

LOCAL ECONOMY AND INFRASTRUCTURE DEVELOPMENT PROJECT

IBRD LOAN NUMBER 8572-AM

**IMPLEMENTED BY
ARMENIAN TERRITORIAL DEVELOPMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2022

**YEREVAN
June 2023**

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STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The management of the Armenian Territorial Development Fund (“ATDF”) is responsible for the preparation of the special purpose financial statements for the year ended 31 December 2022 of “Local Economy and Infrastructure Development Project” (“Project”) financed by Loan Agreement IBRD Loan Number 8572-AM dated 23 February 2016 (“Loan Agreement”), in compliance with the International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting” (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) and the Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines).

In preparing the special purpose financial statements, ATDF’s 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 required disclosures for the year ended 31 Dec 2022.

ATDF’s 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 which enable them to ensure that the special purpose financial statements of the Project comply with IPSAS - Cash Basis and the WB Guidelines;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Loan Agreement, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- Maintaining the Designated Accounts in accordance with the provisions of the Loan Agreement, and World Bank related guidelines;
- Procuring financed Works, Goods and Services in accordance with the Loan Agreement and World Bank related guidelines
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the year ended 31 Dec 2021 were signed on 28 June 2023 by the ATDF’s Management.

Sargis Baghinyan
Executive Director



Levon Dulyan
Chief Financial Officer

A blue ink signature of Levon Dulyan.

INDEPENDENT AUDITOR'S REPORT

To the Management of the Armenian Territorial Development Fund

Opinion

We have audited the special purpose financial statements of "Local Economy and Infrastructure Development Project" ("Project") financed by Loan Agreement IBRD Loan Number 8572-AM dated 23 February 2016 ("Loan Agreement"), and implemented by Armenian Territorial Development Fund ("ATDF"), which comprise of the statement of cash receipts and payments and the statement of expenditures per components for the year ended 31 December 2022, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose financial statements for the year ended 31 December 2022 are prepared, in all material respects, in accordance with International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting, (IPSAS-Cash Basis) and Financial Management Manual for World Bank Financed Investment Operations ("WB Guidelines")*.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB). 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 Project and of the ATDF in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical requirements in accordance with IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter- Cash Basis of Accounting

Without modifying our opinion, we draw your attention to Note 2 to the special purpose financial statements, which describes those special purpose financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes.

Responsibilities of the Management for the Financial Statements

Management of the ATDF is responsible for the preparation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) and WB Guidelines, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 high level of assurance but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements arise from fraud and 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 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 assess the risks of material misstatement of the special purpose 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 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 financial statements, including the disclosures.

We communicate with management 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.

Report on Other Legal Requirements

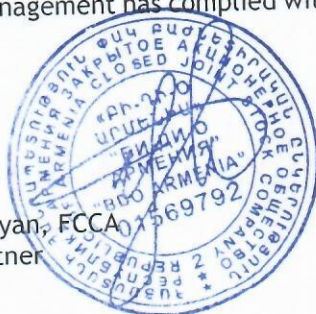
To comply with the terms of the Loan Agreement, the ATDF management shall insure that:

1. funds have been used in accordance with the conditions of the Loan Agreement concluded between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and WB Guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
2. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Reimbursed expenditures included in the withdrawal applications are eligible for financing under the Loan Agreement; Interim Unaudited Financial Reports (IFRs) issued by ATDF during the Reporting year are in agreement with the underlying books of accounts;
3. the Designated Accounts have been maintained in accordance with the provisions of the Loan Agreement, and World Bank related guidelines;
4. Financed Works, Goods and Services have been procured in accordance with the Loan Agreement and World Bank related guidelines.

In our opinion, the Project management has complied with the above requirements for the year ended 31 December 2022.

“BDO Armenia” CJSC
28 June 2023

Vahagn Sahakyan, FCCA
Managing partner



STATEMENT OF CASH RECEIPTS AND PAYMENTS

Local Economy and Infrastructure Development Project

IBRD Loan 8572-AM

For the year ended 31 December 2022

In USD

Description	Note	Actual			Planned	Variance
		Year ended 31.12.2021	Year ended 31.12.2022	Cumulative as at 31.12.2022		
Opening Cash Balance	6	84,056	1,378,308	-		
Sources of Funds	9					
IBRD Loan Number 8572-AM		6,039,642	2,992,875	17,164,937		
RA Government		1,183,734	949,603	4,113,568		
Total		7,223,376	3,942,478	21,278,505		
Use of Funds	10					
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project		5,838,246	4,733,877	20,202,725	20,625,989	423,264
(2) Operating costs		103,752	106,300	458,100	472,500	14,400
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project		-	-	-	-	-
Front-end Fee		-	-	137,500	137,500	-
Total		5,941,998	4,840,177	20,798,325	21,235,989	437,664
Foreign currency gain/(loss)		12,874	20,266	20,695		
Closing Cash Balance	6	1,378,308	500,875	500,875		

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 28 June 2023.
The accompanying notes form an integral part of these project special purpose financial statements.

Sargis Baghinyan
Executive Director



Levon Dulyan
Chief Financial Officer

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

*Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM
For the year ended 31 December 2022
In USD*

Project Activities	Actual			Planned	Variance
	Year ended 31.12.2021	Year ended 31.12.2022	Cumulative as at 31.12.2022	Cumulative as at 31.12.2022	Cumulative as at 31.12.2022
Part 1. Heritage Hub Regeneration and Tourism Circuit Development	5,941,998	4,716,047	20,536,695	20,421,978	(114,717)
1.a. Urban regeneration activities	-	-	-	-	-
1.b. Cultural heritage preservation	5,458,163	3,980,994	18,680,522	18,811,095	130,573
1.c. Creation of public infrastructure to attract private investments	-	-	-	-	-
1.d. Project management, design and construction supervision	483,835	735,053	1,856,173	1,610,883	(245,290)
Part 2. Institutional Development	-	124,130	124,130	676,511	552,381
Part 3. Contingent Emergency Response	-	-	-	-	-
Front-end fee	-	-	137,500	137,500	-
Total	5,941,998	4,840,177	20,798,325	21,235,989	437,664

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 28 June 2023. The accompanying notes form an integral part of these project special purpose financial statements.

Sargis Baghinyan
Executive Director



Levon Dulyan
Chief Financial Officer

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM
For the year ended 31 December 2022*

1. General information

1.1 The Project financing.

According to the Loan Agreement between the Republic of Armenia and the International Bank for Reconstruction and Development (“IBRD”, “WB”) on 23 February 2016, IBRD provided Loan Number 8572-AM in the amount of 55,000,000 United States dollars (USD) to the Republic of Armenia. The loan was provided for implementation of “Local Economy and Infrastructure Development Project” (hereinafter Project). The Loan Agreement became effective on 29 December 2016.

The Project was expected to be completed by 2021 and Closing date for IBRD Loan Number 8572-AM financing was set on 30 April 2021. In 2020 the Closing date for the Project was extended to 31 March 2023. In 2022 the Closing date for the Project was extended to 31 December 2024. The Grace period for submitting the expenditures incurred before the Closing date is set four months after the Closing date 30 April 2025.

Due to the unpredicted challenges that Republic of Armenia has been facing since the beginning of 2020, the Government of Armenia has initiated the process to engage external financing accordance to the sectorial priorities for the implementation of projects and reforms with critical needs. For that purpose, on July 3, 2020 and August 12, 2021, RA Minister of Finance has applied to the World Bank with a request to cancel 3,200,000 USD and 9,000,000 USD amounts accordingly, under the Loan Agreement No.8572 between the Republic of Armenia and International Bank for Reconstruction and Development. As a result, the loan for the project was reduced by 12,200,000 USD. The IBRD Loan No.8572 amount is currently 48,200,000 USD.

1.2 The Project’s objective

The objective of the Project is to improve infrastructure services and institutional capacity for increased tourism contribution to local economy in the selected regions in Armenia.

The Project consists of the following parts:

Part 1: Heritage Hub Regeneration and Tourism Circuit Development

- a) Provision of Investment Subproject Financing to Participating Beneficiaries to finance the carrying out of urban regeneration activities; including, but not limited to, restoration of public infrastructure, building facades and roofs, public spaces, museums, access roads, water and sanitation, drainage and street lighting;
- b) Provision of Investment Subproject Financing to Participating Beneficiaries to finance the carrying out of cultural heritage preservation and improved site management activities which may include, inter-alia: (i) implementation of site management plans recommendations; (ii) construction of a visitor facilities with information centers, cafes, public toilets and safe parking area; (iii) preservation of cultural heritage monuments, museums, and surrounding houses; and (iv) improvement of connectivity with access roads and public infrastructure.”;
- c) Creation of public infrastructure to attract private investments;
- d) Project management, design and construction supervision.

Part 2: Institutional Development

Institutional capacity building activities for the Project Implementing Entity, the Tourism Committee at the Ministry of Economy (the MoE), and other local and regional entities.

Part 3: Contingent Emergency Response

Provision of support upon occurrence of an Eligible Emergency, as needed.

1.3 Budget

The Project is financed by:

- IBRD Loan Number 8572-AM,
- Government of the Republic of Armenia (Government of RA) cofinancing.

Expenditure category	IBRD Loan 8572-AM			RoA Govern- ment	Total	Percentage of Expenditures to be financed (including taxes)
	Initial	Cancelled (Note 1.1)	Updated	USD equivalent	USD equivalent	
	USD	USD	USD			
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	53,962,500	(12,200,000)	41,762,500	10,440,625	52,203,125	80%
(2) Operating costs	900,000	-	900,000	225,000	1,125,000	80%
(3) Front-end Fee	137,500	-	137,500	-	137,500	100%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-	-	-	-
Total	55,000,000	(12,200,000)	42,800,000	10,665,625	53,465,625	

1.4 Project Implementation

The Project is implemented by the Armenian Territorial Development Fund (ATDF) - formerly: Armenian Social Investment Fund (the ASIF), in accordance with the Project Agreement dated 23 February 2016 signed between IBRD and ASIF.

The ASIF has been established by a Decree N 162 dated 11.04.2000 of the Government of the Republic of Armenia, the sole founder, as an autonomous non-profit agency to assist in the rehabilitation of small-scale infrastructure through community initiated and demand-based activities.

The ATDF implements projects financed by the WB and other donors including contribution to:

- welfare development of population through improving quality and accessibility of social and economic infrastructure and public services, employment, investment activity,
- Institutional and financial strengthening of regions of the Republic of Armenia.

The Board is the supreme governing body of the ATDF.

The ATDF registered address is: 31 K. Ulnetsu Street, Yerevan, 0037, Republic of Armenia.

2. Summary of significant accounting policies

2.1 Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB), and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 - Financial Reporting and Auditing.

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 Cash basis of accounting

The special purpose financial statements are prepared and presented using the cash basis of accounting.

Cash basis means a basis of accounting under which transactions and other events are recognized only when cash or its equivalent is received or paid.

Financial statements prepared under the cash basis provide information about the sources of cash raised during the period, the purpose for which cash was used and the cash balances at the reporting date.

2.3 Reporting currency

The Project financial statements are presented in United States Dollars (USD), reporting currency.

2.4 Foreign currency transactions

Foreign currency is a currency other than the reporting currency of the Project.

Project accounts are maintained in USD and Armenian Drams (AMD).

Transactions in foreign currencies are translated to presentation currency at exchange rates at the dates of these transactions. The exchange rate:

- For the inflows is used the foreign exchange purchase rate as of the transaction date set by the Central Bank of the RA.
- For outflows is used the foreign exchange selling rate as of the transaction date set by the Central Bank of the RA.

2.5 Budgeting

Annual budgets for funding and expenditures are based on an approved budget of the project agreement (Note 1.3.).

The expenditure budget is created based on actual accumulated expenditures for the last period plus the updated procurement plans for the period.

2.6 Taxes

All applicable taxes are paid in accordance with tax regulations of the Republic of Armenia.

3. Summary Reports and SOEs

IBRD Loan Number 8572-AM
For the year ended 31 December 2022

In USD

Application number	Value date	Expenditure category		Total
		(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	(2) Operating costs	
29	11/02/2022	301,970	19,722	321,692
30	31/03/2022	77,216	12,731	89,947
31	27/06/2022	539,636	17,835	557,471
32	25/08/2022	696,918	14,690	711,608
33	13/10/2022	326,064	4,369	330,433
34	01/12/2022	662,198	9,308	671,506
35	22/12/2022	303,023	7,195	310,218
Total		2,907,025	85,850	2,992,875

4. STATEMENT OF DESIGNATED ACCOUNT

Funding	IBRD Loan Number 8572-AM
Bank account number	900000902818
Bank	Central Treasury
Bank location	Meliq Adamyant Street 1, Yerevan, Republic of Armenia, 0010
Account currency	USD

	Year ended 31.12.2022 USD
1. Opening balance	1,378,308
2. Add: opening discrepancy	-
3. WB advance/replenishment	2,992,875
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	4,371,183
6. DA closing balance	500,857
7. Add: Amount of eligible expenditures paid	3,870,326
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	4,371,183
10. Closing discrepancy (5)-(9)	

5. STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position discloses assets, liabilities, and net assets of the Project as at reporting date. It is prepared on an accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	Note	31.12.2022 USD	31.12.2021 USD
ASSETS			
Cash	6	500,875	1,378,308
Prepayments and receivables	7	1,122,964	1,822,085
Total assets		1,623,839	3,200,393
LIABILITIES			
Payables	8	233,208	226,549
Total Liabilities		233,208	226,549
NET ASSETS			
Cumulative income			
<i>Funds</i>			
IBRD Loan 8572-AM	9	17,164,937	14,172,062
RA Government		4,113,568	3,163,965
		21,278,505	17,336,027
Cumulative expenses			
Project expenses	10	(19,908,569)	(14,362,612)
		(19,908,569)	(14,362,612)
Foreign currency gain/(loss)		20,695	429
Total net assets		1,390,631	2,973,844

6. CASH

Account	Account held at	Underlying Currency	31.12.2022 USD	31.12.2021 USD
Designated account (IBRD Loan 8572-AM)	Treasury	USD	500,857	1,378,308
Government co-financing account	Treasury	AMD	18	-
			500,875	1,378,308

7. Prepayments and receivables

	31.12.22 USD	31.12.2021 USD
Prepayments on Works*	1,122,964	1,822,085
	1,122,964	1,822,085

(*) Prepayments are paid to contractors up to 20% of the construction contract amount based on bank guarantee provided.

8. Payables

	31.12.2022 USD	31.12.2021 USD
On Works (Retentions)*	233,208	226,549
	<u>233,208</u>	<u>226,549</u>

(*) Retentions of 5% are held from the completed service invoices as a guarantee for the quality of the work. 2.5% is paid after signing the final act, and the remaining 2.5% are kept for up to one year as guaranty for the quality of performed works, or paid on the basis of a one-year bank guaranty.

9. Financing

9.1 IBRD Loan Number 8572-AM

	Year ended 31.12.2021 USD	Year ended 31.12.2022 USD	Cumulative at 31.12.2022 USD
Advances	-	-	1,700,000
SOE and Summary Sheets	6,039,642	2,992,875	15,327,437
Front-end Fee	-	-	137,500
Total	<u>6,039,642</u>	<u>2,992,875</u>	<u>17,164,937</u>
Total financing budget			42,800,000
Percentage of finance provided			40%

9.2 Government of the Republic of Armenia co-financing

	Year ended 31.12.2021 USD	Year ended 31.12.2022 USD	Cumulative at 31.12.2022 USD
Contributions in cash	1,183,734	949,603	4,113,568
Total	<u>1,183,734</u>	<u>949,603</u>	<u>4,113,568</u>
Total financing budget			10,665,625
Percentage of finance provided			39%

10. Project Expenditures

10.1 Project expenditures financing per funds

Category	Year ended 31.12.2022		Total (USD)
	IBRD Loan 8572-AM (USD)	Government of RoA co-financing (USD)	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	3,786,927	946,950	4,733,877
(2) Operating costs	83,399	22,901	106,300
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	-	-	-
Total	3,870,326	969,851	4,840,177

Category	Cumulative as at 31.12.2022		Total (USD)
	IBRD Loan 8572-AM (USD)	Government of RoA co-financing (USD)	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	16,161,736	4,040,989	20,202,725
(2) Operating costs	364,839	93,261	458,100
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	-	137,500
Total	16,664,075	4,134,250	20,798,325

10.2 Project budget progress

Category	Cumulative as at 31.12.2022	Budget	Implementation*
	USD	USD	%
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	20,202,725	52,203,125	39%
(2) Operating costs	458,100	1,125,000	41%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	137,500	100%
Total	20,798,325	53,465,625	39%

(*) The loan agreement was signed on 23 February 2016, the deadline for loan disbursements was set at 30 April 2021, then extended till 31 December 2024 (Note 1.1). As of 31 December 2022, the cumulative expenditures were at 39% of the total budget (31.12.2021: 30%).

The slow progress of the Project implementation is due to the: COVID-19 pandemic and Karabakh war, which our country has faced since the beginning of 2020, as a result of which the construction works had been delayed. It is also time-consuming process to update construction projects that have not begun until other municipal projects were completed. Most of the projects' tendering processes are currently finished, and the construction companies have been selected.

11. Events after the reporting date

The application N 36 that includes expenditures relating to the reporting period in the amount of 1,199,137 USD was submitted to WB on 6 February 2023 and approved on 9 February 2023.

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE ATDF AND DISBURSED BY THE WORLD BANK

*Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM*

*For the year ended 31 December 2022
In USD*

Expenditure Category	Appl.	ATDF	WB	Difference
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	29	301,970	301,970	-
	30	77,216	77,216	-
	31	539,636	539,636	-
	32	696,918	696,918	-
	33	326,064	326,064	-
	34	662,198	662,198	-
	35	303,023	303,023	-
			2,907,025	2,907,025
(2) Operating costs	29	19,722	19,722	-
	30	12,731	12,731	-
	31	17,835	17,835	-
	32	14,690	14,690	-
	33	4,369	4,369	-
	34	9,308	9,308	-
	35	7,195	7,195	-
			85,850	85,850
Total		2,992,875	2,992,875	-