

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 2023

**YEREVAN
June 2024**

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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 2023 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 December 2023.

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 2023 were signed on 28 June 2024 by the ATDF's Management.

Sargis Baghinyan

Executive Director of the
Armenian Territorial Development Fund



Karine Shahbazyan

Head of Financial Management and
Accounting Department

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 2023, 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 2023 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 2023.

“BDO Armenia” CJSC
28 June 2024

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 2023
In USD

	Note	Actual		Planned	Variance
		Year Ended 31.12.2022	Year Ended 31.12.2023	Cumulative as at 31.12.2023	Cumulative as at 31.12.2023
Opening Cash Balance	6	1,378,308	500,874		
Sources of Funds	9				
IBRD Loan Number 8572-AM		2,992,875	10,617,923	27,782,860	
RA Government		949,603	2,610,403	6,723,971	
Total: Sources of Funds		3,942,478	13,228,326	34,506,831	
Uses of Funds	10				
(1) Goods, Works, non-consulting services, consultants' services and/or Training under Part 1 and Part 2 of the Project		4,733,877	12,882,170	33,084,896	248,774
(2) Operating Costs		106,300	154,854	612,954	
(4) Goods, Works, non-consulting services, consultants' services and/or Training under Part 3 of the Project		-	-	-	
Front-end Fee		-	-	137,500	
Total: Uses of Funds		4,840,177	13,037,025	33,835,350	280,955
Foreign currency gain/loss		20,266	(3,167)	17,527	
Closing Cash Balance	6	500,875	689,008	689,008	

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 28 June 2024.
The accompanying notes form an integral part of these project special purpose financial statements.

Sargis Baghinyan

Executive Director of the
Armenian Territorial Development Fund



Karine Shahbazyan
Karine Shahbazyan

Head of Financial Management and Accounting
Department

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM
For the year ended 31 December 2023
In USD

Project Activities	Actual		Planned		Variance
	Year ended 31.12.2022	Year ended 31.12.2023	Cumulative as at 31.12.2023	Cumulative as at 31.12.2023	
Part 1. Heritage Hub Regeneration and Tourism Circuit Development	4,716,047	12,969,199	33,618,106	112,211	
1.a. Urban regeneration activities	-	-	-	-	
1.b. Cultural heritage preservation	3,980,994	11,661,107	30,523,770	182,140	
1.c. Creation of public infrastructure to attract private investments	-	-	-	-	
1.d. Project management, design and construction supervision	735,053	1,308,092	3,094,336	(69,929)	
Part 2. Institutional Development	124,130	67,826	360,700	168,744	
Part 3. Contingent Emergency Response	-	-	-	-	
Front-end fee	-	-	137,500	-	
Total	4,840,177	13,037,025	34,116,306	280,955	

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 28 June 2024. The accompanying notes form an integral part of these project special purpose financial statements.

Sargis Baghinyan

Executive Director of the
Armenian Territorial Development Fund



Karine Shahbazyan

Head of Financial Management and Accounting
Department

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM
For the year ended 31 December 2023*

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 Government	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 ATDF.

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 2023

in USD		Expenditure Category		Total
Application number	Value Date	(1) Goods, Works, non-consulting services, consultants' services and/or Training under Part 1 and Part 2 of the Project	(2) Operating Costs	
36	09/02/2023	1,181,872	17,266	1,199,137
37	22/05/2023	551,659	18,752	570,411
38	30/05/2023	889,796	7,646	897,442
39	26/06/2023	508,024	8,954	516,979
41	25/07/2023	2,054,739	15,250	2,069,989
43	11/10/2023	1,184,460	15,776	1,200,236
44	10/11/2023	2,045,571	18,157	2,063,728
	Total	8,416,122	101,801	8,517,923

4. STATEMENT OF DESIGNATED ACCOUNT

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

	Year ended 31.12.2023 USD
1. Opening balance	500,857
2. Add: opening discrepancy	
3. WB advance/replenishment	10,617,923
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	11,118,780
6. DA closing balance	689,008
7. Add: Amount of eligible expenditures paid	10,429,772
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	11,118,780
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	31.12.2023 USD	31.12.2022 USD
ASSETS			
Cash	6	689,008	500,875
Prepayments and receivables	7	2,257,249	1,122,964
Total assets		2,946,257	1,623,839
LIABILITIES			
Payables	8	531,362	233,208
Total Liabilities		531,362	233,208
NET ASSETS			
Cumulative income			
Funds			
IBRD Loan 8572-AM	9	27,782,860	17,164,937
RA Government		6,723,971	4,113,568
		34,506,831	21,278,505
Cumulative expenses			
Project expenses	10	(32,109,463)	(19,908,569)
		(32,109,463)	(19,908,569)
Foreign currency gain/(loss)		17,527	20,695
Total net assets		2,414,895	1,390,631

6. CASH

Account	Account held at	Underlying Currency	31.12.2023 USD	31.12.2022 USD
Designated account (IBRD Loan 8572-AM)	Treasury	USD	689,008	500,857
Government co-financing account	Treasury	AMD	-	17
			689,008	500,875

7. Prepayments and receivables

	31.12.2023 USD	31.12.2022 USD
Prepayments on Works*	2,257,249	1,122,964
Total	2,257,249	1,122,964

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

8. Payables

	31.12.2023	31.12.2022
	USD	USD
On Works (Retentions)*	531,362	233,208
Total	531,362	233,208

(*) 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 31.12.2022	Year ended 31.12.2023	Cumulative as at 31.12.2023
	USD	USD	USD
Advances	-	2,100,000	3,800,000
SOE and Summary Sheets	2,992,875	8,517,923	23,845,360
Front-end Fee	-	-	137,500
Total	2,992,875	10,617,923	27,782,860
Total financing budget			42,800,000
Percentage of finance provided			65%

9.2 Government of the Republic of Armenia co-financing

	Year ended 31.12.2022	Year ended 31.12.2023	Cumulative as at 31.12.2023
	USD	USD	USD
Contributions in cash	949,603	2,610,403	6,723,971
Total	949,603	2,610,403	6,723,971
Total financing budget			10,665,625
Percentage of finance provided			63%

10. Project Expenditures

10.1 Project expenditures financing per funds

Category	Year ended 31.12.2023		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	10,305,889	2,576,282	12,882,171
(2) Operating costs	123,883	30,971	154,854
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	-	-	-
Total	10,429,772	2,607,253	13,037,025

Category	Cumulative as at 31.12.2023		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	26,467,625	6,617,271	33,084,896
(2) Operating costs	488,722	124,232	612,954
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	0	0	0
Front-end Fee	137,500	-	137,500
Total	27,093,847	6,741,503	33,835,350

10.2 Project budget progress

Category	Cumulative as at 31.12.2023	Budget	Implementation*
	USD	USD	%
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	33,084,896	52,203,125	63%
(2) Operating costs	612,954	1,125,000	54%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	0%
Front-end Fee	137,500	137,500	100%
Total	33,835,350	53,465,625	63%

(*) 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 2023, the cumulative expenditures were at 63% of the total budget (31.12.2022: 39%).

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 45 amounting USD 3,110,984 that includes expenditures relating to the reporting period in the amount of USD 3,110,984 was submitted to WB on 16 January 2024 and approved on 30 January 2024.

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 2023
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	36	1,181,872	1,181,872	-
	37	551,659	551,659	-
	38	889,796	889,796	-
	39	508,024	508,024	-
	41	2,054,739	2,054,739	-
	43	1,184,460	1,184,460	-
	44	2,045,571	2,045,571	-
		8,416,122	8,416,122	-
(2) Operating costs	36	17,266	17,266	-
	37	18,752	18,752	-
	38	7,646	7,646	-
	39	8,954	8,954	-
	41	15,250	15,250	-
	43	15,776	15,776	-
	44	18,157	18,157	-
		101,801	101,801	-
Total		8,517,923	8,517,923	-