

**SEISMIC SAFETY IMPROVEMENT PROGRAM
RESULTS-BASED LENDING**

ADB LOAN NUMBER 3284-ARM(SF)

**IMPLEMENTED BY
ARMENIAN TERRITORIAL DEVELOPMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2021

**YEREVAN
June 2022**

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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 and fair presentation of the special purpose financial statements for the year ended 31 December 2021 of "Seismic Safety Improvement Program" ("Program") financed by Loan Agreement ADB Loan Number 3284-ARM(SF) dated 19 October 2015 ("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 ADB Program Financial Reporting and Auditing Guidelines ("ADB 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 2021.

ATDF's Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal control, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions, including those relating to DLIs achievements reports, and which enable to ensure that the special purpose financial statements of the Project comply with *IPSAS - Cash Basis* and the *ADB Guidelines*;
- Taking such steps that are reasonably available to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Loan Agreement, and ADB related guidelines, with due attention to economy and efficiency, transparency and accountability, and only for the purposes for which the financing was provided;
- Maintaining Deposit Account in accordance with the provision of the Loan Agreement, and ADB related guidelines;
- Not procuring works, good and services from the countries that are not members of the ADB, and not making expenditures for any prohibited investment activities provided in Appendix 5 of ADB's Safeguard Policy Statement; and
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the year ended 31 Dec 2021 were signed on 21 June 2022 by the ATDF's Management.

Artur Soghomonyan
Executive Director



Levon Dulyan
Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To the Management of the Armenian Territorial Development Fund

Opinion

We have audited the special purpose financial statements of "Seismic Safety Improvement Program" ("Program") financed by Loan Agreement ADB Loan Number 3284-ARM(SF) dated 19 October 2015 ("Loan Agreement"), and implemented by the Armenian Territorial Development Fund ("ATDF"), which comprise the statement of cash receipts and payments for the year ended 31 December 2021, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the cash flows for the year ended 31 December 2021 in accordance with International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis) and ADB Program Financial Reporting and Auditing Guidelines ("ADB 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 Program 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

We draw attention to Note 2 to the financial statements, which describes that financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes. Our opinion is not modified in respect of this matter.

Responsibilities of the Management for the Financial Statements

Management of the ATDF is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) and ADB 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.

STATEMENT OF CASH RECEIPTS AND PAYMENTS

Seismic Safety Improvement Program-Results-Based Lending

ADB Loan Number 3284-ARM(SF)

For the year ended 31 December 2021

In USD

Description	Note	Actual				Planned		Variance		Planned Initially
		Year ended 31 Dec 2020	Cumulative as at 31 Dec 2020	Year ended 31 Dec 2021	Cumulative as at 31 Dec 2021	Cumulative as at 31 Dec 2020	Cumulative as at 31 Dec 2021	Cumulative as at 31 Dec 2020	Cumulative as at 31 Dec 2021	Year ended 31 Dec 2021
Opening Cash Balance		12,228,459	-	3,853,934	-					
Sources of Funds	8									
ADB Loan Number 3284-ARM(SF)		835,297	29,193,466	16,675,331	45,868,797					
RA Government		1,669,049	4,397,642	1,875,643	6,273,285					
Total		2,504,346	33,591,108	18,550,974	52,142,082					
Uses of Funds										
(1) Works		9,377,093	23,829,596	10,551,680	34,381,276	25,247,258	35,289,801	1,417,662	908,525	7,897,142
(2) Goods		-	44,404	-	44,404	44,404	44,404	-	-	-
(3) Consultants services		497,578	1,516,792	581,341	2,098,133	1,634,350	2,164,880	117,558	66,747	951,880
(4) Operating costs		162,484	796,173	198,880	995,053	838,460	1,032,540	42,287	37,487	236,367
(5) Interest during implementation		835,297	3,551,924	857,051	4,408,975	3,551,924	4,408,975	-	-	857,051
Total		10,872,452	29,738,889	12,188,952	41,927,841	31,316,396	42,940,600	1,577,507	1,012,759	9,942,440
Foreign currency gain/(loss)		(6,419)	1,715	3,210	4,925					
Closing Cash Balance	5	3,853,934	3,853,934	10,219,166	10,219,166					

The Program special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 21 June 2022. The accompanying notes form an integral part of these Program special purpose financial statements.

Artur Soghomonyan
Executive Director

Levon Dulyan
Chief Financial Officer

STATEMENT OF USES OF FUNDS BY PROGRAM ACTIVITY

Seismic Safety Improvement Program - Results-Based Lending

ADB Loan Number 3284-ARM(SF)

For the year ended 31 December 2021

In USD

Program Activities	Actual				Planned		Variance		Planned Initially
	Year ended 31 Dec 2020	Cumulative as at 31 Dec 2020	Year ended 31 Dec 2021	Cumulative as at 31 Dec 2021	Cumulative as at 31 Dec 2020	Cumulative as at 31 Dec 2021	Cumulative as at 31 Dec 2020	Cumulative as at 31 Dec 2021	Year ended 31 Dec 2021
(a) Increasing seismic resilience of school buildings	9,874,671	25,390,792	11,133,021	36,523,813	26,926,012	37,499,085	1,535,220	975,272	8,849,022
(b) Strengthening seismic disaster preparedness and response capacity	-	-	-	-	-	-	-	-	-
(c) Improving supportive policies and systems for seismic disaster risk management and reduction	-	-	-	-	-	-	-	-	-
(d) Enhancing capacity in Program execution and implementation	162,484	796,173	198,880	995,053	838,460	1,032,540	42,287	37,487	236,367
(e) Interest during implementation	835,297	3,551,924	857,051	4,408,975	3,551,924	4,408,975	-	-	857,051
Total	10,872,452	29,738,889	12,188,952	41,927,841	31,316,396	42,940,600	1,577,507	1,012,759	9,942,440

The Program special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 21 June 2022. The accompanying notes form an integral part of these Program special purpose financial statements.

Artur Soghomonyan
Executive Director




Levon Dulyan
Chief Financial Officer



NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Seismic Safety Improvement Program - Results- Based Lending
ADB Loan Number 3284-ARM(SF)
For the year ended 31 December 2021

1. General information

1.1. The Program financing

According to the Loan Agreement between the Republic of Armenia and the Asian Development Bank ("ADB") concluded on 19 October 2015, ADB provided a Loan Number 3284-ARM(SF) in the amount of 63,259,000 Special Drawing Rights ("SDR") to the Republic of Armenia.

The payment currency of the loan is United States dollars (USD).

The loan was provided for implementation of "Seismic Safety Improvement Program -Results-Based Lending" ("Program", "SSIP").

The Loan Agreement became effective on 22 December 2015.

The Program was expected to be completed by 30 November 2020, and Closing date for the ADB Loan Number 3284-ARM(SF) financing was set on 31 May 2021. In 2018 the Closing date for the Program was extended to 31 May 2024. In April 2022 the Closing date for the Program was extended to 31 May 2026.

1.2. The Program's objective

The objective of the Program is to support SSIP implementation in improving coverage of seismically safe school buildings.

The Program shall support SSIP in the following areas:

- a) Increasing seismic resilience of school buildings;
- b) Strengthening seismic disaster preparedness and response capacity;
- c) Improving supportive policies and systems for seismic disaster risk management and reduction;
- d) Enhancing capacity in Program execution and implementation.

1.3. Disbursement Linked Indicator ("DLI")

The Loan amounts are available for withdrawal upon satisfaction of the corresponding DLI targets. The satisfactory evidence of DLIs achievement shall be submitted to ADB to support withdrawal applications.

Withdrawals from the Loan account may be made for DLI targets achieved prior to the Effective date, 22 Dec 2015, but not earlier than 19 Oct 2014.

The DLIs schedule (as updated) is presented below.

DLI #	DLI description	Total	Prior Results	Y 2016	Y 2017	Y 2018	Y 2019	Y 2020	Y 2021	Y 2022	Y 2023	Y 2024	Y 2025
		SDR	SDR	SDR	SDR	SDR	SDR	SDR	SDR	SDR	SDR	SDR	SDR
DLI 1	Coverage of seismically safe school buildings increased	18,514,000	-	-	-	-	-	-	-	7,363,000	4,646,000	5,363,000	1,142,000
DLI 2	Seismic resilience of school buildings increased	34,382,000	2,144,000	-	-	-	-	9,221,000	-	6,790,000	9,150,000	6,077,000	1,000,000
DLI 3	Seismic disaster preparedness and response capacity strengthened	3,073,000	-	1,072,000	-	-	-	786,500	-	-	715,000	358,000	141,500
DLI 4	Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	1,929,000	643,000	-	643,000	643,000	-	-	-	-	-	-	-
DLI 5	National capacity in executing and implementing the seismic safety investment program enhanced	1,858,000	357,000	643,000	-	858,000	-	-	-	-	-	-	-
Subtotal		59,756,000	3,144,000	1,715,000	643,000	1,501,000	-	10,007,500	-	14,153,000	14,511,000	11,798,000	2,283,500
Interest during implementation		3,503,000	-	-	-	-	-	-	-	-	-	-	-
Total		63,259,000	-	-	-	-	-	-	-	-	-	-	-

1.4. Budget

The Program is financed by:

- ADB Loan Number 3284-ARM(SF),
- Government of the Republic of Armenia (Government of RA), covering the taxes.

Category	ADB Loan Number 3284-ARM(SF)		Government of RA	Total
	SDR	USD equivalent (a)	USD equivalent (b)	USD
(1) Works	47,208,000	65,949,482	14,604,574	80,554,056
(2) Goods	4,183,000	5,843,643	1,294,080	7,137,723
(3) Consultants services	6,680,000	9,331,947	2,066,568	11,398,515
(4) Operating costs	1,685,000	2,353,942	521,283	2,875,225
(5) Interest during implementation	3,503,000	4,892,891	-	4,892,891
Total	63,259,000	88,371,905	18,486,505	106,858,410

(a) Budget USD equivalent of SDR underlined loan is calculated based on cumulative funds received in USD, plus USD equivalent of undisbursed funds in SDR as at reporting date. As at 31.12.2021 the SDR/USD rate is set 1 SDR=1.39959 USD (31.12.2020 - 1.44027 USD).

(b) The Government of RA co-financing budget is adjusted based on updated budget of Loan financing.

1.5. Program Implementation

The Program is implemented by the Armenian Territorial Development Fund (ATDF).

The ATDF implements Programs related 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 of Trustees is a supreme governing body of the ATDF.

The ATDF registered address is: 31 K. Ulnetsi 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 ADB Program Financial Reporting and Auditing Guidelines (March 2015) ("ADB Guidelines").

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

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 end of reporting date.

2.3 Reporting currency

The Program financial statements are presented in United States Dollars (USD).

2.4 Foreign currency transactions

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

Program 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:

- 1) Before March 1, 2021 is average settlement rate of foreign currency over functional currency as of the transaction date established by the Central Bank of the Republic of Armenia (the CBA).
- 2) Since March 1, 2021:
 - For 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 Taxes

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

3. SUMMARY OF FUNDS RECEIVED UNDER EACH DLI

ADB Loan Number 3284-ARM(SF)
For the year ended 31 December 2021
In USD

Application number	Value date	DLI Advance/ (Advance recovery)	Disbursement category documented					Interest during implementation	Total documented	Total paid
			DLI1. Coverage of seismically safe school buildings increased	DLI2. Seismic resilience of school buildings increased	DLI3. Seismic disaster preparedness and response capacity strengthened	DLI4. Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	DLI5. National capacity in executing and implementing the seismic safety investment program enhanced			
For year 2020										
	15 May 2020	-	-	-	-	-	-	405,891	405,891	405,891
	15 Nov 2020	-	-	-	-	-	-	429,406	429,406	429,406
Total for 2020		-	-	-	-	-	-	835,297	835,297	835,297
Cumulative as at 31 Dec 2020		21,949,766	-	-	1,457,673	874,332	1,359,770	3,551,924	7,243,699	29,193,465
	15 May 2021	-	-	-	-	-	-	409,364	409,364	409,364
00003	01 Jun 2021	-	-	3,097,372	-	1,393,384	1,239,527	-	5,730,283	5,730,283
	15 Nov 2021	-	-	-	-	-	-	447,687	447,687	447,687
00004	29 Nov 2021	-	-	9,639,858	-	448,139	-	-	10,087,997	10,087,997
Total for 2021		-	-	12,737,230	-	1,841,523	1,239,527	857,051	16,675,332	16,675,332
Cumulative as at 31 Dec 2021		21,949,766	-	12,737,230	1,457,673	2,715,855	2,599,297	4,408,975	23,919,031	45,868,797

4. STATEMENT OF DEPOSIT ACCOUNT (DA)

Bank account number	900000901281
Bank	Central Treasury
Bank location	Meliq Adamyan Street 1, Yerevan, Republic of Armenia, 0010
Account currency	USD

	ADB Loan Number 3284-ARM(SF)	
	Year ended 31 Dec 2020	Year ended 31 Dec 2021
1. Opening balance	12,198,217	3,826,185
2. Add: opening discrepancy	726	726
3. ADB advance/replenishment	-	15,818,280
4. Less: Refund to ADB from DA	-	-
5. Present outstanding amount advanced to DA	12,198,943	19,645,191
6. DA closing balance	3,826,185	10,219,165
7. Add: Amount of eligible expenditures paid	8,372,032	9,425,035
8. Less: interest earned (if credited to DA)	-	-
9. Total advance accounted for	12,198,217	19,644,201
10. Closing discrepancy (5)-(9)	726	990

5. Cash

Account	Account held at	Underlying Currency	31.12.2020 USD	31.12.2021 USD
Deposit account (ADB Loan	Treasury	USD	3,826,185	10,219,165
GOA cofinancing	Treasury	AMD	27,749	-
			3,853,934	10,219,165

6. Financing

6.1. ADB Loan Number 3284-ARM(SF)

	Year ended 31 Dec 2020 USD	Cumulative as at 31 Dec 2020 USD	Year ended 31 Dec 2021 USD	Cumulative as at 31 Dec 2021 USD
DLI advance/(advance recovery)	-	21,949,766	-	21,949,766
DLI payment	-	3,691,776	15,818,281	19,510,057
Interest payment	835,297	3,551,924	857,051	4,408,975
Total	835,297	29,193,466	16,675,332	45,868,798
Total financing budget		89,934,710		88,371,905
Percentage of finance provided		32%		52%

6.2. Government of the Republic of Armenia co-financing

	Year ended 31 Dec 2020 USD	Cumulative as at 31 Dec 2020 USD	Year ended 31 Dec 2021 USD	Cumulative as at 31 Dec 2021 USD
Contributions in cash	1,669,049	4,397,642	1,875,643	6,273,285
	1,669,049	4,397,642	1,875,643	6,273,285
Total financing budget		18,813,428		18,486,505
Percentage of finance provided		23%		34%

7. Litigations

There are no pending litigations against the Program as at reporting date and as at approval date of these financial statements.

8. DLI achievement progress

DLI #	DLI description	Year	DLI target	Progress of implementation as at 31 Dec 2021	Corresponding verification process	Amount of Loan Allocated (SDR)	Amount of Loan Proceed Cumulative as at 31 Dec 2020 (SDR)	Proceed %
DLI 1	Coverage of seismically safe school buildings increased	2022	At least 1.6% over baseline points			18,514,000	-	-
		2023	At least 2.6% over baseline points				-	
		2024	At least 4.5% over baseline points				-	
		2025	At least 5.3% over baseline points				-	
DLI 2	Seismic resilience of school buildings increased	Prior 2015	Design for 8 priority schools completed and approved	Implemented and submitted to ADB on 21 May 2019	Approved by ADB on 11 September 2019	34,382,000	2,144,000	26%
		2020	# of schools increase by 8 from baseline	Implemented and submitted to ADB on 27 September 2021	Approved by ADB on 13 October 2021		6,915,750	
		2022	# of schools increase by 15 from baseline					
		2023	# of schools increase by 24 from baseline					
		2024	# of schools increase by 40 from baseline					
		2025	# of schools increase by 46 from baseline					
DLI 3	Seismic disaster preparedness and response capacity strengthened	2016	At least 8 communities received public awareness campaign	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016	3,073,000	1,072,000	35%
		2020	At least 16 communities received public awareness campaign				-	
		2023	At least 24 communities received public awareness campaign					
		2024	At least 40 communities received public awareness campaign					
		2025	At least 46 communities received public awareness campaign					
DLI 4	Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	Prior 2015	SSRP approved	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016	1,929,000	643,000	100%
		2017	Guidelines in line with international best practices for school seismic strengthening and retrofitting approved	Guidelines in line with international best practices for school seismic strengthening and retrofitting were revised under the ADB TA	Approved by ADB on 11 November 2019		643,000	
		2018	National seismic hazard probabilistic map updated. The updated building codes for school buildings, harmonized with international standard, approved	National seismic hazard probabilistic map is updated and approved Update of the building codes is in the process	Approved by ADB on 11 September 2019		321,500	
					Approved by ADB on 13 October 2021		321,500	
DLI 5	National capacity in executing and implementing the seismic safety investment program enhanced	Prior 2015	At least 11 additional staff for program implementation is recruited at ATDF	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016	1,858,000	357,000	100%
		2016	Template bidding documents prepared; ATDF operational manual updated; Program monitoring and evaluation system established	Prepared by ATDF and submitted to ADB on November 2016	Approved by ADB on 29 November 2016		643,000	
		2018	At least 30 staff working for program implementation, with at least 40% women are trained	At least 30 staff are trained in the areas of program implementation and management, financial management and reporting, procurement, E&S safeguards, and evaluation, submitted to ADB on 21 May 2019	Approved by ADB on 11 September 2019		858,000	
Total						59,756,000	13,918,750	23%