

**OFFICE OF THE PRIME MINISTER OF THE REPUBLIC OF ARMENIA
TRADE PROMOTION AND QUALITY INFRASTRUCTURE PROJECT**

LOAN No. 8390-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2021

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Փի-Էյչ-Փի Փարթնըրզ ՓԲԸ
PHP Partners CJSC

Իրավաբանական հասցե՝ ՀՀ, Երևան, Ալեք Մանուկյան 15ա
Registration address: 15a Alek Manukyan, Yerevan
Գործունեության հասցե՝ ՀՀ, Երևան, Ադոնցի 2, Երազ բիզնես կենտրոն
Activity address: 2 Adonts str., Yeraz Business Centre, Yerevan, Armenia

Հեռ. (+374)10204090
Tel.
Էլ-փոստ general@php.am
E-mail

INDEPENDENT AUDITORS' REPORT

To the Office of Prime Minister of the Republic of Armenia

We have audited the accompanying special purpose financial statements of the Trade Promotion and Quality Infrastructure Project (hereinafter the TPQIP), implemented by Office of the Prime Minister of the Republic of Armenia (hereinafter OPM), which comprise Statement of Project Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Reconciliation Statement of Withdrawal Applications, Statement of Designated Account and Government Co-financed Account for the year ended 31 December 2021, and Statement of Financial Position as at 31 December 2021 and a summary of significant accounting policies and other explanatory notes.

In our opinion, the special purpose financial statements present fairly in all material respects the project sources and uses of funds, uses of funds by project activity and its cash flows for the year ended 31 December 2021 in accordance with the cash basis of accounting in line with International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of Accounting and Financing Agreement between the Republic of Armenia and International Bank for Reconstruction and Development dated 6 August, 2014 (Loan #8390-AM).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Office of the Prime Minister of the Republic of Armenia. 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 responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

Emphasis of Matter - Restriction on Distribution or Use

We draw attention to Note 2(a) to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements have been prepared for providing information to the Government of the Republic of Armenia and the International Development Association to assist them in evaluating the TPQIP's implementation. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with cash basis of accounting as described in Note 2(a), and for such internal control as management determine is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the TPQIP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate, or to cease operations of TPQIP, or has no realistic alternative but to do so.

Auditor's Responsibilities 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 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 OPM's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the TPQIP unit's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the TPQIP unit to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hovhannes Petrosyan
Director

PHP Partners cjsc
11 May 2022



Lilit Minasyan
Partner, Head of Audit Services

*Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2021*

<i>USD</i>	Actual			Planned			Variance			PAD Life of Project
	2021	2020	Cumulative	2021	2020	Cumulative	2021	2020	Cumulative	
Opening Cash Balance										
Government co-financing account for Credit Designated Account for World Bank financing	-	-								
Total	1,184,742	2,482,382								
Add:										
Sources of Funds										
Government co-financing	1,803,007	835,987	2,720,941							
World Bank financing	6,562,116	1,338,389	19,936,030							
Total donor funds	8,365,123	2,174,376	22,656,971							
Foreign Exchange Difference										
Government co-financing	10,189	(4,904)	5,459							
Total	10,189	(4,904)	5,459							
Less:										
Uses of Funds										
(1) Payments made for EEP under Part A of the Project										
Government co-financing	-	-	-							
Credit financing	-	500,000	9,700,000							

Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2021

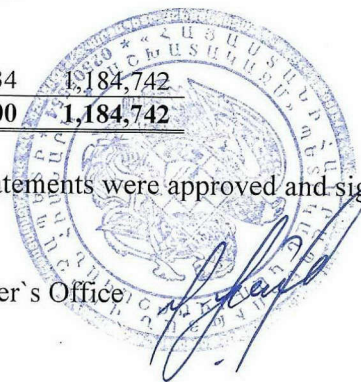
<i>USD</i>	Actual			Planned			Variance			PAD Life of Project
	2021	2020	Cumulative	2021	2020	Cumulative e	2021	2020	Cumulative	
(2) Goods, works, non-consulting services, and consultants' services (including audits), Training, and Incremental Operating Costs under Parts B.1 , C, and D of the Project										
Government co-financing	970,108	572,100	1,624,329							
Credit financing	2,035,044	1,537,961	3,801,148							
(3) Grants under Part B.2 of the Project										
Government co-financing	351,319	40,316	391,635							
Credit financing	1,529,658	106,901	1,636,559							
(4) Financing for PPP Initiatives under Part B.3 of the Project										
Government co-financing	401,903	218,667	620,570							
Credit financing	2,190,222	491,167	2,681,389							
(5) Front end fee WB	-	-	125,000							
(6) Goods, works, consulting services, non-consulting services for NVF Investments and NVF Subprojects under Part B.4 of the Project WB	-	-	-							
Government co-financing	1,723,330	831,083	2,636,534	2,236,860	2,277,722	3,150,064	(513,530)	(1,446,639)	(513,530)	7,292,497
Credit financing	5,754,924	2,636,029	17,944,096	8,343,374	10,385,843	20,532,546	(2,588,450)	(7,749,814)	(2,588,450)	48,000,000
Total	7,478,254	3,467,112	20,580,630	10,580,234	12,663,565	23,682,610	(3,101,980)	(9,196,453)	(3,101,980)	55,292,497

*Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2021*

USD	Actual			Planned			Variance			PAD Life of Project
	2021	2020	Cumulative	2021	2020	Cumulative	2021	2020	Cumulative	
Closing Cash Balance										
Government co-financing account for credit Designated Account for credit (World Bank financing)	89,866	-								
Total	<u>1,991,934</u>	<u>1,184,742</u>								
	2,081,800	1,184,742								

The project special purpose financial statements were approved and signed on 11 May 2022.

Vahe Davtyan
Head of Deputy Prime Minister's Office
Hambardzum Matevosyan



Stepan Margaryan
TPQI Project Manager

Anahit Karapetyan
TPQI Project Financial Manager

Trade Promotion and Quality Infrastructure Project
Statement of Uses of Funds by Project Activity for the year ended 31 December 2021

	Actual			Planned			Variance		PAD	
	2021	2020	Cumulativ e	2021	2020	Cumulativ e	2021	2020	Cumulativ e	Life of Project
Project Activities										
<i>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</i>	-	500,000	9,700,000	-	-	-	-	-	-	10,000,000
Government co-financing	-	-	-	-	-	-	-	-	-	-
Credit financing	-	500,000	9,700,000	-	-	-	-	-	-	10,000,000
<i>Part B: Promoting Investment and Exports</i>	6,416,468	2,223,522	8,639,990	-	-	-	-	-	-	41,449,166
Government co-financing	1,504,385	657,170	2,161,555	-	-	-	-	-	-	6,535,296
Credit financing	4,912,083	1,566,352	6,478,435	-	-	-	-	-	-	34,913,870
<i>Part C: Modernizing the National Quality Infrastructure</i>	750,134	436,859	1,207,371	-	-	-	-	-	-	2,458,022
Government co-financing	140,966	96,762	246,826	-	-	-	-	-	-	458,022
Credit financing	609,168	340,097	960,545	-	-	-	-	-	-	2,000,000
<i>Part D: Project Management, Monitoring and Evaluation</i>	311,652	306,731	1,033,269	-	-	-	-	-	-	1,385,309
Government co-financing	77,979	77,151	228,153	-	-	-	-	-	-	299,179
Credit financing	233,673	229,580	680,116	-	-	-	-	-	-	961,130
Front End Fee WB	-	-	125,000	-	-	-	-	-	-	125,000
Total project expenditure	7,478,254	3,467,112	20,580,630	10,580,234	12,663,565	23,682,610	(3,101,980)	(9,196,453)	(3,101,980)	55,292,497

1 Background

(a) Organisation and operations

The project initially was implemented by Foreign Financing Projects Management Centre (FFPMC) State Institution starting from 06 August 2014. Subsequently, based on the Republic of Armenia Government Decree #1427-N dated 13 December 2018, the activities of the FFPMC were transferred to Project Implementation Department of the Ministry of Finance of the Republic of Armenia through auxiliary professional structural subdivision. The subdivision of Ministry of Finance continued the management of the project. Nevertheless, starting from 1 January 2020 the project management, once again was changed and currently is being implemented by Office of the Prime Minister of the Republic of Armenia (hereinafter OPM).

According to the financing agreement concluded between the International Bank for Reconstruction and Development and Republic of Armenia dated 6 August 2014 (Loan Agreement) a loan in an amount of USD 50,000,000 was extended for the implementation of Trade Promotion and Quality Infrastructure Project to finance procurement of goods, consultants' services and incremental operating expenses. According to Third Amendment to the Loan Agreement, dated 29 October 2020, the initial amount of the loan was reduced by USD 2,000,000, amounting to USD 48,000,000.

Tax consequences arising from the procured goods, consultants' services and incurred operating expenses are paid from the proceeds of the co-financing received from the Government of the Republic of Armenia. Total amount of Government co-financing approximates to USD 7,300,000.

The Project's objective is to strengthen the Borrower's capacity to provide export promotion, investment attraction and quality management services to firms.

The Project consists of the following components:

- **Part A: Improving the Effectiveness of the Trade Promotion and Quality System**
The objective of this Component is to promote reforms aimed at improving the trade promotion and quality infrastructure system.
- **Part B: Promoting Investment and Exports**
The objective of this component is to strengthen the capacity of local exporters to compete in foreign markets, facilitate cluster development, and attract efficiency seeking FDI (Foreign Direct Investment).
- **Part C: Modernizing the National Quality Infrastructure**
The objective of this component is to modernize metrological, accreditation and standards services in order to provide relevant quality assurance services to industry.
- **Part D: Project Management and Monitoring and Evaluation**
The objective of this component is to finance project implementation and monitoring.

According to Loan Agreement Amendment dated on 10 January 2020 Part B Promoting Investment and Exports is mainly implemented by ANIF "Armenian National Interests Fund" (hereinafter ANIF), The Ministry of High-Tech Industry, EIF "Enterprise Incubator Foundation" (hereinafter EIF) and ISC "Investment Support Center" (hereinafter ISC). ANIF is responsible for Subcomponent 2.1 (investment and export promotion support services). Under the responsibility of The Ministry of High-Tech Industry is the National Venture Fund (Subcomponent 2.4) and the Enterprise Incubator Foundation (EIF) is responsible for Subcomponents 2.2.2 (Innovation Matching Grants) and 2.3 (PPP activities). ISC implements Subcomponent 2.2.1 (Exporter Development Grants).

Financing of operating expenditures incurred by ANIF was terminated as of 31 December 2021.

Incurred expenses by implementing agencies are presented in note 7.

Current closing date of the Project is 31 May 2022. Nevertheless, discussions are held for prolongation of the project.

(b) Results Based Financing (RBF)

In the scope of Part A “Improving the Effectiveness of the Trade Promotion and Quality System” of the Project, the World Bank has made Results Based Financing subject to validation by independent auditor.

This RBF component disburses loan funds to the Government of Armenia (GoA) for agreed-upon actions, outputs and outcomes (“Disbursement-Linked Indicators” or DLIs) that result in improvements to the trade promotion and quality system. The GoA receives disbursements based on established amounts allocated to the achieved DLIs to the extent there are sufficient Eligible Expenditure Programs (EEPs) incurred by the Government.

The Project Management Unit reports the achievement of the DLIs by providing documentation of the achievement of the given DLI and the EEPs.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements are prepared in accordance with the cash basis of accounting in line with the International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of the Accounting.

The special purpose project financial statements consist of:

- Project Sources and Uses of Funds,
- Uses of Funds by Project Activity,
- Statement of Financial Position,
- Statement of Designated Accounts,
- Statement of Project Account.

Cash basis of accounting recognizes transactions and other events only when cash is received or paid.

(b) Reporting currency

The reporting currency of special purpose financial statements is US dollar (USD). All financial information presented in USD has been rounded to the nearest USD.

3 Significant accounting policies

(a) Foreign currency transactions

Starting from 1 January 2020 in the scope of the Project IBRD makes disbursements in USD on the designated account 900000908302 for the project. Payment of eligible and accepted expenditures (goods, services and other) should be made by the OPM out of designated account, or OPM will submit withdrawal applications to the Bank for payments to contractors, suppliers and consultants directly from loan account. OPM converts the amounts received and transfers to contractors, suppliers and consultants.

The outstanding balances of the project account are translated to USD based on the USD exchange rate defined by the Central Bank of the Republic of Armenia as at 31 December 2021 equaling to AMD 480,14.

(b) Taxes

All the applicable tax liabilities are calculated and paid in accordance to tax regulations of the Republic of Armenia.

(c) Funds for the Project

Funds for the Project are received from the International Bank for Reconstruction and Development and from Government of Armenia.

4 Reconciliation statement of withdrawal applications

				2021
Withdrawal Application Reference	Application Type	Amount Requested by OPM of the RA USD	Amount Paid by World Bank USD	Difference USD
-	-	-	-	-
		-	-	-
		-	-	-
				2020
Withdrawal Application Reference	Application Type	Amount Requested by OPM of the RA USD	Amount Paid by World Bank USD	Difference USD
EEP-DA 7	Reimbursement/ Results Based Financing	500,000	500,000	-
		500,000	500,000	-

5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2021</u>	<u>2020</u>
Opening balance	1,184,742	2,482,382
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	6,562,116	838,389
Present outstanding amount advanced to the designated account	<u>7,746,858</u>	<u>3,320,771</u>
Closing balance carried forward to next period	1,991,934	1,184,742
<i>Add:</i> Amount of eligible expenditures paid during the current period	5,754,924	2,136,029
Total advance	<u>7,746,858</u>	<u>3,320,771</u>

<u>USD</u>	<u>2021</u>	<u>2020</u>
Opening balance	-	-
<i>Add:</i>		
Government co-financing during the current period	1,803,007	835,987
Foreing exchange difference	10,189	(4,904)
Present outstanding amount advanced to project account	<u>1,813,196</u>	<u>831,083</u>
Closing balance carried forward to next period	89,866	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	1,723,330	831,083
Total advance	<u>1,813,196</u>	<u>831,083</u>

6 Statement of Financial Position

<i>USD</i>	2021	2020
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	89,866	-
Designated Account for credit (World Bank financing)	1,991,934	1,184,742
Total current assets	2,081,800	1,184,742
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	2,636,534	913,204
Credit financed cumulative expenditure	17,944,096	12,189,172
Total non-current assets	20,580,630	13,102,376
Total assets	22,662,430	14,287,118
 FUNDS		
Project financing		
Government co-financing account for credit	2,720,941	917,934
Designated Account for credit (World Bank financing)	19,936,030	13,373,914
Total funds	22,656,971	14,291,848
 Foreign exchange differences		
Government co-financing account for credit	5,459	(4,730)
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange differences	5,459	(4,730)
Total net assets and liabilities	22,662,430	14,287,118

7 Expenses Incurred by Implementing Agencies

(a) Direct payments

In the scope of Part B: Promoting Investment and Exports TPQI project management unit has made direct payments to suppliers in the amount of USD 2,265,353 in 2021 and in the amount of USD 223,987 in 2020.

(b) Expenses incurred by ANIF

<i>USD</i>	2021	2020
<i>Operating costs</i>	797,665	510,325
Salaries	698,575	464,204
Office rent, utility payments, telecommunications, stationary	57,834	14,948
Representative expenses, public events	13,648	-
IT equipment, information security	13,338	28,290
Office property, equipment, car, repairs, materials and accessories, insurance and maintenance	8,979	544
Legal, accounting, audit services	1,327	2,255
Other operating expenses	3,964	84
<i>Representations</i>	960,747	565,981
Salaries	929,330	513,864
Office rent, utility payments, telecommunications, office services and materials, other consumer goods	20,532	9,727
Legal, accounting, audit, procurement, HRM services	5,585	32,782
Office property, equipment, car, repairs, materials and accessories, insurance and maintenance	5,127	1,536
IT equipment, information security, website, hosting services and materials, other consumer goods	146	6,752
Other operating expenses	27	1,320
Total	1,758,412	1,076,306

As of 31 December 2021 the amount of outstanding advance is nil.

As of 31 December 2020 the amount of outstanding advance is USD 192,637.

(c) Expenses incurred by ISC

In 2021, in the scope of Part B: Promoting Investment and Exports TPQI project management unit has performed grant payments in the amount of USD 896,917 for Exporter Development grants (2020, nil).

<i>USD</i>	2021	2020
Staff remuneration	30,957	24,593
Business trip expenses	36	1,837
Services	-	2,076
Office maintenance expenses	-	4,763
Total	30,993	33,269

As of 31 December 2021 the amount of outstanding advance is USD 4,969.

As of 31 December 2020 the amount of outstanding advance is USD 4,969.

(d) Expenses incurred by EIF

In 2021, in the scope of Part B: Promoting Investment and Exports TPQI project management unit has performed grant payments in the amount of USD 746,559 for Innovation and Regional Matching grants (2020, nil).

<u>USD</u>	<u>2021</u>	<u>2020</u>
<i>Engineering city operating costs</i>	385,600	207,439
Salary	285,737	153,836
Acquisition of property, plant and equipment	18,059	7,429
Professional services	10,193	3,122
Events	1,576	-
Other	70,035	43,052
<i>Innovation matching grants operating costs</i>	194,285	52,389
Salary	80,616	30,012
Events	66,345	9,190
Accounting services	16,611	-
Acquisition of property, plant and equipment	5,217	5,671
Other	25,496	7,516
<i>Establishment of a supercomputing centre operating costs</i>	25,333	16,033
Accounting services	15,166	7,968
Salary	8,477	6,759
Other	1,690	1,306
<i>Establishment of a cybersecurity lab</i>	264,819	193,712
Salary	203,820	152,605
Accounting services	15,166	7,968
Acquisition of property, plant and equipment	2,074	3,105
Other	43,759	30,034
Total	870,037	469,573

As of 31 December 2021 the amount of outstanding advance is USD 263,615.

As of 31 December 2020 the amount of outstanding advance is USD 222,781.

EIF has also incurred expenses constituting project operating expenses that are included in Part D: Project Management and Monitoring and Evaluation.

<u>USD</u>	<u>2021</u>	<u>2020</u>
Salary	47,554	52,163
Accounting services	29,976	15,935
Rent	22,958	12,204
Acquisition of property, plant and equipment	128	-
Other	23,103	16,426
Total	123,719	96,728

As of 31 December 2021 the amount of outstanding advance is USD 16,532.

As of 31 December 2020 the amount of outstanding advance is USD 13,380.