

EITI Coalition Information Bulletin N18

INTERNATIONAL SEMINAR ON THE TRANSPARENCY INITIATIVE HAS BEEN HELD

A seminar on Implementation of Transparency Initiative in Extractive Industries: the best practices and tools was held on November 10-15, 2008 in Berlin, Germany. The Coalition had been presented by the Council Coordinator Gubad Ibadoglu. More than 35 representatives from 10 countries over the world attended the seminar. Government officials, company and civil society, who are engaged in transparency initiative represented various countries. The seminar has created a condition for networking and organizing multisided discussions. Besides of Azerbaijan, representatives from Iraq, Kazakhstan, Kyrgyzstan, Mongolia, Norway, Sierra-Leon, Timor-Leste, Yamane and Zambia took part at the seminar. Representatives from the World Bank, International Secretariat on EITI, Revenue Watch Institute, "Publish What You Pay" International Coalition, Transparency International, GTZ and Invent organizations of Germany had participated at the seminar as speakers or participants.

The seminar was financed by International Board and Secretariat on EITI and Ministry of Economic Cooperation of Germany, while organizational support was provided by Invent Center. Chairman of International Board on EITI Peter Aygen had taken part in plenary meeting of the seminar.

The seminar participants exchange of opinion about scale of EITI activities, participants, strategy of communication, different practices about filling reports, evaluation, transparency of license and contract, and financing EITI by donors were. The panel also discussed each country's representation in the EITI.

According to Gubad Ibadoglu, seminar has fully demonstrated practices of different countries, exchanging, evaluation and collating of reports. "One of the advantages of the seminar was uniting participants into one network and creating information exchange in one space. The seminar was very useful for creating durable relations among participants

and for its further development", Gubad Ibadoglu said.

COFFEY INTERNATIONAL DEVELOPMENT TO VALIDATE EITI PROCESS IN AZERBAIJAN

A meeting of the Validation Working group, established to proceed with Validation process, was held on November 18, 2008. The group was established in June 2008 and three people from each EITI stakeholders (Coalition of NGOs, Government Commission and companies) were included into the group. The Coalition is represented by Gubad Ibadoglu, head of the Supervisory Board of the Economic Research Center (has been replaced with Azer Mehtiyev from December), Sabit Bagirov, President of Economic and Political Research Center and Ingilab Ahmedov, chairman of Public Finance Monitoring Center at the Coalition.

During the meeting the sides discussed the results of the announced competition on validation of EITI in Azerbaijan followed by the thorough evaluation of proposals. Seven companies (Validators) - Coffey Int. Dev. Ltd., ECON, The IDL Group, Goldwyn Int Strategies, Hart Nurse Limited, Oxford Policy Management, PricewaterhouseCoopers and Accountability, approved by the International EITI Board to validate EITI process, were invited to bid. Four companies - Coffey International Development, Goldwyn International, Hart Group and ECON submitted their proposals for bidding. Coffey International Development was selected to exercise this process in Azerbaijan following the unanimous decision of the Selection Group.

So, validation process, one of the most important steps in the field of validation of EITI in Azerbaijan, has started from December. This process will be concluded on January 30 and Coffey International Development will present the latest report on EITI validation in Azerbaijan during the meeting of the Working Group.

ANNIVERSARY OF SIGNING OF MEMORANDUM HAS BEEN CELEBRATED WITH DISCUSSIONS

NGOs Coalition for Improving Transparency in Extractive Industry A round table devoted to the “5th year of Mutual Understanding Memorandum: profits of past period and claims of future period” on November 21, 2008.

Members of the State Commission on the Extractive Industry Transparency Initiative, oil and gas companies joined this process while local and foreign non-governmental organizations, representatives of diplomatic missions, independent experts and journalists attended the event.

Coordinator of Coalition for Improving Transparency in Extractive Industries Gubad Ibadoglu and Executive Director of Open Society Institute Assistance Foundation Farda Asadov welcomed participants and briefed the participants about achievements gained in past 4 years and recently emerged obstacles.

Sabit Bagirov, Director of Economic and Political Researches Center made a speech making a presentation of EITI Coalition’s proposals on additions and changes to the Memorandum of Understanding (MoU) on EITI implementation in Azerbaijan. He provided background information on EITI implementation in Azerbaijan. Referring to the 1st item of the Memorandum, which states that “the cases of changes to report forms and times of representation, based on mutual agreement of parties, are not exception in future. Each of parties has right to make proposals about changes while other parties of Memorandum will discuss it together”. Sabit Bagirov suggested to include amendments in order to improve the already existing and new report forms. According to Sabit Bagirov, Coalition proposed to work out an action plan for the next 5 years among interest groups and to create constant Committee and Council with participation of representatives of parties.

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ifferent opinions were sounded to these suggestions during discussions. At the end of the session it was decided, to represent proposals to Government Commission and companies joined EITI to express their opinions on the proposal.

NEXT EDITION OF “TRANSPARENCY IN EXTRACTIVE INDUSTRIES” MAGAZINE HAS BEEN PUBLISHED

The 8th issue of the “Transparency in Extractive Industries” magazine published by the NGOs Coalition for Improving Transparency in Extractive Industries has recently seen light in Baku.

According to Ogtay Gulaliyev, editor in-chief of the magazine, the newly published edition contains many interesting materials. The new edition top stories investigate how “Can the contract of the century solve the problems of the century?”, “Existing risk factors in the useful spending of oil revenues”, “What pledges the cheapen of oil to Azerbaijan?”, “Road passers, or money passers”, “The future of millions - 3”, “Almost half of funds allocated for IDPs is winnowed”, “Problems of protection of environment in the Caspian Sea”, also featuring interview with Shahmar

Movsumov, Executive Director of SOFAZ

This issue of the “Transparency in Extractive Industries” magazine can be obtained from the Coalition office.

COALITION COORDINATOR TO GO TO USA

Gubad Ibadoglu Coordinator of the NGOs Coalition for Improving Transparency in Extractive Industries to undertake a research at the North Carolina University from December 2008 to May 31 with the invitation of the US State Department. Gubad Ibadoglu asked the Coalition Council to transfer his responsibility to one of the Council members when he will be out of Azerbaijan.

Coalition Council positively responded to Ibadoglu’s suggestions. As a result of discussions Council member Azer Mehtiyev has been selected Coordinator of the Coalition.



VALIDATION INDICATORS DISCUSSED

A working meeting dedicated to the EITI validation of multisided interest group on the implementation of the EITI has been held on December 10, 2008. The meeting was held in the conference room of the Park Inn hotel with the financial support of Revenue Watch Institute, Royal Norwegian Embassy in Azerbaijan and State Oil Fund (SOFAZ).

Members of the Government Commission on EITI, representatives of the companies operating in Azerbaijan, EITI Coalition, foreign states embassies and mass media

representatives attended the meeting.

Galib Efendiyev, representative of Revenue Watch Institute made a welcome speech informing participants about the reasons of holding of the event.

Following by Efendiyev, Shahmar Movsumov, Executive Director of SOFAZ on behalf of the Azerbaijani government made a speech dedicated to “EITI Experience in Azerbaijan and a way taking to the implementation of EITI”.

Movsumov spoke about work done during the implementation of EITI and achievements that had been made during that time. According to Movsumov, Azerbaijan takes an active part in the EITI validation process and will continue to do so.

Making a presentation on the international validation experience, Rebecca Iverks, representative of the Revenue Watch Institute stressed that the validation process will help in EITI expansion and improvement.

The meeting also unveiled information about 18 indicators prepared by the International Advisory Group on validation process. The data was presented by the representative of EITI Secretary and these indicators were unveiled to the participants of the event. The presentation followed by the discussion on the validation indicators. EITI process in Azerbaijan has been evaluated on every indicator. Azerbaijani Government Commission, companies and NGO Coalition presented their views and arguments on these indicators.



ALIMAMMAD NURIYEV TO REPRESENT THE COLAITION IN DOHA CONFERENCE

An international conference on the Extractive Industry Transparency Initiative (EITI) will be held in Doha, Qatar on February 18-19, 2008. Such issues as situation regarding implementation of the Initiative, problems faced in different countries and further perspectives to be discussed at the conference, organized by EITI Secretary. Samir Sharifov, Ministry of Finance, is expected to make a speech at the event.

Participation of all three parties (Government Commission, companies and civil society institutions) taking part in the implementation of the Initiative is planned. According to the decision of the NGOs Coalition for Improving Transparency in Extractive Industries, Alimammad Nuriyev, member of the Coalition will represent Azerbaijan at the conference.

EITI DISCLOSES ITS 9TH REPORT

The 9th report reflecting implementation of Extractive Industries Transparency Initiative (EITI) in Azerbaijan for the 1st half of 2008 year has been disclosed recently. Representatives of parties taking part in the implementation of EITI, State Commission,

companies and NGO Coalition took part at the event devoted to the disclosure of the report. The presentation of the independent Aggregator Moore Stephens who collated the reports, indicates that during the report period 65, 705 billion barrel of oil, 8.5 billion cub meters of gas, 1 196,852 million manat profit tax, 0, 5 million manat bonus, 0, 9 million manat acre payments have been paid by the foreign companies to the government. Local companies have paid 3845,0 cub meters gas, 67 million manat royalty, 87,564 million manta profit tax and 229,802 of other taxes to the government.

This time manat difference has not been observed between the reports of local companies and government. Representative of the audit company has explained this as a result of trainings held for employees of local companies. However, big mistakes have been observed while comparing the reports of foriegn companies and governement. According to the Aggregator, a great part of these margins is connected with the dual status of the State Oil Company (SOCAR). Although this statement was announced by the representative of the company, the statement has not been among the documents distributed to participants of event.

The report and opinion of the audit company has been discussed at the meeting of the NGO Coalition's Council on December 19, 2008. In accordance with the decision of the Council, Working Group represented by Ingilab Ahmedov, Sabit Bagirov, Azer Mehtiyev and Mahammed Talibli was assigned to prepare a document expressing Coalition position regarding the report.



COLAITION CHANGES DATES OF GENERAL ASSEMBLY MEETING

The General Assembly of the NGOs Colaition for Improving Transparency in Extractive Industries (ITEI) has been postponed. A decision has been made following the meeting of the Coalition Council on December 19.

According to Coalition Regulation, General Assembly should be held not less than twice per annum. Only one meeting had been held in 2008.

During the meeting of the Colaition Council held on December 3 the decision was made to organize the next General Assembly on December 27. Coalition applied to its members to register for participation, but taking into account that only 20 people registered

till December 19, the Coalition decided to postpone the event due to the limited time frames.

VALIDATION INDICATORS HAS BEEN DISCUSSED

NGOs Colaition for Improving Transparency in the Extractive Industry (ITEI) has been actively into EITI validation process. During the evaluation of EITI validation implementation process the group will learn opinion of existing and former members of the Coalition Council and additional peoples determined by the Colaition. On January 12-19, representatives of Coffey International Development will meet with them in Baku.

Therefore, discussions were set for Coalition members on December 22-23, 2008 on 18 validation indicators prepared by EITI Secretary.

Colaition expert Ingilab Ahmedov expressed his opinion about validation process and its possible resluts during the event. Following Ahmedov's speech, participants were informed about each of 18 indicators determined on the Joining, Preparation, Discovering and Promotion steps. At the results of two days event it was decided to prepare a document expressing common opinion of the Coalition. The task to prepare the document was given to Azer Mehtiyev, Coordinator of the Coalition Council.



COALITION VOICES ITS VIEWS REGARDING EITI PROCESS IN AZERBAIJAN

NGOs Colaition for Improving Transparency in the Extravtive Indisty has presented its view on EITI process in Azerbaijan to the validator Coffey International Development. Below is oresented the context of the document, which resluted following the discussion at

the Coalition Council. Here is the final version of the document.

We welcome validation process on the International Transparency Initiative in Azerbaijan and hope that this process will help parties, particularly government and companies to fulfill EITI demands.

Azerbaijan is one of the first countries joining the EITI process which till now has disclosed nine reports. As a representative of the civil society institute NGOs Coalition considers that the following issues which are of the concern of Coalition should be taken into account:

Joining process:

Being one of the first countries supporting the EITI process, Azerbaijan joined the process under different procedures. The country announced its intention to join the EITI at the international conference followed by the Memorandum of Understanding signed between the participation of civil society representatives (November 24, 2004). The Activity Plan reflecting steps of the joining the process, consistency of the realization of the program was not composed. Procedures and periods of collating and disclosing of reports on payments of companies and incomes of funds of government have been reflected in the Memorandum. However, the Memorandum does not cover all stages of the EITI process and does not reflect consistency of work that yet to be implemented. Other document which could possibly replace Activity Plan out of the Memorandum has not yet been

adopted.

2. Preparation stage:

Permanent representative of the Working Group should be able to control implementation and development of the EITI process in Azerbaijan. This mechanism has not yet been established. In accordance with the 12th item of the Memorandum, MoU is only an intentional statement, and does not suggest any responsibility for any of the participating sides.

The representativeness of the Parliament as a part of the Memorandum has not been provided.

As there is no permanent Working Group which would be in charge of several cases (for example, selecting of the audit company on the collating of the reports, selecting of audit company on the validation, etc) a Working Group responsible for only one case have been established. This makes it difficult to provide consistent control over the project.

As a result of the non-existence of the permanent Working Group, the decision on the joining of Azerbaijan to the EITI validation process has been announced by the Government Commission, but not by the commission representative.

Non-existence of the permanent Working Group makes it difficult to conduct discussions of important aspects. This increases dependency of the process implementation from one of the party. NGOs Coalition made suggestions regarding the improvement of the report forms and amendments to the MoU in 2005, however, this issue still remains open.

We consider that in the case of existence of the permanent Working Group these proposals could be seriously discussed.

We consider that the government does not make enough effort to remove all obstacles in strengthening of the EITI process. Absence of the Activity Plan and permanent Working Group and ignoring of the Coalition's proposals is the result of this.

At the same time the Azerbaijani government does not make any effort in the formation of juridical base of the EITI process and making parties responsible.

Though the companies have joined the process, they still present general information. The initiative of the Coalition to disclose the individual reports by companies have been positively accepted by a few companies. Majority of the companies, especially local companies are against of being actively involved into this process.

The existing format of the report forms have been agreed with the Coalition at the initial stage. Despite an agreement to return to this question and take into account opinion of the civil society sector, proposals of the NGOs Coalition on improvement of these reports have not been taken into account.

International accounting standards have not been implemented in several companies

(especially in local extractive companies) operating in Azerbaijan and joined the EITI process. This questions the reports presented by those companies to the international accounting standards.

The governmental structures (except for the State Oil Fund) which have been involved into this process in Azerbaijan, also do not meet international accounting standards.

The results of annual activities of companies had been checked by independent audit companies. Therefore, this is difficult to view semi-annual reports as the result reflecting audit opinion at the international standards level.

3. Discovering stage:

Nine reports on the EITI have so far been disclosed in Azerbaijan. There were almost the same repeating errors made in most part of these reports. Each time an audit company made approximately the same explanation regarding those mistakes: "any foreign company wrongly included anything to this, we have checked the data getting affirmative documents from that company". By the time Azerbaijani will have disclosed its 9th report, companies and the government should have gained enough experience to fill in these forms.

NGOs Coalition Council has expressed its concern regarding those mistakes, however, these concerns have not been taken into account.

Explanations made by the auditor companies regarding the repeating errors are not valid and do not meet Coalition's enquiry.

The proposals addressed to companies and to the government to overcome those mistakes have never been reflected in the auditor's opinion.

4. Promotion stage:

Independent auditor's review on the collating of reports and report of the government are placed only on the websites of the NGOs Coalition and State Oil Fund. This limits the opportunities of the public to get information about these reports as not everybody has access to these websites. The reports placed on the websites are written in the professional language and are difficult to understand for citizens. NGOs Coalition thinks that these reports must be published along with publishing of booklets and brochures.

NGOs Coalition wishes success to the audit company implementing the validation

process and hopes that validation will help to solve the above-mentioned problems.

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