

MUNICIPAL DEVELOPMENT FUND OF GEORGIA
LOAN NO. 83800-GE LOAN NO. 90990-GE GRANT NO.TF 18090
(SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT)
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPERATION AND APPROVAL OF
THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

Management of the Second Regional and Municipal Infrastructure Development Project (the "Project"), financed under the Loan Agreement No. 83800-GE dated 18 August 2014, Loan Agreement No. 90990-GE dated 21 May 2020 and Grant Agreement No. TF 18090 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 2023, 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 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 2023 were authorized for issue on 28 June 2024 by the Management.

On behalf of Management:



Davit Tabidze
Executive Director



Levan Sharvadze
Deputy Director – Chief Financial Officer

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. 83800-GE dated 18 August 2014, Loan Agreement No. 90990-GE dated 21 May 2020 and Grant Agreement No. TF 18090 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 2023, statement of financial position as at 31 December 2023, summary of expenditure by activity, statement of expenditure ("SOE") and statements of designated account for the year ended 31 December 2023 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 2023 are prepared, in all material respects, in accordance with Loan Agreement No. 83800-GE dated 18 August 2014, Loan Agreement No. 90990-GE dated 21 May 2020 and Grant Agreement No. TF 18090 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

Data included on pages 6 to 19 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.

28 June 2024

Moore Azerbaijan



**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

	Actual		Planned		Variance		Project appraisal document
	Year ended 31.12.2023	Cumulative as at 31.12.2023	Year ended 31.12.2023 Unaudited	Cumulative as at 31.12.2023 Unaudited	Year ended 31.12.2023 Unaudited	Cumulative as at 31.12.2023 Unaudited	
Opening 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						
Sources of Funds							
IBRD Loan 83800-GE	1,151,286	29,969,640					30,000,000
IBRD Loan 90990-GE	15,264,611	34,349,801					5,000,000
SDC* funds	75,162	4,968,118					2,250,000
Government of Georgia	308,772	7,474,360					12,930,000
MDF funds	-	7,423,245					8,750,000
Municipal funds	948,184	14,011,019					-
Other Income	113	577,428					
Total	17,748,128	98,773,611					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	23,465,853	81,809,780	16,661,709	78,663,924	(6,804,144)	(3,145,856)	50,105,000
Goods, consultants, training under part B	21,564	8,069,479	22,310	8,033,213	746	(36,266)	8,750,000
Front-end fee	-	184,654	-	184,654	-	-	75,000
Total expenditure	23,487,417	90,063,913	16,684,019	86,881,791	(6,803,398)	(3,182,122)	58,930,000
Foreign exchange loss, net	107,749	(290,270)					

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
SUMMARY OF SOURCES AND USES OF FUNDS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

	Actual		Planned		Variance		Project appraisal document
	Year ended	Cumulative as at	Year ended	Cumulative as at	Year ended	Cumulative as at	
	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	
Closing Working Capital							
Cash	1,575,704						
Prepayments	7,144,208						
Receivables from municipalities	-						
Trade and other receivables	2,692,288						
Payables	(2,992,772)						
Total	8,419,428						

*Swiss Agency for Development and Cooperation

1 The loan agreement No.90990-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 2023 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 2023 included in the IFR (interim financial report) represent the final figures reflected in the State Budget for FY 2023 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.


David Tabidze
 Executive Director


 Levan Sharvadze
 Deputy Director – Chief Financial Officer

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

	<u>Note</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
ASSETS			
Cash	3,8	1,575,704	2,544,350
Prepayments	7	7,144,208	8,496,934
Receivables from municipalities		-	3,527,645
Trade and other receivables		2,692,288	98,433
Total assets		11,412,200	14,667,362
LIABILITIES			
Payables		(2,992,772)	(616,394)
Total liabilities		(2,992,772)	(616,394)
NET ASSETS		8,419,428	14,050,968
Funds received:			
IBRD loan 83800-GE		29,969,640	28,818,354
IBRD loan 90990-GE		34,349,801	19,085,190
SDC funds		4,968,118	4,892,956
Government of Georgia		7,474,360	7,165,588
MDF funds		7,423,245	7,423,245
Funds from municipalities		14,011,019	13,062,835
Other Income		577,428	577,315
Total funds received		98,773,611	81,025,483
Expenditure:			
Project expenditure	9	90,063,913	66,576,496
Total expenditures		90,063,913	66,576,496
Foreign exchange loss, net		(290,270)	(398,019)
TOTAL NET ASSETS		8,419,428	14,050,968

On behalf of Management:

Davit Tabidze
Executive Director



Levan Sharvadze
Deputy Director – Chief Financial Officer

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 2023
(In US Dollars)**

Project activities	Actual		Planned		Variance	
	Year ended 31.12.2023	Cumulative as at 31.12.2023	Year ended 31.12.2023	Cumulative as at 31.12.2023	Year ended 31.12.2023	Cumulative as at 31.12.2023
Component 1:						
Infrastructure investment	23,465,853	82,768,504	16,661,709	78,663,924	(6,804,144)	(4,104,580)
Component 2:						
Infrastructure development	21,564	7,110,755	22,310	8,033,213	746	922,458
Front end fee	-	184,654	-	184,654	-	-
TOTAL EXPENDITURE	23,487,417	90,063,913	16,684,019	86,881,791	(6,803,398)	(3,182,122)

* The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2023 included in the IFR (Interim financial report) represent the final figures in the State Budget for FY 2023 adjusted to the accrual model.

** PAD – Project Appraisal Document



On behalf of Management:

David Tabidze
Executive Director

Levan Sharvazize
Deputy Director – Chief Financial Officer

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF EXPENDITURE ("SOE")
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

Withdrawal applications for Loan No.90990-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
WA055	29.12.2023	1,503,044	1,503,044	-
WA050	07.12.2023	1,937,252	1,937,252	-
WA038	22.09.2023	1,666,097	1,666,097	-
WA037	10.08.2023	1,994,612	1,994,612	-
WA036	22.06.2023	1,770,513	1,770,513	-
WA034	29.03.2023	1,737,307	1,737,307	-
Total:		10,608,825	10,608,825	-

The amount of direct payments was **USD 4,770,170** during the year 2023. The amount of refunds application was **USD 114,384** during the year 2023.

Withdrawal applications for Loan No.83800-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
WA057	26.12.2023	200,000	200,000	-
Total:		200,000	200,000	-

The amount of direct payments was **USD 951,286** during the year 2023.

Withdrawal applications for Grant TF018090

There have not been withdrawals made based on SOEs for expenses under IBRD grant TF 18090.

The amount of direct payments was **USD 427,243** during the year 2023. The amount of refunds application was **USD 352,081** during the year 2023.

On behalf of Management:



(Signature)
Levan Sharvadze
Deputy Director – Chief Financial Officer

(Signature)
David Tabidze
Executive Director

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

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

	Note	31 December 2023
Opening balance	8	524,571
Fund received from IBRD (Loan 83800-GE)		200,000
Present outstanding amount advanced to Designated Account ("DA")		724,571
DA closing balance	8	72,660
Add: Amount of eligible expenditures paid		651,911
Total advance accounted for		724,571
	Note	31 December 2023
Opening balance	8	1,193,362
Fund received from IBRD (Loan 90990-GE)		10,608,825
Present outstanding amount advanced to Designated Account ("DA")		11,802,187
DA closing balance	8	1,503,044
Less: Foreign exchange loss		(40,848)
Add: Amount of eligible expenditures paid		10,339,991
Total advance accounted for		11,802,187

Since funds under loan 90990-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 Officer


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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
 STATEMENT OF DESIGNATED ACCOUNT (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2023
 (In US Dollars)**

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

	<u>Note</u>	<u>31 December 2023</u>
Opening balance	8	<u>352,081</u>
Funds received from IBRD (GRANT No. TF 18090)		<u>-</u>
Present outstanding amount advanced to Designated Account ("DA")		<u>352,081</u>
DA closing balance	8	<u>-</u>
Add: Amount of eligible expenditures paid		<u>352,081</u>
Total advance accounted for		<u><u>352,081</u></u>

On behalf of Management:


 Davit Tabidze
 Executive Director


 Levan Sharvadze
 Deputy Director – Chief Financial Officer

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 2023
(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. 83800-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. TF 18090 (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. 90990-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. 83800-GE dated 18 August 2014, Loan Agreement No. 90990-GE dated 21 May 2020 and Swiss Grant Agreement No. TF 18090 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 (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(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. 83800-GE and Grant No. TF 18090.

The Designated account for additional financing is maintained in EUR at the State Treasury in accordance with Loan Agreement IBRD No. 90990-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. 83800-GE first and once its balance is fully disbursed, funds from Loan No. 90990-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 2023
(In US Dollars)**

4. BASIS OF FUNDING (CONTINUED)	IBRD (Loan No. 83800-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. 90990-GE)		GOG- /Municipalities	
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 (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(In US Dollars)**

5 METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2023 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 based on 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 2023</u>	<u>31 December 2022</u>
Advances to contractors	7,144,208	8,496,934
Total prepayments	<u>7,144,208</u>	<u>8,496,934</u>

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 2023</u>	<u>31 December 2022</u>
Balance on designated account (Loan No. 8380-GE)	72,660	524,571
Balance on designated account (Loan No. 9099-GE)	1,503,044	1,193,362
Balance on designated account (Grant No. TF018090)	-	352,081
Local account	-	474,336
Total cash	<u>1,575,704</u>	<u>2,544,350</u>

**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 2023
(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	19,494,099	56,757,642
Goods, consultants, training under Part B	-	1,923,607
Front end fee	-	184,654
IBRD TOTAL	19,494,099	58,865,903
Works and Goods (part A.1(a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	427,243	507,485
Goods, consultants, and training under Part B	-	4,463,816
GRANT TOTAL	427,243	4,971,301
Works and Goods (part A.1 (a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	284,574	2,379,712
Goods, consultants, and training under Part B	-	1,573,696
GoG Total	284,574	3,953,408
Works and Goods (part A.1 (a) & A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	1,711	10,492,380
Goods, consultants, and training under Part B	-	-
MDF TOTAL	1,711	10,492,380
Works and Goods (part A.1(a) & part A1 (b)) and consulting services, training, and incremental operating costs under Part A.2	3,279,790	11,766,666
Goods, consultants, and training under Part B	-	14,255
MUNICIPALITIES TOTAL	3,279,790	11,780,921
TOTAL PROJECT EXPENDITURE	23,487,417	90,063,913

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.

**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 2023
(In US Dollars)**

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 83800-GE and 90990-GE)	IBRD (Grant)	Other (GoG, MDF, Municipalities, PPP)	Total
Expenditures incurred during the year	19,494,099	427,243	3,566,075	23,487,417
Direct payment	(4,770,170)	(427,243)	-	(5,197,413)
Change in prepayments	(1,399,801)	-	47,075	(1,352,726)
Change in payables	(1,051,783)	-	(1,324,595)	(2,376,378)
Change in receivables	-	-	(933,790)	(933,790)
Foreign exchange	-	-	-	-
Amount of eligible expenditure paid	12,272,345	-	1,354,765	13,627,110

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. 83800-GE first and once its balance is fully disbursed, funds from Loan No. 90990-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 2023 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.

**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 2023
(In US Dollars)**

12 OPERATING ENVIRONMENT (CONTINUED)

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.

In 2023, Georgia's government continued supporting businesses through various initiatives. Programs like tax breaks, loan restructuring, and helping with interest payments have continued in 2023. These programs helped businesses free up resources for investment.

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

The Funding provided by the IBRD is not enough to finance the all on-going activities under the project. As of reporting date the undisbursed balance under the Donor's contribution is EUR 1,878,140.89 under the Loan IBRD 90990, and USD 30,359.75 under the Loan IBRD 83800. The activities remained will be financed from the additional contribution provided by GOG.

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