

**EURASIAN TRANSPORT
CORRIDOR INVESTMENT
CENTER**

LOAN NO.3524-GEO
(SECONDARY ROAD IMPROVEMENT PROJECT)

Special Purpose Project Financial Statements
For the year ended 31 December 2020

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO.3524-GEO**

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EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER SECONDARY ROAD IMPROVEMENT PROJECT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management of the Secondary Road Improvement Project (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "Organisation") is responsible for the preparation of the special purpose project financial statements that present fairly the Statement of Sources and Uses of Funds for the year ended 31 December 2020, the Balance Sheet as at 31 December 2020 and the related Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2020, in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis"), and the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank.

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts.
- Making an assessment of the Projects ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the yearend 31 December 2020 were authorised for issue on 29 June 2021 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

29 June 2021

29 June 2021

INDEPENDENT AUDITOR'S REPORT

To the management of Eurasia Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the Secondary Road Improvement Project (the "Project") financed under the Loan Agreement No. 3524-GEO dated 19 June 2017 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center, which comprise Statement of Sources and Uses of Funds for the year ended 31 December 2020, the Balance Sheet as at 31 December 2020 and the related, Statement of Expenditure Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2020 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2020 presents fairly, in all material respects, in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC), as further detailed in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the Special Purpose Project financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management in complying with the financial reporting provisions of the Agreement. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the management of the Project in reporting the information to the Government of Georgia, and in communicating to the Asian Development Bank information about the Project's compliance with the financial reporting provisions of the Agreement. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than those mentioned above in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the cash basis of IPSAS, the basis of accounting as further detailed in Note 2.

This includes determining that the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" ("IPSAS – Cash Basis") is an acceptable basis for the preparation of the special purpose project financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

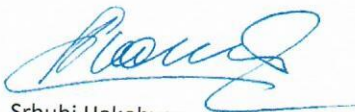
Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose project 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 project financial statements.

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

- Identify and access the risks of material misstatement of the special purpose project 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 Organisation'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose project 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 auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the special purpose project financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves the 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.



Srбуhi Hakobyan

On behalf of Deloitte and Touche LLC

Deloitte & Touche

29 June 2021

Tbilisi, Georgia

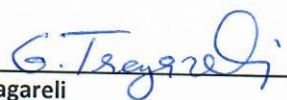
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO 3524-GEO**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2020
(in US Dollars)**

	Actual		Planned*		Variance	
	Period to date	Cumulative to date	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
Asian Development Bank (ADB) Funds	6,953,142	19,607,271	-	-	-	-
Government of Georgia (GoG) co-financing	1,201,734	4,156,355	-	-	-	-
TOTAL FUNDS RECEIVED	8,154,876	23,763,626	-	-	-	-
LESS: EXPENDITURE						
Category 1 – Works and consulting services	6,607,032	18,703,180	6,607,032	18,703,180	-	-
Category 2 - Project management support	2,399	29,219	2,399	29,219	-	-
Category 3 – Interest and commitment charges	332,507	849,903	332,507	849,903	-	-
Category 4 – Unallocated	-	-	-	-	-	-
ADB TOTAL	6,941,938	19,582,302	6,941,938	19,582,302	-	-
Category 1 – Works and consulting services	1,201,076	4,148,620	1,201,076	4,148,620	-	-
Category 2 - Project management support	658	7,735	658	7,735	-	-
Category 3 – Interest and commitment charges	-	-	-	-	-	-
Category 4 – Unallocated	-	-	-	-	-	-
GOG TOTAL	1,201,734	4,156,355	1,201,734	4,156,355	-	-
TOTAL PROJECT EXPENDITURE	8,143,672	23,738,657	8,143,672	23,738,657	-	-
NET FLOW OF FUNDS	11,204	24,969	-	-	-	-

*The project uses flex budget approach, so that at the end of the period Plan is always equal to Actual.

On behalf of the Management:


Giorgi Tsagareli
Director
29 June 2021


Marina Majagaladze
Financial Manager
29 June 2021

The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**BALANCE SHEET STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
(in US Dollars)**

	<u>31 December 2020</u>
ASSETS	
ADB imprest account	<u>24,969</u>
TOTAL ASSETS	<u><u>24,969</u></u>
Funds received:	
Funds received from ADB	19,607,271
Funds received from GoG	<u>4,156,355</u>
Total funds received	<u><u>23,763,626</u></u>
Project expenditure:	
Financed by ADB	(19,582,302)
Financed by GoG	<u>(4,156,355)</u>
Total project expenditure	<u><u>(23,738,657)</u></u>
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURE	<u><u>24,969</u></u>

On behalf of the Management:



Giorgi Tsagareli
Director

29 June 2021



Marina Majagaladze
Financial Manager

29 June 2021

The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2020
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE Attributable to 2019	Total SOE attributable to 2020
82	4-Mar-20	12,396	11,204	1,192
131	7-Dec-20	1,207	-	1,207
		13,603	11,204	2,399

Withdrawal application No.82 was approved and replenished by ADB in 4 March 2020. Total SOE expenditure in withdrawal application No.82 was USD 12,396 from which USD 11,204 is SOE attributable to 2019 and USD 1,192 is SOE attributable to 2020.

Withdrawal application No.131 was approved and replenished by ADB in 7 December 2020. Total SOE expenditure in withdrawal application No.131 was USD 1,207 which is SOE attributable to 2020.

There was no another SOE withdrawal application sent for approval in 2020.

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

29 June 2021

29 June 2021

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**
(in US Dollars)

Account No.	210250199
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 31 December 2019	<u>13,765</u>
ADD ADB replenishment	<u>13,603</u>
DEDUCT Funds used for the Project expenditure	<u>(2,399)</u>
Balance as at 31 December 2020	<u><u>24,969</u></u>

On behalf of the Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

29 June 2021

29 June 2021

The notes on pages 9 to 15 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**
(in US Dollars)

1. BACKGROUND

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity. A project unit named "Eurasian Transport Corridor Investment Center" (the "ETCIC" or Transport Reform and Rehabilitation Center – "Organisation") was formed within the Investment Center for Euro-Asian Transport Corridor to manage the allocated loan received from the Asian Development Bank ("ADB") and monitor the implementation of transport sector projects.

The objectives of the Project are increased mobility and accessibility of the residents of the Kharagauli municipality and tourists. The Project shall comprise rehabilitation of approximately 50 km road between Dzirula and Chumateleti to two-lane all-weather standard, including short access roads to the Borjomi-Kharagauli National Park and to Kharagauli and other railway stations. The Project shall include the provision of Consulting Services for construction supervision and Project management support. The Project is expected to be completed by 31 August 2021 but the extension of project's deadline is under negotiation as only 25% of total budgeted funds are received as at 31 December 2020.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC).

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared for management analysis and in order to report the information to the Government of Georgia and the Asian Development Bank. As a result these special purpose project financial statements may not be suitable for another purpose.

Project financing is recognised as a source of project funds when the cash is received.

Project expenditure are recognised as a use of project funds when the payments are made.

Functional currency – These special purpose project financial statements are expressed in United States Dollars ("US Dollar" or "USD").

Transactions in other currencies – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

Cash – Cash comprises balances with the State Treasury.

3. BASIS OF FUNDING

According to the terms of the Agreement, Category 1 – works and consulting, Category 2 – Project management Support are financed 100% of the total expenditure claimed by ADB and Category 3 – Interest and commitment charges are 100% financed by ADB. Category 1 and 2 is exclusive of taxes and duties imposed within the territory of the Georgia.

It is allowed by the donor, to utilise loan funds, subsequent to relevant approvals, to finance projects under other loans, if there are any residual unexpended funds.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in US Dollars)**

4. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2020 were as follows:

(a) Imprest account

Available amounts were drawn from time to time within limits determined within the loan agreements for the direct payment of eligible expenditure for sub-projects from this special account. No amounts were drawn down during the period from special account.

(b) Direct Payment

Available amounts are drawn from time to time within limits determined under the credit agreement for direct payments of eligible expenditure for sub-projects. Direct payments are made by ADB directly to third parties. Organisation forms withdrawal applications for request of direct payments and sends it to the ADB, for settlement.

(c) GoG current account

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditure to be incurred.

5. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE ADB TO ACTUAL EXPENDITURE OF THE PROJECT

	31 December 2020
Application of Withdrawals Schedule	
Expenses incurred in 2020 as per the Applications of Withdrawals Schedule	6,609,431
Expenses incurred in 2020 as Capitalised charges	332,507
	6,941,938
ADB direct payments	6,607,032
Capitalised charges	332,507
ADB Replenishments	13,603
	6,953,142
Add:	
Opening Balances	
Imprest Account	13,765
	13,765
Less:	
Closing Balances	
Imprest Account	24,969
	24,969
TOTAL EXPENDITURE INCURRED IN 2020	6,941,938

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**
(in US Dollars)

TOTAL WITHDRAWAL SCHEDULE EXPENSES

<u>Withdrawal No.</u>	<u>Value date</u>	<u>Total amount in withdrawal schedule</u>	<u>Total attributable to 2020</u>
00077	31-Jan-20		
00078	4-Feb-20	77,332	77,332
00079	4-Feb-20	110,141	110,141
00081	7-Feb-20	47,236	47,236
00080	10-Feb-20	169,284	169,284
00083	18-Feb-20	102,849	102,849
00084	20-Feb-20	166,091	166,091
00085	27-Feb-20	28,075	28,075
00086	2-Mar-20	41,057	41,057
00087	2-Mar-20	60,287	60,287
00088	2-Mar-20	24,806	24,806
00082	4-Mar-20	53,979	53,979
00089	13-Mar-20	12,396	1,192
00090	17-Mar-20	56,710	56,710
00091	20-Mar-20	9,011	9,011
00092	24-Mar-20	112,401	112,401
00093	24-Mar-20	66,964	66,964
00094	23-Apr-20	148,541	148,541
00095	27-Apr-20	48,188	48,188
00097	27-Apr-20	93,050	93,050
00096	29-Apr-20	55,903	55,903
00098	29-Apr-20	17,006	17,006
00099	29-Apr-20	33,519	33,519
00101	26-May-20	73,158	73,158
00100	27-May-20	168,944	168,944
00102	27-May-20	27,628	27,628
00103	27-May-20	101,920	101,920
00104	5-Jun-20	219,663	219,663
00105	16-Jun-20	138,344	138,344
00106	18-Jun-20	88,300	88,300
00107	23-Jun-20	17,608	17,608
00108	25-Jun-20	172,157	172,157
00109	25-Jun-20	107,473	107,473
00110	23-Jul-20	235,223	235,223
00111	27-Jul-20	95,276	95,276
00112	27-Jul-20	61,184	61,184
00113	28-Jul-20	129,739	129,739
00114	30-Jul-20	44,000	44,000
00115	30-Jul-20	8,646	8,646
00116	13-Aug-20	86,907	86,907
00117	17-Aug-20	44,300	44,300
00118	19-Aug-20	8,628	8,628
00119	21-Aug-20	149,522	149,522
00120	21-Aug-20	202,921	202,921
00121	11-Sep-20	98,902	98,902
		41,775	41,775

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**
(in US Dollars)

00123	17-Sep-20		
00125	17-Sep-20	44,300	44,300
00122	21-Sep-20	279,777	279,777
00124	21-Sep-20	209,080	209,080
00126	21-Sep-20	8,662	8,662
00127	21-Sep-20	182,098	182,098
00128	19-Oct-20	372,174	372,174
00129	21-Oct-20	201,985	201,985
00130	21-Oct-20	131,007	131,007
00133	5-Nov-20	255,215	255,215
00134	9-Nov-20	54,770	54,770
00135	10-Nov-20	7,881	7,881
00136	16-Nov-20	219,727	219,727
00137	18-Nov-20	119,485	119,485
00138	18-Nov-20	78,431	78,431
00139	23-Nov-20	147,279	147,279
00140	25-Nov-20	44,300	44,300
00141	25-Nov-20	7,965	7,965
00131	7-Dec-20	29,848	29,848
00142	14-Dec-20	1,207	1,207
00143	14-Dec-20	261,996	261,996
00144	16-Dec-20	37,380	37,380
00145	16-Dec-20	8,020	8,020
CAP	1-May-20	61,004	61,004
CAP	1-Nov-20	190,111	190,111
		142,396	142,396
		6,953,142	6,941,938

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in US Dollars)**

6. PROJECT EXPENDITURE BY COMPONENTS

Project Activities	For the year 31 December 2020			Cumulative from inception		
	ADB Financing	GoG Financing	Total	ADB Financing	GoG Financing	Total
Component A – Investment costs						
Civil works	5,249,435	934,260	6,183,695	15,729,744	2,789,312	18,519,056
Land acquisition/social mitigation	-	26,622	26,622	-	824,307	824,307
Consultancy	1,357,597	240,194	1,597,791	2,973,436	535,001	3,508,437
TOTAL COMPONENT A	6,607,032	1,201,076	7,808,108	18,703,180	4,148,620	22,851,800
Component B – Project management costs						
Project management costs	2,399	658	3,057	29,219	7,735	36,954
TOTAL COMPONENT B	2,399	658	3,057	29,219	7,735	36,954
Component C – Contingencies unallocated						
Contingencies unallocated	-	-	-	-	-	-
TOTAL COMPONENT C	-	-	-	-	-	-
Component D – Financial charges during implementation						
Financial charges during implementation	332,507	-	332,507	849,903	-	849,903
TOTAL COMPONENT D	332,507	-	332,507	849,903	-	849,903
TOTAL PROJECT EXPENDITURE	6,941,938	1,201,734	8,143,672	19,582,302	4,156,355	23,738,657

The Project comprises the following main components:

- Component A – Investment Costs;
- Component B – Project management costs
- Component C – Contingencies; and
- Component D – Financial charges during implementation

If the amount of the Loan allocated to a Category appears to exceed all agreed expenditure in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category. The Project comprises the following main categories:

- Category 1 – Works and consulting services
- Category 2 – Project management support
- Category 3 – Interest and commitment charges; and
- Category 4 – Unallocated

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)
(in US Dollars)**

7. COMMITMENTS AND CONTINGENCIES

The Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project as at 31 December 2020 and on the funds received and disbursed during the period then ended.

8. OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during the years paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organisation in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Organisation may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Organisation's operations largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

The economic shock caused by the coronavirus and the expectations of the future development of pandemic and its impact on the Georgian economy have been reflecting on increased volatility of the foreign exchange market and weakening of Georgian Lari against other currencies.

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Organisation. Management believes it is taking all the necessary measures to support the sustainability and development of the Organisation's operations.

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Spread of Covid-19 pandemic still has a significant negative impact on the world economy and country-specific measures. Deteriorated outlook of the future caused increased volatility of the foreign exchange market subsequent to the year-end.

Ongoing Covid-19 related situation does not have significant effect on the Project. Construction was continued and there was successful transition of administrative function to partial remote working and projects ongoing as planned.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**
(in US Dollars)

10. APPROVAL OF FINANCIAL STATEMENTS

These special purpose project financial statements were authorised for issue by the Management of ETCIC on 29 June 2021.