

**SOCIAL FUND FOR THE DEVELOPMENT OF  
INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN**

**ADDITIONAL FINANCING FOR IDP LIVING STANDARDS  
AND LIVELIHOODS PROJECT**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ**

**Special Purpose Financial Statements and  
Independent Auditors' Report  
For the year ended December 31, 2018**

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE  
ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT**

**TABLE OF CONTENTS**

---

	<b>Page</b>
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018	1
INDEPENDENT AUDITORS' REPORT	2-3
SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018:	
Special purpose balance sheet	4
Statement of sources and uses of funds	5-6
Statement of special accounts	7
Statement of expenditure and summary sheet withdrawal schedule	8
Notes to the special purpose financial statements	9-15

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018**

---

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the Special Purpose Financial Statements of the Additional Financing for IDP Living Standards and Livelihoods Project (the "Project") implemented by the Social Fund for the Development of Internally Displaced People ("SFDI") and financed under the Loan Agreement number 8627-AZ between the Government of the Republic of Azerbaijan and International Bank for Reconstruction and Development dated June 23, 2016.

Management is responsible for the preparation of the Special Purpose Financial Statements of the Project that present fairly the Special Purpose Balance Sheet of the Project as at December 31, 2018, the Statement of Sources and Uses of Funds, the Statement of Special Accounts and the Statement of Expenditure and Summary Sheet Withdrawal Schedule ("SOE" and SSWS") for the year ended December 31, 2018, in accordance with the International Public Sector Accounting Standards ("IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants ("IFAC-IPSASB") and the relevant provisions of the Loan Agreement as described in Note 2 to the Special Purpose Financial Statements 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.

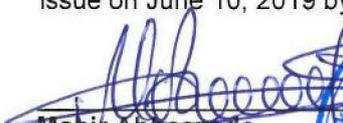
In preparing the Special Purpose Financial Statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether the IPSAS has been followed, subject to any material departures disclosed and explained in the Special Purpose Financial Statements; and
- Preparing the Special Purpose Financial Statements on a going concern basis.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the Special Purpose Financial Statements of the Project comply with the IPSAS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- Detecting and preventing fraud and other irregularities.

The Special Purpose Financial Statements for the year ended December 31, 2018 were authorized for issue on June 10, 2019 by the Management of the SFDI.

  
**Mahir Abbaszade**  
General Manager

June 10, 2019  
Baku, the Republic of Azerbaijan



  
**Lala Shixaliyeva**  
Chief Accountant

Demirchi Tower, 16th floor  
37 Khojaly Avenue  
Baku, AZ1025  
Azerbaijan

T: +994 (12) 404 7 666  
F: +994 (12) 404 7 667

office@bakertilly.az  
[www.bakertilly.az](http://www.bakertilly.az)

## **INDEPENDENT AUDITORS' REPORT**

To the Supervisory Board and Management of the Social Fund for the Development of Internally Displaced People of the Republic of Azerbaijan (the "SFDI"):

### ***Opinion***

We have audited the Special Purpose Financial Statements of the Additional Financing for IDP Living Standards and Livelihoods Project (the "Project") implemented by the Social Fund for the Development of Internally Displaced People ("SFDI"), and financed under the Loan Agreement number 8627-AZ signed between the Government of the Republic of Azerbaijan and International Bank for Reconstruction and Development dated June 23, 2016 (the "Loan Agreement"), which comprise the Special Purpose Balance Sheet as at December 31, 2018, and the related Statement of Sources and Uses of Funds, the Statement of Special Accounts and the Statement of Expenditure and Summary Sheet Withdrawal Schedule ("SOE and SSWS") for the year then ended and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "Special Purpose Financial Statements").

In our opinion, the accompanying Special Purpose Financial Statements present fairly, in all material respects, the financial position of the Project as at December 31, 2018, and the cash receipts and disbursements on behalf of the Project and transactions passed through the Project's Special Accounts for the year ended December 31, 2018 in accordance with the basis of accounting described in Note 2 to the special purpose financial statements.

In addition, with respect to the SOE and SSWS, all payments reported are eligible for financing under the respective loan agreement and adequate documentation have been maintained to support the claims for withdrawal.

### ***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 Project 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 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Responsibilities of Management for the Special Purpose Financial Statements***

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statements in accordance with IPSAS and relevant provisions of the Loan Agreement as described in Note 2 of the Special Purpose Financial Statements, and for such internal control as management determines is necessary to enable the preparation of Special Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

***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 auditors' 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Special Purpose 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 Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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.

*Baker Tilly Azerbaijan*

June 10, 2019  
Baku, the Republic of Azerbaijan

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT  
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
 LOAN AGREEMENT NUMBER 8627-AZ  
 SPECIAL PURPOSE BALANCE SHEET  
 AS AT DECEMBER 31, 2018**

*(Amounts expressed in US dollars, unless otherwise indicated)*

	Note	December 31, 2018	December 31, 2017
<b>ASSETS AND CUMULATIVE EXPENDITURE</b>			
Cash at bank			
Project bank account – Community		92,210	91,267
Project bank account – Micro-credit (interest) 8096-AZ		559,826	547,852
International Bank for Reconstruction and Development (“IBRD”) Loan Agreement number 8627-AZ special account		1,314,757	1,341,481
International Bank for Reconstruction and Development (“IBRD”) Loan Agreement number 8096-AZ special account		-	-
	5	<u>1,966,793</u>	<u>1,980,600</u>
Cumulative project expenditure		123,212,523	122,525,058
Front end fee		291,750	291,750
<b>Total assets and cumulative expenditure</b>		<u><b>125,471,066</b></u>	<u><b>124,797,408</b></u>
<b>CUMULATIVE SOURCES OF FUNDS</b>			
IDA Loan Agreement number 4395- AZ		26,344,395	26,344,395
IBRD Loan Agreement number 8096-AZ		49,999,388	49,999,388
IBRD Loan Agreement number 8627-AZ		8,318,289	7,657,962
Government		38,161,122	38,161,122
Community		2,019,194	2,018,253
Micro-credit (interest) 8096-AZ		988,219	976,278
		<u>125,830,607</u>	<u>125,157,398</u>
Accumulated foreign exchange difference		(359,541)	(359,990)
<b>Total cumulative sources of funds</b>		<u><b>125,471,066</b></u>	<u><b>124,797,408</b></u>

  
**Mahir Abbaszade**  
 General Manager

June 10, 2019  
 Baku, the Republic of Azerbaijan



  
**Lala Shixaliyeva**  
 Chief Accountant

The notes set out on pages 9-15 form an integral part of these financial statements.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT  
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
 LOAN AGREEMENT NUMBER 8627-AZ  
 STATEMENT OF SOURCES AND USES OF FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2018  
 (Amounts expressed in US dollars, unless otherwise indicated)**

	Note	December 31, 2018	December 31, 2017
<b>OPENING BALANCES</b>			
Project bank accounts		639,119	391,171
IBRD Loan Agreement number 8627-AZ special account		1,341,481	1,530,604
IBRD Loan Agreement number 8096-AZ special account		-	34,610
		<u>1,980,600</u>	<u>1,956,385</u>
<b>ADD: FUNDS RECEIVED BY SOURCES/(FUNDS REFUNDED)</b>			
IBRD Loan Agreement number 8096-AZ		-	(612)
IBRD Loan Agreement number 8627-AZ		660,327	5,491,212
Government		-	600,535
Community		941	135,065
Microcredit (interest) 8096-AZ		11,941	135,118
		<u>673,209</u>	<u>6,361,318</u>
<b>LESS: EXPENDITURE</b>			
Works and goods	4	-	1,863,670
Housing Renovation	4	-	26,727
Youth Support	4	-	772,140
Integrative Economic Support Pilot	4	-	128,867
Income Generating Activities	4	-	2,413,402
Consultant services and training	4	6,254	287,776
Operating costs	4	681,211	868,163
Micro-credit financed by WB-8096	4	-	-
		<u>687,465</u>	<u>6,360,745</u>
<b>ADD/(LESS): FOREIGN EXCHANGE DIFFERENCE</b>			
Government & community		35	23,603
IBRD Loan Agreement number 8627-AZ and Loan Agreement number 8096-AZ		414	39
		<u>449</u>	<u>23,642</u>

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT  
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
 LOAN AGREEMENT NUMBER 8627-AZ  
 STATEMENT OF SOURCES AND USES OF FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)  
 (Amounts expressed in US dollars, unless otherwise indicated)**

	Note	December 31, 2018	December 31, 2017
<b>CLOSING BALANCES</b>			
Project bank accounts	5	652,036	639,119
IBRD Loan Agreement number 8096-AZ special account	5	-	-
IBRD Loan Agreement number 8627-AZ special account	5	1,314,757	1,341,481
		<u>1,966,793</u>	<u>1,980,600</u>

The amount of USD 65,021 was used to cover the expenditure of Loan Agreement number 8096-AZ by using the funds received under the Additional Financing for Loan Agreement number 8627-AZ for the year ended December 31, 2017. The amounts of USD 11,511, USD 15,690, USD 20,911 and USD 16,909 were allocated to the works and goods, housing renovation, livelihood support and operating costs expense categories, respectively.

\*IBRD – International Bank for Reconstruction and Development

  
**Mahir Abbaszade**  
**General Manager**

June 10, 2019  
 Baku, the Republic of Azerbaijan



  
**Lala Shixaliyeva**  
**Chief Accountant**

The notes set out on pages 9-15 form an integral part of these financial statement.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT  
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
 LOAN AGREEMENT NUMBER 8627-AZ  
 STATEMENT OF SPECIAL ACCOUNTS  
 FOR THE YEAR ENDED DECEMBER 31, 2018**  
*(Amounts expressed in US dollars, unless otherwise indicated)*

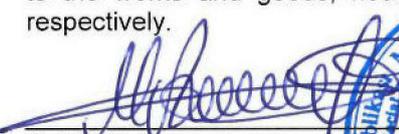
**For the year ended December 31, 2018**

	<b>“International bank of Azerbaijan” OJSC IBRD 8627-AZ Designated Account USD</b>
<b>Opening Balance</b>	<b>1,341,481</b>
<b>Add:</b>	
Project funds received	<u>660,327</u>
<b>Less:</b>	
Project eligible expenditure	<u>(687,465)</u>
<b>Foreign Exchange Difference (Gain)</b>	<u>414</u>
<b>Closing Balance</b>	<b><u>1,314,757</u></b>

**For the year ended December 31, 2017**

	<b>“International bank of Azerbaijan” OJSC IBRD 8627-AZ Designated Account USD</b>	<b>“International bank of Azerbaijan” OJSC IBRD 8096-AZ Designated Account USD</b>
<b>Opening Balance</b>	<b>1,530,604</b>	<b>34,610</b>
<b>Add:</b>		
Project funds received/(refunded)	<u>5,491,212</u>	<u>(612)</u>
<b>Less:</b>		
Project eligible expenditure	<u>(5,680,375)</u>	<u>(33,997)</u>
<b>Foreign Exchange Difference Gain/(Loss)</b>	<u>40</u>	<u>(1)</u>
<b>Closing Balance</b>	<b><u>1,341,481</u></b>	<b><u>-</u></b>

\* The amount of USD 65,021 was used to cover the expenditure of Loan Agreement number 8096-AZ by using the funds received under the Additional Financing for Loan Agreement number 8627-AZ for the year ended December 31, 2017. The amounts of USD 11,511, USD 15,690, USD 20,911 and USD 16,909 were allocated to the works and goods, housing renovation, livelihood support and operating costs expense categories, respectively.

  
**Mahir Abbaszade**  
 General Manager



  
**Lala Shixaliyeva**  
 Chief Accountant

June 10, 2019  
 Baku, the Republic of Azerbaijan

The notes set out on pages 9-15 form an integral part of these financial statements.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVEHOODS PROJECT  
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ  
 STATEMENT OF EXPENDITURE AND SUMMARY SHEET WITHDRAWAL SCHEDULE  
 FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts expressed in US dollars, unless otherwise indicated)*

**IBRD Loan Agreement number 8627- AZ – December 31, 2018**

W/A* No	W/A Date	Requested Amount	Works and Goods	Consultant services & training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Total Replenished
07	12/01/2018	660,327	1,296	29,406	69,371	-	177,419	382,835	660,327
<b>TOTAL FOR 2018</b>		<b>660,327</b>	<b>1,296</b>	<b>29,406</b>	<b>69,371</b>	<b>-</b>	<b>177,419</b>	<b>382,835</b>	<b>660,327</b>

**IBRD Loan Agreement number 8096-AZ – December 31, 2017**

W/A* No	W/A Date	Requested Amount	Works and Goods	Consultant services & training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Total Replenished
02	30/05/2017	1,193,887	699,184	1,978	261,162	231,563	-	-	1,193,887
03	24/08/2017	891,431	202,428	138,457	291,232	-	199,809	59,505	891,431
04	18/10/2017	917,988	770,481	27,642	119,865	-	-	-	917,988
05	30/11/2017	620,200	217,429	20,832	62,884	-	283,280	35,775	620,200
06	18/12/2017	1,867,706	-	15,438	64,005	-	-	1,788,263	1,867,706
<b>TOTAL FOR 2017</b>		<b>5,491,212</b>	<b>1,889,522</b>	<b>204,347</b>	<b>799,148</b>	<b>231,563</b>	<b>483,089</b>	<b>1,883,543</b>	<b>5,491,212</b>

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER  
8627-AZ**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts are expressed in US dollars, unless otherwise indicated)*

---

**NOTE 1. BACKGROUND**

The objective of the Additional Financing for IDP Living Standards and Livelihoods Project (the "Project") is to improve living conditions for Internally Displaced People ("IDP") through demand-driven community based infrastructure and service micro-projects.

The executing agency responsible for implementation, operation and management of the Project is the Social Fund for the Development of Internally Displaced People ("SFDI"). SFDI is an integral part of the Government of Azerbaijan's strategy to improve the living conditions of IDP's. It is a social development agency that manages funds allocated for needs of IDP's in a sustainable manner. SFDI is an autonomous organization reporting to a Supervisory Board which is headed by the Chairman of the State Committee for Affairs of Refugees and Internally Displaced Persons of the Republic of Azerbaijan and consists of the representatives of various state agencies such as the Deputy Minister of Finance and representatives from various international agencies. SFDI has an independent financial and management system and is a non-profit organization established by the Government of Azerbaijan (the "Government") according to the Presidential Decree # 215 on December 6, 1999 with the assistance of the International Development Association ("IDA").

The legal address of SFDI is 57 Tbilisi Avenue, Baku, Azerbaijan; the actual address is 65 Fuzuli Street, Baku, Azerbaijan.

SFDI has two key objectives:

- i. raising the living standards of IDP's by providing required funding for the rehabilitation of small-scale social and economic infrastructure;
- ii. implementation of actions ensuring creation of new work places, increasing of employment rate of the population and providing opportunities for income-generation activities through the financing of various community micro-projects and the implementation of microfinance programmes.

SFDI finances the programmes in two main directions:

*Community Micro – Projects (CMP)*

CMPs address community needs rather than individual needs. CMPs subdivide into (i) infrastructure and (ii) services (non-infrastructure) micro-projects. Infrastructure micro-projects (IMP) include rehabilitation/ construction of various infrastructures. Service micro-projects (SMP) consist of cleaning of garbage, waste disposal or support to cultural centres or community activities.

*Micro – Finance Programmes (MFP)*

MFPs are income generating programmes for the assistance to the poor IDP directed to overcome poverty, improve their living standards, increase their income and provide assistance in employment generation in their micro-enterprises through participation of financial intermediaries.

To finance this programme, in August 1998 the World Bank approved a USD 20 million equivalent IDA credit (cr.31090-AZ) for a "Pilot Reconstruction Project". The credit was complemented by the World Bank financing from different sources such as the United Nations Development Programme ("UNDP"), the United Nations High Commissioner for Refugees ("UNHCR") and the European Union ("EU") and supported by a Government contribution of USD 9.5 million. The purpose of the Project was to help Azerbaijan rebuild economic and social infrastructure in the war ravaged regions and allow as many IDP as possible to return to their places of origin.

To address the needs and help improve the living conditions of IDP from other regions, the World Bank agreed in June 1999 to provide USD 10 million equivalent "Supplemental Credit" to the "Pilot Reconstruction Project" (Cr.31091-AZ). The Supplemental Credit was to finance the Project micro-projects with social and economic objectives and to provide micro-credits to enhance the economic opportunities of IDP. The "Pilot Reconstruction Project" closed on June 30, 2005.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT INTERNATIONAL  
 BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ  
 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

On June 3, 2005, the World Bank and the Government signed the Project Agreement and the Development Loan Agreement "IDP Economic Development Support Project" ("IDP-EDS") with loan agreement number 4034-AZ whereby IDA agreed to lend to the Government an amount in various currencies equivalent to SDR 7.5 million (seven million five hundred thousand Special Drawing Rights) or USD 11.5 million. This is a "repeater project" that replicates part of the "Pilot Reconstruction Project" (Cr. 31090/31091-AZ), and its objective, like that of its predecessor is to help improve the living conditions of IDP's and enhance their economic opportunities and prospects for social integration.

**IDA Loan Agreement number 4395-AZ**

On May 15, 2008, IDA and the Government signed the Project Agreement and the Additional Financing Agreement (loan agreement number 4395-AZ) for the purpose of providing additional financing for the activities related to the Original Project – IDP Economic Development Support Project. IDA agreed to extend a credit of SDR 9.6 million (USD 15.5 million).

The loan agreement number 4395-AZ provides that the Project is financed by the proceeds received from IDA in the following proportions:

Category	Amount of credit allocated (SDR)	Percentage of Expenditure to be Financed (%)
(1) Works and Goods	8,250,000	72%
(2) Consultants' services including audit	575,000	75%
(3) Training	10,000	75%
(4) Operating Costs	765,000	75%
(5) Unallocated	-	-
	<b>9,600,000</b>	

**IBRD Loan Agreement number 8096-AZ**

On November 16, 2011, IBRD and the Government signed the Project Agreement and the Financing Agreement (loan agreement number 8096-AZ) for the purpose of providing financing for activities related to the IDP Living Standards and Livelihoods Project. IBRD agreed to extend a credit for an amount equivalent to USD 50 million. The closing date was June 2016.

The Project consisted of the following parts:

Part A: Micro-Projects

Provision of works, goods and services for: (1) community mobilization and outreach for micro-project proposal development; (2) repair or rehabilitation of basic infrastructure (e.g. water supply, power supply, access roads, drainage systems); and (3) repair or rehabilitation of social infrastructure such as schools and community centres.

Part B: Housing Renovation

Provision of works, goods and services for the rehabilitation and full scale repair of about 95 IDP collective accommodation centers including improvement of common space areas (bathrooms, corridors, kitchens, etc.), enhancement of structural features (such as sewerage, roofing and water systems) as well as improvement of conditions in individual apartments such as replacement of windows, doors, and electricity to improve the overall living conditions including safety and efficiency.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT INTERNATIONAL  
 BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ  
 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

**Part C: Livelihood Support**

1. Provision of vocational training and financial and technical support for small business development to IDP youth.
2. Provision of: (a) technical support and mobilization in selected communities leading to the establishment of about 200 self-help groups and formulation by such self-help groups of proposals for income generating activities; and (b) Small Grants to eligible self-help groups with approved proposals for income generating activities to set up small businesses and micro-enterprises.
3. Financing of Micro-credits for IDP through eligible credit unions.

**Part D: Project Management and Capacity Building**

Provision of goods, consultants' services and training for the proper management, implementation, supervision and monitoring and evaluation of the Project and capacity building of the Project Implementing Entity.

The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the loan agreement number 8096-AZ ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Loan Allocated (expressed in USD)	Percentages of Expenditures to be financed (Net of VAT)
(1) Goods, works, non-consulting services, and consultants' services including audit, Small Grants, Micro-Credits Training and Operating Costs for the Project	49,875,000	75%
(2) Front-end fee	125,000	-
(3) Interest Rate Cap or Interest Rate Collar premium	-	-
	<b>50,000,000</b>	

**IBRD Loan Agreement number 8627-AZ**

On June 23, 2016, IBRD and the Government signed the Project Agreement and the Financing Agreement (loan agreement number 8096-AZ) for the purpose of providing financing for activities related to the IDP Living Standards and Livelihoods Project. IBRD agreed to extend a credit for an amount equivalent to USD 66.7 million. The closing date is December 31, 2020.

The Project consists of the following components:

**Component A: Micro Projects**

This component will continue to finance demand-driven economic and social infrastructure investments in communities with a significant proportion of IDP. Micro projects may include (a) repair or rehabilitation of physical infrastructure (for example, water supply, power supply, access roads, drainage systems) and (b) repair or rehabilitation of social infrastructure, such as schools and health centers. The component will also continue to finance community mobilization and outreach for micro-project proposal development.

**Component B: Housing Renovation and Social and Economic Infrastructure for IDP Settlements**

Component B will undergo most changes in scope during the AF stage. In the parent project, the component financed the renovation of IDP collective centers that were in a state of disrepair. The GoA, however, is now aiming to resettle a large number of people currently living in IDP collective centers to "New Settlements" and has therefore asked for this component to change focus. The GoA will be financing the "New Settlements" using other financing but has stated that there is a great need to rehabilitate social and economic infrastructure in the "New Settlements" built before 2005. Component B under the AF will therefore finance multiple small to medium-size infrastructure investments in each of approximately 30 locations, as contrasted with Component A where only one investments possible at any one time.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT INTERNATIONAL  
 BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ  
 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

**Component C: Livelihood Support**

This existing component will be scaled up and expanded geographically. Targeting for the component will also be modified to be more integrated with Components A and B—the component will specifically target communities benefitting from infrastructure investments. In addition, a new subcomponent will be added to Component C that will focus on providing integrated economic support to beneficiaries. The component will, therefore, comprise four subcomponents (a) Youth Training and Business Development; (b) income generating activities; (c) Provision of Microcredit for IDP; and (d) (new) Integrative Economic Support Pilot.

**Component D: Project Management, Implementation Support and Capacity Building**

This component will finance project management and capacity building as well as monitoring and evaluation activities. The only change expected under this component is the financing of an impact evaluation. Currently, the project has successfully gathered data on outputs, but there are indications that broader outcomes and impacts of the project are not being successfully captured. Because of this, a firm will be competitively selected to carry out an impact evaluation.

The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the loan agreement number 8627-AZ ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Loan Allocated (expressed in USD)	Percentages of Expenditures to be financed (Net of VAT)
(1) Goods, works, non-consulting services, and consultants' services including audit, Small Grants, Micro-Credits Training and Operating Costs for the Project	66,533,250	100%
(2) Front-end fee	166,750	-
(3) Interest Rate Cap or Interest Rate Collar premium	-	-
	<b>66,700,000</b>	

Effective from 2008 the funding of international financial institutions is subject to the Value Added Tax ("VAT") and customs duties. This is applicable to the both financings received under loan agreement number 4395-AZ and 8096-AZ.

**NOTE 2. ACCOUNTING POLICIES**

*Basis of Accounting*

These special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard ("IPSAS") *Financial Reporting under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board ("IPSASB"), an independent standard-setting body within the International Federation of Accountants ("IFAC") and incorporate the following principal accounting policies, which have been consistently followed in all material respects. These special purpose financial statements have been prepared under the historical cost convention. Project financing is recognized as a source of project funds when cash is received. Project expenditure is recognized as a use of project funds when payment is made.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT INTERNATIONAL  
BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ  
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**  
*(Amounts are expressed in US dollars, unless otherwise indicated)*

---

*Transactions and balances in foreign currencies*

The Project is domiciled in the Republic of Azerbaijan where the local currency is the Azerbaijani manat ("AZN"). Because the majority of the Project's transactions are funded in United States dollars and in accordance with the requirements of the World Bank, these special purpose financial statements are presented in United States dollars ("US dollar", "USD" or "US\$"), which is the reporting currency of the Project. Transactions in other currencies are treated as transactions in foreign currencies. Cash receipts and payments arising from transactions in a foreign currency are recorded in the Project's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of receipt and payment. Cash balances held in a foreign currency are reported using the closing rate, which is the spot exchange rate at the reporting date. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of sources and uses of funds and other statements in order to reconcile cash at the beginning and the end of the period. These amounts are presented separately from cash receipts and payments and include the differences, if any, had those cash receipts and payments and balances been reported at end-of-period exchange rates. At December 31, 2018 the official AZN/USD exchange rates set by the Central Bank of Azerbaijan ("CBAR") were 1.7000 and comparative December 31, 2017 were as 1.7001.

**NOTE 3. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the financing up to and including December 31, 2018 were as follows:

**(a) IBRD account**

Certain disbursements were made by IBRD directly to third parties following the submission of an Application for Withdrawal, with the relevant supporting documents.

**(b) Special account**

Available amounts were drawn down within the limits determined by the relevant loan agreements for the direct payment of eligible expenditure for sub-projects from the Special Account, a designated account of the Project.

**(c) Statement of expenditure (SOE)**

Under the SOE method, the Projects forward to the Bank an application for reimbursement of payments already made using an Application for Withdrawal, with SOE forms as the only documentation.

**(d) Project account**

The project maintains a separate account where the Government and Community funds are accumulated. The funds are disbursed to sub-contractors based on the Government and Community share of the expenditure incurred.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN  
 AGREEMENT NUMBER 8627-AZ**

**NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts are expressed in US dollars, unless otherwise indicated)*

**NOTE 4. EXPENSES BY SOURCE OF FINANCE**

**For the year ended December 31, 2018:**

Source of finance	Works & goods	Consultants' services and training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Integrative Economic Support Pilot	Total
IBRD 8096-AZ	-	-	-	-	-	-	-	-
IBRD 8627-AZ	-	6,254	681,211	-	-	-	-	687,465
Government	-	-	-	-	-	-	-	-
Community	-	-	-	-	-	-	-	-
<b>Total</b>	-	<b>6,254</b>	<b>681,211</b>	-	-	-	-	<b>687,465</b>

**For the year ended December 31, 2017:**

Source of finance	Works & goods	Consultants' services and training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Integrative Economic Support Pilot	Total
IBRD 8096-AZ	-	7,147	123	26,727	-	-	-	33,997
IBRD 8627-AZ	1,485,548	242,395	838,120	-	653,248	2,351,855	109,209	5,680,375
Government	332,176	38,234	29,920	-	118,892	61,547	19,658	600,427
Community	45,946	-	-	-	-	-	-	45,946
<b>Total</b>	<b>1,863,670</b>	<b>287,776</b>	<b>868,163</b>	<b>26,727</b>	<b>772,140</b>	<b>2,413,402</b>	<b>128,867</b>	<b>6,360,745</b>

The amount of USD 65,021 was used to cover the expenditure of Loan Agreement number 8096-AZ by using the funds received under the Additional Financing for Loan Agreement number 8627-AZ for the year ended December 31, 2017. The amounts of USD 11,511, USD 15,690, USD 20,911 and USD 16,909 were allocated to the works and goods, housing renovation, livelihood support and operating costs expense categories, respectively.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
 ADDITIONAL FINANCING FOR IDP LIVING STANDARDS AND LIVELIHOODS PROJECT INTERNATIONAL  
 BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN AGREEMENT NUMBER 8627-AZ  
 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED DECEMBER 31, 2018  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

**NOTE 5. CASH IN BANK**

	December 31, 2018	December 31, 2017
Project bank accounts	652,036	639,119
IBRD Loan Agreement number 8096-AZ special account	-	-
IBRD Loan Agreement number 8627-AZ special account	1,314,757	1,341,481
	<u>1,966,793</u>	<u>1,980,600</u>

**NOTE 6. LIABILITIES ACCRUED AS AT THE YEAR END**

The standard terms of contracts signed by the Project for undertaking construction works or purchasing equipment under the Works & Goods category of the IDA Loan Agreements are such that 5% of the total contract fee is paid to a supplier subsequent to the expiration of a three month period provided that no deficiencies were revealed in connection with the works done or goods supplied. As a result, the Project's total amount outstanding as payable to suppliers at December 31, 2018 was equal to USD 5,583,286 (2017: USD 1,078,225).

**NOTE 7. OPERATING ENVIRONMENT**

The Social Fund for the Development of Internally Displaced People ("SFDI") operations are conducted in the Republic of Azerbaijan. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

The Azerbaijani economy contracted by 1.3% growth (year-on-year) in the first half of 2017, driven by a decline in oil GDP (7.2%) as oil revenues were decreased due to production volumes and oil prices. On the upside, and despite continued banking sector distress, the non-oil economy expanded by 1.7% for the first time in over a year, supported by the strong performance of the agriculture and manufacturing sectors. Annual inflation remained high at 13-14% during 2017, driven mainly by an increase in government-controlled tariffs for electricity, water, and gas, and in domestic food prices. Citing inflationary pressures, the Central Bank of the Republic of Azerbaijan continued to tighten the monetary policy stance during 2017 by scaling up liquidity absorption operations. The manat has appreciated by 4.4% against the U.S. dollar since end-2016, reflecting its stronger external position and increased liquidity absorption operations. The troubled financial sector continues to exert a negative impact on the economy. Credit contracted by 15.6% in the first half of 2017, and the quality of assets continued to deteriorate.

According to Moody's, real GDP growth accelerated further after growing 0.1% in 2017 over the first five months of 2018 by 1.6% compared with the year-earlier period, and expects the economy to grow by 2% in 2018 and 3% in 2019. Growth will be aided by higher oil prices and increased gas exports.

Moody's Investors Service says that the credit profile of Azerbaijan (Ba2 stable) reflects its relatively high levels of gross government debt and guarantees, and fragile banking sector. These features reflect the legacy impact of the fall in oil prices and steep depreciation in the manat over 2014-2016.

Manat has remained stable during 2018. However, uncertainty over the exchange rate in the future and the ongoing fragility of the banking system hinder policy transmission into the real economy.

In February 2018, Standard & Poor's, international credit agency, affirmed long and short-term sovereign credit rating of Azerbaijan in foreign and local currency at 'BB+/B' upgrading rating outlook from negative to stable.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company. The management is currently performing sensitivity analyses under different oil prices scenarios and elaborating relevant action plans for mainlining sustainability of the business.

**NOTE 8. POST BALANCE SHEET EVENTS**

There were not any adjusting or significant non-adjusting events occurred between the reporting date and the date of authorization of these financial statements.