

**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 period from 1 January 2024 to 31 May 2024 (including 4 months grace  
period)**

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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 period from 1 January 2024 to 31 May 2024 (including 4 months grace period), and Statement of Financial Position as at 30 September 2024 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 period from 1 January 2024 to 31 May 2024 (including 4 months grace period) 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 – Termination of Project*

We draw attention to Note 1(b) to the special purpose financial statements, which states that on 31 May 2024, i.e. closing date of the project, the project is terminated. The 4 months grace period has elapsed on 30 September 2024. Our opinion is not modified on this matter.

### *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*



*Trade Promotion and Quality Infrastructure Project*  
*Statement of Project Sources and Uses of Funds for the period from 1 January 2024 to 31 May 2024 (including 4 months grace period)*

USD	Actual			Planned			Variance			PAD Life of Project
	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	
<b>Opening Cash Balance</b>										
Escrow account	-	-								
Government co-financing account for Credit Designated Account for World Bank financing	-	-								
	1,602,384	1,355,198								
<b>Total</b>	<b>1,602,384</b>	<b>1,355,198</b>								
<b>Add:</b>										
<b>Sources of Funds</b>										
Government co-financing	656,855	1,308,156	5,625,131							
World Bank financing	22,921	5,668,094	29,752,201							
<b>Total donor funds</b>	<b>679,776</b>	<b>6,976,250</b>	<b>35,377,332</b>							
<b>Foreign Exchange Difference</b>										
Government co-financing	1,247	2,645	20,976							
Escrow account	(55)	-	(55)							
<b>Total</b>	<b>1,192</b>	<b>2,645</b>	<b>20,921</b>							
<b>Less:</b>										
<b>Uses of Funds</b>										
<b>(1) Payments made for EEP under Part A of the Project</b>										



*Trade Promotion and Quality Infrastructure Project*  
*Statement of Project Sources and Uses of Funds for the period from 1 January 2024 to 31 May 2024 (including 4 months grace period)*

USD	Actual			Planned			Variance		PAD Life of Project
	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	2023	Cumulative	
Government co-financing	-	-	-						
Credit financing	-	-	9,700,000						
<b>(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</b>									
Government co-financing	42,114	69,741	1,913,060						
Credit financing	172,137	553,353	5,415,381						
<b>(3) Grants under Part B.2 of the Project</b>									
Government co-financing	13,128	39,359	621,011						
Credit financing	(36,041)	(30,902)	2,706,885						
<b>(4) Financing for PPP Initiatives under Part B.3 of the Project</b>									
Government co-financing	600,932	1,201,701	3,110,108						
Credit financing	1,479,522	4,898,457	11,795,248						
<b>(5) Front end fee WB</b>	-	-	125,000						

*Trade Promotion and Quality Infrastructure Project*  
*Statement of Project Sources and Uses of Funds for the period from 1 January 2024 to 31 May 2024 (including 4 months grace period)*

USD	Actual			Planned			Variance			PAD Life of Project
	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulative	
(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	656,174	1,310,801	5,644,179	1,599,524	1,766,951	6,587,529	(943,350)	(456,150)	(943,350)	7,292,497
Credit financing	1,615,618	5,420,908	29,742,514	3,002,958	20,163,650	31,129,854	(1,387,340)	(14,742,742)	(1,387,340)	48,000,000
<b>Total</b>	<b>2,271,792</b>	<b>6,731,709</b>	<b>35,386,693</b>	<b>4,602,482</b>	<b>21,930,601</b>	<b>37,717,383</b>	<b>(2,330,690)</b>	<b>(15,198,892)</b>	<b>(2,330,690)</b>	<b>55,292,497</b>
<b>Closing Cash Balance</b>										
Escrow account	11,560									
Government co-financing account for credit	-	-								
Designated Account for credit (World Bank financing)	-	1,602,384								
<b>Total</b>	<b>11,560</b>	<b>1,602,384</b>								

The project special purpose financial statements were approved and signed on 7 November 2024.

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 period from 1 January 2024 to 31 May 2024 (including 4 months grace period)*

	Actual			Planned			Variance			PAD Life of Project
	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulativ e	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulativ e	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023	Cumulativ e	
<b>Project Activities</b>										
<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>	2,057,541	6,108,614	21,639,507							41,449,166
Government co-financing	614,060	1,241,060	4,880,469							6,535,296
Credit financing	1,443,481	4,867,554	16,759,038							34,913,870
<i>Part C: Modernizing the National Quality Infrastructure</i>	59,828	331,533	2,247,091							2,458,022
Government co-financing	6,777	5,858	361,332							458,022
Credit financing	53,051	325,675	1,885,759							2,000,000
<i>Part D: Project Management, Monitoring and Evaluation</i>	154,423	291,562	1,800,095							1,385,309
Government co-financing	35,337	63,883	402,378							299,179
Credit financing	119,086	227,679	1,272,717							961,130
Front End Fee WB	-	-	125,000							125,000
<b>Total project expenditure</b>	<b>2,271,792</b>	<b>6,731,709</b>	<b>35,386,693</b>	<b>4,602,482</b>	<b>21,930,601</b>	<b>37,717,383</b>	<b>(2,330,690)</b>	<b>(15,198,892)</b>	<b>(2,330,690)</b>	<b>55,292,497</b>



## **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.

**(b) Project closing**

The closing date of the Project is 31 May 2024 with four months grace period, that has elapsed on 30 September 2024.

Although the project is terminated, the major contracts related to below activities have not been yet completed:

1. Construction of the Engineering Business Accelerator Building, Parking Lot and Land Improvement;
2. Hardware and Office Furniture for the Engineering Accelerator Building;
3. Preparation of two metrological labs for international accreditation;
4. Pending installations of Petroleum Testing Laboratory equipment.

The Government currently finances the construction of the Accelerator Building from state budget after the project closing. The Ministry of High-Tech Industry of the Republic of Armenia is responsible for execution and completion of the contracts related to Engineering Accelerator Building (point 1 and 2 above).

**(c) 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.

**(c) Escrow account**

An escrow account was opened in 2024. USD 9,687 and USD 1,928 were transferred to this account from the Designated Account for World Bank Financing and the Government Co-financing Account for the Loan, respectively. These funds are intended to cover the cost of an audit to be conducted after a four-month grace period.

**3 Significant accounting policies**

**(a) Foreign currency transactions**

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 30 September 2024 equaling to AMD 387,29.

**(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

<b>2024</b>				
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 USD	Grants under Part B.2 of the Project USD	Financing for PPP Initiatives under Part B.3 of the Project USD	Total USD
38-DA	163,680	(32,624)	1,234,850	1,365,906
40-DA	17,644	10,092	572,991	600,727
41-DA	50,003	(11,112)	(99,072)	(60,181)
	<u>231,327</u>	<u>(33,644)</u>	<u>1,708,769</u>	<u>1,906,452<sup>1</sup></u>
<b>2023</b>				
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 USD	Grants under Part B.2 of the Project USD	Financing for PPP Initiatives under Part B.3 of the Project USD	Total USD
33-DA	219,373	186,782	166,243	572,398
34-DA	53,442	(98,063)	582,022	537,401
35-DA	147,629	52,199	146,617	346,445
36-DA	175,518	10,010	183,397	368,925
	<u>595,962</u>	<u>150,928</u>	<u>1,078,279</u>	<u>1,825,169<sup>2</sup></u>

<sup>1</sup> In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 616,468.

<sup>2</sup> In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 3,842,925.

## 5 Statement of Designated Account and Government Co-financed Account

	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023
<b>USD</b>		
<b>Opening balance</b>	1,602,384	1,355,198
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	22,921	5,668,094
<b>Present outstanding amount advanced to the designated account</b>	<b>1,625,305</b>	<b>7,023,292</b>
<b>Closing balance carried forward to next period</b>	-	1,602,384
Add: Amount of eligible expenditures paid during the current period	1,615,618	5,420,908
Add: Transfer to the Escrow account	9,687	-
<b>Total advance</b>	<b>1,625,305</b>	<b>7,023,292</b>

	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023
<b>USD</b>		
<b>Opening balance</b>	-	-
<i>Add:</i>		
Government co-financing during the current period	656,855	1,308,156
Foreing exchange difference	1,247	2,645
<b>Present outstanding amount advanced to project account</b>	<b>658,102</b>	<b>1,310,801</b>
<b>Closing balance carried forward to next period</b>	-	-
Add: Amount of eligible expenditures paid during the current period	656,174	1,310,801
Add: Transfer to the Escrow account	1,928	-
<b>Total advance</b>	<b>658,102</b>	<b>1,310,801</b>



## 6 Statement of Financial Position

<i>USD</i>	<b>From 1 January 2024 to 31 May 2024 (including 4 months grace period)</b>	<b>2023</b>
<b>ASSETS</b>		
<b>Current assets</b>		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	-
Escrow account	11,560	-
Designated Account for credit (World Bank financing)	-	1,602,384
<b>Total current assets</b>	<b>11,560</b>	<b>1,602,384</b>
<b>Non-current assets</b>		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	5,644,179	4,988,005
Credit financed cumulative expenditure	29,742,514	28,126,896
<b>Total non-current assets</b>	<b>35,386,693</b>	<b>33,114,901</b>
<b>Total assets</b>	<b>35,398,253</b>	<b>34,717,285</b>
<b>FUNDS</b>		
<b>Project financing</b>		
Government co-financing account for credit	5,625,131	4,968,276
Designated Account for credit (World Bank financing)	29,752,201	29,729,280
<b>Total funds</b>	<b>35,377,332</b>	<b>34,697,556</b>
<b>Foreign exchange differences</b>		
Government co-financing account for credit	20,976	19,729
Escrow account	(55)	-
Designated Account for credit (World Bank financing)	-	-
<b>Total foreign exchange differences</b>	<b>20,921</b>	<b>19,729</b>
<b>Total net assets and liabilities</b>	<b>35,398,253</b>	<b>34,717,285</b>

## 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 743,105 for the period from 1 January 2024 to 31 May 2024 (including 4 months grace period, (USD 4,829,224 in 2023).

### (c) Expenses incurred by ISC

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

	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023
<i>USD</i>		
Return of grants	<u>(53,729)</u>	<u>(195,037)</u>

#### ii. Operating expenses incurred by ISC

	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023
<i>USD</i>		
Staff remuneration	<u>-</u>	<u>3,140</u>

**(c) Expenses incurred by EIF**

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

<i>USD</i>	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023
Provided grants	922	100,144

**ii. Operating expenses incurred by EIF**

<i>USD</i>	From 1 January 2024 to 31 May 2024 (including 4 months grace period)	2023
<b><i>Engineering city operating costs</i></b>	<b>657,101</b>	<b>830,455</b>
Salary	241,619	429,334
Acquisition of property, plant and equipment	113,431	24,720
Renovation	58,968	34,514
Rent	34,568	64,050
Utility	30,503	1,594
Events	26,727	48,688
Professional services	18,569	28,760
Other	132,716	198,795
<b><i>Innovation matching grants operating costs</i></b>	<b>38,603</b>	<b>82,626</b>
Salary	29,265	61,303
Accounting services	-	4,421
Events	-	1,860
Acquisition of property, plant and equipment	-	377
Other	9,338	14,665
<b><i>Establishment of a supercomputing centre operating costs</i></b>	<b>271,747</b>	<b>162,268</b>
Acquisition of property, plant and equipment	109,915	1,093
Salary	63,734	81,557
Events	40,197	12,665
Accounting services	23,890	41,825
Other	34,011	25,128
<b><i>Establishment of a cybersecurity lab</i></b>	<b>502,501</b>	<b>599,769</b>
Salary	229,365	366,160
Acquisition of property, plant and equipment	159,531	84,518
Accounting services	23,856	42,874
Other	89,749	106,217
<b>Total</b>	<b>1,469,952</b>	<b>1,675,118</b>

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

*Trade Promotion and Quality Infrastructure Project*  
*Notes to the Special Purpose Financial Statements*  
*for the period from 1 January 2024 to 31 May 2024 (including 4 months grace period)*

<u>USD</u>	<b>From 1 January 2024 to 31 May 2024 (including 4 months grace period)</b>	<b>2023</b>
Acquisition of property, plant and equipment	11,198	-
Salary	8,968	12,360
Other	10,946	3,629
<b>Total</b>	<b>31,112</b>	<b>15,989</b>