

**JUDICIAL SERVICES AND SMART
INFRASTRUCTURE PROJECT OF
THE REPUBLIC OF AZERBAIJAN
LOAN NUMBER 8407 AZ AND 9058 AZ**

**Special-Purpose Financial Statements and
Independent Auditors' Report**
For the year ended December 31, 2020

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

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INDEPENDENT AUDITORS' REPORT

To the Management of the Judicial Services and Smart Infrastructure Project of the Republic of Azerbaijan:

Opinion

We have audited the Special-Purpose Financial Statements of the Judicial Services and Smart Infrastructure Project of the Republic of Azerbaijan (the "Project"), which comprise the Special-Purpose Balance Sheet as at December 31, 2020, and the Statement of Cash Receipts and Payments, the Statement of Project Activities, the Statement of Designated and Project Accounts and the Statement of Expenditure and Summary Sheet Withdrawal Schedule ("SOE and SSWS") for the year then ended, and a summary of basis of accounting and other explanatory notes (collectively referred to as the "Special-Purpose Financial Statements") financed under the International Bank for Reconstruction and Development (the "IBRD") through loan agreement number 8407 AZ and 9058 AZ (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, 2020, 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 IPSAS "Financial Reporting under the Cash Basis of Accounting" and relevant provisions of the Loan Agreement as 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 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 in complying with the financial reporting provisions of the Loan Agreement 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 Management Team, the Government of the Republic of Azerbaijan and the IBRD and should not be distributed to or used by parties other than Project's Implementation Unit and the IBRD. Our opinion is not modified in respect of this matter.

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

October 18, 2021
Baku, the Republic of Azerbaijan

**JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF
THE REPUBLIC OF AZERBAIJAN**

**SPECIAL-PURPOSE BALANCE SHEET
AS AT DECEMBER 31, 2020**

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

	Note	As at December 31, 2020	As at December 31, 2019
ASSETS AND CUMULATIVE USES OF FUNDS			
Cash and cash equivalents	3	6,386,531	1,254,208
Project expenditure		201,529,526	185,983,583
Accumulated foreign exchange rate differences		209,016	208,958
TOTAL ASSETS AND CUMULATIVE USES OF FUNDS		<u>208,125,073</u>	<u>187,446,749</u>
SOURCES OF FUNDS			
Cumulative IBRD Funds		107,000,000	96,387,852
Cumulative Government Funds		101,122,665	91,056,489
Other funds		2,408	2,408
TOTAL SOURCES OF FUNDS		<u>208,125,073</u>	<u>187,446,749</u>

Approved and signed on behalf of the Judicial Services and Smart Infrastructure Team:



Azer Jafarov
Project Director

October 18, 2021
Baku, the Republic of Azerbaijan



Zaur Nasrullayev
Finance Manager

October 18, 2021
Baku, the Republic of Azerbaijan

The notes on pages 17-23 form an integral part of these Special-Purpose Financial Statements.

**JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF
THE REPUBLIC OF AZERBAIJAN**

**STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED TO DECEMBER 31, 2020**

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

	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
OPENING BALANCE			
IBRD Designated Account 8407	1,254,208	2,779,270	
TOTAL OPENING BALANCE	1,254,208	2,779,270	
ADD: FUNDS RECEIVED			
IBRD Loan Number 8407 AZ			
Initial deposit to the IBRD Designated Account	-	-	5,000,000
Direct funding	-	7,537,357	40,766,336
SOE replenishment	3,612,148	7,344,213	53,983,664
Front-end fee	-	-	250,000
Subtotal IBRD Loan fund 8407 AZ	3,612,148	14,881,570	100,000,000
IBRD Loan Number 9058 AZ			
Initial deposit to the IBRD Designated Account	7,000,000		7,000,000
Subtotal IBRD Loan fund 9058 AZ	7,000,000		7,000,000
Total IBRD Loan funds	10,612,148	14,881,570	107,000,000
Government funding for Loan Number 8407 AZ			
Advances to the Project Account	9,941,176	23,823,529	100,997,665
Subtotal Government of Azerbaijan fund 8407 AZ	9,941,176	23,823,529	100,997,665
Government funding for Loan Number 9058 AZ			
Front-end fee	125,000	-	125,000
Subtotal Government of Azerbaijan fund 9058 AZ	125,000	-	125,000
Total Government of Azerbaijan funds	10,066,176	23,823,529	101,122,665
Other funds			
Tender fees accumulated in the IBRD Designated Account	-	735	2,408
Subtotal other funds	-	735	2,408
TOTAL FUNDS RECEIVED	20,678,324	38,705,834	208,125,073
Cash withdrawals/IBRD Loan Number 8407 AZ			
Cash withdrawn from the IBRD Designated Account	-	-	(1,536,186)
Total cash withdrawals	-	-	(1,536,186)

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED TO DECEMBER 31, 2020 (Continued)

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

	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
LESS: EXPENDITURE			
IBRD Loan Number 8407 AZ (bank payments)			
Civil works	(1,843,995)	(4,011,621)	(24,837,336)
Goods	(332,163)	(7,409,986)	(38,406,525)
Consultants' services	(1,834,936)	(4,314,865)	(29,325,595)
Training	-	(82,339)	(394,686)
Incremental operating costs	(855,204)	(588,544)	(5,251,909)
Front-end fee	-	-	(250,000)
Subtotal IBRD Loan Number 8407 AZ expenditure (bank payments)	(4,866,298)	(16,407,355)	(98,466,051)
IBRD Loan Number 9058 AZ (bank payments)			
Consultants' services	(598,861)	-	(598,861)
Incremental operating costs	(14,608)	-	(14,608)
Subtotal IBRD Loan Number 9058 AZ expenditure (bank payments)	(613,469)	-	(613,469)
IBRD Loan Number 8407 AZ (cash payments)			
Consultants' services	-	-	(260,679)
Training	-	-	(12,178)
Incremental operating costs	-	-	(1,265,559)
Subtotal IBRD Loan Number 8407 AZ expenditure (cash payments)	-	-	(1,538,416)
Total IBRD Loan expenditure	(5,479,767)	(16,407,355)	(100,617,936)
Government of Azerbaijan expenditure for IBRD Loan Number 8407 AZ (bank payments)			
Civil works	(4,459,291)	(5,351,522)	(39,475,993)
Goods	(4,020,871)	(17,345,688)	(53,696,735)
Consultants' services	(187,450)	(876,251)	(3,972,435)
Training	-	-	(112,101)
Incremental operating costs	(1,273,564)	(250,068)	(2,021,735)
Other costs financed fully by the Government	-	-	(1,507,591)
Subtotal Government of Azerbaijan expenditure	(9,941,176)	(23,823,529)	(100,786,590)
Government of Azerbaijan expenditure for IBRD Loan Number 9058 AZ			
Front-end fee	(125,000)	-	(125,000)
Subtotal Government of Azerbaijan expenditure	(125,000)	-	(125,000)
Total Government of Azerbaijan expenditure	(10,066,176)	(23,823,529)	(100,911,590)
TOTAL EXPENDITURE	(15,545,943)	(40,230,884)	(201,529,526)


**JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF
THE REPUBLIC OF AZERBAIJAN**


**STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**

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

	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
FOREIGN EXCHANGE DIFFERENCE			
Cash on hand	-	-	2,230
Project Account	-	-	(211,075)
IBRD Designated Account	(58)	(12)	(171)
TOTAL FOREIGN EXCHANGE DIFFERENCE	(58)	(12)	(209,016)
CLOSING BALANCE			
IBRD Designated Account 9058 AZ	6,386,531		
IBRD Designated Account 8407 AZ	-	1,254,208	
TOTAL CLOSING BALANCE	6,386,531	1,254,208	

Approved and signed on behalf of the Judicial Services and Smart Infrastructure Team:


Azer Jafarov
Project Director


Zaur Nasrullayev
Finance Manager

October 18, 2021
Baku, the Republic of Azerbaijan

October 18, 2021
Baku, the Republic of Azerbaijan

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JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020

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

PROJECT COMPONENTS/ACTIVITIES	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
1 Judicial Service Delivery Improvements IBRD Loan number 8407 AZ			
1.1 Expanding Access to Justice for All			
Consultants' services			
Barriers to access to justice for internally displaced persons, women, juveniles, minorities and other vulnerable groups - policy and operational analysis and recommendations for improvement	-	-	215,253
Legal aid: needs analysis, review of policy options and technical support for improving policy and institutional framework and policy capacity	-	-	285,798
Removing barriers to expansion of alternative dispute resolution: (a) needs analysis, (b) review of policy options and (c) technical support for improving policy and operational framework and institutional capacity	-	-	274,786
Analysis of the extent and causes of gender based violence and preparation of a national strategy and action plan for improving support for victims of such violence	-	-	317,028
Juvenile justice: introducing a legal and institutional framework: (a) needs analysis, (b) review of policy options, (c) preparation of national strategy for prevention of offences by juveniles	-	-	200,000
Piloting Innovative Provision of Legal Aid Services in Azerbaijan – University, Law Faculty or Legal Scientific Institute	-	276,339	437,039
Piloting Innovative Provision of Legal Aid Services in Azerbaijan – Non-governmental Organizations	117,748	188,842	466,550
Piloting Innovative Provision of Legal Aid Services in Azerbaijan – Private Practitioners	-	57,584	233,264
(a) Introducing Mediation (b) Strengthening Legal Profession	-	98,547	334,715
Subtotal	117,748	621,312	2,764,433
1.2 Expanding e-justice services across the Republic of Azerbaijan			
Goods			
Supply, Installation and Support of ICT Equipment and Related Software for Primary and Reserve Data	2,034,886	9,204,945	33,231,902
Enhancement of Electronic Document Management System (DMS), Case Management System (CMS) and e-bailiff system in Phase-I courts and bailiff offices	907,103	1,615,011	4,945,286
Installation of IT infrastructure in Phase-I courts and bailiff offices	-	1,909,680	18,848,673
Accelerating electronic filing in selected high-volume courts and court complexes through digitization	-	-	1,426,168
Subtotal	2,941,989	12,729,636	58,452,029

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

PROJECT COMPONENTS/ACTIVITIES	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
Consultants' services			
Upgrading and modernizing court web portal	-	5,935	256,419
Electronic Document Management System (DMS) and Case Management System (CMS) software in selected Phase	-	-	1,763,705
E-library services – design and implementation of a pilot e-library under the Supreme Court	-	20,132	247,758
Consultancy services for location-specific site surveys of judicial infrastructure in Baku city Bine	-	-	35,812
Consultancy services for location-specific site surveys of judicial infrastructure	636,696	424,464	1,947,060
Development of Framework to Implement the e-Court Information System	-	-	90,000
Subtotal	636,696	450,531	4,340,754
Total Judicial Service Delivery Improvements	3,696,433	13,801,479	65,557,216
2 Strengthening Institutional Capacity, Efficiency and Monitoring and Evaluation (“M&E”)			
IBRD Loan number 8407 AZ			
2.1 Improving Sector Efficiency, Performance and M&E			
Consultants' services			
Development of the key performance indicators and pilot management dashboard for e-court system	-	-	217,460
Strengthening Justice Sector M&E Capacity and Quality: (a) assessment of sector M&E capacity, quality	5,068	91,229	1,371,675
Design and conduct of user surveys	246,653	105,708	704,431
Senior judicial information systems advisor	-	8,217	227,054
Sector Efficiency and Expenditure Review (SEER): conduct, dissemination of findings and recommendations	6,931	237,025	327,123
Analysis of status of courts' physical and electronic archiving and retrieval policies and practices	-	109,381	268,895
Subtotal	258,652	551,560	3,116,638
2.2 Strengthening IT Management and Operational Capacity			
Goods			
Procurement of Information Technology Service Management (ITSM) software solutions for MOJ IT Helpdesk	-	-	93,080
Subtotal	-	-	93,080

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

PROJECT COMPONENTS/ACTIVITIES	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
Consultants' services			
Short-term capacity augmentation for MOJ IT Department and Call Center, Help Desk and asset management	-	1,608,800	2,298,326
Policy analysis and options for sourcing and employment of skilled IT professionals as Ministry of Justice ("MOJ") personnel	-	-	321,388
ICT Development and capacity building manager	13,306	26,446	87,453
ICT Infrastructure specialist	-	12,159	53,499
ICT Operation Head	-	-	57,827
Project Controller (Deputy Project Manager)	-	-	29,833
IT Trainer and support specialist	6,599	13,153	48,718
ICT support specialists	14,287	29,677	116,596
Senior IT Infrastructure (NOC) Specialist	16,297	20,093	54,869
Interim chief information officer for MOJ	21,960	170,305	1,178,088
Information Systems Support Specialist #1	16,297	20,022	43,227
IT System Administration Specialist	11,512	18,971	41,624
e-Court Development Specialist #1	5,043	6,465	16,258
e-Court Development Specialist #2	-	5,443	10,193
e-Court Development Specialist #3	8,030	11,119	25,799
Subtotal	113,331	1,942,653	4,383,698
2.3 Communications, Outreach and Change Management			
Consultants' services			
Audio-Visual Media Preparation	38,848	105,669	267,056
Subtotal	38,848	105,669	267,056
2.4 Strengthening Professionalization and Knowledge			
Consultants' services			
Improving the quality of judicial decisions in economic and commercial disputes: analysis and recommendations	-	15,042	343,525
Improving the quality of judicial decisions in first-instance courts - analysis and recommendations;	-	20,691	283,123
ICT training for judges, court staff and staff of other justice institutions, Phase 3	-	260,190	1,870,143
Overcoming Gender Barriers in Justice Professions	-	26,997	211,976
Justice Academy: Institutional and Training Needs Analysis Update	-	2,259	31,754
Subtotal	-	325,179	2,740,521
Total Strengthening Institutional Capacity, Efficiency and Monitoring and Evaluation	410,831	2,925,061	10,600,993

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

PROJECT COMPONENTS/ACTIVITIES	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
3 Expansion and Modernization of Justice Infrastructure IBRD Loan number 8407 AZ			
Civil Works			
Construction of Sumgait Court Complex	3,953,690	6,557,242	29,151,554
Construction of Baku City Narimanov District Court	138,918	-	10,638,730
Construction of Surakhani District Court	868,346	900,956	7,381,333
Construction of Masalli District Court	1,342,332	1,904,945	6,800,405
Construction of annex in Sheki Court Complex and capital repair of current Sheki District Court building for further location of the Sheki City Bailiff department	-	-	10,341,308
Subtotal	6,303,286	9,363,143	64,313,330
Goods			
ICT and other technical equipment for Sumgait Court Complex	250,770	-	2,530,915
Office equipment and furniture for Baku City Narimanov District Courts	-	-	1,559,609
ICT and other technical equipment for Baku city Binagady District Court	93,977	-	1,516,158
ICT and other technical equipment for Imishli District Court	-	-	1,207,450
ICT and other technical equipment for Zagatala District Court	-	-	527,486
ICT and other technical equipment for Qabala District Court	-	-	535,668
Office equipment and furniture for Baku City Binagadi District Court	-	-	560,691
Office equipment and furniture for Imishli District Court	-	-	1,468,995
Office equipment and furniture for Zagatala District Court	-	-	222,112
Office equipment and furniture for Gabala District Court	-	-	302,025
Office equipment and furniture for Zagatala District Court	-	-	258,543
ICT and other technical equipment for Masalli District Court	-	740,845	929,415
ICT and other technical equipment for Baku City Narimanov	-	-	1,049,471
ICT and other technical equipment for Baku Surakhani District Courts	-	-	860,194
ICT and other technical equipment for annexes in Sheki Court Complex	-	-	885,659
Office equipment and furniture for Sumgait Court Complex	-	-	4,249,578
Office equipment and furniture for annexes in Sheki Court Complex	-	-	1,771,411
Office equipment and furniture for Masalli District Court	-	-	569,844
Provision of additional furnishing materials and office supplies to Baku city Binagadi District	-	-	93,603
Provision of auxiliary power, cooling facility and other equipment for MoJ Main and Reserve data centers	283,970	10,355,641	10,639,611
Provision of additional and Communication ICT equipment for courts and bailiff offices	782,328	929,552	1,711,880
Provision of additional furnishing materials and office supplies to Zagatala District Court	-	-	72,823
Subtotal	1,411,045	12,026,038	33,523,141

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

PROJECT COMPONENTS/ACTIVITIES	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
Consultants' services			
Updating and refinement of courthouse and justice institution buildings designs	-	-	6,202,249
Author supervision of courts to be constructed	69,737	158,952	1,215,757
Independent technical review of technical designs for selected courts	-	-	3,276,016
Independent Technical Review (ITR) of JSSIP civil works for Baku Grave Crimes Courts	164,924	162,821	889,081
Technical supervision of courthouse construction	117,323	204,627	833,443
e-Court System (Data Entry) Operator	32,200	71,527	195,716
Subtotal	384,184	597,927	12,612,262
Total Expansion and Modernization of Justice Infrastructure	8,098,515	21,987,108	110,448,733
4 Project Management and Coordination IBRD Loan number 8407 AZ			
Goods			
Vehicle for Project Implementation Unit ("PIU")	-	-	35,011
Subtotal	-	-	35,011
Consultants' services			
Remunerations	472,927	596,285	3,439,998
Subtotal	472,927	596,285	3,439,998
Training			
Training for PIU and MOJ staff and relevant government officials	-	82,339	412,310
Subtotal	-	82,339	412,310
Incremental operating costs			
Operating costs	2,102,526	790,770	8,602,327
Salaries of the employees	26,242	47,842	189,644
Subtotal	2,128,768	838,612	8,791,971
Other costs financed fully by the Government	-	-	1,254,825
Total Project Management and Coordination	2,601,695	1,517,236	13,934,115
5 Project Management and Coordination IBRD Loan number 9058 AZ			
Consultants' services			
Remunerations	598,861	-	598,861
Subtotal	598,861	-	598,861

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN


STATEMENT OF PROJECT ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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


PROJECT COMPONENTS/ACTIVITIES	Year ended December 31, 2020	Year ended December 31, 2019	Cumulative as at December 31, 2020
Incremental operating costs			
Operating costs	13,965	-	13,965
Salaries of the employees	643	-	643
Subtotal	14,608	-	14,608
Total Project Management and Coordination	613,469	-	613,469
IBRD Loan number 8407 AZ Front-end-fee	-	-	250,000
IBRD Loan number 9058 AZ Front-end-fee	125,000	-	-
Front-end-fee	125,000	-	375,000
TOTAL PROJECT ACTIVITIES	15,545,943	40,230,884	201,529,526

* ICT – Information and Communications Technology.

Approved and signed on behalf of the Judicial Services and Smart Infrastructure Team:


Azer Jafarov
Project Director

October 18, 2021
Baku, the Republic of Azerbaijan


Zaur Nasrullayev
Finance Manager

October 18, 2021
Baku, the Republic of Azerbaijan

The notes on pages 17-23 form an integral part of these Special-Purpose Financial Statements.


JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF DESIGNATED AND PROJECT ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2020


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

	Project Account, Main State Treasury Account	Designated Account IBRD USD	Cash on hand
Opening balance as at January 1, 2020	-	1,254,208	-
Add:			
Project funds received	9,941,176	10,612,148	-
Total receipts	9,941,176	10,612,148	-
Deduct:			
Project eligible expenditure	(9,941,176)	(5,479,767)	-
Total deductions	(9,941,176)	(5,479,767)	-
Effect of foreign exchange rate			
IBRD share	-	(58)	-
Total effect of foreign exchange rate	-	(58)	-
Closing balance as at December 31, 2020	-	6,386,531	-
Opening balance as at January 1, 2019	-	2,779,270	-
Add:			
Project funds received	23,823,529	7,344,213	-
Other funds received	-	735	-
Total receipts	23,823,529	7,344,948	-
Deduct:			
Project eligible expenditure	(23,823,529)	(8,869,998)	-
Total deductions	(23,823,529)	(8,869,998)	-
Effect of foreign exchange rate			
IBRD share	-	(12)	-
Total effect of foreign exchange rate	-	(12)	-
Closing balance as at December 31, 2019	-	1,254,208	-

Approved and signed on behalf of the Judicial Services and Smart Infrastructure Team:


Azer Jafarov
Project Director

October 18, 2021
Baku, the Republic of Azerbaijan


Zaur Nasrullayev
Finance Manager

October 18, 2021
Baku, the Republic of Azerbaijan

The notes on pages 17-23 form an integral part of these Special-Purpose Financial Statements.

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

STATEMENT OF EXPENDITURE AND SUMMARY SHEET WITHDRAWAL SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2020

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

Application No.	Advance payment	Category 1 Civil works	Category 2 Goods	Category 3 Consultants' services	Category 4 Training	Category 5 IOC	Total required	Total replenished
Total applications reimbursed as at the inception date*	-	-	-	-	-	-	-	-
1	2,000,000	-	-	-	-	-	2,000,000	2,000,000
Total applications reimbursed during the year ended December 31, 2014	2,000,000	-	-	-	-	-	2,000,000	2,000,000
3	3,000,000	-	-	-	-	-	3,000,000	3,000,000
4	-	-	-	95,603	-	110,140	205,743	205,743
5	-	-	785,918	689,840	-	103,941	1,579,699	1,579,699
11	-	472,543	382,141	2,338,565	30,781	463,536	3,687,566	3,687,566
13	-	770,230	376,204	1,749,031	16,076	559,209	3,470,750	3,453,857
Total applications reimbursed during the year ended December 31, 2015	3,000,000	1,242,773	1,544,263	4,873,039	46,857	1,236,826	11,943,758	11,926,865
Total applications reimbursed as at December 31, 2015	5,000,000	1,242,773	1,544,263	4,873,039	46,857	1,236,826	13,943,758	13,926,865
14	-	322,104	-	2,438,675	30,805	693,058	3,484,642	3,484,642
15	-	347,564	1,868,465	1,816,190	15,456	230,252	4,277,927	4,277,927
16	-	1,175,728	2,135,964	1,238,920	23,987	205,147	4,779,746	4,779,746
Total applications reimbursed during the year ended December 31, 2016	-	1,845,396	4,004,429	5,493,785	70,248	1,128,457	12,542,315	12,542,315
Total applications reimbursed as at December 31, 2016	5,000,000	3,088,169	5,548,692	10,366,824	117,105	2,365,283	26,486,073	26,469,180
18	-	1,752,785	1,208,647	1,699,121	75,009	157,356	4,892,918	4,892,918
22	-	-	1,369,141	2,961,371	75,009	149,899	4,555,420	4,555,420
25	-	112,958	3,144,082	548,553	49,336	276,591	4,131,520	4,131,520
Total applications reimbursed during the year ended December 31, 2017	-	1,865,743	5,721,870	5,209,045	199,354	583,846	13,579,858	13,579,858
Total applications reimbursed as at December 31, 2017	5,000,000	4,953,912	11,270,562	15,575,869	316,459	2,949,129	40,065,931	40,049,038

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN


STATEMENT OF EXPENDITURE AND SUMMARY SHEET WITHDRAWAL SCHEDULE FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)


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

Application No.	Advance payment	Category 1 Civil works	Category 2 Goods	Category 3 Consultants' services	Category 4 Training	Category 5 IOC	Total required	Total replenished
30	-	148,783	73,362	3,711,485	50,238	802,235	4,786,103	4,786,103
31	-	1,259,829	42,812	1,262,417	22,035	605,069	3,192,162	3,192,162
Total applications reimbursed during the year ended December 31, 2018	-	1,408,612	116,174	4,973,902	72,273	1,407,304	7,978,265	7,978,265
Total applications reimbursed as at December 31, 2018	5,000,000	6,362,524	11,386,736	20,549,771	388,732	4,356,433	48,044,196	48,027,303
35	-	-	69,109	2,135,824	26,641	731,540	2,963,114	2,963,114
36	-	-	3,976,329	753,185	56,127	108,378	4,894,019	4,381,099
Total applications reimbursed during the year ended December 31, 2019	-	-	4,045,438	2,889,009	82,768	839,918	7,857,133	7,344,213
Total applications reimbursed as at December 31, 2019	5,000,000	6,362,524	15,432,174	23,438,780	471,500	5,196,351	55,901,329	55,371,516
38	-	-	1,603,476	2,773,507	14,035	402,451	4,793,469	3,612,148
1	7,000,000	-	-	-	-	-	7,000,000	7,000,000
Total applications reimbursed during the year ended December 31, 2020	7,000,000	-	1,603,476	2,773,507	14,035	402,451	11,793,469	10,612,148
Total applications reimbursed as at December 31, 2020	12,000,000	6,362,524	17,035,650	26,212,287	485,535	5,598,802	67,694,798	65,983,664

* The inception date of the Project is October 22, 2014.

Approved and signed on behalf of the Judicial Services and Smart Infrastructure Team:


Azer Jafarov
Project Director


Zaur Nasrullayev
Finance Manager

October 18, 2021
Baku, the Republic of Azerbaijan

October 18, 2021
Baku, the Republic of Azerbaijan

The notes on pages 17-23 form an integral part of these Special-Purpose Financial Statements.

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

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

1. DESCRIPTION OF THE PROJECT

On October 22, 2014 the Republic of Azerbaijan (the "Recipient") has concluded loan agreement with the International Bank for Reconstruction and Development (the "IBRD") in the amount of USD 100,000,000 (the "Loan") to assist in improvement of the access, transparency and efficiency of delivery of selected justice services (the "Project"). The Project's original completion date of December 31, 2018 has been extended to June 30, 2020 on October 22, 2018.

On June 16, 2020, the Republic of Azerbaijan (the "Recipient") has extended loan agreement with the International Bank for Reconstruction and Development (the "IBRD") in the amount of USD 50,000,000 (the "Loan") additional financing for the period from June 30, 2020 to June 30, 2024 based on the request made by the Ministry of Finance of the Republic of Azerbaijan. The project closing date is June 30, 2024.

The Project consists of the following components:

Component A: Judicial Service Delivery Improvements (1)

1. Improving access to justice through: (a) piloting innovative, participatory and more efficient ways to provide legal aid services to: (i) the vulnerable and marginalized through the provision of goods, and (ii) small and medium-sized enterprises; (b) analytic and diagnostic studies focusing on: (i) the legal aid system, in particular for vulnerable groups; (ii) the development of alternative dispute resolution systems; (iii) the policies and institutional arrangements on access to justice particularly for vulnerable groups and on gender issues related to justice; and (iv) the development of specific interventions to support access to justice for the Internally Displaced Persons, refugees and other vulnerable groups; and (c) piloting of a private bailiff office focusing on small and medium-sized enterprises.
2. Expanding the provision of electronic access to selected justice services through: (a) the development and rollout of selected justice e-services; (b) the improvement of the infrastructure for the justice sector information and communications technology; and (c) the construction of a data center and the rehabilitation and upgrading of a facility for disaster recovery center, and (d) the replication of standardized court room design, including acquisition of furniture required thereof.

Component B: Strengthening Institutional Capacity, Efficiency and Monitoring and Evaluation (2)

1. Improving justice sector performance through, inter alia: (a) a sector efficiency and expenditure review including analyses of court case backlogs, efficiency, justice system revenues; (b) strengthening justice sector monitoring and evaluation capacity and quality including through the development of a justice sector performance monitoring framework and performance indicators and the preparation of a strategy and action plan to improve such capacity; (c) strengthening sector capacity to undertake and apply poverty and social impact analysis to improve service delivery to economically and socially vulnerable groups such as Internally Displaced Persons; and (d) the carrying out of periodic surveys of, inter alia, court users, lawyers, judges, court staff, notaries, and other justice sector service providers .

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

- 2 Improving the justice sector information systems for enhanced institutional performance, through, inter-alia: (a) strengthening ICT functions of Relevant Entities, (b) providing the Constitutional Court and Supreme Court with ICT equipment, (c) developing a digital data base of court decisions (d) installing audio-video recording systems, including the provision of video-conferencing network equipment and electronic applications; (e) supporting and providing technical assistance for the periodic assessment of the performance, in line with international best practice, of the data center referred to in Pafl A.2.(c) of the Project, network infrastructure, and software systems; (f) encouraging the use of secure email services for official communications; (g) designing and implementing a standardized platform for ICT inventory and asset management; and (h) building capacity of the Relevant Entities and other justice sector entities such as the Bar Association and the Ombudsman.
- 3 Strengthening the information systems management and operational capability of the Ministry of Justice to support the provision of selected justice services through the provision of goods, consultant services and training.
- 4 Carrying out communications, outreach and change management activities aimed at facilitating stakeholder engagement in the justice sector reforms, including but not limited to: (a) the development and implementation of a communications, outreach and change management strategy; and (b) the conduct of stakeholder workshops, roundtables, public awareness campaigns, radio, television and print media/internet programs, all through the provision of consultant services and training.
- 5 Strengthening the professional capacity of judges, staff of courts and the Ministry of Justice and the Justice Academy through, inter alia: (a) the preparation of a justice sector gender strategy and action plan based on an assessment of gender-based barriers to employment for judges, lawyers and other justice professionals and an analysis of training and sensitization needs on gender issues for justice professionals; (b) the development of training courses and curricula and the delivery of training for judges and other justice professionals aimed at, but not limited, to improving the quality of judicial decisions in economic and commercial disputes and in first-instance courts; and (c) the carrying out of knowledge-sharing activities between judges and other justice sector professionals in Azerbaijan and between Azerbaijan and other judiciaries, justice training institutions and professional networks, through the provision of goods, consultant services and training.

Component C: Expansion and Modernization of Justice Infrastructure (3)

Construction and rehabilitation of about six courthouses and court complexes at the locations selected in accordance with criteria set forth in the Operational Manual.

Component D: Project Management and Coordination (4)

Strengthening the capacity of the Ministry of Justice in Project management, monitoring and coordination including audits of: (a) Project financial statements, (b) environmental and social safeguard compliance; and (c) implementation of information and communications technology activities under the Project.

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

Component E: Piloting of Transformative Technology for Justice Sector (5)

1. Improving justice sector performance and service delivery in line with best international practice through, inter-alia, the development of policy, legal, ethical and governance guidelines for using Artificial intelligence and Business intelligence in judicial services, including, inter-alia: (a) the establishment of the required policy framework, and (b) the carrying out of an assessment (including recommendations) of (i) the readiness and risk mitigation capabilities of digital applications and other related software systems, and (ii) the applicable policy, legal, ethical and governance frameworks, including without limitation appropriate provisions regarding data protection, related to these activities.
2. Piloting new means for legal and judicial service delivery by leveraging the capacity of new data centers and the E-Courts, including, inter-alia: (a) the piloting of Artificial Intelligence tools for judicial and legal service delivery in selected topics; (b) the application of Business Intelligence systems to facilitate court and justice performance management, including a performance monitoring center for the Supreme Court; and (c) the introduction of databases, including unified database of court decisions.
3. Promoting a culture of digital excellence in judicial service provision, including: (a) introduction of sector-wide performance management tools to promote service delivery innovations and interconnection with stakeholders; and (b) promoting knowledge sharing by carrying out activities to showcase Azerbaijan's development towards becoming a leader in strengthening judicial service provision using ICT solutions, including the seeking of feedback.

2. BASIS OF ACCOUNTING

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") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants ("IFAC-PSC") and incorporate the principal accounting policies from the "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities".

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 the Project's behalf. Expenditure is accounted for on the basis of actual disbursement of funds from the Project accounts.

Foreign currency transactions and translation

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

- a) The IBRD's funding is received in USD;
- b) A substantial share of the Project's expenditure is denominated in USD; and
- c) Budgets and financial reports for the Project are prepared in USD.

Balance sheet monetary items denominated in currencies other than USD have been translated into USD using the exchange rate of the International Bank of Azerbaijan ("IBAR") 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 IBAR prevailing on the date of transaction.

**JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF
THE REPUBLIC OF AZERBAIJAN**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the Special-Purpose Financial Statements comprise balance with resident financial institution.

	December 31, 2020	December 31, 2019
IBRD Designated Account USD	6,386,531	1,254,208
Total cash and cash equivalents	6,386,531	1,254,208

4. DESIGNATED ACCOUNT

The Recipient has established Designated Account at a commercial bank acceptable to the IBRD in accordance with the Loan Agreement. Designated Account is established, managed, replenished and liquidated in accordance with the World Bank's "Disbursement Guidelines for Projects" dated September 2006 and detailed arrangements agreed upon between the Recipient and the IBRD.

The Project maintains its Designated Account in USD with "International Bank of Azerbaijan" OJSC (located in the Republic of Azerbaijan).

5. CONTRACTUAL COMMITMENTS

The contractual commitments per expenditure categories were as follows:

Category	Year ended December 31, 2020	Year ended December 31, 2019
(1) Civil Works	-	6,303,283
(2) Consultants' services	-	2,380,621
(3) Goods	-	4,336,569
Total contractual commitments	-	13,020,473

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

6. BASIS OF FUNDING AND ELIGIBLE EXPENDITURE

The following tables specify the categories of eligible expenditure that may be financed out of the allocations of the amounts indicated in the Loan to each category, and the percentage of expenditure to be financed for eligible expenditure in each category:

Category of Loan agreement 8407 AZ	Amount of the Loan allocated (expressed in USD)	Percentage of expenditure to be financed (Net of VAT)
(1) Goods, works and non-consulting services for the Project	65,734,738	49%
(2) Consultants' services including audits, training and incremental operating costs for the Project	31,340,359	100%
(3) Unallocated	2,674,903	-
(4) Front-end fee	250,000	0.25% of the Loan amount
(5) Interest Rate Cap or Interest Rate Collar premium	-	Premium to be paid out of the proceeds of the Loan
Total eligible expenditure	100,000,000	

During the year ended December 31, 2017 other costs in the amount of USD 580,838, and USD 221,360 were financed fully by the Government of the Republic of Azerbaijan regarding "purchase of firefighting equipment" and "safety gates for front doors of courts", respectively.

During the year ended December 31, 2016 other costs in the amount of USD 265,572, USD 125,465 and USD 61,590 were financed fully by the Government of the Republic of Azerbaijan regarding "purchase of firefighting equipment", "cleaning of ecological wastage and establishment of technical water drainage" and "safety gates for front doors of courts", respectively.

During the year ended December 31, 2015 other costs in the amount of USD 133,682, USD 53,627 and USD 65,457 were financed fully by the Government of the Republic of Azerbaijan regarding "billboard and fencing for courts under construction", "blind lanes" and "program software for implementation of e-court", respectively.

On November 25, 2014, the IBRD responded by "no objection" to request of government to finance the construction of Annexes in Sheki Court Complex using 100% funding from the Government of the Republic of Azerbaijan. The procurement plan was revised accordingly.

**JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF
THE REPUBLIC OF AZERBAIJAN**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**

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

Category of Loan agreement 9058 AZ	Amount of the Loan allocated (expressed in USD)	Percentage of expenditure to be financed (Net of VAT)
(1) Works and non-consulting services, consulting services, training and incremental operating costs	19,700,000	100%
(2) Goods for Parts A,B,D and E of the Project	30,300,000	76%
Total eligible expenditure	50,000,000	

7. METHODS OF DISBURSEMENT

The methods of disbursement used from the inception of the financing up to and including for the year ended December 31, 2020 were as follows:

Advance – the IBRD may advance loan proceeds into the Designated Account of the Recipient to finance eligible expenditure as they are incurred and for which supporting documents will be provided at a later date.

Direct funding – the IBRD may make payments, at the Recipient’s request, directly to a third party for eligible expenditure.

Reimbursement procedure – the IBRD may reimburse the Recipient for expenditure eligible for financing pursuant to the Loan Agreement (“eligible expenditure”) that the Recipient has pre-financed from its own resources.

Commitment procedure – the IBRD may pay amounts to a third party for eligible expenditure under special commitments entered into, in writing, at the Recipient’s request and on terms and conditions agreed between the IBRD and the Recipient.

8. METHOD OF WITHDRAWAL

IBRD Designated Account

Designated Account is designated disbursement account of the Project to effect the payment of eligible expenditure, within defined limits, which do not require individual authorization from the IBRD. Available amounts were drawn down within the limits determined by the relevant loan agreement for the payment of eligible expenditure for sub-contractors from the Designated Account.

Direct payments from the IBRD Designated Account

Under this method, the Project management prepares applications based on supporting documents which are submitted to the IBRD. Payments are made from the Loan Account directly to the contractors.

JUDICIAL SERVICES AND SMART INFRASTRUCTURE PROJECT OF THE REPUBLIC OF AZERBAIJAN

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

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

Project Account

The Project maintains a separate account in the State Treasury Agency where the Government funds are accumulated. The funds are further disbursed to sub-contractors based on the shares of expenditure to be incurred by each funding source.

Statement of expenditure ("SOE")

Under the SOE method, the Project forwards to the IBRD an application for reimbursement of payments already made using an application for withdrawal with SOE forms as the only documentation.

9. 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 a certain level of risk due to changes in the political and business environment.