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 2021.