



**OPINION
of
Increasing Transparency in Extractive Industry
(ITEI) NGO Coalition on Azerbaijan 2014 EITI
Report**

*(The current opinion was discussed and accepted at February 17,
2016 meeting of ITEI NGO Coalition)*

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INTRODUCTION

Azerbaijan 2014 EITI Report is the second one developed in accordance with EITI Standards and the schedule determined by International EITI Board. The report has been developed by “Moore Stephens Azerbaijan” selected as Independent Administrator by the Multi-stakeholder Group (MSG).

The report states information on January 01 – December 31, 2014 fiscal year, including the situation on the extractive industry in Azerbaijan Republic and its regulation features, contribution of the extractive industry to the economy of the country and functioning of the national extractive company, individualized information on the payments by the extractive companies of the country to government and also reconciliation outcomes of information on payments to the government by these companies and benefits the government gets from the extractive companies.

In accordance with Paragraph 2.4.9 of the Memorandum on “The Application of Extractive Industry Transparency Initiative in Azerbaijan Republic”, the experts of ITEI NGO Coalition have studied Azerbaijan 2014 EITI Report in details, evaluated the content and structure of the report in accordance with the requirements of EITI Standards and developed this Opinion following the essential analysis and research.

The Opinion also states the characteristic features of 2014 EITI Report, shortcomings on information in “Conceptual Data” section, as well as the discrepancies in information on reconciliation process. The Coalition experts have conducted detailed analysis of the introduction format (i.e., Report design) of the information in 2014 Azerbaijan EITI report, compared this format with the method of introducing information in reports of other countries and determined the shortcomings. The experts have also evaluated the implementation status of recommendations by Coalition experts on 2013 EITI Report. The outcomes of the mentioned evaluation are also reflected in the current Opinion. The final section of the Opinion includes Coalition recommendations on the elimination of shortcomings and errors revealed as the result of the study of the report.

The Opinion was discussed and accepted at February ___ 2016 meeting of ITEI NGO Coalition Council and decided to be submitted to MSG.

I. The features of 2014 EITI Report

1.1. As is known, during the 29th meeting of the International EITI Board dated April 14-15, 2015 in Brazzaville it was decided to bring down Azerbaijan’s status based on the evaluation of EITI process in Azerbaijan in January-March 2015. According to the decision, Azerbaijan government and MSG had to take reformatory measures in order to ensure a more active participation of the Civil Society (CS) in EITI process, considerably improve CS activity environment and provide information (including approving facts) of activities carried out to International EITI Board. Based on the above, the decision on the status of Azerbaijan has to be reviewed. This would urge a more responsible approach both to the development of EITI reports and enrichment of the report contents.

1.2. Due to the fact that 2014 Azerbaijan EITI Report was the second one developed in accordance with the requirements of EITI Standards, both the MSG and local Secretariat participating in the development of the Report and the Independent Administrator directly implementing this activity already had some formed experience in the development of reports in accordance with EITI

Standards (development of 2013 EITI report). Besides, the opinions of both International EITI Secretariat and ITEI NGO Coalition largely stated the discrepancies and shortcomings of 2013 EITI Report based on the requirements of EITI Standards. Both this formed experience and remarks and recommendations on 2013 report enabled a more perfect development of 2014 Report.

1.3. All the remarks and recommendations regarding 2013 Report were discussed at MSG meetings and the Independent Administrator was tasked to eliminate all the shortcomings of the previous report upon development of 2014 Report. The Working Group established by the decision of the MSG upon equal participation of the parties during 2014 EITI Report development process met with the Independent Administrator a number of times and discussed the ways of considering the remarks and recommendations on 2013 EITI Report in the report for 2014. Besides, having acquainted with the initial draft of 2014 Report, the International Secretariat mentioned certain issues irrelevant with the Standards to the Local Secretariat and Working Group. The remarks by the International Secretariat and the difficulties the independent Administrator faced upon acquisition of necessary information on certain requirements of the Standards, as well as the resolutions of these problems were discussed during MSG meetings.

1.4. The above-mentioned factors enabled certain changes in the content of 2014 Report and composition of contextual data compared to the Report for 2013. For instance, the Summary section of 2014 Report includes schedules with information on payments to the government by companies joining EITI both in terms of value and in natural form, which provides the description of individualized information on companies. Changes in contextual information are mentioned below, in the next section of the opinion. The 2014 report also includes a summary schedule reflecting the implementation status of remarks and recommendations related to 2013 EITI Report.

II. Analysis of the “Contextual data” section of the Report

As is known, EITI Reports shall include contextual data on industries dealing with mineral extraction in accordance with requirement 3 of EITI Standards. It is stated as a requirement that the reports reflect (or owners of certain information shall state the references to the sources open for the societies) most of contextual information mentioned in the Standards.

2.1. According to Requirement 3.2 of the Standard EITI report shall describe the legal norms regulating the extractive industry and the fiscal regime. This shall include information on fiscal regime, as well as summary of fiscal obligations, summary of corresponding laws and rules and information on the roles and duties of corresponding state agencies. According to this requirement of the Standard, section 3.1 of 2014 EITI Report includes general information on the extractive industry of the country, legal norms on the functioning of the extractive industry, fiscal regime and role of state agencies. Apart from the repeated information from the report of the previous year, there are also certain additions: the links of the e-portals of the legal norms (laws and orders) accepted within the country, information on the government bodies that received the payments by the extractive industry to the government, general information on the structures of the state budget and consolidated budget, information on the taxes paid to local (municipality) budgets and reforms on extractive industry.

The “International agreements” subsection mentions 2 documents: one is the agreement signed in Moscow on pipelines and the second is the agreement signed in Kiev on the establishment of oil and gas transmission systems. Both are not very essential documents. And this is the end of the international agreements section of the report. The report creates some wrong impression that the international agreements of the country on extractive industry, including the transmission and transit

of oil and gas are just about these two documents. Therefore, it would be better to either exclude the “international agreements” subsection or enrich this subsection with more detailed information.

Nevertheless, it is only the names of the legal norms that are mentioned, with no information provided on how and which relations of the extractive industry are regulated through these norms. Listing the existing legal norms is not enough to fully describe the legal regime. In order to comprehend the legal regime, it is necessary to provide a short summary on specific relations and mechanisms that each legal norm listed regulates in regard to the extractive industry, as well as the interaction of these norms and mechanisms. This would increase the importance of the information provided.

The description of the state budget and consolidated budget in the report is not quite clear. Neither is the mechanism on extractive revenues entering into the state and consolidated budgets (system input) and hierarchy distinct. Therefore, we think that information on legal and fiscal regimes shall be stated in the form of graphs (visual schemes) rather than listing.

Due to the fact that information on state budget revenues and expenses is related to requirement 3.7 of the Standard rather than 3.2, it would be more advisable to include this information into the corresponding section of the report.

In accordance with the Coalition recommendation, certain information on fiscal devolution has been included into the Report; though missed out of the Report, it is evident that the budgets of local governance bodies of the territories where extractive fields (deposits) are located receive no payments from the extractive revenues of oil, gas and other minerals.

According to the Standard, the Report shall reflect the reforms carried out by the government during the reporting year. The given Report lists the changes in the legal norms related to the extractive industry in 2014; however, nothing is mentioned about the main point of the changes in legal norms and their possible impacts on the regulation of the activities in the extractive industry.

2.2. According to section 3.3 of Requirement 3 of EITI Standards, the Reports shall include the summary of any important exploration works in the extractive industry, including the given fields. Section 3.2 on “the Summary of the Extractive Industry” of 2014 EITI Report includes information on the volume of oil and gas resources of the country, acting agreements on offshore and onshore oil and gas deposits, the parties of these agreements and their shares, oil and gas pipelines, silver and gold production, as well as exploration works on certain deposits. This information is primarily repeated from 2013 EITI report. It is only the changes in Shahdeniz PSA participants and their shares that have been added and the information on exploration works have been updated.

The Coalition opinion on 2013 Report recommended to include the volume of resources on all deposits and products (oil, gas, condensate, silver, gold, etc.) into the reports for the following years. During MSG discussions, it was decided to fulfill these recommendations and the necessary works were carried out by the Working Group. For some unknown reason the information has not been included into the Report.

We recommend to include more detailed information on pipelines – their transmission capacity and statistics on the products exported – into the reports for the following years.

2.3. According to requirement 3.4 of the Standard information on the contribution by the extractive industry to the economy of the country during the fiscal year that the report covers shall be included into the Report. Section 3.3 on “Contribution of the Extractive Industry to Azerbaijan Economy” of 2014 EITI Report includes information on annual GDP, field and production structure of GDP (including the share of the extractive industry), information on the absolute value of total state revenues in the extractive industry (including taxes, royalties, bonuses, fees and other payments) and

their special weight in total state revenues, volumes of oil, natural gas, silver and gold productions in 2014 and territorial production volumes, absolute value of extractive industry exports, share of the extractive industry in investments on fixed assets, employment characteristics and structure on the fields of economy.

The following information not included into the report of the previous year was added to 2014 EITI Report: evaluation of the share of shade economy in GDP, total amount of payments by extractive company to State Social Protection Fund (SSPF) in 2014, number of local and expatriate staff at BP.

It is indeed important and essential to include 3-year information on production volumes of extractive products on territories (regions) of the country into the report; however, inclusion of that information into “Contribution of Extractive Industry to Country’s Economy” section is not understandable. We recommend to include annual production information on territories (regions) into Section 3.4 on “Production Volume” (in accordance with requirement 3.5 of the Standard) and 3-year dynamics of this information into Section 3.1 on “Summary of Extractive Industry”.

Despite the fact that information under “Share of Extractive Industry in Exports” subtitle states the volume and value of the extractive products exported, there is nothing that reflects their share in total exports of the country. Referring to International Monetary Fund (IMF) this section of the report also states that “the foreign trade relations of the country in 2014 increased by 3,3% in developed countries and 3,4% in developing” compared to the previous year. This kind of information seems to be irrelevant for this section and for the report in general. It would be more beneficial to include year-by-year information on changes of the share of extractive industry in total exports of the country. And it would be more advisable to refer to State Statistics Committee and State Customs Committee (the websites of these state agencies have this information) who are the owners of this type of information in the country.

In our Coalition opinion on 2013 Report we mentioned that “stating investment and employment information on companies in this section, as well as distribution of employments in extractive companies based on local and expatriate staff would increase the quality of the report”. 2014 Report includes the dynamics and structure of BP employees only. We think that MSG should be focused on this issue, take necessary measures for collecting this type of information from other extractive companies and ensure the inclusion of such information into the reports of the following years.

Though not required by the Standard, this section includes information on the amounts of SSPF payments by local and foreign extractive companies in 2014. Stating the share of these payments in the amount of total annual payments to SSPF, as well as year-by-year changes in this share would be more corresponding to the requirements of the section and would make this information more essential.

2.4. Requirement 3.5 of the Standard requires the inclusion of production and exportation indicators of the production year (this includes: total production volumes and value of products on types (where relevant, even the value of production on regions); total export volumes and export value of production on types (where relevant even the value of production on regions)) into the Report.

This requirement of the Standard was not fulfilled in last year’s report. The methodological problems related to the implementation of this requirement (the price to be used for determining the value of the product) were discussed at the meetings of the Working Group and MSG and it was decided that the value of the extracted resource volumes shall be calculated on the basis of average annual export price of the given product during the reporting year.

Section 3.4 on “Production Volume” of the Report states a schedule with figures for the internal volumes of mineral resources extracted, as well as the indicators adjusted to international volume

indicators, average annual export prices of these resources and values calculated on the basis of these prices.

However, this section of the report does not include any information on the volume and value of the extracted resources on regions, neither any information on the export volume and value of the raw materials extracted, whereas, as already mentioned above, section 3.3 of the report states information on the extraction volumes on the territories (regions) of the country. Shifting this information to the mentioned section and determining their value by applying similar methodology would be more corresponding to the requirement of the Standard. It would also be effective to put special comment or note on the placement of export information in Section 3.3 (indicating the page as well).

2.5. Article 3.6 of the third requirement of the Standard states it is important to include information on participation of the state in the extractive industry into EITI reports. Information in accordance with this requirement of the Standard is stated in Section 3.5 on “State Participation in the Extractive Industry” of the Report. The opinion of the Coalition related to the report of the previous year had most remarks on this section. The current report has the following information in accordance with requirement 3.6 of the Standard: general information on SOCAR, the national extraction company; very generic and short information on the relations between SOCAR and state agencies, 3-year dynamics of certain financial indicators, affiliate and subsidiary companies of SOCAR, its beneficiary ownership in joint ventures and changes in beneficiary ownership in 2014, loans and guarantees of the Company, its standards and short information on quasi-fiscal expenses, allocations to the state and enlargement of SOCAR activities in foreign markets. Though minor, still some changes (for instance, expansion of certain information, additions in the changes of beneficiary ownership, activities in foreign markets and short information on quasi-fiscal activities) have been made to this section of the report.

Nevertheless, the following serious problems related to the implementation of requirement 3.6 of the Standard remain unresolved:

2.5.1. The evaluation carried out suggests that similar to the report of the previous year, this year’s Report too lacks most of the information required in this subsection of the Standard: for instance, information on the relationship between SOCAR and Ministry of Finance, Oil Fund, Social Protection Fund, Central Bank and International Bank of Azerbaijan and its liabilities is very generic. Due to fact that the mechanisms of these relationships are not revealed, the information is not easy to comprehend.

2.5.2. As stated in Coalition Opinion on 2013 Report the coalition studies revealed that SOCAR activities probably include 3 quasi-fiscal operations out of 4 determined by IMF for the energy sector. Following the discussion of the study at MSG meeting, it was submitted to SOCAR and the company was requested to provide necessary information to be included into EITI Report. However, no additional information was received from the Company in this regard during the reporting period. Nevertheless, unlike the report for the previous year, the 2014 Report not only confirms the presence of quasi-fiscal operations by the Company, but even mentions that the wholesale and retail sale price of oil and oil products are regulated by the government (Tariff (Price) Council) and that the prices appointed were below 2014 international market prices, in other words oil and oil products were sold at below-market prices to local consumers. This section also includes generalized information on social expenses of SOCAR as well.

Despite all this, we consider that studies related to the quasi-fiscal operations of SOCAR shall be continued and EITI report of the following years shall include more detailed information on this. The sharp decrease of oil prices in international markets followed by the severe cut of SOCAR

revenues and the possible concerns due to its financial condition, as well as the necessity for more efficient utilization of company funds make this issue even more relevant.

2.5.3. Information on beneficiary ownership and any changes in this ownership has been copy pasted (even the financial reporting language was kept) into EITI report from SOCAR financial report which makes this information incoherent and difficult to use (for instance existence of the Group is mentioned, but nothing about its members). Therefore, it can be said that this information does not meet the requirements of the Standard. Future EITI Reports shall focus on the improvement and more comprehensive introduction of this information.

2.6. We consider it is important to include the obligations deriving from the agreement between Ministry of Ecology and Natural Resources of Azerbaijan Republic, the legal heir of Azergizil State Company, and R.V. Group Services LLC USA into “State Participation in Extractive Industry” section of the report.

2.7. Article 3.7 of requirement 3 of the Standard requires that EITI report includes information on the distribution and utilization of extractive revenues. According to this requirement, the EITI report shall state which revenues (value and natural expression) on extractive industry are stated in the national budget. When revenues are not stated in the national budget their distribution shall be explained.

Section 3.6 of 2014 EITI Report on “Income of the Oil Fund and state budget from the extractive industry” includes information on payments to the state budget by the extractive companies throughout 2014 (this information has been included into this year’s Report by Coalition’s initiative) and sources of formation of SOFAZ revenues and distribution of expenses. Introducing the dynamics of the past 3 years at least in the form of graphs in the Report would increase the importance and clearness of this information.

We consider it advisable to include certain information on the directions of utilization of SOFAZ transfers and payments by the extractive industry to the state budget and also the references to the state budget and legal norms on its implementation, as well as the state budget project and state certificates on the implementation of the state budget into this section of future EITI reports. All the information mentioned corresponds to the requirements of the Standard and is taken from the open sources (web sites of the Ministry of Finance and Chamber of Accounts).

2.8. Article 3.8 of the Standard encourages the inclusion of information on revenue management and expenses into the reports. As in 2013 EITI Report the one for 2014 too lack this information. NGO Coalition Council thinks it is important to include either this information (is available in open sources) or references to the open sources for this information into future reports in order to improve the transparency image of the country.

2.9. Requirement 3.9 and 3.10 of the Standard relate to the information on the registration and allocation of licenses. Both International EITI Secretariat and Coalition opinions include remarks on the fulfilment of these requirements of the Standard. Those remarks stated the importance of revealing information on procedures of allocating oil and gas and other extractive deposits of the country to extractive companies for exploration and exploitation and signing of PSA agreements.

Sections 3.7 on “Register of Licenses” and 3.8 on “Allocation of Licenses” of the Report present large amount of information on licensing activities in the extractive industry. Section 3.7 of the Report (Register of Licenses) states that “in accordance with Article 3.9 of EITI Standard, the list of active companies who have joined PSA in Azerbaijan Republic has been compiled and published in an open source and introduced to the public”.

Information on the procedures of PSA signing is placed in section 3.1 on “General Information”, rather than this section. However, the information is incomplete: there is nothing about the deposits the exploration and exploitation activities of which have been started, neither about the mechanisms of involving companies to the exploration and exploitation activities of the deposits (for instance, advertisements, tenders or bids, etc.). We consider that information on PSA procedures shall be improved based on the above comments and requirement 3.9 of the Standard and future EITI reports shall include this information in section on licenses. The worst scenario is that there is no information about the legitimacy of these procedures. In other words, it is not stated which regulation (standard, presidential decree, etc.) stands as basis for these procedures.

2.10. Information on beneficiary ownership issue reflected in Paragraph 3.11 of the Standard in 2014 Report is similar to the previous report. The position of the Coalition in this regard remains the same as the Coalition opinion to 2013 Report.

2.11. Paragraph 3.12 of Requirement 3 of the Standard encourages the reveal of information on agreements to public. It is mentioned that the state policy on the reveal of information on agreements and licenses that regulate the exploitation and exploration of oil, gas and minerals shall be documented. 2014 Report states information on the legal regime of the country in this regard.

It should be mentioned that 6 of the oil and gas agreements acting in Azerbaijan have been placed in EITI web site. The MSG, Secretariat and Coalition are continuing their attempts to have the remaining agreements revealed.

2.12. Thus, having evaluated the information in 2014 Report in accordance with requirement 3 of EITI we have come into a conclusion that most of the information required by the Standard has been included into the report; however there are issues related to the continuous, systematic and clear introduction of this information (as if the information required by the Standard has been taken from different sources and put together mechanically). MSG shall improve its efforts to eliminate both such problems and shortcomings related to the Contextual information in accordance with Requirement 3 of the Standard in future reports.

III. Reconciliation process and analysis of its outcomes

Requirement 4 of the Standard is about the comprehensive reflection of all extractive revenues of the government and all essential payments made by the extractive companies to the government in EITI Report. Section 4.1 of the Standard describes the requirements on the payment and revenue types to be covered in EITI Report.

3.1. Section 4 of the EITI Report on “Reconciliation Process” states that following the discussions at the 34th meeting of the SMG dated December 10, 2014 infrastructure clauses and information on barter, subnational payments and transfers, as well as social expenses had not been included into 2014 EITI Report since they were not applicable to Azerbaijan. We think that the list of revenue types to be reflected in the following report shall be reviewed and approved by MSG upon start of preparatory activities for the report. This list shall be later stated in the agreement to be signed with the Independent Administrator and in the Report.

3.2. The Coalition thinks that the MSG shall discuss the inclusion of information on social expenses into the future report and make decisions in accordance with subparagraph 4.1e of the Standard. Though information on the social expenses of the companies cannot be reconciled, it can be unilaterally revealed by the company, as mentioned in part ii of subparagraph 4.1e. For instance, though concisely, SOCAR has revealed general information on its 2014 social expenses in “State

Participation in Extractive Industry” section of this Report. Despite the fact that information on social expenses of the companies can be found in the reports of BP, SOCAR and other companies (Corporate Social Responsibility reports) and it is possible to refer to open sources in this regard, stating that this type of information is not applicable for Azerbaijan and not including it into the Report, damages the transparency image of the country.

3.3. This section of the report seems to be incomplete: on one hand it includes some necessary information (as required by the Standard documented decisions of MSG on the inclusion of separate payments into the report) in accordance with Requirement 4 of the Standard; on the other hand it has no information on reconciliation methodology. Though all methodological information on the development of the report is placed in Section 2 on “Approach and Methodology”, it would be better to include the methodology into this section – before the reconciliation outcomes – for somebody getting acquainted with the outcomes of the reconciliation process. Therefore, we consider that it would be better to include methodology issues of the reconciliation process into “Reconciliation Process” section of the report rather than Section 2 and also to combine “Outcomes of Reconciliation Process” section with “Reconciliation Process” section and name this section “Reconciliation Process and its Outcomes” in order to improve the structure and design of the report.

3.4. Below are our comments regarding the outcomes of the reconciliation process:

3.4.1. The presence of deviations (differences) between the information of the companies and the government in reconciliation process causes concerns. Some 16 deviations (differences) have been noted in 2014 report. Comparisons show that most of these errors (deviations) are usually made by the same companies. The repetition of similar mistakes despite the trainings conducted by the Independent Auditor on report forms (samples) during the report development stage urges more serious measures in this direction;

3.4.2. Explanations on the deviations (amendments) revealed during the reconciliation process are not sufficient and clear. These explanations shall be more detailed and comprehensive; also there should be references to the outcomes of cross check on companies conducted through random selection method.

3.4.3. As in 2013 Report, the current report too has some messy information on transportation and transit costs. “Transportation” and “Transit” terms, as well as the issues on transportation of the produced oil of the country through pipelines or railway and the transportation of the oil produced by other countries shall be clarified. In accordance with subsection 4.1.f of the Standard information on transportation tariffs, tariff rates and other transportation indicators shall be revealed;

3.5. There is difference of USD 8.8 million between the amount of Shahdeniz PSA payments to the government stated in EITI report and 2014 State Oil Company (SOCAR) report. Hence, 2014 annual report of SOCAR (page 28) states that the amount of payments from Shahdeniz PSA gas sale to the Fund was USD 532.0 million during the given year¹. Page 10 of 2014 EITI Report states the schedule of cash payments to the government by extractive companies. That very schedule states total of USD 523.2 million paid by Shahdeniz PSA companies to the government from the sale of gas. Information in the sample reports on extractive companies attached to this Report too confirms this amount. Therefore, we consider that the government should provide additional explanation regarding the difference of USD 8.8 million of cash payment to the government from the sale of gas on Shahdeniz PSA stated in 2014 SOCAR and EITI reports.

¹ http://www.oilfund.az/uploads/annual_2014az.pdf

IV. Recommendations of the Coalition in review to 2013 EITI Report

Section 8 of the Report is named “Recommendations and Outcomes”. This section includes information on the lessons learned from 2014 reconciliation process and summary of recommendations on 2013 EITI report.

4.1. This section is indeed important from the view point of solutions for the problems the Independent Administrator faced or revealed during the report development, as well as the lessons learned from current and previous years and their benefits and recommendations to consider during the development of future reports. Despite the fact that some extractive companies are said to have repeated the same mistakes from the previous years when filling the report samples sent by the Independent Administrator for reconciliation process, the recommendations by the Independent Administrator for the resolution of these problems are not different from the previous years. It would be beneficial if the Independent Administrator could introduce more systematic measures for the resolution of the problems.

4.2. This section of the Report includes information about the implementation status of the recommendations on 2013 EITI Reports by the NGO Coalition and the Independent Administrator. This is an important step to demonstrate that the remarks and recommendations related to the report have been clearly reviewed which has led to the improvement of the reports. The consideration of the remarks and recommendation to the opinions in the report also indicates to the fact that the EITI process throughout the country is developed and that the process is carried out purely in accordance with the essence of the Initiative.

During the Working Group discussions on the development of the report, the Independent Administrator was advised to prepare detailed information on how much each remark and recommendation from the opinions of the Coalition and the International Secretariat is considered in the report. Special focus should be put on steps taken in regard to partially considered and completely irrelevant recommendations and reasons for their non-implementation.

4.3. The information in the report on the implementation of Coalition recommendations makes it clear that only one recommendation has not been fulfilled, one is ongoing and the remaining recommendations have all been implemented. Whereas our comparative reconciliation revealed that the report includes comments on the implementation of 12 recommendations out of 23 the Coalition addressed to the MSG and Independent Administrator and that had to be considered in the report. Our study showed that 9 out of 23 Coalition recommendations can be said to have been implemented and 8 partially implemented. 8 recommendations have either been completely non-implemented or implemented with no serious improvement. Partial or non-implementation of those recommendations is due to the fact that the information stated in them are not available in open sources.

4.4. The Report completely lacks information on the implementation status of International EITI Secretariat recommendations, though the remarks and recommendations on the International Secretariat regarding 2013 report have been discussed at MSG and Working Group meetings and certain measures have been taken for their implementation. It is important to include information on the implementation of those remarks and recommendations into the report.

V. Issues related to the introduction (report design) of the report data

The EITI Report serves to the purpose of raising awareness of the society regarding the extractive industry, government revenues from extractive industry and the contribution of the extractive industry to the economy of the country, expanding the accountability and transparency in this field and thus improving the environment of trust within the society. Therefore, the introduction of the information in EITI report in a simple, clear, systematic, continuous and complimentary format, and also the inclusion of visual graphs and explanatory schemes and provision of detailed comments are indeed important. In short, the content and design of the EITI Report should be in a user friendly format.

However, the Coalition experts consider that 2014 EITI has serious shortcomings in this regard:

5.1. The existing structure of the report is unnecessarily complicated, the sections are introduced in unsystematic and confused way. We think that it would be beneficial to introduce the sections of the report in the following sequence in order to simplify the report design and systemize the information: 1. Review (Summary); 2. Methodology and Approach; 3. Contextual information; 4. Reconciliation process and its outcomes; 5. Recommendations; 6. Information on Parties; 7. Attachments.

5.2. Some sections of the Report are confusing and unsystematic sometimes with inappropriate extra information. For instance, it would be better to exclude information on content and confidentiality, as well as the completeness and accuracy from Section 1 (Review) and include them to Section 2. Including information on Azerbaijan profile in EITI accountability, on main forms of revenue generation, individualized schedules on companies and payment types, EITI related achievements of the country and the current situation into “Review” Section (Summary) would be more beneficial.

5.3. Section 2 (Approach and methodology) of the Report only reflects the scope of the work done with nothing about the procedures and methods on the collection and reconciliation of information. The latter is simply described. The section includes no information about the works carried out during the reconciliation stage, neither about the methods and modes of checking the document, comparison and analysis of reports and reconciliation of information. The Paragraph on Assurance Stage states nothing about the method applied for the selection. The criteria for the selection of companies is not stated. Questions on how cooperation with these companies is built and also on the types of documents reviewed, the way and purpose of these reviews and the way of including the outcomes of the work implemented into the report are still open. This section should also include the reasons why procedures on assurance of information of state companies are not carried out. In other words we consider this section should be improved.

5.4. Part on general information of “Contextual Information” Section includes theoretical, technical and historical data left from the previous report. Such unessential and repeated information should be excluded (stating that the given information can be found in previous report with a reference) from the report. It would be beneficial to include the dynamics of the generalized information (of 3 years at least) into this section in order to create some comparative impression on the extractive industry and its revenues in the reader. The section shall also have clear explanation with schemes and graphs on the types of revenues/incomes Azerbaijan state agencies acquire.

In general the problems observed in the consistency and introduction of information in various sections of the report are mentioned in details above (in section of the opinion) alongside with the recommendations to eliminate them.

5.5. It is not quite clear why Section 7 on the Report on “Analysis of Government Revenues” is introduced separately. It would be advisable to add this information in the corresponding sections of the report in accordance with requirement 3.7 of the Standard as part of the contextual information.

VI. Recommendations

ITEI NGO Coalition puts forth the following suggestions and recommendations in order to eliminate the irrelevancies with EITI Standard and shortcomings in 2014 EITI Report, as well as the misunderstandings observed during reconciliation process and in order to improve EITI Reports for the future years:

I. For improving “Contextual Information” section of the Report:

- 1.1.** Repetitions in the General Information section of the report shall be avoided, the dynamics of generalized information shall be provided (at least 3 years) and also the types of revenues/incomes that state agencies acquire shall be presented in a more clear way with schemes and graphs;
- 1.2.** In order to understand the legal regime, short summary of specific relations and mechanisms that each legal norm mentioned in the Report regulates in regard to the extractive industry shall be provided, the interaction of these norms and mechanisms shall be stated and also information on fiscal and legal regimes shall be presented in the forms of graphs (visual schemes);
- 1.3.** Information on the volume of all oil and gas and mineral resource deposits and product types (oil, gas, condensate, silver, gold, etc.) shall be included into the report;
- 1.4.** Information on pipelines shall be more detailed (inclusion of statistics on transmission capability and products exported);
- 1.5.** Investment and employment information introduced in “Contribution of the Extractive Industry to the Economy” section shall be presented on extractive companies and also efforts shall be continued to present the distribution of employments in extractive companies according to local and foreign staffs;
- 1.6.** The share of SSDF payments by local and foreign extractive companies in the general amount of similar annual payments, as well as the fluctuation of this share according to years and the comparison of this information with employment structure shall be presented;
- 1.7.** Information on the mutual relations of SOCAR and Ministry of Finance, Oil Fund, Social Defense Fund, Central Bank, International Bank of Azerbaijan and the obligations of the former shall be presented in a more detailed form and the mechanisms of these relations shall be included into the report;
- 1.8.** Studies on quasi-fiscal operations of SOCAR shall be continued and future EITI Reports shall include more comprehensive information in this regard;
- 1.9.** Information on the beneficiary ownership level of SOCAR and changes in this ownership shall be adjusted to the requirements of the Standard and also this information shall be improved and presented in a clear format;
- 1.10.** Section on the “State Participation in Extractive Industry” of the Report shall include information on the obligations deriving from the agreement between Ministry of Ecology and Natural Resources of Azerbaijan Republic, the legal heir of Azergizil State Company, and R.V. Group Services LLC USA;

1.11. MSG shall discuss the corresponding measures in order to include the information enouraged by the Standard into future EITI Reports due to the fact that they are important for improving the transparency imagine of our country;

1.12. Information of PSA signing procedures shall be improved in accordance with Requirement 3.9 of the Standard and it should be included into the section on lisenes in future EITI Reports alongside with the legislation proving the legitimacy of these procedures.

II. For conducting reconciliation process and introducing its outcomes in the report:

2.1. MSG Group shall review and approve the revenue types to be included into the following report upon start of the preparatory activities for each following report. The list should also be reflected in the agreement signed with the Independent Administrator and the Report;

2.2. It is necessary that the MSG discusses the issue of including information on social expenses into the following report and makes a decision in accordance with subparagraph 4.1.e of the Standard;

2.3. MSG and the Independent Administrator shall take more serious measures for eliminating numerous deviations (differences) in information provided in the reports of the companies and the government during the reconciliation process;

2.4. Explanations related to the differences (amendments) arising during the reconciliation process shall be more comprehensive and detailed and references to the outcomes of cross checks conducted on companies on random selection basis shall be provided;

2.5. “Transportation” and “Transit” terms, as well as the issues on transportation of the produced oil of the country through pipelines or railway and the transportation of the oil produced by other countries shall be clarified and information on transportation tariffs, tariff rates and other transportation indicators shall be revealed in accordance with subparagraph 4.1.f of the Standard;

2.6. We consider that the government should provide additional explanation regarding the difference of USD 8.8 million of cash payment to the government from the sale of gas on Shahdeniz PSA stated in 2014 annual report of SOCAR and EITI report.

III. For improving the introduction of report data (report design):

3.1. We think that it would be beneficial to introduce the sections of the report in the following sequence in order to simplify the report design and systemize the information: 1. Review (Summary); 2. Methodolgy and Approach; 3. Contextual information; 4. Reconciliation process and its outcomes; 5. Recommendations; 6. Information on Parties; 7. Attachments;

3.2. It would be more beneficial to include information on Azerbaijan profile in EITI accountability, on main forms of revenue generation, individualized schedules on companies and payment types, EITI related achivements of the country and the current situation into “Review” Section (Summar);

5.3. The structure and content of “Approach and Methodology” section of the Report shall be improved;

5.4. It would better to include methodology issues of the reconciliation process into “Reconciliation Process” section of the report rather than Section 2 and also to combine “Outcomes of Reconciliation Process” section with “Reconciliation Process” section and name

this section “Reconciliation Process and its Outcomes” in order to improve the structure and design of the report;

5.5. It would be advisable to add information of Section 7 of the Report on the “Analysis of Government Revenues” into the corresponding sections of the report as part of the contextual information in accordance with requirement 3.7 of the Standard;

5.6. The preparation of “Contextual data” section of the Report shall be carried out by the special Working Group including experts and professionals by request of MSG rather than by Independent Administrator.

ITEI NGO Coalition summons the MSG to be active and take wide range of measures for informing general public on 2014 EITI Report of Azerbaijan Republic in accordance with 2016 Activity Plan.

The Coalition Council hopes that the Government Commission and companies will carefully treat the suggestions directed to the improvement of the EITI experience of Azerbaijan and take practical steps for their realization. This might be essential for increasing the trust and confidence of the civil society in EITI process and accountability system.