

**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, 2019

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

**TABLE OF CONTENTS**

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	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019	1
INDEPENDENT AUDITORS' REPORT	2-3
SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019:	
Special purpose balance sheet	4
Statement of sources and uses of funds	5
Statement of special accounts	6
Statement of expenditure and summary sheet withdrawal schedule	7
Notes to the special purpose financial statements	8-16

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019**

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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, 2019, 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 then ended, 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, 2019 were authorized for issue on June 1, 2020 by the Management of the SFDI.

  
\_\_\_\_\_  
**Mahir Abbaszade**  
**General Manager**

  
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**Lala Shikhaliyeva**  
**Chief Accountant**

June 1, 2020  
Baku, the Republic of Azerbaijan



**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, 2019, 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, 2019, and the cash receipts and disbursements on behalf of the Project and transactions passed through the Project's Special Accounts for the year then ended 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.

***Emphasis of Matter******Expiration of the Project***

Without qualifying our opinion, we also draw attention to Note 1, which describes that in December 12, 2019 the IBRD acknowledged the cancellation request by the Borrower and cancelled the undisbursed Loan amount equal to USD 51,195,614 as of July 6, 2019. The loan agreement number 8627-AZ was amended to reflect the effects of the cancellation. As part of the amendment, the closing date for the loan agreement number 8627-AZ was set to December 31, 2019.

***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 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.

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

***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*

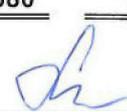
June 1, 2020  
Baku, the Republic of Azerbaijan

**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, 2019**

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

	Note	December 31, 2019	December 31, 2018
<b>ASSETS AND CUMULATIVE EXPENDITURE</b>			
Cash at bank			
Project bank account – Community		12,413	92,210
Project bank account – Micro-credit (interest) 8096-AZ International Bank for Reconstruction and Development ("IBRD") Loan Agreement number 8627-AZ special account		569,736	559,826
		<u>994,109</u>	<u>1,314,757</u>
	5	<u><b>1,576,258</b></u>	<u><b>1,966,793</b></u>
Cumulative project expenditure		132,028,534	123,212,523
Front end fee		291,750	291,750
Accumulated foreign exchange difference		<u>359,538</u>	<u>359,541</u>
<b>Total assets and cumulative expenditure</b>		<u><b>134,256,080</b></u>	<u><b>125,830,607</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		15,504,387	8,318,289
Government		39,390,511	38,161,122
Community		2,019,194	2,019,194
Micro-credit (interest) 8096-AZ		<u>998,205</u>	<u>988,219</u>
<b>Total cumulative sources of funds</b>		<u><b>134,256,080</b></u>	<u><b>125,830,607</b></u>

  
 Mahir Abbaszade  
 General Manager

  
 Lala Shikhaliyeva  
 Chief Accountant

June 1, 2020  
 Baku, the Republic of Azerbaijan

The notes set out on pages 8-16 form an integral part of these special purpose 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, 2019**

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

	Note	December 31, 2019	December 31, 2018
<b>OPENING BALANCES</b>			
Project bank accounts		652,036	639,119
IBRD Loan Agreement number 8627-AZ special account		1,314,757	1,341,481
		<u>1,966,793</u>	<u>1,980,600</u>
<b>ADD: FUNDS RECEIVED BY SOURCES</b>			
IBRD Loan Agreement number 8627-AZ		7,186,098	660,327
Government		1,229,389	-
Community		-	941
Microcredit (interest) 8096-AZ		9,986	11,941
		<u>8,425,473</u>	<u>673,209</u>
<b>LESS: EXPENDITURE</b>			
Works and goods	4	2,428,273	-
Housing Renovation	4	2,225,155	-
Youth Support	4	2,774,077	-
Integrative Economic Support Pilot	4	227,601	-
Income Generating Activities	4	265,958	-
Consultant services and training	4	222,859	6,254
Operating costs	4	672,012	681,211
Micro-credit financed by WB-8096		76	-
		<u>8,816,011</u>	<u>687,465</u>
<b>ADD/(LESS): FOREIGN EXCHANGE DIFFERENCE</b>			
Government & community		3	35
IBRD Loan Agreement number 8627-AZ and Loan Agreement number 8096-AZ		-	414
		<u>3</u>	<u>449</u>
<b>CLOSING BALANCES</b>			
Project bank accounts	5	582,149	652,036
IBRD Loan Agreement number 8627-AZ special account	5	994,109	1,314,757
		<u>1,576,258</u>	<u>1,966,793</u>

\*IBRD – International Bank for Reconstruction and Development

  
 Mahir Abbaszade  
 General Manager

  
 Lala Shikhaliyeva  
 Chief Accountant

June 1, 2020  
 Baku, the Republic of Azerbaijan

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 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
 LOAN AGREEMENT NUMBER 8627-AZ  
 STATEMENT OF SPECIAL ACCOUNTS  
 FOR THE YEAR ENDED DECEMBER 31, 2019**  
*(Amounts expressed in US dollars, unless otherwise indicated)*

**For the year ended December 31, 2019**

	<b>“International bank of Azerbaijan” OJSC IBRD 8627-AZ Designated Account USD</b>
<b>Opening Balance</b>	1,314,757
<b>Add:</b>	
Project funds received	<u>7,186,098</u>
<b>Less:</b>	
Project eligible expenditure	<u>(7,506,746)</u>
<b>Closing Balance</b>	<u><u>994,109</u></u>

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

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

  
 Mahir Abbaszade  
 General Manager

  
 Lala Shikhaliyeva  
 Chief Accountant

June 1, 2020  
 Baku, the Republic of Azerbaijan

The notes set out on pages 8-16 form an integral part of these special purpose financial statements.

**SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN  
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 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, 2019**

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

**IBRD Loan Agreement number 8627- AZ – December 31, 2019**

W/A* No	W/A Date	Requested Amount	Works and Goods	Consultant services & training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Integrative Economic Support Pilot	Total Replenished
08	03/11/2019	1,836,412	599,049	75,778	775,470	186,448	96,375	67,478	35,814	1,836,412
09	05/08/2019	1,828,864	390,402	36,738	93,318	462,611	607,621	159,449	78,725	1,828,864
10	06/03/2019	1,762,267	714,023	35,138	43,824	364,229	526,328	-	78,725	1,762,267
11	09/12/2019	1,758,555	175,629	48,484	141,356	318,348	1,074,738	-	-	1,758,555
12	12/10/2019	668,320	128,932	2,941	146,810	353,851	35,785	-	-	-
<b>TOTAL FOR 2019</b>		<b>7,854,418</b>	<b>2,008,035</b>	<b>199,079</b>	<b>1,200,778</b>	<b>1,685,487</b>	<b>2,340,847</b>	<b>226,927</b>	<b>193,264</b>	<b>7,186,098</b>

**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>

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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, 2019**  
*(Amounts are expressed in US dollars, unless otherwise indicated)*

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**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.

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 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
 LOAN AGREEMENT NUMBER 8627-AZ  
 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2019 (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.

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 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2019 (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 8627-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.

In December 12, 2019 the IBRD acknowledged the cancellation request by the Borrower and cancelled the undisbursed Loan amount equal to USD 51,195,614 as of July 6, 2019. The loan agreement number 8627-AZ was amended to reflect the effects of the cancellation. As part of the amendment, the closing date for the loan agreement number 8627-AZ was cancelled by December 31, 2019.

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.

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 NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2019 (Continued)  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

**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.

**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	Original amount of the Loan Allocated (expressed in USD)	Original Percentages of Expenditures to be financed (Net of VAT)	Revised amount of the Loan Allocated (expressed in USD)	Revised 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%	15,337,636	100%
(2) Front-end fee	166,750	-	166,750	-
(3) Interest Rate Cap or Interest Rate Collar premium	-	-	-	-
	<b>66,700,000</b>		<b>15,504,386</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.

**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, 2019 (Continued)**  
*(Amounts are expressed in US dollars, unless otherwise indicated)*

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**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.

*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, 2019 the official AZN/USD exchange rates set by the Central Bank of Azerbaijan ("CBAR") were 1.7000 and comparative December 31, 2018 were as 1.7000.

**NOTE 3. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the financing up to and including December 31, 2019 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**  
**FOR THE YEAR ENDED DECEMBER 31, 2019 (Continued)**  
*(Amounts are expressed in US dollars, unless otherwise indicated)*

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

For the year ended December 31, 2019:

Expenses by source of finance	Works & goods	Consultants' services and training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Integrative Economic Support Pilot	Micro-credit	Total
IBRD 8627-AZ	2,000,731	191,226	668,269	1,870,766	2,355,563	226,927	193,264	-	7,506,746
Government	366,465	31,633	3,672	335,737	418,514	39,031	34,337	-	1,229,389
Community	61,077	-	71	18,652	-	-	-	-	79,800
% of Micro-credit	-	-	-	-	-	-	-	76	76
<b>Total</b>	<b>2,428,273</b>	<b>222,859</b>	<b>672,012</b>	<b>2,225,155</b>	<b>2,774,077</b>	<b>265,958</b>	<b>227,601</b>	<b>76</b>	<b>8,816,011</b>

For the year ended December 31, 2018:

Expenses by source of finance	Works & goods	Consultants' services and training	Operating costs	Housing Renovation	Youth Support	Income Generating Activities	Integrative Economic Support Pilot	Total
IBRD 8627-AZ	-	6,254	681,211	-	-	-	-	687,465
Government	-	-	-	-	-	-	-	-
Community	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>6,254</b>	<b>681,211</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>687,465</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, 2019 (Continued)  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

**NOTE 5. CASH IN BANK**

	December 31, 2019	December 31, 2018
Project bank accounts	582,149	652,036
IBRD Loan Agreement number 8627-AZ special account	994,109	1,314,757
	<u>1,576,258</u>	<u>1,966,793</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 and Housing Renovation category of the loan agreement number 8627-AZ are such that 5% of the total contract fee is paid to a supplier subsequent to the expiration of a three and twelve months period respectively, 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, 2019 was equal to USD 447,621 (2018: USD 5,583,286).

**NOTE 7. OPERATING ENVIRONMENT**

The Social Fund for the Development of Internally Displaced People ("SFDI") operations are conducted in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat.

The Azerbaijan's economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani Manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth. In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On December 6, 2016 President of the Republic of Azerbaijan approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan". The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

Furthermore, during 2018 the government continued its monetary policy with respect to stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2019 with the aim of maintaining macroeconomic stability.

International credit rating agencies regularly evaluate credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated rating of the Republic of Azerbaijan as "BB+". Moody's Investors Service set "Ba2" credit rating for the country.

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.

**NOTE 8. POST BALANCE SHEET EVENTS**

In late 2019 the coronavirus outbreak occurred in Wuhan, China. The situation at December 31, 2019 was limited in number of reported cases and geography and therefore this event was considered as non-adjusted event for the financial reporting purposes under IFRS. However, after January 2020 the situation changed drastically, and in March 2020 the World Health Organization (WHO) announced that the coronavirus outbreak can be characterized as a pandemic.

**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, 2019 (Continued)  
 (Amounts are expressed in US dollars, unless otherwise indicated)**

Many governments, including the government of the Republic of Azerbaijan have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain as well as demand for goods and services and resulted in significant disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates, and a marked decline in long-term interest rates in developed economies. These government responses and their corresponding effects are still evolving.

In addition to slowdown in world economy, oil prices have declined dramatically after OPEC and Russia were unable to agree on production cuts at their March 2020 meeting. These events and conditions create a level of uncertainty and risk that companies may not have encountered before, and may result in significant financial reporting implications.

After the reporting period, on January 28, 2020 Government and on January 31, 2020 and February 24, 2020 Community has transferred the amount of USD 79,479 and USD 1,815 to settle commitment, respectively. The bank balances in IBRD Loan Number 8627-AZ Designated Account and the following table shows subsequent disbursements and fund receipts under the Project during from month period ended May 31, 2020 :

	Note	May 31, 2020	December 31, 2019
<b>OPENING BALANCES</b>			
Project bank accounts		582,149	652,036
IBRD Loan Agreement number 8627-AZ special account		994,109	1,314,757
		<u>1,576,258</u>	<u>1,966,793</u>
<b>ADD: FUNDS RECEIVED BY SOURCES</b>			
IBRD Loan Agreement number 8096-AZ		-	-
IBRD Loan Agreement number 8627-AZ		-	7,186,098
Government		79,479	1,229,389
Community		1,815	-
Microcredit (interest) 8096-AZ		5,588	9,986
		<u>86,882</u>	<u>8,425,473</u>
<b>LESS: EXPENDITURE</b>			
Works and goods		74,359	2,428,273
Housing renovation		369,358	2,225,155
Youth support		29,739	2,774,077
Integrative Economic Support Pilot		-	227,601
Income generating activities		-	265,958
Consultant services and training		9,459	222,859
Operating costs		492	672,012
Micro-credit financed by WB-8096		-	76
		<u>483,407</u>	<u>8,816,011</u>
<b>ADD/(LESS): FOREIGN EXCHANGE DIFFERENCE</b>			
Government & community		-	3
IBRD Loan Agreement number 8627-AZ		-	-
		-	<u>3</u>
Refund to community		(5,590)	-
<b>CLOSING BALANCES</b>			
Project bank accounts		586,100	582,149
IBRD Loan Agreement number 8627-AZ special account		588,043	994,109
		<u>1,174,143</u>	<u>1,576,258</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  
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019 (Continued)**  
*(Amounts are expressed in US dollars, unless otherwise indicated)*

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The standard terms of contracts signed by the Project for undertaking construction works or purchasing equipment under the Works & Goods and Housing Renovation category of the loan agreement number 8627-AZ are such that 5% of the total contract fee is paid to a supplier subsequent to the expiration of a three and twelve months period respectively, provided that no deficiencies were revealed in connection with the works done or goods supplied. As a result, the Project's total amount of outstanding payable to suppliers at May 31, 2020 was equal to USD 47,161 (2019: USD 447,621).