

MUNICIPAL DEVELOPMENT FUND OF GEORGIA
LOAN NO. 8380-GE LOAN NO. 9099-GE GRANT NO. TF018090
(SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT)
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

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

Management of the Second Regional Development and Municipal Infrastructure Development Project (the "Project"), financed under the Loan Agreement No. 8380-GE dated 18 August 2014, Loan Agreement No. 9099-GE dated 21 May 2020 and Grant Agreement No. TF018090 dated 1 May 2015, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present the Project's statement of financial position as at 31 December 2021, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and statements of designated account, in compliance with the basis of accounting described in Note 2 the accompanying special purpose project financial statements.

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts; and
- Management is also responsible for:
 - Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the Project;
 - Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project;
 - Maintaining statutory accounting records in compliance with Georgian legislation;
 - Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
 - Preventing and detecting fraud and other irregularities.


The special purpose project financial statements for the year ended 31 December 2022 were authorized for issue on 30 June 2023 by the Management.

On behalf of Management:



Davit Tabidze
Executive Director





Levan Sharvadze
Deputy Director – Chief Financial Office

INDEPENDENT AUDITOR'S REPORT**To the management of the Municipal Development Fund of Georgia****Opinion**

We have audited the accompanying special purpose project financial statements of Second Regional and Municipal Infrastructure Development Project (the "Project") financed under the Loan Agreement No. 8380-GE dated 18 August 2014, Loan Agreement No. 9099-GE dated 21 May 2020 and Grant Agreement No. TF018090 dated 1 May 2015 (the "Agreements"), implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the year ended 31 December 2022, statement of financial position as at 31 December 2022, summary of expenditure by activity, statement of expenditure ("SOE") and statements of designated account for the year ended 31 December 2022 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2022 are prepared, in all material respects, in accordance with Loan Agreement No. 8380-GE dated 18 August 2014, Loan Agreement No. 9099-GE dated 21 May 2020 and Grant Agreement No. TF018090 dated 1 May 2015, as further detailed in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The special purpose financial statements of the Project for the year ended 31 December 2021 were audited by another auditor who expressed an unqualified opinion on these special purpose financial statements on 30 June 2022.

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

Emphasis of Matter***Basis of Accounting and Restriction on Distribution and Use***

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreements. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management in reporting the information to the Government of Georgia and International Bank for Reconstruction and Development (IBRD). This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.



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

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2 and in conformity with the financial reporting provisions of the Agreement and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

Moore Azerbaijan



30 June 2023

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

	Actual		Planned		Variance	
	Year ended 31.12.2022	Cumulative as at 31.12.2022	Year ended 31.12.2022 Unaudited	Cumulative as at 31.12.2022 Unaudited	Year ended 31.12.2022 Unaudited	Cumulative as at 31.12.2022 Unaudited
Opening Working Capital						Project appraisal document
Cash	3,844,545					
Prepayments	1,688,412					
Receivables from municipalities	1,962,450					
Trade and other receivables	85,862					
Payables	(554,925)					
Total	7,026,344					
Sources of Funds						
IBRD Loan 8380-GE	-	28,818,354				30,000,000
IBRD Loan 9099-GE	16,445,804	19,085,190				5,000,000
SDC* funds	187,305	4,892,956				2,250,000
Government of Georgia	186,305	7,165,588				12,930,000
MDF funds	329,387	7,423,245				8,750,000
Municipal funds	4,427,006	13,062,835				-
Other Income	101,111	577,315				
Total	21,676,918	81,025,483				58,930,000
Expenditure						
Works and goods (under part A.1(a) and part A1(b) and consulting services and training, and incremental operating costs under part A.2	14,815,435	58,343,927	18,473,723	62,002,215	3,658,288	50,105,000
Goods, consultants, training under part B	72,541	8,047,915	35,529	8,010,903	(37,012)	8,750,000
Front-end fee	-	184,654	-	184,654	-	75,000
Total	14,887,976	66,576,496	18,509,252	70,197,772	3,621,276	58,930,000
Foreign exchange loss, net	235,682	(398,019)				

Notes on pages 13-19 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
SUMMARY OF SOURCES AND USES OF FUNDS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

	Actual		Planned		Variance		Project appraisal document
	Year ended 31.12.2022	Cumulative as at 31.12.2022	Year ended 31.12.2022	Cumulative as at 31.12.2022	Year ended 31.12.2022	Cumulative as at 31.12.2022	
CLOSING WORKING CAPITAL							
Cash	2,544,350						
Prepayments	8,496,934						
Receivables from municipalities	3,527,645						
Trade and other receivables	98,433						
Payables	(616,394)						
Total		14,050,968					

*Swiss Agency for Development and Cooperation

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

2 Other income for the year ended 31 December 2022 represents penalty amounts paid by contractors.

3. The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2022 included in the IFR (interim financial report) represent the final figures reflected in the State Budget for FY2022 adjusted to the accrual model, which have not been audited.

4. This figure is made up with USD 47,605,000 allocated to Works and goods (under part A.1(a) and part A1(b)) and USD 2,500,000 allocated to consultants' services and training, and incremental operating costs under part A.2.

Davit Tabidze
Executive Director



Levan Sharvadze
Deputy Director – Chief Financial Office

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPLA INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

	Note	31 December 2022	31 December 2021
ASSETS			
Cash	3,8	2,544,350	3,844,545
Prepayments	7	8,496,934	1,688,412
Receivables from municipalities		3,527,645	1,962,450
Trade and other receivables		98,433	85,862
Total assets		14,667,362	7,581,269
LIABILITIES			
Payables		(616,394)	(554,925)
Total liabilities		(616,394)	(554,925)
NET ASSETS		14,050,968	7,026,344
Funds received:			
IBRD loan 8380-GE		28,818,354	28,818,354
IBRD loan 9099-GE		19,085,190	2,639,386
SDC funds		4,892,956	4,705,651
Government of Georgia		7,165,588	6,979,283
MDF funds		7,423,245	7,093,858
Funds from municipalities		13,062,835	8,635,829
Other Income		577,315	476,204
Total funds received		81,025,483	59,348,565
Expenditure:			
Project expenditure	9	66,576,496	51,688,520
Total Expenditures		66,576,496	51,688,520
Foreign exchange loss, net		(398,019)	(633,701)
TOTAL NET ASSETS		14,050,968	7,026,344

On behalf of Management:

Davit Tabidze
Executive Director



Levan Sharvadze
Deputy Director – Chief Financial Office

Notes on pages 13-19 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF EXPENDITURE BY ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

Project activities	Actual		Planned		Variance	
	Year ended 31.12.2022	Cumulative as at 31.12.2022	Year ended 31.12.2022	Cumulative as at 31.12.2022	Year ended 31.12.2022	Cumulative as at 31.12.2022
Component 1:						
Infrastructure investment	15,774,159	59,302,651	18,473,723	62,002,215	2,699,564	2,699,564
Component 2:						
Infrastructure development	(886,183)	7,089,191	35,529	8,010,903	921,712	921,712
Front end fee	-	184,654	-	184,654	-	-
TOTAL EXPENDITURE	14,887,976	66,576,496	18,509,252	70,197,772	3,621,276	3,621,276

* The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2022 included in the IFR (Interim financial report) represent the final figures in the State Budget for FY 2022 adjusted to the accrual model.

** PAD – Project Appraisal Document

On behalf of Management:


Davit Tabidze
Executive Director




Levan Sharvadze
Deputy Director – Chief Financial Office

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF EXPENDITURE (SOE)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

Withdrawal applications for Loan No.9099-GE

Withdrawal No.	Withdrawal Application Date	Total SOER	Category 1a: Works and goods (part A.1(a) and part A.1(b))	Category 2: Goods, consultants, training under part B
WA027	23.12.2022	829,002	829,002	-
WA026	21.12.2022	937,574	937,574	-
WA023	06.12.2022	1,178,508	1,178,508	-
WA021	04.11.2022	1,609,454	1,609,454	-
WA018	23.09.2022	1,187,858	1,187,858	-
WA013	09.08.2022	1,808,130	1,808,130	-
WA011	27.06.2022	1,415,668	1,415,668	-
WA008	09.04.2022	2,027,526	2,027,526	-
Total:		10,993,722	10,993,722	-

The amount of direct payments was USD 5,452,082 during the year 2022.

Withdrawal applications for Grant No. TF018090

Withdrawal No.	Withdrawal Application Date	Total SOE	Goods, Consulting service, Training under B2
WA-044	15.02.2022	170,768	170,768
WA-045	07.11.2022	16,537	16,537
Total:		187,304	187,304

There have not been withdrawals made on the basis of SOEs for expenses under IBRD loan 8380-GE

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

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


	Note	31 December 2022
Opening balance	8	877,718
Fund received from IBRD (Loan 8380-GE)		-
Present outstanding amount advanced to Designated Account ("DA")		877,718
DA closing balance as at 31 December 2022	8	-
Add: Amount of eligible expenditures paid		877,718
Total advance accounted for		877,718
	Note	31 December 2022
Opening balance	8	2,240,598
Fund received from IBRD (Loan 90990-GE)		10,993,723
Present outstanding amount advanced to Designated Account ("DA")		13,234,321
DA closing balance as at 31 December 2022	8	1,711,864
Less: Foreign exchange loss		34,519
Add: Amount of eligible expenditures paid		11,487,938
Total advance accounted for		13,234,321

Since funds under loan 9099-GE are received in Euro ("EUR"), while the reporting currency is USD, foreign exchange gain/losses arise.

On behalf of Management:


Davit Tabidze
Executive Director





Levan Sharvadze
Deputy Director – Chief Financial Office

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

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

	Note	31 December 2022
Opening balance	8	198,912
Funds received from IBRD (GRANT No. TF018090)		187,305
Present outstanding amount advanced to Designated Account ("DA")		386,217
DA closing balance as at 31 December 2022	8	352,081
Add: Amount of eligible expenditures paid		34,136
Total advance accounted for		386,217

On behalf of Management:


Davit Tabidze
Executive Director




Levan Sharvadze
Deputy Director – Chief Financial Office

Notes on pages 13-19 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

1. BACKGROUND

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

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

The International Bank for Reconstruction and Development Loan Agreement No. 8380-GE (the "Agreement") in the amount of 30 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 18 August 2014 ("inception"). Swiss Grant Agreement No. TF018090 (the "Agreement") in the amount of 5 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 1 May 2015. The International Bank for Reconstruction and Development Loan Agreement No. 9099-GE (the "Agreement") in the amount of 37.1 million Euro ("EUR") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 21 May 2020.

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

The closing date of the project is 30 August 2024.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of the Loan Agreements No. 8380-GE dated 18 August 2014, Loan Agreement No. 9099-GE dated 21 May 2020 and Swiss Grant Agreement No. TF018090 dated 1 May 2015 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and International Bank for Reconstruction and Development (IBRD) and Swiss Agency for Development and Cooperation (SDC).

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

Sources of funds – Project financing is recognized as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable. The accumulated project financing is disclosed under "Funds" in the statement of financial position. In addition, current year funds received is disclosed in the Statement of Sources and Uses of Funds, showing under sources funds and expenditures respectively.

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

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

2. ACCOUNTING POLICIES (CONTINUED)

Transactions in other currencies – Transactions in currencies other than the reporting currency are converted to US Dollars at the exchange rate prevailing at the date of the transaction. Monetary items are translated into US Dollars at the National Bank of Georgia (NBG) official exchange rate at the reporting date.

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

Cash – Cash comprises of balances with State Treasury.

3. DESIGNATED ACCOUNT

The designated account is a special disbursement account maintained in US Dollars at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from IBRD in accordance with the Agreements IBRD Loan No. 8380-GE and Grant No. TF018090.

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

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

4. BASIS OF FUNDING

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

- The financing is provided from the following sources:
- Goods and Works under part A.1 (a) - IBRD, MDF and Municipalities: 40%, 40% and 20%, respectively;
- Goods and Works under part A.1 (b) – IBRD and Municipalities: 85% and 15%, respectively;
- Consultants' services, training under Part A.2 of the project and incremental operating costs IBRD and GoG: 80% and 20%, respectively;
- Goods, consultants' services, and training under Part B of the Project – IBRD, Swiss Grant and GoG: 22.8%, 57.2% and 20%, respectively.
- Activities financed under Loan No. 9099-GE will be financed in the proportion of 85% (IBRD) and 15% (GoG). All expenditure will fall into Part A of the Project.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

4. BASIS OF FUNDING (CONTINUED)

	IBRD (Loan No. 8380- GE)	Swiss Grant	GoG	MDF	Municipalities	Total
Goods and works under part A.1 (a)	12,925,000	-	-	12,925,000	6,460,000	32,310,000
Goods and works under part A.1 (b)	13,000,000	-	-		2,295,000	15,295,000
Consultants' services, training under Part A.2 of the Project and Incremental operating costs	2,000,000	-	500,000		-	2,500,000
Goods, consultants' services, and training under Part B of the Project	2,000,000	5,000,000	1,750,000		-	8,750,000
Front-end fee	75,000	-	-			75,000
Total:	30,000,000	5,000,000	2,250,000	12,925,000	8,755,000	58,930,000
	IBRD (Loan No. 9099-GE)		GOG-/Municipalities	Total		
Goods, works, on-consulting services and consulting services, Incremental Operating Costs, and Training for Part A of the Project	40,498,500		7,146,794		47,645,294	
Front-end fee	101,500		-		101,500	
Total:	40,600,000		7,146,794		47,746,794	

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)**

5 METHODS OF WITHDRAWAL

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

(a) Designated Account

Municipal Development Fund withdraws the eligible amounts from the designated account and prepares and sends replenishment requests to the World Bank with authorized signatures. The replenishment requests and respective documentation are reviewed by the International Bank for Reconstruction and Development and an approved amount is transferred to the designated account.

(b) Direct Payment

Available amounts are drawn from time to time within limits determined under the loan agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by the International Bank for Reconstruction and Development directly to third parties. MDF forms withdrawal applications for request of direct payments and sends it to the World Bank, for settlement.

(c) GoG Current Account

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

6 STATEMENT OF EXPENDITURE

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditure for works valued at less than USD 4,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000; and
- (iv) All expenditure for goods and non-consulting services valued at less than USD 300,000;

7 PREPAYMENTS

	<u>31 December 2022</u>	<u>31 December 2021</u>
Advances to contractors	8,496,934	1,688,412
Total prepayments	8,496,934	1,688,412

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

8 CASH

	<u>31 December 2022</u>	<u>31 December 2021</u>
Balance on designated account (Loan No. 8380-GE)	524,571	877,718
Balance on designated account (Loan No. 9099-GE)	1,193,362	2,240,598
Balance on designated account (Grant No. TF018090)	352,081	198,912
Local account	474,336	527,317
Total cash	2,544,350	3,844,545

MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(In US Dollars)

9 PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Works and Goods (part A.1 (a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	12,054,847	37,263,543
Goods, consultants, training under Part B	24,738	1,923,607
Front end fee	-	184,654
IBRD TOTAL	12,079,585	39,371,804
Works and Goods (part A.1(a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	33,954	80,242
Goods, consultants, and training under Part B	-	4,463,816
GRANT TOTAL	33,954	4,544,058
Works and Goods (part A.1 (a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	139,546	2,095,138
Goods, consultants, and training under Part B	13,849	1,573,696
GoG Total	153,395	3,668,834
Works and Goods (part A.1 (a) & A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	491,181	10,490,669
Goods, consultants, and training under Part B	-	-
MDF TOTAL	491,181	10,490,669
Works and Goods (part A.1(a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	2,129,861	8,486,876
Goods, consultants, and training under Part B	-	14,255
MUNICIPALITIES TOTAL	2,129,861	8,501,131
TOTAL PROJECT EXPENDITURE	14,887,976	66,576,496

The Project consists of the following main components:

Component 1 – Infrastructure investment

Provision of financial resources to local self-governments to:

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

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9 PROJECT EXPENDITURE BY FUND (CONTINUED)

Component 2 – Institutional development

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

10 RECONCILIATION OF DESIGNATED ACCOUNT

	IBRD (Loans 8380-GE and 9099-GE)	IBRD (Grant)	Other (GoG, MDF, Municipalities, PPP)	Total
Expenditures incurred during the year	12,079,585	33,954	2,774,437	14,887,976
Direct payment	(5,452,082)			(5,452,082)
Change in prepayments	6,214,944		593,578	6,808,522
Change in payables	(110,603)	48,989	146	(61,468)
Change in receivables	12,571		1,565,195	1,577,766
Foreign exchange	(903,330)	(48,807)	716,454	(235,683)
Amount of eligible expenditure paid	11,841,085	34,136	5,649,810	17,525,031

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

11 COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2022 and on the funds received and disbursed during the year then ended.

12 OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political, and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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

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12 OPERATING ENVIRONMENT (CONTINUED)

In 2022, after most of the restrictions on business were lifted, the economy started recovery at a rapid pace. The Government of Georgia provided the necessary assistance to the business sector. The Government submitted numerous programs that provide tax breaks, loan restructuring programs, interest subsidies.

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

13 SUBSEQUENT EVENTS

There were not any adjusting or significant non-adjusting events between the reporting date and the date of these special purpose projects financial statements.