

# Audited Project Financial Statements

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Project Number: 45389-002

Loan/Grant Number: 2921-AZE

Period covered: 01 January 2018 to 31 December 2018

## AZE: MFF Second Road Network Development Investment Program, Project 1

Prepared by the State Agency of Azerbaijan Automobile Roads

For the Asian Development Bank

Date received by ADB: 25 July 2019

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between the ADB and the State Agency of Azerbaijan Automobile Roads.

**SECOND ROAD NETWORK DEVELOPMENT  
INVESTMENT PROGRAM PROJECT 1  
LOAN NUMBER 2921-AZE**

**Special-Purpose Financial Statements and  
Independent Auditors' Report**  
For the Year Ended December 31, 2018

**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM  
PROJECT 1  
LOAN NUMBER 2921-AZE**

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

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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 "Second Road Network Development Investment Program-Project 1" ("Project") implemented by the State Agency of Azerbaijan Automobile Roads.

Management is responsible for the preparation of the Special-Purpose Financial Statements of the Project that present fairly the Special-Purpose Balance Sheet of the Project as at December 31, 2018, the Statement of Summary of Sources and Uses of Funds, Statement of Uses of Funds by Project Components, the Statement of the Project Accounts for the year ended December 31, 2018, in accordance with the International Public Sector Accounting Standards ("IPSAS") issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants ("IFAC-IPSASB") and relevant provisions of the loan agreement number 2921-AZE signed between the Republic of Azerbaijan and Asian Development Bank on April 22, 2013 (the "Loan Agreement") as described in Note 1 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:

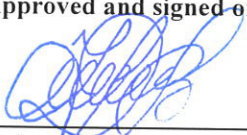
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether the IPSAS and relevant provisions of the Loan Agreement have been followed, subject to any material departures disclosed and explained in the Special-Purpose Financial Statements; and
- Preparing the Special-Purpose Financial Statements annually, throughout the Project life.

Management is also responsible for:

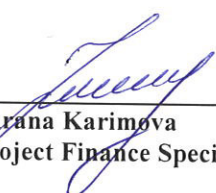
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the Special-Purpose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

The Special-Purpose Financial Statements for the year ended December 31, 2018 were authorized for issue on July 11, 2019 by the management of the Project Implementation Unit.

**Approved and signed on behalf of management of the Project:**

  
\_\_\_\_\_  
**Jeyhun Yusifov**  
**Project Director**

July 11, 2019  
Baku, the Republic of Azerbaijan

  
\_\_\_\_\_  
**Tarana Karimova**  
**Project Finance Specialist**

July 11, 2019  
Baku, the Republic of Azerbaijan



## **INDEPENDENT AUDITORS' REPORT**

To the Management of "Second Road Network Development Investment Program-Project 1":

### ***Opinion***

We have audited the Special-Purpose Financial Statements of "Second Road Network Development Investment Program-Project 1" (the "Project"), which comprise the Special-Purpose Balance Sheet as at December 31, 2018, and the Statements of Summary of Sources and Uses of Funds, the Statements of Uses of Funds by Project Components, for the year ended December 31, 2018 and a basis of accounting and other explanatory notes (collectively referred to as the "Special-Purpose Financial Statements") financed under the Asian Development Bank ("ADB") through loan agreement number 2921-AZE (the "Loan Agreement").

In our opinion, the accompanying Special-Purpose Financial Statements present fairly, in all material respects, the financial position of the Project as at December 31, 2018 the cash receipts and disbursements on behalf of the Project and transactions passed through the Project's special accounts for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standards ("IPSAS") and relevant provisions of the Loan Agreement as described in Note 2 of the Special-Purpose Financial Statements.

The State Agency of Azerbaijan Automobile Roads has utilized all proceeds of the loan withdrawn from ADB only for the purposes of the Project as agreed between the ADB and the Republic of Azerbaijan in accordance with the Loan Agreement and no proceeds of the loan have been utilized for other purposes. In addition, 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***

#### ***Basis of Accounting and Restriction on Distribution and Use***

We draw attention to Note 2 to the Special-Purpose Financial Statements, which describes the basis of accounting. The Special-Purpose Financial Statements are prepared to assist the Project's Implementation Unit team in complying with the financial reporting provisions of the Loan Agreements referred to above. As a result, the Special-Purpose Financial Statements may not be suitable for any other purpose. Our report is intended solely for the Project Implementation Unit, the Government of the Republic of Azerbaijan and ADB and should not be distributed to or used by parties other than Project's Implementation Unit team and ADB. Our opinion is not modified in respect of this matter.

### *Statement of Expenditure*

Without modified our opinion, we draw attention to Note 8 to the Special-Purpose Financial Statements, which describes the accounting policies related to Method of Disbursement. Project Agreement requires audit opinion on Statement of Expenditure, however no Statement of Expenditure was established for this Project.

### *Other Matter*

The Special-Purpose Financial Statements of the Project as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 2, 2018.

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

Management is responsible for the preparation and fair presentation of the Special-Purpose Financial Statements in accordance with IPSAS and relevant provisions of the Loan Agreements 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 Special-Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibilities for the Audit of the Special-Purpose Financial Statements*

Our objectives are to obtain reasonable assurance about whether the Special-Purpose Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Special-Purpose Financial Statements.

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

- Identify and assess the risks of material misstatement of the Special-Purpose Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Baker Tilly Azerbaijan*

July 11, 2019  
Baku, the Republic of Azerbaijan




**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1**  
**LOAN NUMBER 2921-AZE**

**SPECIAL-PURPOSE BALANCE SHEET**  
**AS AT DECEMBER 31, 2018**

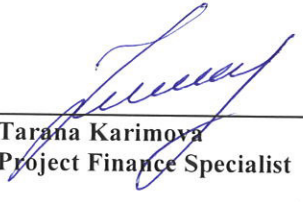
*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	Notes	December 31, 2018	December 31, 2017
<b>ASSETS AND CUMULATIVE USES OF FUNDS</b>			
Cash and cash equivalents		5,246	2,388
Cumulative uses of funds	4	191,390,289	184,332,837
Foreign Exchange difference		12,290	11,484
<b>TOTAL ASSETS AND CUMULATIVE USES OF FUNDS</b>		<b>191,407,825</b>	<b>184,346,709</b>
<b>SOURCES OF FUNDS</b>			
ADB Funds		161,755,145	155,893,318
Government Funds		29,652,680	28,453,391
<b>TOTAL SOURCES OF FUNDS AND LIABILITIES</b>		<b>191,407,825</b>	<b>184,346,709</b>

Approved and signed on behalf of management of the Project:

  
\_\_\_\_\_  
Jeyhun Yusifov  
Project Director

July 11, 2019  
Baku, the Republic of Azerbaijan

  
\_\_\_\_\_  
Tarana Karimova  
Project Finance Specialist

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.

**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1**  
**LOAN NUMBER 2921-AZE**

**STATEMENT OF SUMMARY OF SOURCES AND USES OF FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	December 31, 2018	December 31, 2017	Cumulative as at December 31, 2018
<b>OPENING BALANCE</b>			
GOA Project Account	<u>2,388</u>	<u>1,587</u>	
<b>ADD: FUNDS RECEIVED</b>			
<b>ADB Loan Number 2921-AZE</b>			
ADB funds for the project	<u>5,861,827</u>	<u>34,598,037</u>	<u>161,755,145</u>
<b>Subtotal ADB Loan</b>	<u>5,861,827</u>	<u>34,598,037</u>	<u>161,755,145</u>
<b>Government of Azerbaijan</b>			
Advance to the Project Account	<u>1,199,288</u>	<u>5,635,555</u>	<u>29,652,680</u>
<b>Subtotal Government of Azerbaijan</b>	<u>1,199,288</u>	<u>5,635,555</u>	<u>29,652,680</u>
<b>TOTAL FUNDS RECEIVED</b>	<u>7,061,115</u>	<u>40,233,592</u>	<u>191,407,825</u>
<b>LESS: EXPENDITURE</b>			
<b>ADB Loan Number 2921-AZE</b>			
Works	(3,997,653)	(32,369,089)	(152,674,145)
Consulting services	<u>(1,864,174)</u>	<u>(2,228,948)</u>	<u>(9,081,000)</u>
<b>Subtotal ADB share of expenditure</b>	<u>5,861,827</u>	<u>(34,598,037)</u>	<u>(161,755,145)</u>
<b>Government of Azerbaijan</b>			
Land acquisition	-	-	(263,012)
Value Added Tax for Works	(988,010)	(5,032,623)	(26,842,520)
Value Added Tax for Consulting services	(99,680)	(386,736)	(1,482,430)
Withholding Tax for Consulting services	(107,934)	(214,853)	(876,398)
Compensation for real estate	-	-	(107,326)
Expert opinion	-	-	(56,550)
Bank Charges	<u>-</u>	<u>(1,657)</u>	<u>(6,907)</u>
<b>Subtotal Government of Azerbaijan share of expenditure</b>	<u>(1,195,624)</u>	<u>(5,635,870)</u>	<u>(29,635,144)</u>
<b>TOTAL EXPENDITURE</b>	<u>(7,057,451)</u>	<u>(40,223,907)</u>	<u>(191,390,289)</u>
<b>(LESS)/ADD: EXCHANGE DIFFERENCES:</b>			
GOA Project account (loss)/gain	<u>(806)</u>	<u>1,116</u>	<u>(12,290)</u>
<b>TOTAL EXCHANGE DIFFERENCES</b>	<u>(806)</u>	<u>1,116</u>	<u>(12,290)</u>




**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1**  
**LOAN NUMBER 2921-AZE**

**STATEMENT OF SUMMARY OF SOURCES AND USES OF FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**

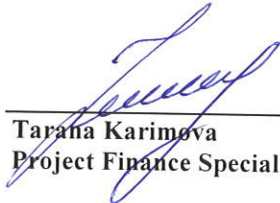
*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	December 31, 2018	December 31, 2017	Cumulative as at December 31, 2018
<b>CLOSING BALANCE</b>			
GOA Project account	<u>5,246</u>	<u>2,388</u>	

Approved and signed on behalf of management of the Project:

  
\_\_\_\_\_  
Jeyhun Yusifov  
Project Director

July 11, 2019  
Baku, the Republic of Azerbaijan

  
\_\_\_\_\_  
Tarana Karimova  
Project Finance Specialist

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.

# **SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1** **LOAN NUMBER 2921-AZE**

## **STATEMENT OF USES OF FUNDS BY PROJECT COMPONENTS** **FOR THE YEAR ENDED DECEMBER 31, 2018**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	December 31, 2018	December 31, 2017	Cumulative as at December 31, 2018
<b>Project Components</b>			
<b>Component 1</b>			
<b>Works</b>			
Construction of Masalli-Jalilabad road	-	32,369,089	148,676,493
Rehabilitation Ujar-Zardab-Agjabedi road	3,997,653	-	3,997,653
VAT	988,010	5,032,623	26,842,520
<b>Total Component 1</b>	<b>4,985,663</b>	<b>37,401,712</b>	<b>179,516,666</b>
<b>Component 2</b>			
<b>Project implementation support for</b>			
Construction supervision	1,864,174	2,228,948	9,081,000
VAT	99,680	386,736	1,482,430
WHT	107,934	214,853	876,398
Compensation for real estate	-	-	107,326
Expert opinion	-	-	56,550
Bank charges	-	1,657	6,907
<b>Total Component 2</b>	<b>2,071,788</b>	<b>2,832,194</b>	<b>11,610,611</b>
Land acquisition*	-	-	263,012
<b>TOTAL USES OF FUNDS BY PROJECT COMPONENTS</b>	<b>7,057,451</b>	<b>40,233,906</b>	<b>191,390,289</b>

\* The Borrower acting through relevant government authorities to ensure that all land and rights-of-way required for the Project are made available free and clear from any and all rights and claims of third parties and any other encumbrances whatsoever in timely manner.

Approved and signed on behalf of management of the Project:

  
**Jeyhun Yusifov**  
**Project Director**

  
**Tarana Karimova**  
**Project Finance Specialist**

July 11, 2019  
Baku, the Republic of Azerbaijan

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.


**SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1**  
**LOAN NUMBER 2921-AZE**

**STATEMENT OF PROJECT ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

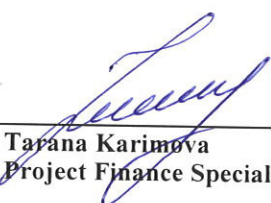
*(Amounts expressed in the United States Dollars unless otherwise indicated)*

	<b>Project Account GOA</b>
<b>January 1, 2017</b>	<b>1,587</b>
Add:	
Project funds received	5,635,555
<b>Total receipts</b>	<b>5,635,555</b>
Deduct:	
Project eligible expenditure	5,635,870
<b>Total deductions</b>	<b>5,635,870</b>
<b>Effect of exchange rate</b>	
Project Account	1,116
<b>Total effect of exchange rate</b>	<b>1,116</b>
<b>December 31, 2017</b>	<b>2,388</b>
<b>January 1, 2018</b>	<b>2,388</b>
Add:	
Project funds received	1,199,288
<b>Total receipts</b>	<b>1,199,288</b>
Deduct:	
Project eligible expenditure	1,195,624
<b>Total deductions</b>	<b>1,195,624</b>
<b>Effect of exchange rate</b>	
Project Account	(806)
<b>Total effect of exchange rate</b>	<b>(806)</b>
<b>December 31, 2018</b>	<b>5,246</b>

Approved and signed on behalf of management of the Project:

  
\_\_\_\_\_  
**Jeyhun Yusifov**  
**Project Director**

July 11, 2019  
Baku, the Republic of Azerbaijan

  
\_\_\_\_\_  
**Tarana Karimova**  
**Project Finance Specialist**

July 11, 2019  
Baku, the Republic of Azerbaijan

The notes on pages 9-12 form an integral part of these Special-Purpose Financial Statements.

# **SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1 LOAN NUMBER 2921-AZE**

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

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

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### **1. DESCRIPTION OF THE PROJECT**

On April 22, 2013 the Republic of Azerbaijan (the “Borrower” or “GOA”) and Asian Development Bank (the “ADB”) signed Loan Agreement 2921-AZE (Ordinary Operations) for the implementation of the Second Road Network Development Investment Program, Project 1 (the “Project”).

ADB agreed to lend to the Borrower from ADB’s ordinary capital resources an amount of USD 250,000,000 (two hundred and fifty million US Dollars), the amount may be converted from time to time through a currency conversion in accordance with the provisions of the loan agreement. The objective of the Project is to build an adequate, efficient, safe, and sustainable road network linking the Republic of Azerbaijan domestically and internationally.

The Project consists of the following components:

- i) Construction of approximately 30 km of a new four lane road section between the cities Masalli and Jalilabad on the new Masalli-Shorsulu road;
- ii) Rehabilitation of approximately 70 km of the R32 Ujar-Zardab-Agjabedi roads;
- iii) Project implementation support for construction supervision and program management covering planning, procurement, project implementation, financial management and compliance with safeguard requirements.

The Loan effective date is July 30, 2013. Initially, the Project was expected to be completed by June 30, 2016. The revised project closing date is October 31, 2020.

Counterpart financing, as stipulated by the loan agreement, is to be provided by the Government of the Republic of Azerbaijan.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

The Special-Purpose Financial Statements have been prepared on the cash basis of accounting in conformity with the International Public Sector Accounting Standards (“IPSAS”) issued by the International Public Sector Committee of the International Federation of Accountants (“IFAC-PSC”) and incorporate the principal accounting policies from the “Guidelines: Handbook for Borrowers on the Financial Management and Analysis of Projects” financed by the ADB.

#### **Other basis of preparation criteria**

The Special-Purpose Financial Statements are prepared under the historical cost basis of accounting. Source funding and government contributions are recognized when the related cash is received or paid out on behalf of the Project. Expenditures are accounted for on the basis of actual disbursement of funds from account of the Project.

#### **Foreign currency transactions and translation**

The Project uses the United States Dollar (“USD”) as its functional currency for following reasons:

- a) ADB’s funding is received in USD;
- b) Budgets and financial reports for the Project are prepared in USD.



## SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1 LOAN NUMBER 2921-AZE

### NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)

(Amounts expressed in the United States Dollars unless otherwise indicated)

Balance sheet monetary items denominated in currencies other than USD have been translated into USD using the exchange rate of the Central Bank of Republic of Azerbaijan ("CBRA") effective as at appropriate date. All income and expense transactions denominated in currencies other than USD are converted into USD using the exchange rate of the CBRA prevailing on the date of transaction. At December 31, 2018 the official AZN/USD exchange rates set by the CBRA were 1.70 and comparative December 31, 2017 were as 1.7001.

### 3. BUDGET OF FUNDING

The categories of budget of funding are summarised below according to the Loan Agreement:

Category	Total Amount Allocated for ADB Financing	Revised Amount Allocated for ADB Financing	ADB Financing: Percentage and Basis for Withdrawal from the Loan Account
Works	180,000,000	235,000,000	100% of total expenditure Claimed*
Consulting services	10,000,000	11,000,000	100% of total expenditure Claimed*
Unallocated	60,000,000	4,000,000	-
<b>TOTAL</b>	<b>250,000,000</b>	<b>250,000,000</b>	

\*Exclusive of taxes and duties imposed within the territory of the Borrower.

### 4. CUMULATIVE USES OF FUNDS

As at December 31, 2018 and December 31, 2017, cumulative uses of funds for the Project comprise the following:

	December 31, 2018	December 31, 2017
ADB share	161,755,145	155,893,318
Government of Azerbaijan share	29,635,143	28,453,391
<b>Total cumulative uses of funds</b>	<b>191,390,288</b>	<b>184,346,709</b>

## SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1 LOAN NUMBER 2921-AZE

### NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)

(Amounts expressed in the United States Dollars unless otherwise indicated)

#### 5. APPLICATIONS FOR WITHDRAWAL SCHEDULE

As at December 31, 2018 and December 31, 2017, ADB funding requested by the Project comprise the following:

Application Withdrawal No.	Total amount
Application for withdrawal No 39 (direct payment)	123,533
Application for withdrawal No 52 (direct payment)	208,585
Application for withdrawal No 53 (direct payment)	160,200
Application for withdrawal No 54 (direct payment)	177,870
Application for withdrawal No 55 (direct payment)	136,249
Application for withdrawal No 56 (direct payment)	44,238
Application for withdrawal No 57 (direct payment)	185,847
Application for withdrawal No 58 (direct payment)	85,978
Application for withdrawal No 59 (direct payment)	185,983
Application for withdrawal No 60 (direct payment)	200,346
Application for withdrawal No 61 (direct payment)	58,230
Application for withdrawal No 62 (direct payment)	56,637
Application for withdrawal No 63 (direct payment)	240,479
Application for withdrawal No 64 (direct payment)	1,599,061
<b>Total applications directly funded during the year ended December 31, 2018</b>	<b>5,861,827</b>
<b>Total applications directly funded during the year ended December 31, 2017</b>	<b>2,228,948</b>

#### 6. METHOD OF DISBURSEMENT

The methods of disbursement for the financing were as follows:

**Advance** – ADB advances loan proceeds into the Advance Account of the Borrower to finance eligible expenditure as they are incurred and for which supporting documents will be provided at a later date.

No Advance Account was established for the Project.

**Direct Funding** – ADB makes payments, at the Borrower's request, directly to a third party for eligible expenditure.

**Reimbursement Procedure** – ADB reimburses the Borrower for expenditure eligible for financing pursuant to the loan agreement ("eligible expenditure") that the Borrower has pre-financed from its own resources.

#### 7. METHOD OF WITHDRAWAL

The methods of withdrawal were as follows:

##### **ADB Advance Account**

Advance Account is Advance disbursement accounts of the Project to effect the payment of eligible expenditure, within defined limits, which do not require individual authorization from the ADB.

## **SECOND ROAD NETWORK DEVELOPMENT INVESTMENT PROGRAM PROJECT 1 LOAN NUMBER 2921-AZE**

### **NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**

*(Amounts expressed in the United States Dollars unless otherwise indicated)*

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Available amounts were drawn down within the limits determined by the relevant loan agreement for the payment of eligible expenditure for contractors from the Advance Account.

No Advance Account was established for the Project.

#### **Project account**

The Project maintains a separate account where the GOA funds are accumulated. The funds are further disbursed to pay VAT and WHT for the payment to contractors and consultants. Any unused balance on the Project account at 31 December is carried forward to next financial year.

#### **Statement of expenditure ("SOE")**

The statement of expenditures (SOE) procedure is used for reimbursement of eligible expenditures for Project management support and individual consultants and to liquidate advances provided into the Advance account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB.

## **8. OPERATING ENVIRONMENT**

The Project's principal business activities are within the Republic of Azerbaijan. Laws and regulations affecting the Project's operations in the Republic of Azerbaijan are subject to rapid changes and the Project's operations could be at certain level of risk due to changes in the political and business environment.