

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 2023

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Փի-Էջ-Փի Փարթներզ 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 2023, and Statement of Financial Position as at 31 December 2023 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 2023 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 the project closing date is 31 May 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

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 determines 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
21 June 2024



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 2023

USD	Actual			Planned			Variance			PAD Life of Project
	2023	2022	Cumulative	2023	2022	Cumulative e	2023	2022	Cumulative	
Opening Cash Balance										
Government co-financing account for Credit Designated Account for World Bank financing	-	89,866								
	1,355,198	1,991,934								
Total	1,355,198	2,081,800								
Add:										
Sources of Funds										
Government co-financing	1,308,156	939,179	4,968,276							
World Bank financing	5,668,094	4,125,156	29,729,280							
Total donor funds	6,976,250	5,064,335	34,697,556							
Foreign Exchange Difference										
Government co-financing	2,645	11,625	19,729							
Total	2,645	11,625	19,729							
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 2023

USD	Actual			Planned			Variance			PAD Life of Project
	2023	2022	Cumulative	2023	2022	Cumulativ e	2023	2022	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	69,741	176,876	1,870,946							
Credit financing	553,353	888,743	5,243,244							
(3) Grants under Part B.2 of the Project										
Government co-financing	39,359	176,889	607,883							
Credit financing	(30,902)	1,137,269	2,742,926							
(4) Financing for PPP Initiatives under Part B.3 of the Project										
Government co-financing	1,201,701	686,905	2,509,176							
Credit financing	4,898,457	2,735,880	10,315,726							
(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	1,310,801	1,040,670	4,988,005	1,766,951	1,430,306	5,444,155	(456,150)	(389,636)	(456,150)	7,292,497
Credit financing	5,420,908	4,761,892	28,126,896	20,163,650	6,568,938	42,869,638	(14,742,742)	(1,807,046)	(14,742,742)	48,000,000
Total	6,731,709	5,802,562	33,114,901	21,930,601	7,999,244	48,313,793	(15,198,892)	(2,196,682)	(15,198,892)	55,292,497

Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2023

USD	Actual			Planned			Variance		PAD Life of Project
	2023	2022	Cumulative	2023	2022	Cumulative e	2023	2022	Cumulative
Closing Cash Balance									
Government co-financing account for credit Designated Account for credit (World Bank financing)		-	-						
Total		<u>1,602,384</u>	<u>1,355,198</u>						

The project special purpose financial statements were approved and signed on 21 June 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 year ended 31 December 2023

	Actual		Planned		Variance		PAD
	2022	Cumulativ	2022	Cumulativ	2022	Cumulativ	Life of
2023	2022	e	2023	e	2023	e	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>	6,108,614	4,833,362	19,581,966	-	-	-	41,449,166
Government co-financing	1,241,060	863,794	4,266,409	-	-	-	6,535,296
Credit financing	4,867,554	3,969,568	15,315,557	-	-	-	34,913,870
<i>Part C: Modernizing the National Quality Infrastructure</i>	331,533	648,359	2,187,263	-	-	-	2,458,022
Government co-financing	5,858	101,871	354,555	-	-	-	458,022
Credit financing	325,675	546,488	1,832,708	-	-	-	2,000,000
<i>Part D: Project Management, Monitoring and Evaluation</i>	291,562	320,841	1,645,672	-	-	-	1,385,309
Government co-financing	63,883	75,005	367,041	-	-	-	299,179
Credit financing	227,679	245,836	1,153,631	-	-	-	961,130
Front End Fee WB	-	-	125,000	-	-	-	125,000
Total project expenditure	6,731,709	5,802,562	33,114,901	21,930,601	7,999,244	48,313,793	(15,198,892) (2,196,682) (15,198,892) 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.

(b) Project closing

The closing date of the Project is 31 May 2024.

Subsequent to May 31, 2024 the project grace period commences. Although the project ends on May 31, 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.

An aide memoire was established during the mission to Armenia by World Bank Team stipulating the progress of project implementation. During the mission held in April 2024, the World Bank team met with the Deputy Minister of High-Tech Industry. The meeting covered the progress of the project activities, including post-closing activities, with a focus on construction of Engineering Business Accelerator Building. The World Bank team was informed that Government will finance and complete the construction of the Accelerator Building from state budget after the project closing. To the best knowledge of the management, currently, the Government is in the process of assigning a state body directly 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.

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 31 December 2023 equaling to AMD 404,79.

(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

2023

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>1,825,169¹</u>

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 USD	Grants under Part B.2 of the Project USD	Financing for PPP Initiatives under Part B.3 of the Project USD	Total 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>2,617,259²</u>

¹ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 3,842,925.

² In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 1,507,897.

5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2023</u>	<u>2022</u>
Opening balance	1,355,198	1,991,934
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	5,668,094	4,125,156
Present outstanding amount advanced to the designated account	7,023,292	6,117,090
Closing balance carried forward to next period	1,602,384	1,355,198
Add: Amount of eligible expenditures paid during the current period	5,420,908	4,761,892
Total advance	7,023,292	6,117,090

<u>USD</u>	<u>2023</u>	<u>2022</u>
Opening balance	-	89,866
<i>Add:</i>		
Government co-financing during the current period	1,308,156	939,179
Foreing exchange difference	2,645	11,625
Present outstanding amount advanced to project account	1,310,801	1,040,670
Closing balance carried forward to next period	-	-
Add: Amount of eligible expenditures paid during the current period	1,310,801	1,040,670
Total advance	1,310,801	1,040,670

6 Statement of Financial Position

<i>USD</i>	2023	2022
ASSETS		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	-
Designated Account for credit (World Bank financing)	1,602,384	1,355,198
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	4,988,005	3,677,204
Credit financed cumulative expenditure	28,126,896	22,705,988
Total assets	34,717,285	27,738,390
 FUNDS		
Project financing		
Government co-financing account for credit	4,968,276	3,660,120
Designated Account for credit (World Bank financing)	29,729,280	24,061,186
Total funds	34,697,556	27,721,306
 Foreign exchange differences		
Government co-financing account for credit	19,729	17,084
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange differences	19,729	17,084
Total net assets and liabilities	34,717,285	27,738,390

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 4,829,224 in 2022 (USD 2,615,295 in 2022).

(b) Expenses incurred by ISC

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

<i>USD</i>	2023	2022
Return of grants	(195,037)	-
Provided grants	-	754,086
	<u>(195,037)</u>	<u>754,086</u>

ii. Operating expenses incurred by ISC

<i>USD</i>	2023	2022
Staff remuneration	3,140	25,978
Total	<u>3,140</u>	<u>25,978</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>	2023	2022
Provided grants	<u>100,144</u>	<u>421,907</u>

ii. Operating expenses incurred by EIF

<u>USD</u>	<u>2023</u>	<u>2022</u>
<i>Engineering city operating costs</i>	830,455	511,445
Salary	429,334	337,627
Events	48,688	206
Professional services	28,760	20,879
Acquisition of property, plant and equipment	24,720	28,203
Other	298,953	124,530
<i>Innovation matching grants operating costs</i>	82,626	131,235
Salary	61,303	59,385
Accounting services	4,421	34,838
Events	1,860	9,364
Acquisition of property, plant and equipment	377	6,113
Other	14,665	21,535
<i>Establishment of a supercomputing centre operating costs</i>	162,268	56,370
Salary	81,557	28,751
Accounting services	41,825	22,010
Other	38,886	5,609
<i>Establishment of a cybersecurity lab</i>	599,769	339,136
Salary	366,160	244,587
Acquisition of property, plant and equipment	84,518	2,586
Accounting services	42,874	22,344
Other	106,217	69,619
Total	1,675,118	1,038,186

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>2023</u>	<u>2022</u>
Accounting services	12,360	25,562
Rent	-	19,578
Salary	-	17,326
Other	3,629	13,755
Total	15,989	76,221