SOCIAL FUND
FOR THE DEVELOPMENT OF
INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN

REPORT OF INDEPENDENT AUDITORS
AND
COMBINED SPECIAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2016
SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE

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<td>12–22</td>
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REPORT OF INDEPENDENT AUDITORS

TO THE SUPERVISORY BOARD OF THE SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN

Opinion

We have audited the accompanying combined special purpose financial statements of the Social Fund for the Development of Internally Displaced People of Azerbaijan ("SFDI") which comprise the combined balance sheet at 31 December 2016, and the related combined statement of sources and uses of funds for the year then ended, and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "combined special purpose financial statements"). We have also audited SFDI's compliance with the requirements and conditions of the World Bank's Guidelines, Credit Agreements and laws and regulations of the Republic of Azerbaijan.

In our opinion, the accompanying special purpose financial statements referred to above, present fairly, in all material respects, the financial position of the Project and of the special and project accounts as of 31 December 2016 and related sources and uses of funds, Project activities by components and movements in special and project accounts for the year then ended, in accordance with the basis of accounting described in Note 2 to the accompanying special purpose financial statements and the Project is in all material respects, in compliance with the conditions of the relevant Loan Agreement and the World Bank guidelines and laws of the Republic of Azerbaijan during the year ended 31 December 2016.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) applicable to the audit of financial statements and to compliance auditing, with special reference to ISA 800. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting described in Note 2 of the accompanying special purpose financial statements. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.
Auditor's responsibility for the Financial Statements

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

6 June 2017
## ASSETS AND CUMULATIVE EXPENDITURE

### 2016 vs. 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and bank - World Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank account – Government of Azerbaijan</td>
<td>–</td>
<td>4</td>
</tr>
<tr>
<td>Project Bank account – Community</td>
<td>2,348</td>
<td>75,979</td>
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<tr>
<td>Project Bank account- Microcredit (interest)</td>
<td>388,823</td>
<td>116,967</td>
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<tr>
<td>International Development Association (“IDA”) Special Account</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development (“IBRD”) Loan No. 8627-AZ special account</td>
<td>1,530,604</td>
<td>–</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development (“IBRD”) Loan No. 8096-AZ special account</td>
<td>34,610</td>
<td>28,715</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>1,956,385</td>
<td>221,665</td>
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<tr>
<td>Cash and bank – State Oil Fund of the Azerbaijan Republic (“SOFAZ”)</td>
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<td></td>
</tr>
<tr>
<td>Project Bank accounts</td>
<td>1,383</td>
<td>1,577</td>
</tr>
<tr>
<td>Bank accounts operated through the Treasury of the Ministry of Finance</td>
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<td>131,984</td>
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<tr>
<td>Petty cash</td>
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<tr>
<td><strong>Total Cash and bank – SOFAZ</strong></td>
<td>76,487</td>
<td>133,562</td>
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<tr>
<td>Cash and bank - State Oil Company of Azerbaijan Republic (“SOCAR”)</td>
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<td></td>
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<tr>
<td>Project Bank account</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Bank accounts operated through the Treasury of the Ministry of Finance</td>
<td>–</td>
<td>9,764</td>
</tr>
<tr>
<td><strong>Total Cash and bank – SOCAR</strong></td>
<td>–</td>
<td>9,764</td>
</tr>
<tr>
<td>Cash and bank – Islamic Development Bank (“IDB”)</td>
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<td></td>
</tr>
<tr>
<td>Project Bank accounts</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Cash and bank – IDB</strong></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cash and bank – Micro-credits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank accounts</td>
<td>144,201</td>
<td>130,844</td>
</tr>
<tr>
<td><strong>Total Cash and bank – Micro-credits</strong></td>
<td>144,201</td>
<td>130,844</td>
</tr>
<tr>
<td>Cash and bank – Tender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank accounts</td>
<td>1,288</td>
<td>11,992</td>
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<tr>
<td><strong>Total Cash and bank – Tender</strong></td>
<td>1,288</td>
<td>11,992</td>
</tr>
<tr>
<td>Cash and bank – Japan Social Development Fund (“JSDF”)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank account</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Cash and bank – Japan Social Development Fund (“JSDF”)</strong></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cash and bank – the Government of Azerbaijan (“GoA”)</td>
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</tr>
<tr>
<td>Bank accounts operated through the Treasury of the Ministry of Finance</td>
<td>–</td>
<td>5,379</td>
</tr>
<tr>
<td><strong>Total Cash and bank – GoA</strong></td>
<td>–</td>
<td>5,379</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>2,178,361</td>
<td>513,206</td>
</tr>
</tbody>
</table>

The cumulative project expenditure includes expenses incurred from various sources, with each source listed separately. The total cumulative project expenditure for 2016 was $2,524,334,464, compared to $2,454,611,768 in 2015. The notes set out on pages 12-22 form an integral part of these financial statements.
SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN
COMBINED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2016
(Expressed in US dollars)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative sources of funds - World Bank</td>
<td>118,779,780</td>
<td>106,058,022</td>
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<tr>
<td>Cumulative sources of funds - SOFAZ</td>
<td>2,271,035,097</td>
<td>2,213,434,590</td>
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<tr>
<td>Cumulative sources of funds - SOCAR</td>
<td>9,473,372</td>
<td>9,481,941</td>
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<tr>
<td>Cumulative sources of funds - IDB</td>
<td>13,320,587</td>
<td>13,320,587</td>
</tr>
<tr>
<td>Cumulative sources of funds - Micro-credits</td>
<td>4,177,138</td>
<td>4,137,306</td>
</tr>
<tr>
<td>Cumulative sources of funds - Tender</td>
<td>246,806</td>
<td>235,022</td>
</tr>
<tr>
<td>Cumulative sources of funds - JSDF</td>
<td>1,943,224</td>
<td>1,943,224</td>
</tr>
<tr>
<td>Cumulative sources of funds - GoA</td>
<td>109,464,958</td>
<td>108,404,932</td>
</tr>
<tr>
<td><strong>Total sources of funds</strong></td>
<td><strong>2,528,440,962</strong></td>
<td><strong>2,457,015,624</strong></td>
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<tr>
<td>Accumulated foreign exchange difference – World Bank</td>
<td>(383,632)</td>
<td>(386,729)</td>
</tr>
<tr>
<td>Accumulated foreign exchange difference – SOFAZ</td>
<td>(1,228,136)</td>
<td>(1,211,725)</td>
</tr>
<tr>
<td>Accumulated foreign exchange difference – SOCAR</td>
<td>(28,500)</td>
<td>(27,305)</td>
</tr>
<tr>
<td>Accumulated foreign exchange difference – IDB</td>
<td>613</td>
<td>513</td>
</tr>
<tr>
<td>Accumulated foreign exchange difference – Micro-credits</td>
<td>(239,405)</td>
<td>(222,610)</td>
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<tr>
<td>Accumulated foreign exchange difference – Tender</td>
<td>(12,112)</td>
<td>(10,005)</td>
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<tr>
<td>Accumulated foreign exchange difference – JSDF</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated foreign exchange difference – GoA</td>
<td>(36,865)</td>
<td>(32,789)</td>
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<tr>
<td><strong>Total accumulated foreign exchange difference</strong></td>
<td><strong>(1,928,137)</strong></td>
<td><strong>(1,890,650)</strong></td>
</tr>
<tr>
<td><strong>TOTAL SOURCES OF FUNDS</strong></td>
<td><strong>2,526,512,825</strong></td>
<td><strong>2,455,124,974</strong></td>
</tr>
</tbody>
</table>

* The expenditure on works and goods amounting USD 16,296 expensed in the year ended 31 December 2009 out of Government share under IDA 4034-AZ agreement was omitted from cumulative project expenditure by an error. The amount of USD 469,386 was used to cover the expenditure of Credit Number 8096-AZ by using the funds received under the Additional Financing Credit Number # 8627-AZ. The amounts of USD 210,616, USD 231,563 and USD 27,207 were allocated to the works and goods, housing renovation and operating costs expense categories respectively. The amount of front end fee has been included in the cumulative expenditure of the Project.

Sabir Ahmadov  Lala Shikhaliyeva
Director, SFDI  Chief Accountant, SFDI

The notes set out on pages 12-22 form an integral part of these financial statements.
### OPENING BALANCES

<table>
<thead>
<tr>
<th>Source/Account</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project bank accounts</td>
<td>192,950</td>
<td>150,631</td>
</tr>
<tr>
<td>IDA Loan No. 4395-AZ special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IBRD Loan No. 8627-AZ special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IBRD Loan No. 8096-AZ special account</td>
<td>28,715</td>
<td>93,681</td>
</tr>
<tr>
<td></td>
<td>221,665</td>
<td>244,312</td>
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<tr>
<td>SOFAZ</td>
<td></td>
<td></td>
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<tr>
<td>Project Bank accounts – IBAR</td>
<td>1,577</td>
<td>2,963</td>
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<tr>
<td>Treasury accounts – IBAR</td>
<td>131,984</td>
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<tr>
<td>Petty cash</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>133,562</td>
<td>226,820</td>
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<tr>
<td>SOCAR</td>
<td></td>
<td></td>
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<tr>
<td>Project Bank account – Kapital Bank</td>
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<tr>
<td>Bank accounts operated through the Treasury of the Ministry of Finance</td>
<td>9,764</td>
<td>19,396</td>
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<tr>
<td></td>
<td>9,764</td>
<td>19,396</td>
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<tr>
<td>IDB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank accounts – Kapital Bank</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Micro-credits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank accounts – IBAR</td>
<td>112,235</td>
<td>169,042</td>
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<tr>
<td>Project Bank accounts – Kapital Bank</td>
<td>18,609</td>
<td>29,157</td>
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<td>130,844</td>
<td>198,199</td>
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<td>Tender</td>
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<tr>
<td>Project Bank account – IBAR</td>
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<td>19,484</td>
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<td></td>
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<td>19,484</td>
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<tr>
<td>JSDF</td>
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<td>Project Bank account – IBAR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GoA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank accounts operated through the Treasury of the Ministry of Finance</td>
<td>5,379</td>
<td>28,222</td>
</tr>
<tr>
<td></td>
<td>5,379</td>
<td>28,222</td>
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<tr>
<td>TOTAL OPENING BALANCES</td>
<td>513,206</td>
<td>736,433</td>
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</tbody>
</table>

### LESS:

#### ACCUMULATED OPENING FOREIGN EXCHANGE DIFFERENCE

<table>
<thead>
<tr>
<th>Source/Account</th>
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<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>(386,729)</td>
<td>24,388</td>
</tr>
<tr>
<td>SOFAZ</td>
<td>(1,211,725)</td>
<td>236,397</td>
</tr>
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<td>SOCAR</td>
<td>(27,305)</td>
<td>(17,673)</td>
</tr>
<tr>
<td>IDB</td>
<td>513</td>
<td>513</td>
</tr>
<tr>
<td>Micro-credits</td>
<td>(222,610)</td>
<td>(104,427)</td>
</tr>
<tr>
<td>Tender</td>
<td>(10,006)</td>
<td>602</td>
</tr>
<tr>
<td>JSDF</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GoA</td>
<td>(32,789)</td>
<td>(9,659)</td>
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<tr>
<td>TOTAL ACCUMULATED OPENING FOREIGN EXCHANGE DIFFERENCE</td>
<td>(1,890,650)</td>
<td>130,141</td>
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</tbody>
</table>

The notes set out on pages 12-22 form an integral part of these financial statements.
## SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN

### COMBINED STATEMENT OF SOURCES AND USES OF FUNDS (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2016**

(Expressed in US dollars)

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADD: FUNDS RECEIVED BY SOURCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>World Bank</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA Loan No. 4395-AZ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD Loan No. 8627-AZ</td>
<td>2,166,750</td>
<td>2,166,750</td>
</tr>
<tr>
<td>IBRD Loan No. 8096-AZ</td>
<td>6,628,058</td>
<td>17,804,681</td>
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<tr>
<td>Government</td>
<td>3,413,450</td>
<td>37,544,288</td>
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<tr>
<td>Community</td>
<td>75,021</td>
<td>1,883,188</td>
</tr>
<tr>
<td>Microcredit (interest)</td>
<td>438,479</td>
<td>84,160</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,721,758</strong></td>
<td><strong>26,090,208</strong></td>
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<tr>
<td><strong>SOFAZ</strong></td>
<td><strong>57,600,507</strong></td>
<td><strong>2,271,035,097</strong></td>
</tr>
<tr>
<td><strong>SOCAR</strong></td>
<td><strong>(8,569)</strong></td>
<td><strong>9,473,372</strong></td>
</tr>
<tr>
<td><strong>IDB</strong></td>
<td><strong>(8,569)</strong></td>
<td><strong>9,473,372</strong></td>
</tr>
<tr>
<td>Government funds</td>
<td>-</td>
<td>3,936,817</td>
</tr>
<tr>
<td>IDB funds</td>
<td>-</td>
<td>9,383,970</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,320,587</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Micro-credits</strong></td>
<td>39,832</td>
<td>4,177,138</td>
</tr>
<tr>
<td><strong>Tender</strong></td>
<td>11,784</td>
<td>246,806</td>
</tr>
<tr>
<td><strong>JSDF</strong></td>
<td>-</td>
<td>1,943,224</td>
</tr>
<tr>
<td><strong>GoA</strong></td>
<td>1,060,026</td>
<td>109,464,958</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,060,026</strong></td>
<td><strong>109,464,958</strong></td>
</tr>
<tr>
<td><strong>TOTAL FUNDS RECEIVED</strong></td>
<td><strong>71,425,338</strong></td>
<td><strong>2,528,440,962</strong></td>
</tr>
</tbody>
</table>

| **LESS: EXPENDITURE** |               |                     |
| **World Bank** |               |                     |
| Works and goods | 5,173,355       | 55,313,259          |
| Housing Renovation | 3,991,061 | 33,197,090          |
| Youth Support | 448,005         | 6,903,223           |
| Income Generating Activities | 278,721 | 4,613,767          |
| Consultant services and training | 245,027 | 4,783,820          |
| Operating costs | 57,259 | 6,936,838           |
| Micro-credit financed by WB-8096 | 114,957 | 4,401,016          |
| Front end fee | 166,750        | 291,750             |
| **Total** | **10,990,135** | **116,439,763**     |
| **SOFAZ** |               |                     |
| Engineering structures | 51,136,894 | 714,988,032        |
| Public service objects | 3,196,822 | 198,608,638        |
| Private houses | 1,747,646 | 1,275,178,939      |
| Other | 1,559,809 | 80,954,864          |
| **Total** | **57,641,171** | **2,269,730,473**   |
| **SOCAR** |               |                     |
| Construction | -       | 9,061,778          |
| Office    | -         | 107,997             |
| Project | -         | 249,638             |
| Other | -         | 25,459              |
| **Total** | -         | **9,444,872**       |

The notes set out on pages 12-22 form an integral part of these financial statements
SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN
COMBINED STATEMENT OF SOURCES AND USES OF FUNDS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in US dollars)

<table>
<thead>
<tr>
<th>Source</th>
<th>2016</th>
<th>2015</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civil Works</td>
<td>-</td>
<td>-</td>
<td>12,900,762</td>
</tr>
<tr>
<td>Consultants' services</td>
<td>-</td>
<td>-</td>
<td>244,724</td>
</tr>
<tr>
<td>Project</td>
<td>-</td>
<td>-</td>
<td>148,076</td>
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<tr>
<td>Salaries and office</td>
<td>-</td>
<td>-</td>
<td>27,539</td>
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<tr>
<td>Micro-credits</td>
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<td>13,321,101</td>
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<tr>
<td>Micro-credits</td>
<td>9,680</td>
<td>24,530</td>
<td>3,493,160</td>
</tr>
<tr>
<td>Salaries and office</td>
<td>-</td>
<td>-</td>
<td>300,372</td>
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<tr>
<td>Tender</td>
<td>20,381</td>
<td>30,876</td>
<td>233,406</td>
</tr>
<tr>
<td>JSDF</td>
<td>-</td>
<td>-</td>
<td>1,943,224</td>
</tr>
<tr>
<td>GoA</td>
<td>1,061,329</td>
<td>10,976,593</td>
<td>109,428,093</td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>69,722,696</td>
<td>185,281,141</td>
<td>2,524,334,464</td>
</tr>
</tbody>
</table>

ADD: ACCUMULATED CLOSING FOREIGN EXCHANGE DIFFERENCE

<table>
<thead>
<tr>
<th>Source</th>
<th>2016</th>
<th>2015</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>(383,632)</td>
<td>(386,729)</td>
<td>(383,632)</td>
</tr>
<tr>
<td>SOFAZ</td>
<td>(1,228,136)</td>
<td>(1,211,725)</td>
<td>(1,228,136)</td>
</tr>
<tr>
<td>SOCAR</td>
<td>(28,500)</td>
<td>(27,305)</td>
<td>(28,500)</td>
</tr>
<tr>
<td>IDB</td>
<td>513</td>
<td>513</td>
<td>513</td>
</tr>
<tr>
<td>Micro-credits</td>
<td>(239,405)</td>
<td>(222,610)</td>
<td>(239,405)</td>
</tr>
<tr>
<td>Tender</td>
<td>(12,112)</td>
<td>(10,005)</td>
<td>(12,112)</td>
</tr>
<tr>
<td>JSDF</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GoA</td>
<td>(36,865)</td>
<td>(32,789)</td>
<td>(36,865)</td>
</tr>
<tr>
<td>TOTAL ACCUMULATED CLOSING FOREIGN EXCHANGE DIFFERENCE</td>
<td>(1,928,137)</td>
<td>(1,890,650)</td>
<td>(1,928,137)</td>
</tr>
</tbody>
</table>

The notes set out on pages 12-22 form an integral part of these financial statements.
SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN
COMBINED STATEMENT OF SOURCES AND USES OF FUNDS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
(Expressed in US dollars)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CLOSING BALANCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project bank accounts</td>
<td>391,171</td>
<td>192,950</td>
</tr>
<tr>
<td>IDA Loans special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IBRD Loan No. 8627-AZ special account</td>
<td>1,530,604</td>
<td>-</td>
</tr>
<tr>
<td>IBRD Loan No. 8096-AZ special account</td>
<td>34,610</td>
<td>28,715</td>
</tr>
<tr>
<td>****</td>
<td><strong>1,956,385</strong></td>
<td><strong>221,665</strong></td>
</tr>
<tr>
<td>SOFAZ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank accounts – IBAR</td>
<td>1,383</td>
<td>1,577</td>
</tr>
<tr>
<td>Bank accounts operated through the Treasury</td>
<td>75,103</td>
<td>131,984</td>
</tr>
<tr>
<td>Petty cash</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>SOFAZ</strong></td>
<td><strong>76,487</strong></td>
<td><strong>133,562</strong></td>
</tr>
<tr>
<td>SOCAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank account – Kapital Bank</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bank accounts operated through the Treasury</td>
<td>-</td>
<td>9,764</td>
</tr>
<tr>
<td><strong>IDB</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank accounts – Kapital Bank</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Micro-credits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank accounts – IBAR</td>
<td>127,729</td>
<td>112,235</td>
</tr>
<tr>
<td>Project Bank accounts – Kapital Bank</td>
<td>16,472</td>
<td>18,609</td>
</tr>
<tr>
<td><strong>Tender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Bank accounts – IBAR</td>
<td>1,288</td>
<td>11,992</td>
</tr>
<tr>
<td><strong>JSDF</strong></td>
<td><strong>1,288</strong></td>
<td><strong>11,992</strong></td>
</tr>
<tr>
<td>GoA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank account operated through the Treasury</td>
<td>-</td>
<td>5,379</td>
</tr>
<tr>
<td><strong>TOTAL CLOSING BALANCES</strong></td>
<td><strong>2,178,361</strong></td>
<td><strong>513,206</strong></td>
</tr>
</tbody>
</table>

Sabir Ahmadov  
Director, SFDI

Lala Shikhaliyeva  
Chief Accountant, SFDI

The notes set out on pages 12-22 form an integral part of these financial statements
NOTE 1. BACKGROUND

The separatist action in Upper Garabagh together with external aggression resulted in about 900,000 Internally Displaced People ("IDP") and refugees living in the Republic of Azerbaijan. Facing the declining international support for humanitarian assistance and unrealistic prospects for early peace settlement that would permit the return of IDP's to their former homes, the Government of Azerbaijan ("the Government") has decided to take steps that would reduce dependence of IDP on humanitarian aid and at the same time improve their living conditions and living standards. This involved the development of a system of realistic arrangements and the organisation of new possibilities for the destitute families in an adequate socio-economic situation with provision of conditions for self-life support based on attraction of donors by the Government. For the achievement of these goals the Government has started the construction of new "compact" settlements with the required infrastructure and repatriation to these settlements of IDP's living in the worst conditions. The strategy of the Government was officially sanctioned by issuance of the Presidential Decree #895 of 17 September 1998 and confirmed with the international organisations in a Memorandum of Understanding signed by the Government of Azerbaijan and UNDP, UNHCR and the World Bank on 23 February 1999. Subsequently, the Government has issued a number of orders for the realisation of the new strategy. Objectives of the state strategy were detailed by the Decree #298 of 1 July 2004 of President of Azerbaijan. The accepted strategy targets transition from humanitarian assistance to the development programmes. However, this problem cannot be solved in a conventional way within a short time and consequently innovative and realistic methods are required. To address these issues the Government of Azerbaijan has decided to set up the Social Fund for the Development of IDP's ("SFDI") with the assistance of the World Bank and other donors by Presidential Decree on 6 December 1999.

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 organisation reporting to a Supervisory Board which is headed by the Chairman of the Azerbaijan Republic's Committee for Refugees and IDP's 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 organisation.

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

According to its Charter 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 the employment rate of the population and providing opportunities for income-generating 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's 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.
NOTE 1. BACKGROUND (CONTINUED)

The main sources of finance for SFDI activities are described below:

**World Bank**

To finance this Project, 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 Programme 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 a USD 10 million equivalent "Supplemental Credit" to the "Pilot Reconstruction Project" (Cr.31091-AZ). The Supplemental Credit was to finance the Programme 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 30 June 2005.

On 3 June 2005, the World Bank and the Government signed the Project Agreement and the Development Credit Agreement "IDP Economic Development Support Project" ("IDP-EDS") with credit 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.

On 15 May 2008, IDA and the Government signed the Project Agreement and the Additional Financing Agreement (credit 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 credit agreement 4395-AZ provides that the Project is financed by the proceeds received from IDA in the following proportions:

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

On 16 November 2011, IBRD and the Government signed the Project Agreement and the Financing Agreement (credit 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 is 31 December 2016.
NOTE 1. BACKGROUND (CONTINUED)

The Project consists 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.

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 IDPs 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 credit agreement 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:

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

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 credit agreement 4395 – AZ and 8096-AZ.
NOTE 1. BACKGROUND (CONTINUED)

IBRD Credit Agreement 8627-AZ

On 23 June 2016, IBRD and the Government signed the Project Agreement and the Financing Agreement (credit 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 31 December 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 IDPs. 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 the 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 investment is 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 IDPs; 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 credit agreement 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:

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

Japan Social Development Fund ("JSDF")

On 13 August 2007 IDA, as administrator of grant funds provided by Japan Government under the Japan Social Development Fund Grant for IDP Youth Support Project provided the grant in an amount not exceeding USD 1,945,800 (JSDF Grant No. TR090489). The objective of the funding is to enhance the social inclusion of, and promote economic opportunities for young IDP. The Funding consists of the following parts:

- Component A: Community Grants for Youth in New Settlements
- Component B: IDP Youth Skills and Business development
- Component C: Partnerships between Municipal/IDP Schools in Major Urban Settlements to Increase Social Inclusion among Students
- Component D: Management, Monitoring and Evaluation

The allocation of the amounts of the Grant to each category and the percentage of expenditure to be financed for eligible expenditure in each category is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of grant allocated (USD)</th>
<th>Percentage of Expenditure to be Financed (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>80,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>222,200</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Services including audits</td>
<td>317,800</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Operational costs</td>
<td>135,800</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Small grants</td>
<td>1,190,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,945,800</strong></td>
<td></td>
</tr>
</tbody>
</table>

State Oil Fund of Azerbaijan ("SOFAZ")

The implementation of the works on raising the living standards and rehabilitation of social infrastructure of IDP communities has been carried out through the Programme since 2002 based on the following Presidential Decrees:

1. Decree #577 of 7 September 2001 "Accommodation of IDP's from the occupied regions of Agdam and Fuzuli living in temporary camps"
2. Decree #700 of 13 May 2002 "Improvement of the living standards of IDP's living in temporary camps in the Bilasuvar region"
3. Decree #80 of 4 February 2004 "Improvement of living standards and employment of IDP's living in temporary camps and railway carriages in Barda and Agcabadi regions"
4. Decree #298 of 1 July 2004 "State Programme on the improvement of living conditions of IDP and refugees and employment promotion"

In the frameworks of Decrees #577 and #700 the State Refugees Committee (the "Committee") has been appointed as the state agency responsible for the supervision of the construction of buildings in 500 districts in the Agdam region, 800 districts in the Fuzuli region and 19 districts in the Bilasuvar region. To finance the works under each of the Decrees the State Oil Fund transferred Azerbaijani old manats ("AZM") 84 billion and AZM 192 billion to the bank account of the Committee respectively. The detailed work plan was issued by the Resolution of the Cabinet of Ministers #171 on 27 September 2001. SFDI was selected to act as the main Executor under the Decree. The contractors were selected by a bidding Committee which included the Programme Director and representatives of the Ministry of Finance and other State Agencies. All payments to the contractors were made through Project bank accounts. The completed construction works were accepted by a special State Committee comprising the representatives of SFDI, the Cabinet of Ministers, the State Refugees Committee and other State agencies.

For the execution of Presidential Decrees #80 and #298 the State Oil Fund has elected to process all payments to contractors through the bank accounts of the State Treasury regulated by the Ministry of Finance. The construction of buildings under the Decree started in 2004 and continued through 2007. The bidding and final acceptance procedures remained similar to those followed at the time of the execution of previous Decrees.
NOTE 1. BACKGROUND (CONTINUED)

On 9 October 2007 Ministry of Finance issued Resolution #303 to improve living conditions of IDP’s in different districts of Baku, Absheron, Qabala and Goy Göl (ex. Xanlar) regions by construction of new buildings and repair of existing ones.

State Oil Company of Azerbaijan ("SOCAR")

Following the Resolution of the Cabinet of Ministers of Azerbaijan #197’s dated 18 July 2005, the State Oil Company financed the renovation of 77 dormitories for the accommodation of IDP’s located in Baku. At the inception of these works in 2005 SFDI acted as the main Executor and received funds via the State Refugees Committee. Subsequently and throughout 2007, the Programme bank account in Kapital Bank was used for processing of all the settlements under this source of funding. On 10 June 2008, the Cabinet of Ministers of Azerbaijan issued resolution #211 where the State Oil Company finances the renovation of 130 dormitories for the accommodation of IDP’s located in Baku.

Islamic Development Bank ("IDB")

The construction of social infrastructure facilities for IDP’s is financed through a Loan Agreement signed between the Government of Azerbaijan and the Islamic Development Bank ("IDB") on 10 December 2005 corresponding to 8 Dhu al-Qi’dah 1426H.

The main objective of the financing arrangement was to improve the living standards of IDP’s by contributing to the construction of the education and health systems as well as the drinking water supply in new settlements for IDP’s in the Bilasuvar region. Education infrastructure for all schooling levels was provided through construction of 5 schools and provision of basic furniture and laboratory equipment. The financing arrangement also aims at the construction of 5 medical units to provide health facilities for the new settlements and provision of modern medical equipment which facilitates quality diagnosis of health conditions of IDP’s. The drinking water supply system comprises boring of wells, water storage and a distribution network.

The overall scope of the financing arrangement includes civil works for schools, health facilities and water supply network, procurement and installation of the latest medical equipment, furniture, consultancy services, financial auditing and a Project Management Unit.

The total cost was estimated at US$ 14.543 million. The Fund financing was for an amount not exceeding Islamic dinars (ID) 7 million (approximately equivalent to USD 10.272 million).
NOTE 1. BACKGROUND (CONTINUED)

Islamic Development Bank ("IDB") (Continued)

According to the terms of the Loan Agreement between the Government and the Islamic Development Bank, the Programme is financed by proceeds in the following proportions for relevant programme components (in millions US dollars):

<table>
<thead>
<tr>
<th>Component</th>
<th>IDB</th>
<th>IDB%</th>
<th>GOA</th>
<th>GOA%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Civil works, furniture &amp; equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Education facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School type - A (198 students)</td>
<td>1.955</td>
<td>70</td>
<td>0.838</td>
<td>30</td>
<td>2.793</td>
</tr>
<tr>
<td>School type - B (150 students)</td>
<td>1.450</td>
<td>70</td>
<td>0.621</td>
<td>30</td>
<td>2.071</td>
</tr>
<tr>
<td>ii. Health facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospital (25 beds)</td>
<td>0.336</td>
<td>70</td>
<td>0.144</td>
<td>30</td>
<td>0.480</td>
</tr>
<tr>
<td>Health clinics</td>
<td>0.383</td>
<td>70</td>
<td>0.164</td>
<td>30</td>
<td>0.547</td>
</tr>
<tr>
<td>Health centres</td>
<td>0.294</td>
<td>70</td>
<td>0.126</td>
<td>30</td>
<td>0.420</td>
</tr>
<tr>
<td>iii. Drinking water supply</td>
<td>4.095</td>
<td>70</td>
<td>1.755</td>
<td>30</td>
<td>5.850</td>
</tr>
<tr>
<td>Sub-Total (A)</td>
<td>8.513</td>
<td>70</td>
<td>3.648</td>
<td>12.161</td>
<td></td>
</tr>
<tr>
<td>B. SITE DEVELOPMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. CONSULTANCY SERVICES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detailed design &amp; tender document</td>
<td></td>
<td></td>
<td>0.060</td>
<td>100</td>
<td>0.060</td>
</tr>
<tr>
<td>Design review &amp; supervision</td>
<td>0.610</td>
<td>100</td>
<td></td>
<td>-</td>
<td>0.610</td>
</tr>
<tr>
<td>D. FINANCIAL AUDITING</td>
<td>0.045</td>
<td>100</td>
<td></td>
<td>-</td>
<td>0.045</td>
</tr>
<tr>
<td>E. PROJECT IMPLEMENTATION UNIT</td>
<td>9.338</td>
<td>3.883</td>
<td>13.221</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F. CONTINGENCIES (10%)</td>
<td>0.934</td>
<td></td>
<td>0.388</td>
<td>1.322</td>
<td></td>
</tr>
<tr>
<td>GRANT TOTAL</td>
<td>10.272</td>
<td>70.60%</td>
<td>4.271</td>
<td>29.40%</td>
<td>14.543</td>
</tr>
</tbody>
</table>

The Government of Azerbaijan ("GoA")

In the frameworks of Presidential Decree #298 dated 1 July 2004 and the resolution of the Cabinet of Ministers of Azerbaijan #44s dated 6 February 2008, Appendix #1, SFDI was granted additional funds for the remaining construction works at the SFDI administrative building of AZN 1 million (USD 1.2 million).

Presidential Decree #298 dated 1 July 2004 and the resolution of the Cabinet of Ministers #211s dated 10 June 2008 SFDI was appointed as the state agency responsible for urgent repair of 130 hostels in Baku, Sumgait and other cities and regions; construction of a sports complex in the Fuzuli region and construction of an administrative building for the Executive Government of Jabrail region.

A resolution of the Cabinet of Ministers of Azerbaijan #356s dated 3 October 2006 appointed SFDI an Executor of the construction of 58 buildings in Baku (Sabunchu region and Azadlig metro station). For the construction of these buildings the Government granted AZN 2 million (USD 2.5 million).

Presidential Decree #2707 dated 6 March 2008 and the resolution of the Cabinet of Ministers of Azerbaijan #325s dated 4 December 2009 appointed SFDI as the state agency responsible for construction of a 5-storey building in Goranboy city.
NOTE 1. BACKGROUND (CONTINUED)

Presidential Decree #37 dated 10 December 2008 and the resolution of the Cabinet of Ministers of Azerbaijan #22 dated 2 February 2009 granted SFDI AZN 0.5 million for the remaining construction works at the SFDI administrative building, equivalent to USD 0.6 million; AZN 3 million for the construction complex in Fizuli region, (USD 3.7 million) and; AZN 1 million for the construction works at the administrative building of the Executive Government in Jabrail region, (USD 1.3 million).

NOTE 2. ACCOUNTING POLICIES

Basis of Accounting

These combined 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 and comply with the World Bank's Guidelines. These combined special purpose financial statements have been prepared under the historical cost convention. Programme financing is recognised as a source of funds when the cash is received. Programme expenditure is recognised as a use of funds when payment is made.

Transactions in foreign currency

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 and expended 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 31 December 2016 the official AZN/USD exchange rates set by the Central Bank of Azerbaijan ("CBAR") were 1.7707 and comparative 31 December 2015 were as 1.5594.

NOTE 3. METHODS OF WITHDRAWAL

The methods of withdrawal for each component are as follows:

World Bank component

(a) IBRD account
Certain disbursements were made 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.

(c) Statement of expenditure (SOE)
Under the SOE method, the IDP-EDS Project forwards to the Bank an application for reimbursement of payments already made using an Application for Withdrawal, with SOE forms as the only documentation.
NOTE 3. METHODS OF WITHDRAWAL (CONTINUED)

(d) **Programme account**
IDP-EDS project maintains a separate account where the Government funds are accumulated. The funds are further disbursed to sub-contractors based on its share of the expenditure incurred.

**SOFAZ component**

(a) **Programme accounts**
The SOFAZ funds extended through the State Refugees Committee are accumulated on the Programme bank accounts in AZN. The funds are further disbursed to contractors based on the results of the bids and further construction work performed.

(b) **Bank accounts operated through the Treasury of the Ministry of Finance**
These accounts are used to accumulate funds provided by SOFAZ for financing the Programme activities. Disbursements from the Treasury accounts are initiated by SOFAZ with the Programme acting as an intermediary between SOFAZ and the contractors.

**SOCAR component**

(a) **Programme accounts**
The Programme bank account is used to accumulate the funds provided by SOCAR for financing of the rehabilitation of dormitories.

(b) **Bank accounts operated through the Treasury of the Ministry of Finance**
These accounts are used to accumulate funds provided by SOCAR for financing the Programme activities. Disbursements from the Treasury accounts are initiated by SOCAR with the Programme acting as an intermediary between SOCAR and the contractors.

**Islamic Development Bank component**

(a) **Programme bank account in USD**
Available amounts are drawn from this account for payment of the portion of expenses financed by IDB in accordance with the terms of the Loan Agreement.

(b) **Programme bank account in AZN**
The Programme maintains a separate account where the Government funds are accumulated. The funds are further disbursed to sub-contractors based on the share to be financed by the Government in accordance with the terms of the Loan Agreement.

**Micro-credits and tender components**
The Programme maintains several accounts in AZN for these Programme components. The accounts are used for the accumulation of funds reimbursed by the micro-credit institutions in the form of repayment of principal and interest amounts of previously issued loans. The accumulated funds are then repeatedly extended by the Programme to the loan institutions for further lending to IDP communities.

A separate bank account is maintained by the Programme to accumulate tender fees received from the bid participants.

**The Government of Azerbaijan component**

This component uses bank accounts operated through the Treasury of the Ministry of Finance, which are used to accumulate funds provided by the Government of Azerbaijan for financing the Programme activities. Disbursements from the Treasury accounts are initiated by SFDI.
## SOCIAL FUND FOR THE DEVELOPMENT OF INTERNALLY DISPLACED PEOPLE OF AZERBAIJAN

NOTES TO THE COMBINED SPECIFIED PURPOSE FINANCIAL STATEMENTS (CONTINUED)

### For the year ended 31 December 2016:

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>Works &amp; services and training</th>
<th>Operating costs</th>
<th>Microcredit</th>
<th>Housing Renovation</th>
<th>Youth Support</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD 8096-AZ</td>
<td>3,011,593</td>
<td>2,562,674</td>
<td>78,894</td>
<td>291,175</td>
<td>184,264</td>
<td>6,622,163</td>
</tr>
<tr>
<td>IBRD 8627-AZ</td>
<td>210,616</td>
<td>231,563</td>
<td>33,394</td>
<td>1,177,110</td>
<td>1,068,300</td>
<td>2,660,663</td>
</tr>
<tr>
<td>Government</td>
<td>1,823,382</td>
<td>1,114,354</td>
<td>114,957</td>
<td>10,900,135</td>
<td>10,900,135</td>
<td>12,396,571</td>
</tr>
<tr>
<td>% Mgr</td>
<td>127,824</td>
<td>94,947</td>
<td>19,714</td>
<td>1,843,971</td>
<td>1,843,971</td>
<td>1,918,712</td>
</tr>
<tr>
<td>% Community</td>
<td>5,173,385</td>
<td>5,722,359</td>
<td>448,005</td>
<td>448,005</td>
<td>448,005</td>
<td>10,990,135</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,173,385</strong></td>
<td><strong>5,722,359</strong></td>
<td><strong>1,114,957</strong></td>
<td><strong>11,808,130</strong></td>
<td><strong>11,808,130</strong></td>
<td><strong>27,801,890</strong></td>
</tr>
</tbody>
</table>

The amount of USD 469,336 was used to cover the expenditure of Credit Number 8096-AZ by using the funds received under the Additional Financing Credit expense categories respectively.

### For the year ended 31 December 2015:

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>Works &amp; services and training</th>
<th>Operating costs</th>
<th>Microcredit</th>
<th>Housing Renovation</th>
<th>Youth Support</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBRD 8096-AZ</td>
<td>5,114,933</td>
<td>720,448</td>
<td>350,017</td>
<td>212,170</td>
<td>80,291</td>
<td>8,850,921</td>
</tr>
<tr>
<td>IBRD 8627-AZ</td>
<td>2,743,882</td>
<td>2,743,882</td>
<td>191,136</td>
<td>1,911,136</td>
<td>1,911,136</td>
<td>7,500,286</td>
</tr>
<tr>
<td>Government</td>
<td>1,070,485</td>
<td>1,070,485</td>
<td>916,333</td>
<td>2,058,021</td>
<td>2,058,021</td>
<td>3,128,506</td>
</tr>
<tr>
<td>% Mgr</td>
<td>1,070,485</td>
<td>1,070,485</td>
<td>916,333</td>
<td>2,058,021</td>
<td>2,058,021</td>
<td>3,128,506</td>
</tr>
<tr>
<td>% Community</td>
<td>8,850,921</td>
<td>8,850,921</td>
<td>6,031,333</td>
<td>6,031,333</td>
<td>6,031,333</td>
<td>20,915,506</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,850,921</strong></td>
<td><strong>8,850,921</strong></td>
<td><strong>6,031,333</strong></td>
<td><strong>6,031,333</strong></td>
<td><strong>6,031,333</strong></td>
<td><strong>20,915,506</strong></td>
</tr>
</tbody>
</table>

The other Project components are financed by a single source as specified in the combined statement of sources and uses of funds on pages 8-11.
NOTE 5. LIABILITIES ACCRUED AS AT THE YEAR END

The standard terms of contacts signed by SFDI for undertaking construction works or purchasing equipment under the Works & Goods category of the World Bank Credit Agreement 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 Programme's total amount outstanding as payable to suppliers under World Bank Component at 31 December 2016 was USD 88,203 (2015: USD 1,140,902). The same structure is applied to the SOFAZ component and the total outstanding at 31 December 2016 was USD 4,943,536 (2015: USD 27,685,778).

NOTE 6. OPERATING ENVIRONMENT

SFDI's principal activities are within the Azerbaijan Republic. Laws and regulations affecting organisations operating in Azerbaijan are subject to rapid changes and SFDI's assets and operations could be at risk due to negative changes in the political and economic environment.

NOTE 7. POST BALANCE SHEET EVENTS

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