

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 2023

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

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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 2023

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 2023 to 31 December 2023, the Statement of Balance Sheet as at 31 December 2023, Statements of Expenditure Withdrawal Schedule, Direct Payment Schedule and Designated Account for the period from 1 January 2023 to 31 December 2023, 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 2023 were authorized for issue on 28 June 2024 by the Management.

On behalf of Management:



Davit Tabidze
Executive Director
on behalf of implementing Agencies

28 June 2024





Levan Sharvadze
Deputy Director, CFO
on behalf of implementing Agencies

28 June 2024



KPMG Georgia LLC
5th Floor GMT Plaza
Mtatsminda District, Liberty Square N4 (plot 66/4)
0105 Tbilisi, Georgia
IN 404437695
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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 2023 to 31 December 2023, the Statement of Balance Sheet as at 31 December 2023, Statements of Expenditure Withdrawal Schedule, Direct Payment Schedule and Designated Account for the period from 1 January 2023 to 31 December 2023, 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 2023, and its sources and uses of funds for the year ended 31 December 2023 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
28 June 2024



Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2023 (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
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
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						
Component 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)
Component 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
Component 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)
Component 4 - System Strengthening and Stakeholder Communication (IBRD)	91,553	868,132	36,821	813,400	(54,732)	(54,732)
Component 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	818,894	2,386,735	882,974	2,767,922	64,080	381,187
IBRD TOTAL	9,768,468	18,564,667	12,080,217	22,279,643	2,311,749	3,714,976
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (GoG)	-	-	-	-	-	-
Component 2 - Fostering Quality Teaching and Learning in General Education (GoG)	1,459,342	2,728,494	1,793,394	1,976,492	334,052	(752,002)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (GoG)	-	-	-	-	-	-
Component 4 - System Strengthening and Stakeholder Communication (GoG)	-	-	-	-	-	-
Component 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	204,723	596,684	29,447	104,234	(175,276)	(492,450)
GoG TOTAL	1,664,066	3,325,178	1,822,841	2,080,726	158,775	(1,244,452)
TOTAL EXPENDITURES BY COMPONENTS	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)

Innovation, Inclusion and Quality Project - I2Q

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STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2023 (in EUR)

	Planned as at 31-Dec-2022		Actual as at 31-Dec-2022		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
	Unaudited	Unaudited			Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") funds			4,626,406	11,463,697		
Government of Georgia ("GoG") co-financing			174,677	257,867		
TOTAL FUNDS RECEIVED			4,801,083	11,721,564		
LESS: EXPENDITURES						
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (IBRD)	512,380	588,380	491,568	567,682	(20,812)	(20,698)
Component 2 - Fostering Quality Teaching and Learning in General Education (IBRD)	6,225,714	9,032,453	2,688,038	6,162,730	(3,537,676)	(2,869,723)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (IBRD)	301,182	1,077,081	31,589	807,487	(269,593)	(269,594)
Component 4 - System Strengthening and Stakeholder Communication (IBRD)	267,522	807,154	236,947	776,579	(30,575)	(30,575)
Component 5 - Supporting Project Management, Monitoring, and Evaluations (IBRD)	774,408	1,539,859	977,578	1,884,948	203,170	345,089
IBRD TOTAL	8,081,206	13,044,927	4,425,720	10,199,426	(3,655,486)	(2,845,501)
Component 1 - Improving the Quality of and Access to Early Childhood Education and Care (GoG)	-	-	-	-	-	-
Component 2 - Fostering Quality Teaching and Learning in General Education (GoG)	1,556,429	2,258,113	149,415	183,098	(1,407,014)	(2,075,015)
Component 3 - Strengthening Financing Options and Promoting Internationalization in Higher Education (GoG)	-	-	-	-	-	-
Component 4 - System Strengthening and Stakeholder Communication (GoG)	-	-	-	-	-	-
Component 5 - Supporting Project Management, Monitoring, and Evaluations (GoG)	193,602	384,965	25,379	74,787	(168,223)	(310,178)
GoG TOTAL	1,750,031	2,643,078	174,794	257,885	(1,575,237)	(2,385,193)
TOTAL EXPENDITURES BY COMPONENTS	9,831,237	15,688,005	4,600,514	10,457,311	(5,230,723)	(5,230,694)
UNALLOCATED						
Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURES	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	9,831,237	15,913,005	4,600,514	10,682,311	(5,230,723)	(5,230,694)
NET FLOWS OF FUNDS	(9,831,237)	(15,913,005)	200,569	1,039,253	5,230,723	5,230,694

The special purpose project financial statements on behalf of the implementing agencies were approved by the management of Municipal Development Fund of Georgia on 28 June 2024 and were signed on its behalf by:

Davit Tabidze
Executive Director
On behalf of implementing Agencies

28 June 2024

Levan Sharvadze
Deputy Director, CFO
On behalf of implementing Agencies

28 June 2024

The notes on pages 10 to 15 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 2023
(in EUR)

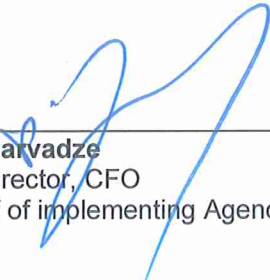
ASSETS	31-Dec-23	31-Dec-22
IBRD Designated account	570,919	1,039,253
DA-A (MES)	374,657	415,461
DA-B (MDF)	196,262	623,792
TOTAL ASSETS	570,919	1,039,253
Funds received:		
Funds received from IBRD	23,075,579	11,463,697
MES (include frond-end fee)	14,316,278	9,941,874
MDF	8,759,301	1,521,823
Funds received from GoG	2,080,709	257,867
MES	30,001	30,001
MDF	2,050,708	227,866
TOTAL FUNDS RECEIVED	25,156,288	11,721,564
Project expenditures:		
Financed by IBRD	22,279,643	10,199,426
MES	13,716,622	9,301,413
MDF	8,563,021	898,013
Financed by GoG	2,080,726	257,885
MES	30,001	30,001
MDF	2,050,725	227,884
Unallocated - Front end fees	225,000	225,000
TOTAL PROJECT EXPENDITURES	24,585,369	10,682,311
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	570,919	1,039,253

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 28 June 2024 and were signed on its behalf by:


Davit Tabidze
Executive Director
On behalf of implementing Agencies

28 June 2024




Levan Sharvadze
Deputy Director, CFO
On behalf of implementing Agencies

28 June 2024

The notes on pages 10 to 15 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 2023 (in EUR)

Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2023 and 2022:

Counterparty	Withdrawal No.	Direct 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


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

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 28 June 2024 and were signed on its behalf by:


Davit Tabidze
 Executive Director
 On behalf of implementing Agencies

28 June 2024




Levan Sharvadze
 Deputy Director, CFO
 On behalf of implementing Agencies

28 June 2024

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Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

STATEMENT OF DIRECT PAYMENTS SCHEDULE FOR THE YEAR ENDED 31 DECEMBER 2023 (in EUR)

Statement of Direct payments Schedule for the year ended 31 December 2023 and 2022:

Counterparty	Withdrawal No.	Withdrawal application date	Total in withdrawal schedule	Attributable to 2023	Attributable to 2024
MDF	WA32	4-Apr-23	311,243	311,243	-
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	-

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

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 28 June 2024 and were signed on its behalf by:


Davit Tabidze
 Executive Director
 On behalf of implementing Agencies

28 June 2024




Levan Sharyadze
 Deputy Director, CFO
 On behalf of implementing Agencies

28 June 2024

The notes on pages 10 to 15 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 2023 (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 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	1,149,307
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2023	374,657	196,262	570,919

	DA-A	DA-B	Total
Balance as at 1 January 2022	555,186	283,381	838,567
ADD			
Found received from IBRD in 2022	2,113,000	1,000,000	3,113,000
Direct Payment	1,487,565	25,841	1,513,406
DEDUCT			
Funds used for the Project Expenditures in 2022 via Designated Accounts	2,252,725	659,589	2,912,314
Direct Payment	1,487,565	25,841	1,513,406
Foreign Exchange Difference	-	-	-
Balance as at 31 December 2022	415,461	623,792	1,039,253

The special purpose project financial statements were approved by the management of Municipal Development Fund of Georgia on 28 June 2024 and were signed on its behalf by:



Davit Tabidze
Executive Director
On behalf of implementing Agencies
28 June 2024





Levan Sharvadze
Deputy Director, CFO
On behalf of implementing Agencies
28 June 2024

The notes on pages 10 to 15 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 2023

(in EUR)

1. BACKGROUND

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

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

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These special purpose project financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under a Cash Basis of Accounting*, and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines").

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

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

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

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

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

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

(in EUR)

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.

4. BASIS OF FUNDING

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

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

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2023 and 2022 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

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NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

(in EUR)

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

Application of Withdrawals Schedule	31-Dec-23	31-Dec-22
Expenses incurred as per the Applications of Withdrawals Schedule	10,930,910	2,912,314
IBRD funds received	10,462,576	3,113,000
Foreign Exchange difference:	-	-
Add:		
Opening Balance		
Designated account	1,039,253	838,567
DA-A (MES)	415,461	555,186
DA-B (MDF)	623,792	283,381
Less:		
Closing Balance		
Designated account	570,919	1,039,253
DA-A (MES)	374,657	415,461
DA-B (MDF)	196,262	623,792
TOTAL EXPENDITURES INCURRED	10,930,910	2,912,314

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in EUR)

PROJECT EXPENDITURES BY COMPONENTS

	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
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
Component 1:						
Improving the quality of ECEC programs across the country	440,404	1,008,086	390,404	958,086	(50,000)	(50,000)
TOTAL COMPONENT 1	440,404	1,008,086	390,404	958,086	(50,000)	(50,000)
Component 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 COMPONENT 2	7,296,711	13,642,472	10,143,565	16,489,393	2,846,854	2,846,921
Component 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 COMPONENT 3	2,580,249	3,387,737	2,419,847	3,227,334	(160,402)	(160,403)
Component 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 COMPONENT 4	91,553	868,132	36,821	813,400	(54,732)	(54,732)
Component 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 COMPONENT 5	1,023,617	2,983,419	912,421	2,872,156	(111,196)	(111,263)
TOTAL EXPENDITURES BY COMPONENTS	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

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in EUR)

	Planned as at 31-Dec-22		Actual as at 31-Dec-22		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
	<i>Unaudited</i>	<i>Unaudited</i>			<i>Unaudited</i>	<i>Unaudited</i>
Component 1: Improving the quality of ECEC programs across the country	512,380	588,380	491,568	567,682	(20,812)	(20,698)
TOTAL COMPONENT 1	512,380	588,380	491,568	567,682	(20,812)	(20,698)
Component 2: Improving the educational infrastructure to support learning	5,505,538	5,673,199	732,898	900,559	(4,772,640)	(4,772,640)
Supporting the scaling up of the whole-school improvement pilot	1,992,351	5,303,323	1,891,039	5,201,963	(101,312)	(101,360)
Supporting capacity-building of teachers and school leaders to adapt, develop, and implement school-based curriculum	36,000	36,000	28,671	28,671	(7,329)	(7,329)
Assisting the development of a national assessment framework	248,254	278,044	184,845	214,635	(63,409)	(63,409)
TOTAL COMPONENT 2	7,782,143	11,290,566	2,837,453	6,345,828	(4,944,690)	(4,944,738)
Component 3: Development of new options for higher education financing	-	217,904	-	217,904	-	-
Establishment of a competitive innovation fund for public and private universities	301,182	859,177	31,589	589,583	(269,593)	(269,594)
TOTAL COMPONENT 3	301,182	1,077,081	31,589	807,487	(269,593)	(269,594)
Component 4: Supporting data-driven decision- making accessible the entire education system	253,499	713,398	223,965	683,864	(29,534)	(29,534)
Communication and stakeholder consultations for education reform	14,023	93,756	12,982	92,715	(1,041)	(1,041)
TOTAL COMPONENT 4	267,522	807,154	236,947	776,579	(30,575)	(30,575)
Component 5: Service expenses	392,833	781,123	403,560	557,787	10,727	(223,336)
PPE, Intangible assets & Inventory	112,177	223,056	7,715	57,877	(104,462)	(165,179)
Wages and Salaries	463,000	920,645	591,682	1,344,071	128,682	423,426
TOTAL COMPONENT 5	968,010	1,924,824	1,002,957	1,959,735	34,947	34,911
TOTAL EXPENDITURES BY COMPONENTS	9,831,237	15,688,005	4,600,514	10,457,311	(5,230,723)	(5,230,694)
UNALLOCATED Front end fees	-	225,000	-	225,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	225,000	-	225,000	-	-
TOTAL PROJECT EXPENDITURES	9,831,237	15,913,005	4,600,514	10,682,311	(5,230,723)	(5,230,694)

The Project consists of the following main components:

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

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

Innovation, Inclusion and Quality Project - I2Q

LOAN NO.8955-GE

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

(in EUR)

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 2023 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 28 June 2024.