

**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 2019

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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, 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 2019, and Statement of Financial Position as at 31 December 2019 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 2019 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the special purpose financial statements of the current period. These matters were addressed in the context of our audit of the special purpose financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key audit matters to be communicated in our report.

- Results Based Financing (RBF)

In the scope of implementation of TPQIP's objectives, PHP Audit CJSC was selected as an independent auditor for validation of the actual level of Eligible Expenditure Programs (EEPs) in the scope of agreed upon procedures. Validation of the actual EEPs covered in these special purpose financial statements is for the year ended 31 December 2018. The validated amount by the auditor is USD 2,937,461.

Our audit procedures in this area included:

- reconciling report on validation of the actual level of Eligible Expenditure Programs in the scope of agreed upon procedures to the payment made to the Government of the Republic of Armenia;
- reviewing the application of the withdrawal for any discrepancies.

As result of our audit procedures, we concluded that the World Bank accepted evidence submitted in the fulfillment of DLIs and approved payment for the total amount of USD 1,700,000 as defined by the loan agreement schedule and authorized payment of USD 1,700,000 based on withdrawal application. No any discrepancies were noted.

- Procurements

In the scope of implementation of TPQIP's objectives, the procurements incurred for receipt of consulting services, works and supply of goods amounted to USD 24,569. The procurements shall be performed in line with applicable procurement guidelines designated by World Bank.

Our audit procedures in this area included, among other:

- Corroborating with management the process of procurement and compliance to applicable procurement guidelines designated by World Bank;
- Analysing the procurement plan, conditions associated to each procurement, correspondence with the World Bank, method of procurement and discussing compliance of these conditions to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing compliance of procurement packages to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing the documentation supporting the procurement as well as availability of deliverables designated by the procurement contracts.

As result of our audit procedures, we concluded that procurements were performed in line with applicable procurement guidelines designated by World Bank.

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 the Office of the Prime Minister of the Republic of Armenia 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.



Hovhannes Petrosyan
Director

PHP Partners cjsc
28 June 2021



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 2019

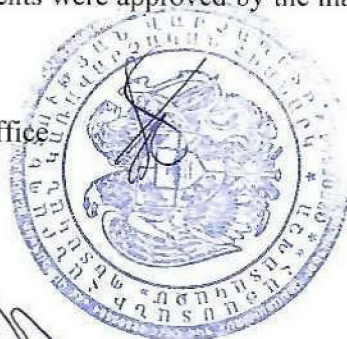
<i>USD</i>	Actual			Planned			Variance			PAD Life of Project
	2019	2018	Cumulative	2019	2018	Cumulative	2019	2018	Cumulative	
Opening Cash Balance										
Government co-financing account for Credit Designated Account for World Bank financing	-	-								
	321,371	335,777								
Total	321,371	335,777								
Add:										
Sources of Funds										
Government co-financing	16,994	4,206	81,947							
World Bank financing	3,910,525	2,000,000	12,035,525							
Total donor funds	3,927,519	2,004,206	12,117,472							
Foreign Exchange Difference										
Government co-financing	(14)	(4)	174							
Total	(14)	(4)	174							
Less:	-									
Uses of Funds										
(1) Payments made for EEP under Part A of the Project										
Government co-financing	-	-	-							
Credit financing	1,700,000	2,000,000	9,200,000							
(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										

*Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2019*

USD	Actual			Planned			Variance			PAD Life of Project
	2019	2018	Cumulative	2019	2018	Cumulative	2019	2018	Cumulative	
Government co-financing	16,980	4,202	82,121							
Credit financing	49,514	14,406	228,143							
(5) Front end fee WB	-	-	125,000							
Government co-financing	16,980	4,202	82,121	429,765	35,702	494,906	(412,785)	(31,500)	(412,785)	10,040,520
Credit financing	1,749,514	2,014,406	9,553,143	8,949,208	480,428	16,752,837	(7,199,694)	1,533,978	(7,199,694)	50,000,000
Total	1,766,494	2,018,608	9,635,264	9,378,973	516,130	17,247,743	(7,612,479)	1,502,478	(7,612,479)	60,040,520
Closing Cash Balance										
Government co-financing account for credit	-	-								
Designated Account for credit (World Bank financing)	2,482,382	321,371								
Total	2,482,382	321,371								

The project special purpose financial statements were approved by the management of Office of the Prime Minister of the Republic of Armenia and signed on its behalf on 28 June 2021.

Bagrat Badalyan
Head of Deputy Prime Minister's Office
Tigran Avinyan



Georgi Khachatryan
TPQI Project Manager

Susanna Sahadyan *S. Sahadyan*
Acting Head of Financial and
Accounting Department of the Office of the Prime Minister

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 2019

	Actual			Planned			Variance		PAD Life of Project	
	2019	2018	Cumulative	2019	2018	Cumulative	2019	2018		Cumulative
Project Activities										
<i>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</i>	1,700,000	2,000,000	9,200,000	-	-	-	-	-	-	10,000,000
Government co-financing	-	-	-	-	-	-	-	-	-	-
Credit financing	1,700,000	2,000,000	9,200,000	-	-	-	-	-	-	10,000,000
<i>Part B: Promoting Investment and Exports</i>	-	-	-	-	-	-	-	-	-	35,761,600
Government co-financing	-	-	-	-	-	-	-	-	-	6,526,600
Credit financing	-	-	-	-	-	-	-	-	-	29,235,000
<i>Part C: Modernizing the National Quality Infrastructure</i>	-	-	20,378	-	-	-	-	-	-	11,589,920
Government co-financing	-	-	9,098	-	-	-	-	-	-	2,949,920
Credit financing	-	-	11,280	-	-	-	-	-	-	8,640,000
<i>Part D: Project Management, Monitoring and Evaluation</i>	66,494	18,608	414,886	-	-	-	-	-	-	2,689,000
Government co-financing	16,980	4,202	73,023	-	-	-	-	-	-	564,000
Credit financing	49,514	14,406	216,863	-	-	-	-	-	-	2,000,000
Front End Fee WB	-	-	125,000	-	-	-	-	-	-	125,000
Total project expenditure	1,766,494	2,018,608	9,635,264	9,378,973	516,130	17,247,743	(7,612,479)	1,502,478	(7,612,479)	60,040,520

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 (hereinafter PID) 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.

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 equivalent to 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 10,000,000.

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.

Closing date of the Project is 31 May 2022.

(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

In the scope of the Project IBRD makes disbursements in USD on the designated account 900000900408 for the project. Payment of eligible and accepted expenditures (goods, services and other) is made by the PID out of designated account, or PID will submit withdrawal applications to the Bank for payments to contractors, suppliers and consultants directly from loan account. PID 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 2019 equaling to AMD 479.70.

(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

				2019
Withdrawal Application Reference	Application Type	Amount Requested by OPM of the RA USD	Amount Paid by World Bank USD	Difference USD
EEP-DA 6	Reimbursement/ Results Based Financing	1,700,000	1,700,000	-
		1,700,000	1,700,000	-
				2018
Withdrawal Application Reference	Application Type	Amount Requested by OPM of the RA USD	Amount Paid by World Bank USD	Difference USD
EEP-DA 5	Reimbursement/ Results Based Financing	2,000,000	2,000,000	-
		2,000,000	2,000,000	-

5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2019</u>	<u>2018</u>
Opening balance	321,371	335,777
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	2,210,525	-
Present outstanding amount advanced to the designated account	<u>2,531,896</u>	<u>335,777</u>
Closing balance carried forward to next period	2,482,382	321,371
<i>Add:</i> Amount of eligible expenditures paid during the current period	49,514	14,406
Total advance	<u>2,531,896</u>	<u>335,777</u>

<u>USD</u>	<u>2019</u>	<u>2018</u>
Opening balance	-	-
<i>Add:</i>		
Government co-financing during the current period	16,994	4,206
Less: Foreign exchange difference	(14)	(4)
Present outstanding amount advanced to project account	<u>16,980</u>	<u>4,202</u>
Closing balance carried forward to next period	-	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	16,980	4,202
Total advance	<u>16,980</u>	<u>4,202</u>

6 Statement of Financial Position

<i>USD</i>	2019	2018
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	-
Designated Account for credit (World Bank financing)	2,482,382	321,371
Total current assets	2,482,382	321,371
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	82,121	65,141
Credit financed cumulative expenditure	9,553,143	7,803,629
Total non-current assets	9,635,264	7,868,770
Total assets	12,117,646	8,190,141
 FUNDS		
Project financing		
Government co-financing account for credit	81,947	64,953
Designated Account for credit (World Bank financing)	12,035,525	8,125,000
Total funds	12,117,472	8,189,953
 Foreign exchange differences		
Government co-financing account for credit	174	188
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange differences	174	188
Total net assets and liabilities	12,117,646	8,190,141

**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 2020

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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., 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 2020, and Statement of Financial Position as at 31 December 2020 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 2020 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the special purpose financial statements of the current period. These matters were addressed in the context of our audit of the special purpose financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Grant Funds Payable to Armenian National Interests Fund section, we have determined the matters described below to be key audit matters to be communicated in our report.

▪ Results Based Financing (RBF)

In the scope of implementation of TPQIP's objectives, PHP Partners CJSC was selected as an independent auditor for validation of the actual level of Eligible Expenditure Programs (EEPs) in the scope of agreed upon procedures. Validation of the actual EEPs covered in these special purpose financial statements is for the year ended 31 December 2019. The validated amount by the auditor is USD 2,238,921.

Our audit procedures in this area included:

- reconciling report on validation of the actual level of Eligible Expenditure Programs in the scope of agreed upon procedures to the payment made to the Government of the Republic of Armenia;
- reviewing the application of the withdrawal for any discrepancies.

As result of our audit procedures, we concluded that the World Bank accepted evidence submitted in the fulfillment of DLIs and approved payment for the total amount of USD 500,000 as defined by the loan agreement schedule and authorized payment of USD 500,000 based on withdrawal application. No any discrepancies were noted.

▪ Procurements

In the scope of implementation of TPQIP's objectives, the procurements incurred for receipt of consulting services, works and supply of goods amounted to USD 685,372. The procurements shall be performed in line with applicable procurement guidelines designated by World Bank.

Our audit procedures in this area included, among other:

- Corroborating with management the process of procurement and compliance to applicable procurement guidelines designated by World Bank;
- Analysing the procurement plan, conditions associated to each procurement, correspondence with the World Bank, method of procurement and discussing compliance of these conditions to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing compliance of procurement packages to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing the documentation supporting the procurement as well as availability of deliverables designated by the procurement contracts.

As result of our audit procedures, we concluded that procurements were performed in line with applicable procurement guidelines designated by World Bank.

▪ Expenditures incurred by implementing agencies

In the scope of implementation of TPQIP's objectives, grants are provided to implementing agencies in the amount of USD 2,223,522. The implementing agencies shall incur expenditures using the grant funds in line with grant agreement.

Our audit procedures in this area included, among other:

- Corroborating with management the process of provision of grant funding and internal controls related to the eligibility incurred expenditure;
- On sample basis, reviewing incurred expenditure to the budget approved by the grant agreement;
- On sample basis, reviewing the documentation supporting the expenditure incurred by the implementing agencies.

As result of our audit procedures, we concluded that incurred expenditure in the scope of grants are eligible under grant agreements.

Other Matter – Grant Funds Payable to Armenian National Interests Fund

Armenian National Interests Fund (ANIF) is acting as an implementing agency in the scope TPQIP. Expenditures incurred by ANIF are provided in Note 7(b) of the financial statements. The audited consolidated financial statement of Armenian National Interests Fund (ANIF) for the year ended December 31, 2020 prepared in accordance with IFRSs include the grant receivable by ANIF in the scope of TPQIP that do not match grant payable in the scope TPQIP if calculated using accrual basis of accounting. Accrual basis of accounting is when an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Conceptual Framework for Financial Reporting.

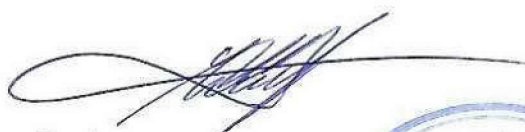
Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements

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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 the Office of the Prime Minister of the Republic of Armenia, 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.



Hovhannes Petrosyan
Director

PHP Partners ejsc
28 June 2021



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 2020

USD	Actual			Planned			Variance			PAD Life of Project
	2020	2019	Cumulative	2020	2019	Cumulative	2020	2019	Cumulative	
Opening Cash Balance										
Government co-financing account for Credit Designated Account for World Bank financing	-	-								
Total	<u>2,482,382</u>	<u>321,371</u>								
Add:										
Sources of Funds										
Government co-financing	835,987	16,994	917,934							
World Bank financing	1,338,389	3,910,525	13,373,914							
Total donor funds	<u>2,174,376</u>	<u>3,927,519</u>	<u>14,291,848</u>							
Foreign Exchange Difference										
Government co-financing	(4,904)	(14)	(4,730)							
Total	<u>(4,904)</u>	<u>(14)</u>	<u>(4,730)</u>							
Less:										
Uses of Funds										
(1) Payments made for EEP under Part A of the Project										
Government co-financing	-	-	-							
Credit financing	500,000	1,700,000	9,700,000							

*Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2020*

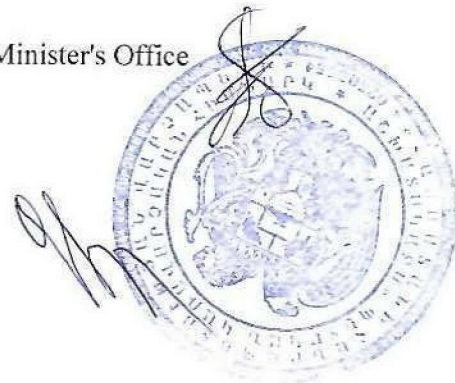
USD	Actual			Planned			Variance			PAD Life of Project
	2020	2019	Cumulative	2020	2019	Cumulative	2020	2019	Cumulative	
(2) Goods, works, non-consulting services, and consultants' services (including audits), Training, and Incremental Operating Costs under Parts B.1 , C, and D of the Project										
Government co-financing	572,100	16,980	654,221							
Credit financing	1,537,961	49,514	1,766,104							
(3) Grants under Part B.2 of the Project										
Government co-financing	40,316	-	40,316							
Credit financing	106,901	-	106,901							
(4) Financing for PPP Initiatives under Part B.3 of the Project										
Government co-financing	218,667	-	218,667							
Credit financing	491,167	-	491,167							
(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	831,083	16,980	913,204	2,277,722	429,765	2,359,843	(1,446,639)	(412,785)	(1,446,639)	7,292,497
Credit financing	2,636,029	1,749,514	12,189,172	10,385,843	8,949,208	19,938,986	(7,749,814)	(7,199,694)	(7,749,814)	48,000,000
Total	3,467,112	1,766,494	13,102,376	12,663,565	9,378,973	22,298,829	(9,196,453)	(7,612,479)	(9,196,453)	55,292,497

Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2020

	Actual			Planned			Variance		PAD Life of Project
	2020	2019	Cumulative	2020	2019	Cumulative	2020	2019	
Closing Cash Balance									
Government co-financing account for credit		-	-						
Designated Account for credit (World Bank financing)	1,184,742	2,482,382							
Total	1,184,742	2,482,382							

The project special purpose financial statements were approved by the management of Office of the Prime Minister of the Republic of Armenia and signed on its behalf on 28 June 2021.

Bagrat Badalyan
 Head of Deputy Prime Minister's Office
 Tigran Avinyan



Georgi Khachatryan
 TPQI Project Manager

Susanna Sahadyan *S Sahadyan*
 Acting Head of Financial and
 Accounting Department of the Office of the Prime Minister

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 2020

	Actual			Planned			Variance			PAD Life of Project
	2020	2019	Cumulative	2020	2019	Cumulative	2020	2019	Cumulative	
Project Activities										
<i>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</i>										
Government co-financing	500,000	1,700,000	9,700,000	-	-	-	-	-	-	10,000,000
Credit financing	-	-	-	-	-	-	-	-	-	-
	500,000	1,700,000	9,700,000	-	-	-	-	-	-	10,000,000
<i>Part B: Promoting Investment and Exports</i>										
Government co-financing	2,223,522	-	2,223,522	-	-	-	-	-	-	41,449,166
Credit financing	657,170	-	657,170	-	-	-	-	-	-	6,535,296
	1,566,352	-	1,566,352	-	-	-	-	-	-	34,913,870
<i>Part C: Modernizing the National Quality Infrastructure</i>										
Government co-financing	436,859	-	457,237	-	-	-	-	-	-	2,458,022
Credit financing	96,762	-	105,860	-	-	-	-	-	-	458,022
	340,097	-	351,377	-	-	-	-	-	-	2,000,000
<i>Part D: Project Management, Monitoring and Evaluation</i>										
Government co-financing	306,731	66,494	721,617	-	-	-	-	-	-	1,385,309
Credit financing	77,151	16,980	150,174	-	-	-	-	-	-	299,179
Front End Fee WB	229,580	49,514	446,443	-	-	-	-	-	-	961,130
	-	-	125,000	-	-	-	-	-	-	125,000
Total project expenditure	3,467,112	1,766,494	13,102,376	12,663,565	9,378,973	22,298,829	(9,196,453)	(7,612,479)	(9,196,453)	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 equivalent to 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), 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). The Ministry of High-Tech Industry is responsible, through the Enterprise Incubator Foundation (EIF), for Subcomponents 2.2.2 (Innovation Matching Grants) and 2.3 (PPP activities) as well as the National Venture Fund (Subcomponent 2.4).

The Ministry of Economy is responsible, through the Investment Support Center for Subcomponent 2.2.1 (Exporter Development Grants Program). Incurred expenses by implementing agencies are presented in note 7.

Closing date of the Project is 31 May 2022.

(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 2020 equaling to AMD 522,59.

(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

				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	-
		<u>500,000</u>	<u>500,000</u>	<u>-</u>
				2019
Withdrawal Application Reference	Application Type	Amount Requested by OPM of the RA USD	Amount Paid by World Bank USD	Difference USD
EEP-DA 6	Reimbursement/ Results Based Financing	1,700,000	1,700,000	-
		<u>1,700,000</u>	<u>1,700,000</u>	<u>-</u>

5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2020</u>	<u>2019</u>
Opening balance	2,482,382	321,371
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	838,389	2,210,525
Present outstanding amount advanced to the designated account	<u>3,320,771</u>	<u>2,531,896</u>
Closing balance carried forward to next period	1,184,742	2,482,382
<i>Add:</i> Amount of eligible expenditures paid during the current period	2,136,029	49,514
Total advance	<u>3,320,771</u>	<u>2,531,896</u>

<u>USD</u>	<u>2020</u>	<u>2019</u>
Opening balance	-	-
<i>Add:</i>		
Government co-financing during the current period	835,987	16,994
Less: Foreign exchange difference	(4,904)	(14)
Present outstanding amount advanced to project account	<u>831,083</u>	<u>16,980</u>
Closing balance carried forward to next period	-	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	831,083	16,980
Total advance	<u>831,083</u>	<u>16,980</u>

6 Statement of Financial Position

<i>USD</i>	2020	2019
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	-
Designated Account for credit (World Bank financing)	1,184,742	2,482,382
Total current assets	1,184,742	2,482,382
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	913,204	82,121
Credit financed cumulative expenditure	12,189,172	9,553,143
Total non-current assets	13,102,376	9,635,264
Total assets	14,287,118	12,117,646
FUNDS		
Project financing		
Government co-financing account for credit	917,934	81,947
Designated Account for credit (World Bank financing)	13,373,914	12,035,525
Total funds	14,291,848	12,117,472
Foreign exchange differences		
Government co-financing account for credit	(4,730)	174
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange differences	(4,730)	174
Total net assets and liabilities	14,287,118	12,117,646

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 223,987.

(b) Expenses incurred by ANIF

USD

	<u>Actual</u>	<u>Planned</u>	<u>Variance</u>
<i>Operating costs</i>			
Salaries	510,325	912,158	(401,833)
IT equipment, information security	464,204	714,304	(250,100)
Office rent, utility payments, telecommunications, stationary	28,290	42,484	(14,194)
Legal, accounting, audit services	14,948	73,643	(58,695)
Other operating expenses	2,255	3,778	(1,523)
	628	77,949	(77,321)
<i>Representations</i>			
Salaries	565,981	1,234,933	(668,952)
Legal, accounting, audit, procurement, HRM services	513,864	1,059,061	(545,197)
Office rent, utility payments, telecommunications, office services and materials, other consumer goods	32,782	70,520	(37,738)
IT equipment, information security, website, hosting services and materials, other consumer goods	9,727	38,686	(28,959)
Other operating expenses	6,752	25,740	(18,988)
Total	<u>1,076,306</u>	<u>2,147,091</u>	<u>(1,070,785)</u>

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

(c) Expenses incurred by ISC

USD

	<u>Actual</u>	<u>Planned</u>	<u>Variance</u>
Staff remuneration	24,593	33,824	(9,231)
Business trip expenses	1,837	4,912	(3,075)
Services	2,076	15,405	(13,329)
Office maintenance expenses	4,763	7,254	(2,491)
Total	<u>33,269</u>	<u>61,395</u>	<u>(28,126)</u>

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

(d) Expenses incurred by EIF

<u>USD</u>	<u>Actual</u>	<u>Planned</u>	<u>Variance</u>
<i>Engineering city operating costs</i>			
Salary	207,439	949,543	(742,104)
Acquisition of property, plant and equipment	153,836	521,170	(367,334)
Rent	7,429	6,548	881
Professional services	-	35,260	(35,260)
Other	-	5,038	(5,038)
Other	46,174	381,527	(335,353)
<i>Innovation matching grants operating costs</i>	52,389	243,691	(191,302)
Salary	30,012	133,755	(103,743)
Acquisition of property, plant and equipment	5,671	1,511	4,160
Professional services	-	15,112	(15,112)
Other	16,706	93,313	(76,607)
<i>Establishment of a supercomputing centre operating costs</i>	16,033	374,146	(358,113)
Professional services	7,968	5,038	2,930
Salary	6,759	205,359	(198,600)
Acquisition of property, plant and equipment	-	10,074	(10,074)
Rent	-	3,023	(3,023)
Other	1,306	150,652	(149,346)
<i>Establishment of a cybersecurity lab</i>	193,712	922,576	(728,864)
Salary	152,605	506,376	(353,771)
Professional services	7,968	5,038	2,930
Acquisition of property, plant and equipment	3,105	22,667	(19,562)
Rent	-	35,260	(35,260)
Other	30,034	353,235	(323,201)
Total	469,573	2,489,956	(2,020,383)

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>Actual</u>	<u>Planned</u>	<u>Variance</u>
Salary	52,163	82,122	(29,959)
Professional services	15,935	5,038	10,897
Rent	12,204	18,385	(6,181)
Other	16,426	43,998	(27,572)
Total	96,728	149,543	(52,815)

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