

**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 2022

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PHP Partners CJSC

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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 2022, and Statement of Financial Position as at 31 December 2022 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 2022 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.

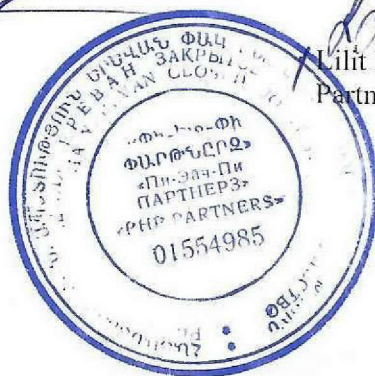
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:


- 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
12 June 2023




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 2022*

<i>USD</i>	Actual			Planned			Variance			PAD Life of Project
	2022	2021	Cumulative	2022	2021	Cumulative	2022	2021	Cumulative	
Opening Cash Balance										
Government co-financing account for Credit Designated Account for World Bank financing	89,866	-								
	1,991,934	1,184,742								
Total	2,081,800	1,184,742								
Add:										
Sources of Funds										
Government co-financing	939,179	1,803,007	3,660,120							
World Bank financing	4,125,156	6,562,116	24,061,186							
Total donor funds	5,064,335	8,365,123	27,721,306							
Foreign Exchange Difference										
Government co-financing	11,625	10,189	17,084							
Total	11,625	10,189	17,084							
Less:										
Uses of Funds										
(1) Payments made for EEP under Part A of the Project										
Government co-financing	-	-	-							
Credit financing	-	-	9,700,000							

Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2022

<i>USD</i>	Actual			Planned			Variance			PAD Life of Project
	2022	2021	Cumulative	2022	2021	Cumulative	2022	2021	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	176,876	970,108	1,801,205							
Credit financing	888,743	2,035,044	4,689,891							
(3) Grants under Part B.2 of the Project										
Government co-financing	176,889	351,319	568,524							
Credit financing	1,137,269	1,529,658	2,773,828							
(4) Financing for PPP Initiatives under Part B.3 of the Project										
Government co-financing	686,905	401,903	1,307,475							
Credit financing	2,735,880	2,190,222	5,417,269							
(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	1,040,670	1,723,330	3,677,204	1,430,306	2,236,860	4,066,840	(389,636)	(513,530)	(389,636)	7,292,497
Credit financing	4,761,892	5,754,924	22,705,988	6,568,938	8,343,374	24,513,034	(1,807,046)	(2,588,450)	(1,807,046)	48,000,000
Total	5,802,562	7,478,254	26,383,192	7,999,244	10,580,234	28,579,874	(2,196,682)	(3,101,980)	(2,196,682)	55,292,497

*Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2022*

<i>USD</i>	Actual			Planned			Variance			PAD Life of Project
	2022	2021	Cumulative	2022	2021	Cumulative	2022	2021	Cumulative	
Closing Cash Balance										
Government co-financing account for credit	-	89,866								
Designated Account for credit (World Bank financing)	1,355,198	1,991,934								
Total	1,355,198	2,081,800								

The project special purpose financial statements were approved and signed on 12 June 2023.

Arman Adilkhanyan
Head of Deputy Prime Minister's Office
Tigran Khachatryan

Stepan Margaryan
TPQI Project Manager




Gor Martirosyan
TPQI Project Financial Manager



Trade Promotion and Quality Infrastructure Project
Statement of Uses of Funds by Project Activity for the year ended 31 December 2022

	Actual			Planned			Variance			PAD
	2022	2021	Cumulativ e	2022	2021	Cumulativ e	2022	2021	Cumulativ e	Life of Project
Project Activities										
<i>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</i>	-	-	9,700,000	-	-	-	-	-	-	10,000,000
Government co-financing	-	-	-	-	-	-	-	-	-	-
Credit financing	-	-	9,700,000	-	-	-	-	-	-	10,000,000
<i>Part B: Promoting Investment and Exports</i>	4,833,362	6,416,468	13,473,352	-	-	-	-	-	-	41,449,166
Government co-financing	863,794	1,504,385	3,025,349	-	-	-	-	-	-	6,535,296
Credit financing	3,969,568	4,912,083	10,448,003	-	-	-	-	-	-	34,913,870
<i>Part C: Modernizing the National Quality Infrastructure</i>	648,359	750,134	1,855,730	-	-	-	-	-	-	2,458,022
Government co-financing	101,871	140,966	348,697	-	-	-	-	-	-	458,022
Credit financing	546,488	609,168	1,507,033	-	-	-	-	-	-	2,000,000
<i>Part D: Project Management, Monitoring and Evaluation</i>	320,841	311,652	1,354,110	-	-	-	-	-	-	1,385,309
Government co-financing	75,005	77,979	303,158	-	-	-	-	-	-	299,179
Credit financing	245,836	233,673	925,952	-	-	-	-	-	-	961,130
Front End Fee WB	-	-	125,000	-	-	-	-	-	-	125,000
Total project expenditure	5,802,562	7,478,254	26,383,192	7,999,244	10,580,234	28,579,874	(2,196,682)	(3,101,980)	(2,196,682)	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.

The closing date of the Project was amended from 31 May 2022 to 31 May 2024.

(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. The last report was provided in 2020.

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 2022 in the scope of the Project IBRD makes disbursements in USD on the designated account 900000909987 (In 2021, account 900000908302 was used) 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 2022 equaling to AMD 393,57.

(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

				2022
Withdrawal Application	Goods, works, non-consulting services, and consultants' services (including audits), Training, and Incremental Operating Costs under Parts B, C, and D of the Project	Grants under Part B.2 of the Project	Financing for PPP Initiatives under Part B.3 of the Project	Total
	USD	USD	USD	USD
24-DA	79,574	379,502	48,990	508,066
25-DA	63,086	354,642	152,364	570,092
27-DA	157,423	375,084	83,851	616,358
29-DA	220,805	154,833	215,982	591,620
30-DA	79,509	65,928	185,686	331,123
	<u>600,397</u>	<u>1,329,989</u>	<u>686,873</u>	<u>2,617,259¹</u>
				2021
Withdrawal Application	Goods, works, non-consulting services, and consultants' services (including audits), Training, and Incremental Operating Costs under Parts B, C, and D of the Project	Grants under Part B.2 of the Project	Financing for PPP Initiatives under Part B.3 of the Project	Total
	USD	USD	USD	USD
17-DA	374,469	4,694	34,033	413,196
18-DA	458,666	3,383	94,939	556,988
19-DA	536,076	66,546	30,093	632,715
20-DA	286,684	225,697	34,656	547,037
21-DA	214,743	161,806	65,061	441,610
22-DA	82,946	327,841	85,468	496,255
23-DA	144,534	364,882	116,107	625,523
	<u>2,098,118</u>	<u>1,154,849</u>	<u>460,357</u>	<u>3,713,324²</u>

¹ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 1,507,897.

² In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 2,048,792. In addition to Statement of Expenditures USD 800,000 was recovered by World Bank.

5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2022</u>	<u>2021</u>
Opening balance	1,991,934	1,184,742
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	4,125,156	6,562,116
Present outstanding amount advanced to the designated account	<u>6,117,090</u>	<u>7,746,858</u>
Closing balance carried forward to next period	1,355,198	1,991,934
Add: Amount of eligible expenditures paid during the current period	4,761,892	5,754,924
Total advance	<u>6,117,090</u>	<u>7,746,858</u>

<u>USD</u>	<u>2022</u>	<u>2021</u>
Opening balance	89,866	-
<i>Add:</i>		
Government co-financing during the current period	939,179	1,803,007
Foreing exchange difference	11,625	10,189
Present outstanding amount advanced to project account	<u>1,040,670</u>	<u>1,813,196</u>
Closing balance carried forward to next period	-	89,866
Add: Amount of eligible expenditures paid during the current period	1,040,670	1,723,330
Total advance	<u>1,040,670</u>	<u>1,813,196</u>

6 Statement of Financial Position

<i>USD</i>	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	89,866
Designated Account for credit (World Bank financing)	1,355,198	1,991,934
Total current assets	<u>1,355,198</u>	<u>2,081,800</u>
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	3,677,204	2,636,534
Credit financed cumulative expenditure	22,705,988	17,944,096
Total non-current assets	<u>26,383,192</u>	<u>20,580,630</u>
Total assets	<u>27,738,390</u>	<u>22,662,430</u>
 FUNDS		
Project financing		
Government co-financing account for credit	3,660,120	2,720,941
Designated Account for credit (World Bank financing)	24,061,186	19,936,030
Total funds	<u>27,721,306</u>	<u>22,656,971</u>
 Foreign exchange differences		
Government co-financing account for credit	17,084	5,459
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange differences	<u>17,084</u>	<u>5,459</u>
Total net assets and liabilities	<u>27,738,390</u>	<u>22,662,430</u>

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 2,615,295 in 2022 (USD 2,265,353 in 2021).

(b) Expenses incurred by ANIF

<i>USD</i>	2022	2021
<i>Operating costs</i>	-	699,021
Salaries	-	612,327
Office rent, utility payments, telecommunications, stationary	-	48,521
Representative expenses, public events	-	13,566
IT equipment, information security	-	11,964
Office property, equipment, car, repairs, materials and accessories, insurance and maintenance	-	7,788
Legal, accounting, audit services	-	914
Other operating expenses	-	3,941
 <i>Representations</i>	 -	 696,208
Salaries	-	671,975
Office rent, utility payments, telecommunications, office services and materials, other consumer goods	-	17,197
Legal, accounting, audit, procurement, HRM services	-	3,865
Office property, equipment, car, repairs, materials and accessories, insurance and maintenance	-	3,147
IT equipment, information security, website, hosting services and materials, other consumer goods	-	24
Total	-	1,395,229

(c) Expenses incurred by ISC

i. Exporter Development grants provided by ISC within the scope of Part B: Promoting Investment and Exports

<i>USD</i>	2022	2021
Provided grants	754,086	896,917

ii. Operating expenses incurred by ISC

<i>USD</i>	2022	2021
Staff remuneration	25,978	31,485
Business trip expenses	-	72
Total	25,978	31,557

(d) Expenses incurred by EIF

i. Innovation and Regional Matching provided by EIF within the scope of Part B: Promoting Investment and Exports

<i>USD</i>	2022	2021
Provided grants	421,907	746,559

ii. Operating expenses incurred by EIF

<i>USD</i>	2022	2021
<i>Engineering city operating costs</i>		
Salary	511,445	399,069
Acquisition of property, plant and equipment	337,627	296,009
Professional services	28,203	13,311
Events	20,879	10,211
Other	206	1,578
<i>Innovation matching grants operating costs</i>	124,530	77,960
Salary	131,235	210,005
Accounting services	59,385	91,032
Events	34,838	20,036
Acquisition of property, plant and equipment	9,364	66,518
Other	6,113	5,231
<i>Establishment of a supercomputing centre operating costs</i>	21,535	27,188
Salary	56,370	25,270
Accounting services	28,751	8,456
Other	22,010	15,123
<i>Establishment of a cybersecurity lab</i>	5,609	1,691
Salary	339,136	282,193
Accounting services	244,587	209,037
Acquisition of property, plant and equipment	22,344	15,229
Other	2,586	2,083
Total	69,619	55,844
	1,038,186	916,537

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

<i>USD</i>	2022	2021
Accounting services	25,562	30,037
Rent	19,578	23,005
Salary	17,326	43,783
Acquisition of property, plant and equipment	-	128
Other	13,755	21,140
Total	76,221	118,093