Project ‘Monitoring of projects on use of oil revenues and public discussion of results’

FINAL REPORT

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1. BACKGROUND ON PERFORMING ORGANIZATIONS

1.1. Oil Workers Rights Protection Organization

Oil Workers Rights Protection Organization Public Union (OWRPO) has been operating since 1996.

Actions of the Organization cover:
- Creation of professional unions among oil workers and implementation of educational works on human rights protection;
- Protection of rights of oil workers;
- Pursuing action of international financial institutions (IFI) in Azerbaijan;
- Formation of public control on implementation of projects credited by IFI;
- Formation of public control on use of oil revenues and action of oil-gas companies;
- Formation of fight with corruption.

OWRPO is member of ‘Lifting Transparency in Mine Industry’ NGO Coalition, Azerbaijan Human Rights Organizations Confederation, international organization CIVICUS, International NGO Forum controlling action of ADB, partner of Bank Watch in Azerbaijan, participant of Programme ‘Formation of civic control in areas where oil operations are implemented’ of Open Society Institute – Assistance Foundation and one of main partners of the Foundation in this programme.

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1.2. Public Association for Assistance to Free Economy Assistance

Public Association for Assistance to Free Economy Assistance (PAAFE) was founded in January 2004, registered at Justice Ministry in May 2006. The Public Union aims to bring together the public initiatives for the transparent and effective use of funds and liberalization of economy. The Organization’s activities include:
- Implementing public control on use of budget funds and oil revenues;
- Implementing analysis and monitoring of state investment projects and socio-economic programmes;
- Supporting liberalization of economy, implementation of antimonopoly policy, development of private sector and protection of economic rights;
- Supporting development of local self-governing institutions;
- Supporting propaganda and application of modern economic analysis.

FEAC is member of the union of 2 NGOs (National Budget Group and NGO Coalition for Lifting Transparency in Mine Industry) playing important role in the third sector of the country.

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2. IMPLEMENTATION SUMMARY

This report reflects the works done in frame of the project ‘Monitoring of projects on use of oil revenues and public discussion of results’ implemented by Oil Workers Rights Protection Organization and Free Economy Assistance Center due to financial support of OxfamNovib. Goal of the project was to define the transparency and effectiveness in use of oil revenues of Azerbaijan and direct public attention to problems in this field. Following duties were set to get this goal:

- Making of methodology on monitoring of use of oil revenues;
- Holding monitoring on the oil revenues use in 2 directions – projects ‘Reconstruction of Samur-Absheron irrigation system’ performed due to funds of SOFAR and ‘Construction of treatment and diagnostics centers’ implemented due to funds of SOCAR;
- Holding public discussions on monitoring results;
- Making of proposals on lifting the transparency in oil revenues use.

2.1. Information on project implementation

Project ‘Monitoring of projects on use of oil revenues and public discussion of results’ started on October 1, 2006 and completed on June 30, 2007. Following works were done in frame of the project:

- Methodology on monitoring of use of oil revenues was made;
- Documents and initial information were collected on projects on use of oil revenues to be monitored;
- Monitoring Group was organized and trained;
- Information inquiries were sent to SOFAR, SOCAR and Melioration and Water Economy JSC;
- Meetings were held with senior officials at SOCAR and Melioration and Water Economy JSC on the projects monitored;
- Visits were paid to territories covered by the project to conduct observations;
- Project implementation was observed;
- Impact of project ‘Takhtakorpu reservoir’ implemented within project ‘Reconstruction of Samur-Absheron irrigation system’ on the environment was studied;
- Press conference was held to protect rights of residents of Gulamli and Garabaglar communities impacted by construction of the reservoir’
- Initial report was made on every monitoring affair;
- Initial reports were submitted to the party monitored to get explanation on the issue gained;
- Public discussions were held;
- Results gained and information on public discussions were covered on the press;
- Recommendations were made to solve problems found out as result of monitoring;
- It was achieved to have official attitude of the parties monitored on initial report;
- Final Report was made, published in Azeri and English;
- Final Report was delivered to the parties monitored, public and interested parties.

2.2. Methodology

Methodology (See: Appendix 9.1, p.49) has been made taking into consideration works to be done in frame of the project ‘Monitoring of projects on use of oil revenues and public discussion of results’. This methodology reflects the ways and methods of the
monitoring to be held within the project. In making of the monitoring were used the reference book ‘Monitoring of budgets and oil-gas industry revenues’ jointly published by Revenue Watch, Political Studies Center of Central European University and International Budget Project, materials of International Budget Project monitoring training, methodical instructions developed before by NGOs involved in the project and their experience.

2.3. Creation and training of Monitoring Group (MG)

MG members were selected in base of consultations held among performing organizations. Specialist (Ogtay Selimov) in construction of irrigation systems was involved in MG. Zamin Hajiyev and Metanet Azizova who partook in previous monitoring projects of OWRPO were included in the Group. The project expert managed MG.

Mostly NGO representative was involved in training process. The objective was to provide knowledge on ‘Monitoring of oil revenues use’ to more reps of civic society.

MG was first of all provided with information on projects implemented due to oil revenues, also actions to be monitored in frame of project ‘Monitoring of projects on use of oil revenues and public discussion of results’. Then, members of the Group were trained on themes ‘Bases of monitoring’ and ‘Monitoring of projects implemented due to oil revenues’. Training on the first theme was held by head of Citizens Labor Rights Protection League Sahib Mammadov and the second one by Zohrab Ismayilov, the project expert.

2.4. Information inquiries

1, 3 and 2 information inquiries were sent respectively to SOFAR, SOCAR and Melioration and Water Economy JSC within the project. Inquiries were made in base of the Law ‘On freedom of access to information’ dated September 30, 2005. Questions included in the inquiry covered the issues monitored according to the Methodology.

Inquiries sent to the monitoring subjects within the project were replied mainly and it played positive role in successful realization of the project.

2.5. Visits to regions

6 visits were paid to regions in frame of the project; 2 – Ganca City, 2 – Gazakh district center, 2 – Devechi district. Visits involved 4 people, expert and MG members. Each visit lasted 3 days. Total number of visits paid within the project was 56 people/days.

Visits were arranged in advance with the party monitored. Monitoring subjects assisted MG to carry out observation of works done within projects implemented due to oil revenues. Managers of contracting organizations basically replied to questions of MG as well.

2.6. Issues found out by the monitoring

2.6.1. Issues found out as a result of monitoring of projects for construction of treatment and diagnostics centers (TDC) of SOCAR

- Mountainous Shirvan Economic District was not taken into consideration while making the dislocation for construction of TDCs;
- Funds meant for construction of TDCs are lifted but it is not the last limit, funds allocated are expected to be lifted;
- SOCAR has not submitted the information on Technical Economic Substantiation (TES) documents of TDC projects, later it was defined that there is no TES on projects;
The public was not informed of funds used for construction of TDC commissioned in the Autonomous Republic of Nakhchivyan;

The Company provided weak and general information on the question given. Implementation information on separate projects was not provided;

Information on the funds used in 2006 in the Gazakh TDC project that was selected as the monitoring object was not provided to MG;

The public is not informed of estimate cost and structure of expenses of separate TDC projects;

Some of contractors were changed during project implementation;

Setting the contractors SOCAR violated the Law ‘On public purchases’ (No 245 – II Q, December 27, 2001);

Structures of expenses on separate projects are seriously differed from each other and structure of total expenses in TDC projects;

The public is not provided with information on contractor for supply of TDCs with medical equipment and respective contract;

Despite SOCAR has increased social investments, it does not implement planning on expenses of exploitation of those social units in future;

Technical safety standards in construction yards are not fully observed;

Many of employees in construction are involved in projects without labor contract.

2.6.2. Issues found out as a result of monitoring of project for construction of Takhtakorpu Reservoir built due to funds of State Oil Fund of the Republic of Azerbaijan (SOFAR)

SOFAR has not sufficient mechanisms of control on the purpose and effective use of funds;

Melioration and Water Economy JSC does not inform the public of structure of expenses on contracting contracts;

While counting compensations for proprietors in settlements affected by the reservoir, current market prices and fate of the properties after evacuation were not taken into consideration;

There is discrepancy in volume of compensations counted and paid to proprietors, discrimination and corruption was admitted towards proprietors;

Property rights of Uzumlu village residents were violated. Unfair compensation was counted for their property. Compensation accounts were opened in their names without agreeing with them and money was transferred;

70 houses were built in the new settlement despite there are 31 families in Garabaglar village;

Construction of houses cost higher than market prices;

Illegalities admitted in use of funds allocated to the project. In late 2006, 3242,7,000 AZN were not used in the project, and that money has not been given back to State Treasury and was spent in early 2007. At the same time, in reports presented by JSC to SOFAR, also in written information presented to MG it is stated that funds allotted to the project have fully been used. But purpose of those funds was changed.

2.7. Public discussions

2 public discussions were held within the project. They were respectively dedicated to the results of monitoring of project for construction of TDCs of SOCAR and project for construction of Takhtakorpu Reservoir of SOFAR. In public discussions were present
authorized reps of the monitoring subjects, reps of respective governmental bodies, heads of NGOs, freelance experts, reps of mass media and international financial institutions. MG provided an introduction on the monitoring results in the discussions. Senior officials of SOCAR and Melioration and Water Economy JSC for the projects monitored delivered speeches, expressed view on the results, gave explanation on the monitoring discoveries. Experts also addressed the discussions, expressed attitude on the monitoring discoveries, advanced proposals. Fair corrections and valuable suggestions sounded in the public discussions were taken into account in Final Report.

2.8. Public relations

The public was periodically informed of works done within this project. The public was provided with messages via mass media mostly. The project coordinator and expert spoke for many times on Azerbaijan section of Azadlyg Radio on the transparency in oil revenues use, made disclosures to the public of the country. This broadcast lasting 45 minutes and transmitted all over the republic was realized in base of questions and replies.

Press conference was held during monitoring of the Takhtakorpu Reservoir Construction Project for protection of proprietors whose rights were violated (See: Appendix 9.5, p.58).

The monitoring results were commercially posted on ‘Tezadlar’ newspaper and ‘Korrupsiya ve Cemiyyet’ magazine (newspaper and magazine are stored in archive of the Organization).

Besides, Internet resources were used in distribution of messages. The final report was published in Azeri and English languages and delivered to interested parties, international financial institutions and leading mass media agencies.

2.9. Final conclusions and proposals

2.9.1. Conclusions for the monitoring of the TDC Construction Project

- In monitoring process SOCAR took real steps towards cooperation with NGOs implementing the project and showed its interest in cooperation with civil society;
- SOCAR implements large-scale social projects without Social Investment Programme. Construction of TDCs was not designed in advance and TES was not developed on separate projects;
- Like in whole activity of the Company, in assurance of transparency in implementation of social projects also it has not effectively working public relations mechanisms;
- Action of the Company on accountability cannot be found sufficient. Because SOCAR declares only annual reports on its action and they contain very weak and general information on the social action of the Company.

Proposals:

- SOCAR organizes discussions with international organizations and civil society on Social Investments Programme it envisages for 2007;
The Company takes actions to create effective Public Relations mechanisms to increase transparency in its activity;

The Company enriches ‘Social sphere’ section on its Internet page. Detailed information on social projects the Company performs can be posted in this section;

SOCAR takes actions to observe requirements of legislation concerning selection of contractors and subcontractors while implementing social projects and purchase issues;

Posting on its site information of other sources, speeches of officials of the Company makes the facts and figures exacter;

2.9.2. Conclusions for the monitoring of the Takhtakorpu Reservoir Construction Project

SOFAR is interested in lifting transparency in implementation of projects funded by the Fund and cooperation with civil society in this field;

SOFAR has not sufficient mechanisms of control on the purpose and effective use of funds. SOFAR conducts the policy of directing the responsibility for effective use of these funds to the state bodies responsible for these projects;

Melioration and Water Economy JSC showed interest in cooperation with civil society by promoting the monitoring of the project implemented due to funds of SOFAR;

JSC does not provide periodic reports to the public on its action and projects;

JSC has not effective public relations mechanisms to inform the public of projects it implements, its Internet page was launched in the end of the monitoring period. Initial observations show that resources of the site are too little;

Human rights and property rights were brutally violated during purchase of houses, courtyards and share lands of proprietors in settlements affected by the reservoir, corruption admitted;

Illegalities were admitted, purpose of expenses changed in the use of funds allocated to the project.

Proposals:

There is need to strengthen mechanisms of SOFAR to control transparent and effective implementation of projects realized due to its funds, purposeful use of funds;

Melioration and Water Economy JSC takes actions to provide periodic reports to the public on its action and projects;

JSC takes actions to create effective public relations mechanism;

JSC increases resources of its Internet page, pays attention to posting on the site of the information requested to be declared to the public according to the Law ‘On freedom of information’;

JSC lifts attention to human rights protection implementing projects, takes into account that human rights in Azerbaijan, including property rights are protected by Constitution and International Conventions;

JSC takes action to punish its employees responsible for Uzumlu scandal;

JSC provides legislation-based explanation why funds not used in late 2006 were used in early 2007, also why purpose of those funds was changed.
2.10. Results achieved on the project

Following results were achieved as result of implementation of the project ‘Monitoring of projects on use of oil revenues and public discussion of results’:

- In frame of this project ‘Methodology on the monitoring of projects realized due to oil revenues’ was made that may be used in analogical projects of both performers and other NGOs;
- Another experience in field of ‘Monitoring of projects implemented due to oil revenues’ was created and this experience is being enlarged;
- As result of the monitoring training organized within this project a professional group was created, persons included in the group will be able to partake in projects of partners and other NGOs;
- Implementing the project, partners achieved understanding, cooperation and dialog with state bodies that helped creation of discoveries based on fair and real information as a result of the monitoring. The monitoring subjects expressed their official attitude on the discoveries;
- Participation of monitoring subjects, prestigious experts, interested parties in the public discussions brought to the fruitful dialog, disclosure of additional information by the monitoring subjects on projects they implemented;
- Cooperation with mass media, participation of mass media in public discussions, coverage of the monitoring results on mass media assisted to deliver the information on use of oil revenues to the public;
- SOCAR disclosed for the first time the functional structure of social investments in its Annual Report 2006 that was delivered in July 2007;
- Melioration and Water Economy JSC created its Internet resources (Internet site www.stm.gov.az was launched in July 2007);
- The government made decision on reassessment of houses and land areas affected by construction of the reservoir. Assessment is underway and compensations to be given to the proprietors are expected to considerably be lifted.
3. INTRODUCTION

From 2005 Azerbaijan receives big oil revenues. Oil revenues of country are collected at state budget, SOFAR and SOCAR. In 2006 Azerbaijan received oil revenues estimated only 4279.4 mln AZN, 2287.5 mln of which was profit tax of foreign oil companies and payments of SOCAR to state budget, 897.6 mln SOFAR’s incomes, 1094.3 mln pure profit of SOCAR. Oil revenues of country are used on these sources. Oil revenues gained in 2006 were completely used.

In 2006, SOCAR invested 285 mln AZN due to revenues it gained, 27.9 mln of which was directed to social investment projects, also 16.8 mln to healthcare projects. 585 mln AZN of revenues of SOFAR was transferred to state budget, rest of funds were used for construction of settlements for IDPs and infrastructure projects.

Much of oil revenues were used in 2006 for social and infrastructure projects, repair of administrative buildings of state bodies and other establishments. But it is impossible to talk of any financial benefit of these projects. Social and infrastructure projects give social efficiency only. However, after these projects are over, they are maintained by state bodies and this will demand big funds.

Azerbaijan government has ‘Long-term strategy on management of oil-gas revenues’ that was approved by Decree 128 of September 27, 2004 of the President. According to the strategy, the oil-gas revenues must be used in following directions:

- Development of non-oil sector of economy, middle and small business;
- Large-scale development of infrastructure spheres;
- Taking poverty reduction actions and solving other social problems;
- Lifting the level of intellectual and technical basis of economy;
- Development of ‘human capital’ (training of high-qualified personnel, as well in foreign countries, lifting professionalism of personnel);
- Strengthening the defense capacity of country;
- Taking actions towards reconstruction of released territories and return of IDPs to native lands.

Despite 3 years pass from the adoption of the given strategy it as no program bases and this issue is not on the agenda of the government for the moment. This strategy sets goals and priorities for use of oil-gas revenues of Azerbaijan. But absence of programmes as continuation of this strategy brings to unsystematic and sometimes ineffective use of oil revenues. For example, at present, medical centers, schools and sport complexes are under construction due to state budget and SOCAR funds. Funds used in this direction from state budget are substantiated on the initiative of ministries. But action of SOCAR in this direction is not grounded with social requirements.

Another serious problem in oil revenues use is high financial assessment of projects and in many cases lifting their cost during implementation. Some projects such road infrastructure projects are lasted for years and they seem neither to be stopped nor completed. Illegality happens in selection of project performers and state purchases in implementation. In many cases the projects are executed by private companies close to management of responsible state body. According to the world practice, 20-25% of funds allotted to infrastructure projects undergo corruption. General impressions show this percent is higher in Azerbaijan.

1 social and 1 infrastructure project implemented due to oil revenues were monitored in the project ‘Monitoring of projects on use of oil revenues and public discussion of results’. First of them is projects on construction of TDCs by SOCAR in 10 regions and the second is Takhtakorpu Reservoir built by Melioration and Water Economy JSC due to funds of SOFAR. Financial cost of the first project is 60 mln AZN, the second project’s estimate cost is 277 mln AZN. But increase in costs of both projects seems real. Even if the volume
of increase in costs of SOCAR projects is not known yet, the project of JSC is expected to involve 305 mln AZN from SOFAR.
<table>
<thead>
<tr>
<th>Monitoring questions</th>
<th>The Company’s replies</th>
<th>Observations and further information obtained</th>
<th>Discoveries</th>
<th>The Company’s notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Which body defined dislocation for construction of TDCs of SOCAR in 10 regions? Please, inform of order, decision and other documents defining this.</td>
<td>Dislocation for construction of TDCs in regions was defined by President’s Office and SOCAR. Projects aim, according to the Regions Socio-Economic Development Programme, removing the problems in field of health in regions.</td>
<td>The Company submitted no order, decision and other documents setting dislocation. For construction of TDC, Lankaran, Nakhchivan, Ali Bairamly, Gazakh, Ganca, Barda, Zagatala, Gabala and Guba regions were set upon agreement. Medical center built in Siyazan in due time was reconstructed. So, according to this dislocation, there are 2 TDCs for Ganca-Gazakh, Sheki-Zagatala, Aran and Guba-Gusar economic districts and 1 TDC for Nakhchivan and Lankaran-Astara economic districts. Construction of TDC is not envisaged in any of districts in Mountainous Shirvan economic district.</td>
<td>Mountainous Shirvan economic district was not taken into consideration while making dislocation while making dislocation for TDC construction.</td>
<td>TDCs are built according to letter 134/MI of 10.03.2006 of SOCAR. Letter 16/ET-224 MI of 28.02.2007 of SOCAR assigned Social Development Department to build 235-bed hospital in Yevlakh district (4-floor, 12000sq.m), TDC in districts of Goychay (4-floor, 700 sq.m), Shamakhy (3-floor, 3000 sq.m), Jalilabad (3-floor, 4000 sq.m) and medical center in Fuzuli district (2-floor, 3000 sq.m). Design estimates of new TDCs are under development.</td>
</tr>
<tr>
<td>2) According to information SOCAR provided to the public in 2004, $50 mln was required for TDC construction. Has any change been made to project cost?</td>
<td>SOCAR is to allocate 59498,2 thousand AZN to TDC construction.</td>
<td>According to information given to MG, 6,911 mln AZN was used for construction of Lankaran TDC. According to information posted on 13 April 2006 on website <a href="http://www.socar.gov.az">www.socar.gov.az</a> (AzerTAg), Zagatala TDC will cost $13 mln or nearly 11,44 mln AZN. It is mentioned in the information $10 mln of this will be used for construction and installation works, 3 mln for installation of medical equipment. There is mistake in this information posted on Internet site. These figures have no relation with Zagatala TDC. Volume of funds meant for TDC construction has been lifted. But it is not the last limit, funds allotted are to be lifted. There is incorrect information on the Company’s site.</td>
<td>Zagatala TDC is to cost 7,5 mln AZN, 5,38 mln of which will be used for construction-installation, 2,2 mln purchase of medical equipment. Expenses are to be increased because of construction of extra hospital, TDC and 5 medical stations.</td>
<td></td>
</tr>
</tbody>
</table>
When MG was in Ganca City TDC, spokesman of the contracting company (Garachay Company) M.U. said the 4,5-mln AZN contract has been signed with SOCAR for installation works, also it was discussed to increase the contract price up to 6 mln AZN because of rise in price of building materials. The 3,8-mln AZN contract was signed for construction of Gazakh TDC. Representative of contracting company Sosial Tikinti-M Ltd M.H. did not excluded the rise in this project also, because of rise in price of building materials. Also a separate contract was signed for installation of electric, ventilation, heat, sanitary, signalization and communication systems. In frame of this project, electric, signalization and communication systems are installed by Gafgazenergoservis Company, ventilation, heat and air conditioning systems, also sanitary junction by RK Inshaat Company, representative of which said work they do will demand 600-700 thousand AZN.

<p>| 3) Please, inform of duration of realization of every project. | Construction of TDCs is to be completed in 2007. Durations of realization of every project are following: Lankaran TDC – commissioned in June 2006; Ali Bairamly City TDC – to be commissioned in second half of 2007; | During monitoring, construction-installation works were normally continued in TDCs. Some delays happened in construction that was linked with change of contracting companies, supply with building materials. But contracting companies managed to remove delays. With some exceptions, TDCs are expected to be launched in time the Company showed. Senior officials of the Company’s Social Development Department regularly inspect to assure implementation of Construction works were continued according to the schedule and are to be ended in time. | After design estimates of extra medical units to be built are fully ready, the construction agenda will be arranged. |</p>
<table>
<thead>
<tr>
<th>4) Which body made TES of project?</th>
<th>No reply</th>
<th>When MG was in Ganca and Gazakh TDCs, reps of companies said there is TES made by SOCAR, but no information was given on this document. Project of both TDCs monitored were developed by Atilla KM Company.</th>
</tr>
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<tbody>
<tr>
<td>5) How much funds of SOCAR have been used for construction of TDCs from the start of implementation of projects till early October 2006?</td>
<td>10 734,9 thousand AZN have been used for construction of TDCs from the start of implementation of projects till early October 2006.</td>
<td>The Company provided the information required only on 8 TDCs. Besides, in 2006 TDC built due to funds of SOCAR was commissioned in Nakhcheyvan City. But no information is given to the public on sum of funds used for this project. These funds were allotted from SOCAR to the government of the Autonomous Republic that implemented construction of TDC.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No information was given to the public in funds used for construction of TDC in the Autonomous Republic of Nakhcheyvan.</td>
</tr>
</tbody>
</table>

Gazakh TDC – to be opened in first half of 2007; Ganca Regional TDC – to be commissioned in second half of 2007; Barda TDC – to be commissioned in second half of 2007; Zagata TDC – to be commissioned in first half of 2007; Gabala TDC – to be commissioned in second half of 2007; Guba TDC – to be commissioned in second half of 2007.

construction according to the schedule and according to this, funds are allotted in monthly tranches.
6) How many works have been done for this time in projects?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nearly 18%</td>
<td>Nearly 18% of works scheduled have been done from the start of implementation of projects till early October 2006.</td>
</tr>
</tbody>
</table>

If to divide funds used by early October 2006, as the Company says, in volume of funds to be used totally, there will be 18% presented. But this reflects not performance of works for the time given, but level of use of funds allotted. Weak and general information was given on the question given. Information on implementation of separate projects was not provided. Only 13291.2 thousand AZN investment was implemented by 01.01.2007. 7386.3 thousand AZN were implemented in this field in January-May 2007.

7) How many funds have been allocated for realization of projects in 2006 and how many are to be used?

<table>
<thead>
<tr>
<th>Allocation</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>20597,1 thousand AZN</td>
<td>Information demanded from the Company was provided (positive case). Garachay Company, implementing construction-installation works of Ganca TDC, received 1 777,6 mln AZN for works done in 2006. Analogical information on Gazakh TDC was not provided. Information on funds used in 2006 for Gazakh TDC project that was selected as the monitoring object was not presented to MG.</td>
</tr>
</tbody>
</table>

Information demanded from the Company was provided. Only 29 mln AZN investment is provided for in 2007.

8) How many funds are forecasted to be allocated for realization of projects in 2007?

<table>
<thead>
<tr>
<th>Forecast</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>42024,4 thousand AZN</td>
<td>Information demanded from the Company was provided.</td>
</tr>
</tbody>
</table>

Positive case

9) Please provide the following information on every project performed:
   a) Estimate cost?
   b) Volume of funds in estimate cost for construction-installation works?
   c) Volume of funds for purchase of medical equipment?

<table>
<thead>
<tr>
<th>Project</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lankaran TDC</td>
<td>Figures on every project implemented are following: - Main building of Lankaran TDC, 4-floor, total area 4701 sq.m; - Ali Bairamly TDC, 4-floor, total area 3900 sq.m; - Gazakh TDC, 3-floor, total area 5470 sq.m; - Ganca TDC, 4-floor, total. The Company did not provide satisfactory reply. Deputy chief of the Company’s Social Development Department G.M. explained it so that taking into consideration change in prices, the Department does not submit the exact figures. Despite information was gained on estimate cost of Lankaran TDC that is completed, Ganca and Gazakh TDCs where MG implements observations and volume of funds used for construction-installation works, no information was obtained on cost of other projects.</td>
</tr>
</tbody>
</table>

Public is not informed of estimate cost of separate TDC projects and structure of expenses. Lankaran TDC a) Estimate cost – 4368.7 thousand AZN, including construction-installation works (CIW) 3685.6 thousand AZN; Ali Bairamly TDC a) Estimate cost – 3632 thousand AZN; Gazakh TDC a) Estimate cost – 3100 thousand AZN. |
- Barda TDC, 4-floor, total area 6940 sq.m;
- Zagatala TDC, 4-floor, total area 5880 sq.m;
- Gabala TDC, 4-floor, total area 5610 sq.m;
- Guba TDC, 3-floor, total area 5740 sq.m.
Besides, there will be installed diner, boiler house, laundry, warehouse, reservoirs, transformers in every complex, morgue and other constructions are planned.

a) Estimate cost – 5007.4 thousand AZN, including CIW – 4279.7 thousand AZN
Ganca TDC
a) Estimate cost – 6868.8 thousand AZN, including CIW – 5880 thousand AZN
Barda TDC
a) Estimate cost – 6355.2 thousand AZN, including CIW – 5440 thousand AZN
Zagatala TDC
a) Estimate cost – thousand AZN, including CIW – 4610 thousand AZN
Gabala TDC
a) Estimate cost – 5142 thousand AZN, including CIW – 4400 thousand AZN
Guba TDC
a) Estimate cost – 4842 thousand AZN, including CIW – 4100 thousand AZN

10) Please give the list of contractors and subcontractors implementing Lankaran TDC – EMBA WOOD Ltd; Ali Bairamly City TDC – A+A Group of Companies; Some contractors were changed during project implementation. 2 companies started first construction of Ganca TDC (it was impossible to identify titles of those Some contractors were changed during project implementation.
| Construction works. | Gazakh TDC – Sosial Tikinti OJSC, Sosial Tikinti-M Ltd; Ganca Regional TDC – Garachay Company; Barda TDC – Garachay Company; Zagatala TDC – Inshaat Avroservis Ltd; Gabala TDC – Shinkar Building Firm; Guba TDC – ZGAN Construction Ltd. | companies – MG). Those companies built the fence of TDC and made preparation works to lay cornerstone. Then, those companies were eliminated from process. Garachay Company started contracting works from May 2006. Construction of Gazakh TDC was started by EMBA WOOD Ltd. Then, this project was given to Sosial Tikinti OJSC and Sosial Tikinti-M Ltd. It is known from titles of companies implementing construction-installation works that they are ‘relative’. But as result of monitoring it was clear these works were implemented mainly by one company - Sosial Tikinti-M Ltd. According to the representative of the Company M.H., 55-60 people are permanently involved in construction. The same number of employees works in Ltd and they work in this construction only. M.H. could not give information on number of employees of OJSC involved in construction. Official information of February 7, 2007 of Social Development Department of the Company says contractor in construction of Zagatala TDC is Inshaat Avroservis Company. But according to information posted on [www.socar.gov.az](http://www.socar.gov.az) on April 13, 2007, this project is implemented by Rabite-Inshaat OJSC. But this information was not approved. Because Rabite-Inshaat Company is the contractor in construction of the central hospital in Balakan built due to funds of SOCAR. | There was incorrect information on the Company’s webpage. |
11) Upon which bases SOCAR selected contractors and subcontractors (tender, order, decision etc)?

| Contractors implementing construction were selected for their technical and financial resources. |

As the project costs over 50,000 AZN, the selection implemented by SOCAR does not coincide with part 1 of section 2 of Decree 668 of January 29, 2002 of the President ‘On application of Law of the Republic of Azerbaijan ‘On public purchases’. Setting the contractors SOCAR violated Law 245-IIQ of the Republic of Azerbaijan ‘On public purchases’ (December 27, 2001).

12) Please give details, if the selection based on tender.

| Selection was not based on tender. |

No need for comment Legislation violated

13) What is share of the following expense items in total funds of project?

| Goods and matter expenses were nearly 60%, wage nearly 15% and other expenses 25% in total funds allotted for construction of TDCs. |

The Company presented expense structure on 3 parameters only. According to information the Company provided, 35 698,92 mln AZN (60%) of funds allotted to TDC projects are used for goods and materials expenses, 8 924,73 mln AZN (15%) to wages, 14 874,55 mln AZN (25%) for other expenses. Information provided by the reps of companies building Ganca and Gazakh TDCs on structure of expenses is differed from this. According to information of spokesman of Garachay Company M.U., in Ganca TDC project matter and goods expenses will be 60%, wage expenses 30-32% and other expenses 8-10%. According to representative of Sosial Tikinti M Ltd M.H., 70-80% of expenses on Gazakh TDC project will be used for goods and matters and 20-30% will go to wages. Structure of expenses on separate projects is differed from each other and structure of total expenses on TDC projects.

14) Please, inform of name of contractor companies for Siemens medical equipment is to be installed in TDCs.

| The Company did not reply and provided the name of producer of medical equipment only. |

Information on contractor for supply of TDCs Siemens and Frezenius companies deal with purchase and installation of
purchase and installation of medical equipment and details of the respective contract. with medical equipment and respective contract was not given to the public. medical equipment in TDCs

| 15) Please, present the list of medical appliances bought for TDCs. | 1. Computer tomography device  
2. Roentgen device  
3. J-duga roentgen for surgery  
4. ECG  
5. USE  
6. 10 Lab analyzers  
7. Cardimonitor  
8. Anesthesia devices  
9. Physiotherapy devices  
10. Equipment for surgery rooms  
11. Otolaryngology and eye appliances | Information demanded from the Company was provided. | Positive case |

| 16) Please inform of volume of funds used or to be used for maintenance of TDCs until they are given to disposal of respective executive structure. | Lankaran TDC has been commissioned and is in disposal of SOCAR. Construction-installation works are underway in other complexes. | In the start of projects, TDCs were expected to be given to disposal of local executive structures. Then, taking into consideration the low level of financial support of health sector, the government gave consent to give TDCs to the disposal of SOCAR. TDCs being built at present are expected to be given to disposal of SOCAR. This will bring to increase in expenses of the Company. The Company gave weak reply on the information demanded. Observations show despite the Company has increased social investments, it does not carry out planning for exploitation expenses of those social units in future. | Despite SOCAR has increased social investments, it does not carry out planning for Nakhchivan TDC was given to disposal of Health Ministry of the Autonomous Republic. 1465604 AZN maintenance expenses in Lankaran TDC in 2007 were approved by SOCAR. |
| 17) Which works are done to assure technical safety of employees in construction? (Question is addressed to contracting companies) | Reps of Garachay Company (Ganca TDC) and Sosial Tikinti-M Ltd (Gazakh TDC) said employees are working upon labor contract. (Replies provided by contracting companies). | Despite there is special list in Ganca TDC on awareness of employees of technical safety standards, the list does not contain signatures of employees. Only some of employees in construction had uniform and helmet. No document was presented at Gazakh TDC on awareness of employees of technical safety standards. Only some of employees in construction were in uniform. | Technical safety norms are not fully observed in construction yards |
| 18) Has labor contract been signed with employees in construction? (Question is addressed to contracting companies) | Reps of Garachay Company (Ganca TDC) and Sosial Tikinti-M Ltd (Gazakh TDC) said employees were familiarized with technical safety rules and assured with uniform and protective helmet. (Replies provided by contracting companies). | Monitoring discovered majority of employees of companies building both Ganca and Gazakh TDCs work without labor contract. It was made clear during talk to employees. Despite contracts were signed with some employees, a copy of the contract was not presented to the employee. | Majority are involved in construction without labor contract |
5. RESULTS OF THE MONITORING OF FUNDS ALLOTTED BY SOFAR TO THE SAMUR-ABSherON IRRIGATION CHANNEL RECONSTRUCTION PROJECT

5.1. QUESTIONS ADDRESSED TO SOFAR, INFORMATION GAINED AND RESULTS

<table>
<thead>
<tr>
<th>Monitoring questions</th>
<th>Replies by SOFAR</th>
<th>Further information gained</th>
<th>Results</th>
<th>Notes by SOFAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upon which order or decision SOFAR allotted funds to reconstruction of Samur-Absheron Irrigation Channel?</td>
<td>Funding of the Samur-Absheron Irrigation Channel Reconstruction Project by SOFAR is implemented according to budget of 2006 approved by Decree 346 of December 28, 2005 of President. For this goal, 37,0 mln AZN were allotted in 2006 from SOFAR budget. Sum of funds allotted for 2007 upon Decree dated 28.12.2006 is 76,9 mln AZN.</td>
<td>Information demanded is provided by SOFAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Which bodies manage the funds SOFAR allotted to reconstruction of Samur-Absheron Irrigation Channel?</td>
<td>According to Order 42 of February 24, 2006 of the Cabinet, project management and performance of functions of customer was left to Melioration and Water Economy OJSC.</td>
<td>Information demanded is provided by SOFAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. What information SOFAR has about contractors and subcontractors of the project and basis of their selection (tender, order, decision etc)?</td>
<td>Contractors and subcontractors for implementation of works within the project were selected upon the tender organized by the customer organization according to the Law ‘On public purchases’.</td>
<td>Information demanded is provided by SOFAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Which part of the project cost is funded by SOFAR?</td>
<td>SOFAR funds reconstruction of Samur-Absheron irrigation channel from Devechi district to Absheron</td>
<td>SOFAR funds the project ‘Construction of Takhtakorpu Reservoir along with Hydro Power’</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
district, which is part of the project, and construction of Takhtakorpu Reservoir. Plant’. The project is forecasted to cost 277 mln AZN. The sum does not include purchase and installation of the power plant’s equipment. The Takhtakorpu-Jeyranbatan Channel Construction Project is on the eve of development. Development of the project documents is implemented in frame of funds allotted by SOFAR to Melioration and Water Economy JSC.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. How many funds SOFAR allotted to funding of the project in 9 months of 2006?</td>
<td>During 9 months of 2006, 11 mln AZN were allocated to the project, funds envisaged in the budget are forecasted to be fully used by the end of the year. Information demanded is provided by SOFAR.</td>
</tr>
<tr>
<td>6. How many funds are forecasted to be allotted to the project in 2007?</td>
<td>76,9 mln AZN are forecasted to be allotted in 2007. Information demanded is provided by SOFAR.</td>
</tr>
<tr>
<td>7. Does SOFAR has any mechanism of control on use of funds it allots?</td>
<td>Funding of projects by SOFAR is implemented only after submission of fully substantiated financial records by customer organizations via transfer of funds to the account of these organizations in public treasury and these organizations bear direct responsibility for effective use of those funds. Assurance of transparency in action of SOFAR is the priority for the Fund and since its establishment the Fund posts the information in its website on projects it funds, also funds allotted to the projects. According to the reply of SOFAR, customer organizations are responsible for effective use of funds allotted to projects funded by the Fund. However, the Fund cannot stand away responsibility for effective use of these funds. Efforts the Fund makes towards assurance of transparency in use of funds used for projects it funds should be assessed positively. But information on the Internet site of the Fund about funds used for projects funded by the Fund is of general character, while the Fund is able to SOFAR has not sufficient mechanisms of control on the purpose and effective use of funds allotted to the projects.</td>
</tr>
<tr>
<td>project stated in your inquiry.</td>
<td>post on the site the information on detailed structure of expenses on those projects.</td>
</tr>
</tbody>
</table>
## 5.2. RESULTS OF THE MONITORING OF THE TAKHTAKORPU RESERVOIR CONSTRUCTION PROJECT FUNDED BY SOFAR

<table>
<thead>
<tr>
<th>Monitoring questions</th>
<th>Replies by Melioration and Water Economy OJSC</th>
<th>Observations and further information gained</th>
<th>Results</th>
<th>Notes by OJSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Which body made TES of the Samur-Absheron Irrigation Channel Reconstruction Project?</td>
<td>Long-term strategy and TES of the project were made in 2004 by Japanese Company NIPPON KOEI and project companies of Azerbaijan. Making of TES was funded by WB grant.</td>
<td>OJSC provided the information requested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Please, inform of the technical consulting company on the project.</td>
<td>Technical consultant on the project is Temelsu Company of Turkey that is selected upon international tender. According to contract signed between OJSC and Temelsu on October 18, 2005, the project ‘Construction of Takhtakorpu Reservoir along with Hydro Power Plant’ and tender documents were developed.</td>
<td>OJSC provided the information requested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Which body implements construction-installation works in the Takhtakorpu Reservoir Project?</td>
<td>Total basin of Takhtakorpu Reservoir is to be 268 mln cubic meter, useful volume 219 mln cubic meter, height of nuclear-type land dam 124m, length 1010m. The 25-MW hydro power plant will be built in lower dam of the Reservoir. Contractor of the project is consortium consisted of Azerkorpu (leader),</td>
<td>OJSC provided the information requested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
<td>OJSC provided the information requested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. How was the performing company selected (tender, decision etc)?</td>
<td>Contracting consortium was selected in base of open tender.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. If the performing body was selected upon tender, please provide</td>
<td>Purchase of works in the project ‘Construction of Takhtakorpu Reservoir along with Hydro Power Plant’ were defined in base of open tender held on September 8, 2006. 4 pretenders – consortium containing Azerkorpu OJSC, KISKA Tech JSC, Turan Khazinadaroglu Company of Turkey and Korpu-Bina-Tikinti Ltd took part in tender. Winner of the tender transparently held in presence of reps of Economic Development and Finance ministries, State Purchases Agency and public was consortium led by Azerkorpu OJSC.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>detailed information on this.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. What is total cost of the project?</td>
<td>Contract cost of works within the project ‘Construction of Takhtakorpu Reservoir along with Hydro Power Plant’ is 277 mln AZN along with VAT.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 7. What is duration of realization of the project?

The project is to be completed in 2010.

In construction yard MG met with project manager of Azerkorpu OJSC, Turkish expert Hakan Unalan. He said for construction 59 new Mercedes-Man dump truck, 9 excavators and 8 bulldosers were bought. More 50 Mercedes-Man dump truck will be purchased. All equipment used within territory of construction is owned by Azerkorpu. Roads were built to the area, base created from October 2006. From January 2007 works started to drill the foundation of the dam. Upon the contract, the project is to end on October 1, 2010.

At present, unsuitable land is taken away from the construction area and works are underway to prepare the cornerstone of the dam. From mid February 24-hour working regime is applied. Clay layer will be used that the dam can keep water firmly. Experts are looking for available clay resources around. Use of funds started from 2007. Nearly 4 mln AZN were used in January-February. 1300 thousand cubic meters of land were drilled by late March. 306 people work in construction. 500-600 are planned to be involved yet. Employees come from different regions of country. Contract is signed with each employee, every employee is insured. Food is given to employees several times a day (at least 3 times). There are places to sleep, wash and rest. All works done are registered, photo and video shooting performed. Land works are normally continued at Reservoir.
8. Please, provide information on volume of funds of SOFAR and other sources (foreign credits, grants etc) in project cost.

| SOFAR allotted 37 mln AZN from budget of 2006 and 76,9 mln AZN from budget of 2007 to the project implementation. | The project ‘Construction of Takhtakorpu Reservoir along with Hydro Power Plant’ is to be implemented due to funds of SOFAR only. |

9. How many funds were used for works done from start of project till late 2006? Please, briefly inform of works done.

| 37 mln AZN were used in 2006 for project implementation. These funds were spent for making of technical project and tender documents for construction of Takhtakorpu Reservoir, preparation works (including, land separation, evacuation of oil-gas pipelines, roads affected by the reservoir, construction of new settlement for evacuation of refugees living in territory etc), project-search works for construction of Takhtakorpu-Jeyranbakan Channel and maintenance of working group. 150,000 AZN allotted for maintenance of the department in 2006 were used for wage, communication, working trip, transport and purchase of the equipment for the department. | OJSC provided satisfactory reply to the information requested |

10. Please give following information on the structure of funds

<p>| No reply | No information provided on economic structure of funds used for project. | Melioration and Water Economy OJSC provides no Setting the expenses on contracting |</p>
<table>
<thead>
<tr>
<th><strong>used in the project in 2006:</strong></th>
<th><strong>information to the public on structure of expenses on contracting contracts</strong></th>
<th><strong>contracts is the authority of the contractor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Wage; - Purchase of goods, works and services; -Purchase of motors and equipment; -Office maintenance; -Communication expenses; -Working trip expenses; -Transport; -Other expenses.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. **What is cost of contracts on evacuation of oil-gas pipelines impacted by Takhtakorpu Reservoir?**

Contract cost of works of ‘evacuation of the 720-mm main oil pipeline from territory of the reservoir’, which is part of ‘Construction of Takhtakorpu Reservoir along with Hydro Power Plant’, is 8,024,743.87 AZN, contract cost of works of ‘evacuation of the 1220-mm main gas pipeline from territory of the reservoir’, which is part of ‘Construction of Takhtakorpu Reservoir along with Hydro Power Plant’, is 11,998,072 AZN.

OJSC provided information requested.

Length of the 720-mm oil and 1220-mm gas pipelines evacuated is about 10,000m and 9600m respectively. So, evacuation will cost respectively 802 AZN and 1250 AZN per every meter of oil pipeline and gas pipeline.

12. **How many funds were allotted in 2006 to Khezerdenizneftgaztikinti Trust for evacuation of**

9,689,394.37 (3,209,897.00 + 6,479,497.37) AZN was paid in 2006 to Khezerdenizneftgaztikinti Trust for evacuation of
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
<th>Additional Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many funds have been paid by April 1, 2007 to Khezerdenizneftgaztikinti Trust on evacuation of pipelines?</td>
<td>10,518,961.37 AZN was transferred to Khezerdenizneftgaztikinti Trust by April 1, 2007 for evacuation of oil and gas main pipelines from territory of the reservoir.</td>
<td>OJSC provided the information requested</td>
</tr>
<tr>
<td>How many works have been done by April 1, 2007 on evacuation of pipelines?</td>
<td>Respective 42% and 67% of works of evacuation of main oil and gas pipelines from territory of the reservoir.</td>
<td>Despite MG applied to the camp of the Trust in the territory to get familiarization with works of evacuation of main oil and gas pipelines, management of the Trust did not helped in realization of observation process and denied replying to questions. Contractor sets the working regime and access rules in construction yard</td>
</tr>
<tr>
<td>Upon which legal bases and methodology the compensations for dwelling houses, courtyards, fruit trees and share lands impacted by the reservoir have been counted?</td>
<td>Assessment of property impacted by the reservoir was carried out by Azdovsuteslayihe Institute (assessment of land areas) and Immovable Property State Register Service (assessment of constructions and fruit trees) according to respective rules and methods set by the Cabinet.</td>
<td>Residents of Uzumlu village affected by the reservoir are not pleased of assessment. They say reps of respective bodies did not inspect all houses and courtyards. Different valuations were carried out on same gardens. While counting compensations, current market prices and fate of the properties after evacuation were not taken into consideration. Sum of compensations was counted by respective government bodies in the proper manner before construction started and customer only pays them.</td>
</tr>
<tr>
<td>What is total sum of compensations meant for dwelling houses, courtyards, fruit trees and share lands</td>
<td>Total sum of compensations counted for purchase of dwelling houses, courtyards, fruit trees and share lands impacted by the reservoir is The reference provided by the project working group says respectively 393,355.2 and 569,032.37 AZN (total 962,387,57) were transferred to accounts of proprietors in 2006 and 2007 and this is 251,316,13 AZN more</td>
<td>There is discrepancy in volume of compensations counted and paid There is no discrepancy and there are other proprietors, MG did not inquire, in the</td>
</tr>
</tbody>
</table>
17. How many funds were transferred in 2006 to accounts of proprietors as compensation?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>711071.44 AZN. than sum of compensation provided for in the project.</td>
<td></td>
</tr>
</tbody>
</table>

To the accounts of proprietors was transferred 393555.12 AZN in 2006, 569032.37 AZN in 2007.

According to the project, Uzumlu village (26 houses) and Garabaglar village (31 houses, populated by IDPs) affected by the reservoir must be evacuated. Houses and courtyards of 26 families in Uzumlu village, also land shares of some residents were bought and will be compensated. Villagers do not agree with sum of compensation. The village was built 25 years ago. All houses were built of sawn stone upon the same project. But residents say the commission for assessment of houses did not take it into consideration and set different prices for houses of same type. For instance, while 4200 AZN compensation was counted for house and courtyard of villager Gorkhraz Zekiyev, 20083 AZN compensation was counted for house and courtyard of chairman of the municipality. The commission registered the school building of the village as house and privatized that in names of separate persons. Prices are changed from 4000 to 12000 AZN (except the chairman of the municipality – M.G.). despite assessment of houses based on the same methods, creation of different prices causes some questions. Residents claim no discussion was held with them on purchase of property, no contract was signed and their signatures were falsified. They consider all this were done by employees of OJSC called

Property rights of Uzumlu village residents were violated. Unfair compensation was counted for their property. Compensation accounts were opened in their names without agreeing with them and money was transferred.

All calculations were implemented according to existing rules. Mechanism of this work is not quite clear and unambiguous. No bank account can be opened in name of anyone if it is not aware of this. This is personal account that is opened personally. Otherwise the bank bears all the responsibility.
Farmayil and Javanshir along with municipality chairman Rasul Mammadov. They were not explained the method of assessment of property. Compensations were transferred to accounts of proprietors without documentation. Majority of proprietors deny getting the compensation. In the reference of the project working group on houses built in Gulamlı village of Devechi district it is shown that 1,643,847.99 AZN were used for construction of the 70-house settlement for evacuation of IDPs. In this case, every house costs 23,783 AZN on average. Therefore, assessment of houses of Uzumlu village residents possessing secondary buildings, fruit trees and land shares in sum of 12,000 AZN maximally creates questions.

18. What was the cost of settlement built for refugees living in Garabaglar village affected by the reservoir?

| 70 houses were built in the new settlement despite there are 31 families in Garabaglar village. Construction of houses cost higher than market prices. While setting average price of each of houses built in the settlement, prices of road, water, gas, electric lines built to the settlement and drainage system are distributed as well. |
|---|---|---|
| 18. What was the cost of settlement built for refugees living in Garabaglar village affected by the reservoir? | Contract cost of construction of the settlement consisted of 70 houses in Gulamlı village of Devechi district for evacuation of refugees, which is the part of preparation for construction of Takhtakorpu Reservoir, is 1,643,847.99 AZN. Refugee settlement in Gulamlı was built by Azeriservis LTD. 70 houses and administrative building were built in settlement. 35 of houses have 2 rooms, 29 consisted of 3 rooms and 6 have 4 rooms. Houses are simple, roofs are covered with slate, doors and windows are made of wood, floor and ceiling of veneer. Water pipe has been built to the yards and WC built. There is bathroom and stable. Sanitary junction has been built in drainage system. Fences are of iron net. Streets of settlement are asphalted. 12 hundred hectares were allotted to every family. Every house in settlement costs 23,783 AZN on average and this is too expensive concerning the prices for late 2006. |
19. How many funds were transferred in 2006 to the account of the company implementing the construction of the settlement?

| 1119397,96 AZN were transferred in 2006 for settlement construction. |

OJSC provided the information requested.

20. In which directions and how much of 37 mln AZN SOFAR allotted in 2006 to the project (Payment to Azerkorpu JSC in advance, evacuation of pipelines, compensations transferred to accounts of proprietors and extra to construction of settlement for refugees) have been used?

| 37,0 mln AZN allocated in 2006 by SOFAR to project implementation were used for advance to Azerkorpu OJSC, evacuation of oil and gas main pipelines from territory of the reservoir, compensations to proprietors, construction of approaches to the reservoir except sums paid for construction of settlement for refugees, making of design estimates of Takhtakorpu-Jeyranbatan Channel Project, 115,041 AZN for expertise and assessment, 151,000 AZN for maintenance of working group. |

According to the reply of OJSC, 31,468,188.45 AZN (See: Appendix 1) of 37 mln AZN allotted in 2006 by SOFAR to project implementation have been used. But in the reply of OJSC to question 9 of the information inquiry it is stated 37 mln AZN allocated from SOFAR have fully been used. In this case, it is not clear how 5,531,811.55 AZN were used. It is not known in which direction 5,531,811.55 AZN on the project were spent. In public discussion MG was presented a reference on directions of use of 37 mln AZN. All expenses are completely given there. Payment without purpose is impossible by SOFAR.

21. Via which ways do you inform the public of project implementation?

| No reply |

Information on the project execution is delivered via press releases and interviews of officials. This information is consisted of mainly technical features of the project and summary of works done. OJSC does not provide detailed information to the public on financial details of the project and structure of expenses. JSC’s Internet site is available.

22. Is it scheduled to create Internet resources to assure wide

| No reply |

JSC has not Internet site

JSC has not Internet site.
| awareness of the public of the project implementation? |   |   |   |
5.3. STRUCTURE OF FUNDS ALLOTTED TO THE PROJECT ‘CONSTRUCTION OF TAKHTAKORPU RESERVOIR ALONG WITH HYDRO POWER PLANT’ (THOUSAND AZN)

<table>
<thead>
<tr>
<th>N</th>
<th>Directions of expenses</th>
<th>Contract cost</th>
<th>Need for 2006</th>
<th>Paid totally</th>
<th>Beyond the need</th>
<th>Payments in 2006</th>
<th>Payments in the early 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Evacuation of gas pipeline Khezerdenizneftgaztikinti Trust</td>
<td>11998.1</td>
<td>8100</td>
<td>6479.6</td>
<td>-1620.4</td>
<td>6479.6</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Evacuation of oil pipeline Khezerdenizneftgaztikinti Trust</td>
<td>8024.7</td>
<td>3700</td>
<td>3210</td>
<td>-490</td>
<td>3210</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Evacuation of motorway Azerkorpu OJSC</td>
<td>2793.2</td>
<td>1200</td>
<td>459.5</td>
<td>-740.5</td>
<td>350.8</td>
<td>108.7</td>
</tr>
<tr>
<td>4</td>
<td>Building settlement for evacuation of refugees Azerservis LTD</td>
<td>1643.8</td>
<td>1405.9</td>
<td>1119.8</td>
<td>-286.1</td>
<td>1119.8</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Evacuation of territory of the Reservoir Compensations for proprietors)</td>
<td>1966</td>
<td>1977.4</td>
<td>1990.3</td>
<td>12.9</td>
<td>1990.3</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Dam construction Azerkorpu OJSC</td>
<td>277278</td>
<td>20000</td>
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6. PUBLIC DISCUSSIONS

6.1. Public discussion of results of the monitoring of the SOCAR TDC Projects

Baku City, International Press Center, June 19, 2007

Head of MG Zohrab Ismayilov disclosed in the public discussion the initial results of the monitoring of the SOCAR TDC Projects (See: Appendix 9.6, p.60).

Ilham Huseynov (SOCAR, Social Development Department, Construction Section): First issue was about Mountainous Shirvan zone where construction of TDCs was not envisaged. Construction of TDC was envisaged in that zone in Shamakhy city. The Company got letter on this. It will cover 4000 sq.m. Besides, design estimates are made for construction of the 4-floor TDC within 7,000 sq.m in Goychay city. Cornerstone has been laid in Shamakhy. It is planned to build hospital in Yevlakh, TDC in Jalilabad, and medical center in Fuzuli. These are extra projects and do not belong to the previous ones. Freedom of access to this information is fully assured in our company. You also were not unsatisfied. Funds allotted to TDCs total 59 mln and 498 thousand AZN only.

Z. Ismayilov: Is Nakhchyvan included here?
I. Huseynov: No.
Z. Ismayilov: How many funds have been allotted to Nakhchyvan?
I. Huseynov: That unit is not ordered by us but Nakhchyvan Health Ministry. SOCAR just rendered financial support to its construction. I cannot say exact sum. You may take this figure from the Company… TES of projects is such a process that is applied in mainly institutions of production character. But these projects are implemented in social field and therefore, there is no
need for TES… Regarding the change of contracting organizations I can say it happened in Lankaran and Gazakh. We have letters of those organizations. It happened concerning the duration of implementation of construction. In the 9th question it is stated information on estimate costs are hidden. We will present that information to you…

Z.Ismayilov: But contractor in Ganca also was changed. The company preparing the cornerstone was later replaced. In Zagatala, Inshaatavroservis Company operated but information posted on February 13, 2007 on your Internet page says it is Rabitetikinti Company.

I.Huseynov: No, Rabitetikinti builds hospital in Balakan upon order of our department. Maybe the information was wrong. Regarding tender we can say that open tender was not really held for construction of these units. But it is not shown in the Law ‘On public purchases’ that contractor or seller of goods can be selected upon tender only. There are different forms of purchases such as closed tender etc. Each of these units was to be built for a specific duration and tender demanded 4 or 5 months, that is why we chose this way. Only factor was the short duration. We took into consideration previous action and financial state of contracting companies. Yes, closed tender was not held, but they were invited as in the closed tender, and contractors were selected upon specific proposals. This is not violation of law. Also selection of these contractors was arranged with State Agency for Purchases. The report says expenses of the customer and contractor do not coincide. It is possible. Because customer has expenses of equipment, project and contract got transport, material expenses. I mean percent of these expense items may be different. It is a bit difficult to coordinate this. In general, structure of expenses can be changed in constructions of different character. For instance, transport expenses are high in sea units etc. In general, according to norms of the Cabinet, expenses can differ 15%. It is quite by chance that titles of Sosial Tikinti – M Ltd and Sosial tikinti OJSC are the same. In this event also there are several persons called Ilham and Azer… Concerning the question 14 we can present concrete figure. SOCAR has signed contract with German companies Siemens and Frezenius medikal on purchase of medical equipment. The contract envisages them as sender of goods and contactor. They bring and install equipment themselves. Plus, the contract provides for training expenses. They will train experts. You can get any information on those contracts… In question 16 you show that SOCAR does not plan anything for future exploitation of those units. Funds directed to this field are allotted due to free profit remained in disposal of the Company and approved early this year. I have taken figures of expenses of Lankaran TDC that has been commissioned for 2007. It has been approved by SOCAR management. 1 mln and 465 thousand AZN are envisaged for funding of Lankaran TDC in 2007.

Azer Mehdiyev (Economic Initiatives Assistance Center): Are these TDCs in the disposal of SOCAR after being opened?

Mahir Mammadov (Chief of Economy and Register Sector of Social Development Department of SOCAR): Yes. Lankaran TDC was launched in June 2006. Open heart surgery was carried out there by doctors of Oil Workers Hospital. At the moment, TDC has fully been supplied with specialized personnel, equipment and transport. No service is paid there and all services are financed by SOCAR… Regarding expenses I want to say all TDCs are developed upon individual project and their construction is controlled by 18 employees of SOCAR on all districts. There are some difficulties but we work according to the schedule. Of course, there were some delays.

Mirvari Gahramanly (Project Coordinator): Thank you for detailed information. I just want to say for the moment balance of SOCAR is overloaded with separate actions. I would like experts present here also to say views.

A.Mehdiyev: I would like to know how much need was there for construction of these TDCs and how was it assessed? Second, give a bit concrete figures on exploitation at Lankaran TDC.

M.Mammadov: From opening of Lankaran TDC till now 52 complicated surgeries, 2 cardio surgeries and totally 169 surgeries have been implemented. 4089 people applied to the polyclinic for examination and treatment. All ills suffering from kidney deficiency in the southern region go there for dialysis. There are nearly 33 such ills.
Gubad Ibadoglu (Chairman of Economic Research Center): I support renovation of main funds in Azerbaijan. But there are not norms here. SOCAR’s revenues grow yearly. It would be better if the Company spends these revenues transparently, implement planning. I think, it would be better if 30-40% of budget of SOCAR remain in disposal of the Company, rest is given to the state budget. Because budget is approved in parliament and opportunity of public control on that is wider. Second, I worry that SOCAR claims for solution of social problems. For example, it assumes functions of Health Ministry. Then, where is coordination in healthcare policy of state? Another paradox is that SOCAR does not promote medical insurance of its employees but cares about health of other citizens. Health of about 60,000 employees of the Company has impact on its production. Or amortisation allocations are much exaggerated in the Company. Lastly, I would wish the structure of SOCAR to be improved and its operation to cover all the world like bp, at least Petronas and implement international competition. However, current social projects may interfere works of SOCAR in international scale.

Ilham Shaban (Oil Studies Center): Today’s event is big step towards transparency. Participation of SOCAR here is very good. As a person with experience in this field I can say you would not get reply if you would address the questions sounded today here to bp or Statoil. SOCAR really allots many funds for last 2 years to realization of social projects. It funded import of gas from Russia for about $1,6 bln, allocated $35-40 mln to purchase of electric energy from Russia, paid $42 mln debt of Nakhchyvan to Iran for electricity. SOCAR was recalled when slip, quake and other natural disasters happened. Of course, this are included in expense structure of the Company, this are big funds. These have negative impact on formation of SOCAR as a commercial company. Unfortunately, social activities of SOCAR are enlarged and as a result of this, cost value of oil increases, the Company loses in competition with foreigners.

Sabit Bagyrov (President of Economic and Political Studies Center): The public has right to take interest in revenues and expenses of SOCAR as it is public company. Profit of SOCAR this year from Azeri-Chyrag-Gunashli field will be $400 mln. On this point, $50 mln allotted to TDCs do not seem so big. And we must worry about the fate of rest 350 mln. I fully agree that SOCAR should not deal with these works. If it has revenue from ACG without any labor, why does not it give it to the budget? No, if SOCAR is engaged with such social, non-commercial action, then, tenders must be held. Why are not these institutions given to the disposal of Health Ministry? Because it must take place soon or late from point of view of logics. SOCAR should deal with exploration, production, transport works.

Rovshan Agayev (Economic Initiatives Assistance Center): Of course, if Health Ministry had fulfilled its functions, we would not have discussion here today with oil workers. According to information of Counting Chamber for 2006, SOCAR has paid only 44,5% of tax it must pay to state budget. In this case, does construction of TDC suit that? I think, first of all structure of the Company must be changed.

Ingilab Ahmadov (Public Finance Monitoring Center): I think SOCAR may deal with such social projects. Just accounting, expenses’ transparency must be basic. Plus, it is not right to build such units and keep them in disposal. My second pretension goes to the monitoring group. If the target was transparency of funds, then it needed to implement comparisons and study the accounting documents. Talking with figures mostly would lift the quality of job. But in general, you have done very big job.

M.Gahramanly: We send the proposals to the Company, but computation concerns the audit mostly.

Telman Zeynalov (National Ecological Forecasting Center): I propose SOCAR to hold the public listening before such projects, study the questions in advance. Ecological experts must be involved in such projects.

Nariman Agayev (Sustainable Development Center): You proved that cooperation between NGOs and SOCAR on any issue is possible. Upon figure given before it can be said every ill in Lankaran was rendered medical aid estimated $3000. So, you have very good index. Yes, it belongs to limited number of people but in any case this is step towards development. Why has
contract been signed with Siemens for purchase of equipment? They sell in highest price. It would be better to cooperate in future with other companies. Besides, it would be better to cooperate in future with Health Ministry in this field.

Z.Ismayilov: One of major objectives of our project was to organize today’s public discussion. I think, we had very good discussion. I am glad that SOCAR declared here that it would give us new information. I hope we will be able to monitor the social policy of the Company next time.

M.Mammadov: Oil companies all over the world deal with other works as well. Our company employs 60,000 people, what will they do after 50 or 60 years, when oil will be over? Oil is the wealth of people and 8 million people must take benefit of this.
6.2. Public discussion of results of the monitoring of the Takhtakorpu Reservoir Construction Project funded by SOFAR

Baku City, International Press Center, June 28, 2007

Zohrab Ismayilov (Head of MG): Surveys were implemented in 2 directions during monitoring of funds of SOFAR in frame of the project. First is the policy of SOFAR. MG has come into the conclusion that SOFAR does not have sufficient mechanism of control on the projects implemented due its funds. Replies the Fund provided to the information inquiries we presented show that performing companies directly bear responsibility for effective use of funds allotted to projects. But we consider the Fund also bears responsibility for effective use of oil revenues as the donor. SOFAR posts information on its site on the projects but we think this information should be detailed and all the structure of expenses must be open to the public. Another problem relates to assessment of projects presented to the Fund. The Fund finances projects upon decision of the Cabinet, but the Fund has no potential to assess these projects. This job can be done by Economic Development Ministry. But the Ministry recently forms its structures to work with state investments.

So, it is known that usually the customer body develops the projects and they softly pass through the Cabinet and SOFAR. These projects are not sufficiently assessed from pint of effectiveness and mechanisms of the Fund to affect this work are too weak.

Second direction is linked with use of funds allocated to the Takhtakorpu Reservoir Construction Project. In late 2006, 3242.7 mln AZN were not used, but those funds have not been
given back to State Treasury and were spent in early 2007. This is against legislation. At the same
time, in reports presented by OJSC to SOFAR, also in written information presented to MG it is
stated that funds allotted to the project have fully been used. Also purpose of those funds was
changed. I think, experts of Working Group will make it clear now.

What are other problems in project implementation? Refugee settlement cost higher in
comparison with market prices. Every house cost 23,000 AZN on average. It is simple construction,
land was gratis allocated by state, there is no secondary farm and sanitary junction. Why houses
should cost so high? Also, every family is offered 4200 AZN for giving of house farms of Uzumlu
village to the state. It turns out that the state builds the house for 23,000 AZN but wants to buy
from population for 4-5,000 AZN. OJSC explains reasons to this with existing rules of the Cabinet.
But according to the Constitution, if state needs any territory, it can buy it with fair compensation.
We are not creating a problem, just residents are much unsatisfied. They think their signatures have
been falsified, they have not signed the contract, property certificates were illegally taken by local
self governing bodies etc. Residents think they lose much. Some of their land shares will be
affected by construction, also after evacuation they will be too far from land shares and will not be
able to use them. We think these people must be given moral compensation as well.

Another problem is that expense structure is not open to the public. We think wage, material
and other expense items in construction must be opened. Otherwise, this project becomes very
difficult to be assessed. It is hard to find out whether wage is low or high. Or material or equipment
has been bought in expensive or cheap price. If the question is about assurance of transparency, this
information is very necessary to know. We are pleased of replies of OJSC in general, 80-90% of
our questions was responded. Perhaps questions I counted will be replied too. But mechanism of
the OJSC to provide information to the public is too complicated. The body implements projects
due to funds of SOFAR, state budget and international credits with state guarantee. That is why,
there is need for the Internet site where all the information disclosure of which to the public is
necessary must be posted there.

In conclusion, I want to mention that there is cemetery very next to the construction.
Actions must be taken to protect or evacuate that.

Mirvari Gahramanly (Project Coordinator): In due time, we monitored dissatisfaction of
villagers getting compensation for BTC pipeline. And now, we found out bigger dissatisfaction in
project of our own state. Very less compensation has been counted for Uzumlu village residents.

Mammad Asadov (Head of Construction and Foreign Relations Section of Melioration
and Water Economy OJSC): First, I express you my gratitude for holding such discussions. But
this theme is too wide to analyze it in one Round Table. MG wants to monitor very big issue and
wants us to reply. If you wish, we shall give you 10 volumes of the project to analyze. We have
always received you when you applied and provided information to you. Maybe I cannot say some
technical issues. Regarding pretensions I want to say: Why structure items of expenses may be
interesting for the public? This is own business of every contracting company. We have informed
of total cost of construction-installation works. The rest is the job of the contractor. Our contractors
operate according to international standards. We have great experience in cooperation with
international organizations.

How can expense be without purpose? You say SOFAR has no mechanism of control. What
you call control? We ourselves hold monitoring monthly. We control everything from quality of
construction to expenses. What is Working Group for? We have persons working in all directions.
We report to SOFAR on every cent we receive. You know that this is big reservoir. At present,
over 150 thousand hectares are irrigated in the northern region. The region, including Baku is
populated by 4 mln people. This channel supplies 60% of population of Baku, Sumgayit and
Absheron. Length of the channel is 180km. there are 2 pump stations on the channel and big funds
are used for their electricity. Plus, many small rivers in region flow into the sea. After the reservoir
is built, possibility to supply water to Baku and Sumgayit will be increased twice.

There are evacuation expenses in every such project. But this project affects very less
settlements. Only 2 settlements. And there are not such problems there. There are certain
deficiencies and it is natural. Settlement built for IDPs near Gulamli village is very good. What about Uzumlu village, why should we be interested to have false signatures? In presence of the municipality, respective government bodies (Project Institute) assessed the lands and houses. Reps of executive power, Immovable Property State Register Department partook there. Maybe someone was not at home and wife signed on behalf of him etc. Then an issue was raised that compensation was incorrectly counted. We sent the commission for the second time and measurements were taken. State cannot pay the compensation in market prices. Lack of such mechanism causes some difficulties. Everything is counted upon norms of the Cabinet. Regarding public relations, we are always open to the press, our site has been recently launched. You are right, we are a bit late, but the site will contain all information. We do not agree with a number of results of monitoring. It would be better to discuss them with us before public discussion. I am involved in this project from the beginning but I do not know that fully. You want to study such big project for short time.

Arif Agayev (Head of Working Group): This dam has no analog in Azerbaijan. Its height is 180m, is very complicated construction. Over 100 Mercedes dump trucks are working there. Preparation works are underway. Construction of dam will begin in August. We plan to end construction in 2010. Regarding expenses without purpose I want to say this issue started in October 2006. It was noted Azerkorpu is to be given 20 mln for construction of dam. 10% was given in advance upon contract. Then they were given extra 2 mln and 600 thousand AZN as there was rest of funds. Extra 515 thousand AZN were given for development of Takhtakorpu-Jeyranbatar Channel Project. I can present this reference to you. Project cost has been set in 298 mln AZN and it was 277 mln upon tender. 22 mln have been saved now. Expense structure of that 277 mln AZN is the job of contractor. High price of houses for refugees is linked with construction of the 3-km asphalt road, drainage system. Every house estimated 11,000 AZN. Compensations to Uzumlu village were counted by Project Institute of state. Not signing the contracts, it is village, one’s hands were dirty, another signed. Commission was sent for two times after complaints. But SOFAR cannot pay more than state has set. I have heard that villagers have applied to court. Let the court make decision and we shall pay. You know, those houses have been built of mud brick…

Z.Ismayilov: Why the municipality chairman gets more compensation than other villagers. All have the same kind of houses built in the same time, with same materials by the state farm. A.Agayev: Municipality chairman has extra stable. I repeat, measuring and setting price is no our job, it is done by another body. Z.Ismayilov: Does spokesman of SOFAR want to say something on this? Mushfig Bayramov (SOFAR): I have no view. Sadykh Hasanov (Ecolife Public Union): Has ecological impact been assessed in this project? M.Asadov: Yes, expertise was implemented on ecology. We have tried to have minimum impact on the ecology. Telman Zeynalov: It would be better if expense structure of such giant project is disclosed on years. The mistake is that the public listening were not held while making ecological assessment document of such projects. Experts had to be involved and assessment implemented. The major goal was to protect rights of citizens. Sabit Bagyrov: According to world practice, nearly 20-25% is embezzled in construction-installation works. It is very bi project of great importance for our country. It would be better to reduce these risks of embezzlement. I think it would be good if employees of the ministry carry out surveys on these risks. Because about 60 mln AZN may be embezzled in these projects if we take 20-25%. Naila Bagyrova (BBC Radio): I got a question. Did MG include melioration experts? Z.Ismayilov: Yes. Ogtay Selimov. He has worked for long in this system, is one of famous specialists on construction of irrigation systems. M.Asadov: These discussions are very fruitful. I thank you and we are ready for cooperation in future.
7. FINAL CONCLUSIONS AND PROPOSALS

7.1. Conclusions and recommendations on the monitoring of the TDC Construction Projects

Conclusions:

- In monitoring process SOCAR took real steps towards cooperation with NGOs implementing the project and showed its interest in cooperation with civil society;
- SOCAR implements large-scale social projects without Social Investment Programme. Construction of TDCs was not designed in advance and TES was not developed on separate projects;
- Like in whole activity of the Company, in assurance of transparency in implementation of social projects also it has not effectively working public relations mechanisms;
- Action of the Company on accountability cannot be found sufficient. Because SOCAR declares only annual reports on its action and they contain very weak and general information on the social action of the Company.

Proposals:

- SOCAR organizes discussions with international organizations and civil society on Social Investments Programme it envisages for 2007;
- The Company takes actions to create effective Public Relations mechanisms to increase transparency in its activity;
- The Company enriches ‘Social sphere’ section on its Internet page. Detailed information on social projects the Company performs can be posted in this section;
- SOCAR takes actions to observe requirements of legislation concerning selection of contractors and subcontractors while implementing social projects and purchase issues;
- Posting on its site information of other sources, speeches of officials of the Company makes the facts and figures exacter;

7.2. Conclusions and proposals on the monitoring of the Takhtakorpu Reservoir Construction Project

Conclusions:

- SOFAR is interested in lifting transparency in implementation of projects funded by the Fund and cooperation with civil society in this field;
- SOFAR has not sufficient mechanisms of control on the purpose and effective use of funds. SOFAR conducts the policy of directing the responsibility for effective use of these funds to the state bodies responsible for these projects;
- Melioration and Water Economy JSC showed interest in cooperation with civil society by promoting the monitoring of the project implemented due to funds of SOFAR;
- JSC does not provide periodic reports to the public on its action and projects;
• JSC has not effective public relations mechanisms to inform the public of projects it implements, its Internet page was launched in the end of the monitoring period. Initial observations show that resources of the site are too little;
• Human rights and property rights were brutally violated during purchase of houses, courtyards and share lands of proprietors in settlements affected by the reservoir, corruption admitted;
• Illegalities were admitted, purpose of expenses changed in the use of funds allocated to the project.

Proposals:

• There is need to strengthen mechanisms of SOFAR to control transparent and effective implementation of projects realized due to its funds, purposeful use of funds;
• Melioration and Water Economy JSC takes actions to provide periodic reports to the public on its action and projects;
• JSC takes actions to create effective public relations mechanism;
• JSC increases resources of its Internet page, pays attention to posting on the site of the information requested to be declared to the public according to the Law ‘On freedom of information’;
• JSC lifts attention to human rights protection implementing projects, takes into account that human rights in Azerbaijan, including property rights are protected by Constitution and International Conventions;
• JSC takes action to punish its employees responsible for Uzumlu scandal;
• JSC provides legislation-based explanation why funds not used in late 2006 were used in early 2007, also why purpose of those funds was changed.
8. PROJECT RESULTS

Following results were achieved as result of implementation of the project ‘Monitoring of projects on use of oil revenues and public discussion of results’:

- In frame of this project ‘Methodology on the monitoring of projects realized due to oil revenues’ was made that may be used in analogical projects of both performers and other NGOs;
- Another experience in field of ‘Monitoring of projects implemented due to oil revenues’ was created and this experience is being enlarged;
- As result of the monitoring training organized within this project a professional group was created, persons included in the group will be able to partake in projects of partners and other NGOs;
- Implementing the project, partners achieved understanding, cooperation and dialog with state bodies that helped creation of discoveries based on fair and real information as a result of the monitoring. The monitoring subjects expressed their official attitude on the discoveries;
- Participation of monitoring subjects, prestigious experts, interested parties in the public discussions brought to the fruitful dialog, disclosure of additional information by the monitoring subjects on projects they implemented;
- Cooperation with mass media, participation of mass media in public discussions, coverage of the monitoring results on mass media assisted to deliver the information on use of oil revenues to the public;
- SOCAR disclosed for the first time the functional structure of social investments in its Annual Report 2006 that was delivered in July 2007;
- Melioration and Water Economy JSC created its Internet resources (Internet site www.stm.gov.az was launched in July 2007);
- The government made decision on reassessment of houses and land areas affected by construction of the reservoir. Assessment is underway and compensations to be given to the proprietors are expected to considerably be lifted.
9. ADDITIONS

9.1. Methodology on the monitoring of projects implemented due to oil revenues

Author: Zohrab Ismayilov, PAAFE.

This methodology has been developed in frame of the project ‘Monitoring of projects on the use of oil revenues and public discussion of results’ implemented by Oil Workers Rights Protection Organization and Free Economy Assistance Public Union due to financial support of OxfamNovib. The project envisages clarifying the extent of transparency and effectiveness in use of funds spent on projects ‘Reconstruction of Samur-Absheron channel’ funded by SOFAR and ‘Construction of treatment and diagnostics centers in regions’ funded by SOCAR. This methodology reflects the ways and methods of the monitoring to be held within the project. In making of the monitoring were used the reference book ‘Monitoring of budgets and oil-gas industry revenues’ jointly published by Revenue Watch, Political Studies Center of Central European University and International Budget Project, materials of International Budget Project monitoring training, monitoring experience of NGOs involved in the project.

The methodology includes monitoring phases, indicators, methods used, registration forms of the information and observations.

1. Preparation for the monitoring

The preparation phase includes planning of the monitoring, mobilization of resources and familiarization of the project participants with this methodology.

The monitoring will be held upon the following categories:
1. Analysis of projects;
2. Information inquiries;
3. Internet resources of state bodies;
4. Visual observation of performance of projects;
5. Mass media and Internet sites (secondary category).

The monitoring plan covers the following phases:
1. Study of projects that are subject to the monitoring;
2. Making and sending of information inquiries;
3. Organizing the monitoring group;
4. Training of the monitoring group members;
5. Visits to regions for visual observation;
6. Analysis and summarization of information, compliance of documents regarding the project implementation with normative documents, transparency and purposeful use of funds;
7. Making of the final report and organizing public discussions.

2. Collecting the information and obtaining the documents

2.1. Collecting the information on projects implemented due to oil revenues.
2.1.1. Collecting the information on project details.
2.1.2. Collecting the information from Internet resources, mass media and other sources along with information inquiries to SOCAR, SOFAR and other bodies implementing projects.
2.1.3. Placing the information gained as a result of information inquiry and collected independently in comparative tables.
2.2. Study of legislation, programmes, orders and decisions on oil revenues and their use.
2.2.2. Study of standard requirements for state investment projects.
2.2.3. Analysis of compliance of objectives of projects for reconstruction of Samur-Absheron irrigation channel and construction of treatment and diagnostics centers in 10 districts with these documents.

2.3. Analysis of reports on projects implemented due to oil revenues.
2.3.1. Obtaining the annual and quarter reports on projects implemented due to oil revenues.
2.3.2. Placing the information contained in reports and information in the project in comparative tables.

3. Organizing the monitoring group and training that for the monitoring.

3.1. Casting of the monitoring group members.
3.1.1. Members of monitoring group are selected among those having partaken in projects on monitoring of the use of credits allotted to the projects funded by public funds and International Financial Institutions.
3.1.2. During selection of members of monitoring group their specialization, knowledge and skills in projects implemented by civic society are taken into consideration.

3.2. Seminar-training for the monitoring group members.
3.2.1. Seminar-training for members of monitoring group is held by professional trainer.
3.2.2. Training materials cover the following topics:
- Awareness on projects to be monitored;
- Monitoring ways and methods;
- Monitoring of investment projects and use of expenses;

4. Visits to monitoring objects

4.1. Awareness of the opposite side during visits to regions is desirable. It is necessary to try for participation of the reps of the monitoring subjects during observations for making clear the questions immediately and for not having doubt concerning the monitoring results. However, if the opposite side denies cooperation and impedes observation process and interferes in the process, there is no need for awareness of the monitoring subjects of the visits.

4.2. Monitoring group must pay visits to clarify the issues set in advance. They first must try to make clear the issues upon the information registration form.

4.3. Monitoring group is assisted by the specialized expert to implement the studies upon the projects quality standards.

4.4. Members of monitoring group must register every issue immediately.

4.5. Members of monitoring group must try to communicate with employees of bodies implementing the project and residents, avoid conflicts.

5. Monitoring indices

5.1. Information on the projects implemented due to oil revenues.
5.1.1. Sending information inquiry to SOFAR, Melioration and Water Economy JSC and SOCAR. In information inquiry it is requested to submit the information on the following indices:
- Technical and economic substantiation of project;
- Project cost;
- Volume of SOCAR or SOFAR funds in the project cost;
- Other sources (foreign credits, grants etc);
- Volume of SOCAR or SOFAR funds allocated in current year within the project;
- Allocations from other sources in current year;
- Structure of expenses on projects;
- Information on tender;
- Information on performing companies;
- Information on the phase of project works.

5.1.2. Following information is required on the economic structure of expenses in projects;
- Wage;
- Bonus to wage;
- Purchase of goods (services and works);
- Purchase of motors and appliances;
- Administrative expenses (Office maintenance);
- Communication expenses;
- Trip expenses;
- Payment of transport services;
- Other expenses (in detail)

5.2. Information collected taking into consideration the possibility that the information inquiry is not replied by the above mentioned bodies or satisfactory reply is not provided.

5.3. Information of Internet resources, mass media and information agencies.

5.4. Information included in reports of the parties interested in project (International Financial Institutions, creditors).

6. Methods used in the monitoring

Following methods are used in visual monitoring of projects:
- Information inquiry;
- Analysis;
- Public poll;
- Observation;
- Interview;
- Photo shooting;
- Measuring;

7. Analysis and summarization of results

7.1. Description of financial flow on every project in base of information obtained.
7.1.1. Financial flow on projects is described and participant bodies are identified.
7.1.2. Organizational structure of project expenses is made, volume of funds used on the participant bodies is assessed.
7.1.3. Economic structure of expenses is implemented upon TES of projects and information gained as result of information inquiry.
7.1.4. Economic structure of expenses is implemented according to section 5.1.2 basically and certain changes can be made respective of character of the project.
7.2. Comparing the information included in the structure of expenses with monitoring results.
7.2.1. Information included in the structure of expenses is compared with information gained as result of monitoring.
7.2.2. Information included in the structure of expenses is compared with real market prices. In this case, special importance is given to prices of goods, services and works.

7.3. Summarization and classification of results.
7.3.1. Monitoring results are summarized on categories.
7.3.2. Results are compiled in a simple form that will be clear for wide range of community. Tables are also used during summarization.
8. Making of final report

8.1. Final report is made in special form. The report contains the details from about the information on the grant project to the information obtained.

8.2. Draft final report is first submitted to the monitoring subjects. If the party monitored has any pretension or recommendation regarding the report, it can be discussed and changes can be made to the final report upon agreement gained during the discussion.

8.3. Final report is published in Azeri and English languages, submitted to the interested parties and public, posted on Internet resources and brought up for public discussions.
### Appendix 9.1.1

Registration Form of the financial data on the projects implemented due to oil revenues

<table>
<thead>
<tr>
<th>Indices</th>
<th>mln. AZN</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Project cost Allocations</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Funds from SOFAR or SOCAR in project cost</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Other sources (foreign credits, grants etc)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Funds allotted from SOFAR or SOCAR in current year within the project</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Other sources in current year</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Structure of expenses</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
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<tr>
<td>2.</td>
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<tr>
<td>3.</td>
<td></td>
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<tr>
<td>4.</td>
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<td>5.</td>
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<td>...</td>
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</tr>
</tbody>
</table>

### Appendix 9.1.2

Registration Form of the observations on the projects implemented due to oil revenues

Project title______________________________________________________

Place of observation______________________________________________

Date_________________

Name and surname of member of monitoring group _______________________

<table>
<thead>
<tr>
<th>N</th>
<th>Territory</th>
<th>Observations</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


9.2. Observation of Ganca Regional TDC
9.3. Observation of Gazakh District TDC
9.4. Observation of construction of Takhtakorpu Reservoir
9.4.1. Settlement built for IDPs in Gulamli

9.4.2. Uzumlu village facing problems in the shadow of big project
9.5. Press release of press conference on protection of rights of residents of Uzumlu village of Devechi district in connection with construction of Takhtakorpu Reservoir

Baku City, International Press Center, April 26, 2007

While OWRPO and FEAC were monitoring the Takhtakorpu Reservoir Construction Project funded by SOFAR, resident of Uzumlu village impacted by construction submitted application to MG.

Review of the applications found out that damage caused to Uzumlu village residents during their evacuation because of construction of Takhtakorpu Reservoir was not fairly counted and proprietors applied to over 10 government bodies.

One of the bodies they applied is Melioration and Water Economy OJSC. Applying to chairman of OJSC Ahmad Ahmadzade on April 10, 2006 the complainers said prices imposed on their houses and land shares because of evacuation are too less (4000-12000 AZN) and it is impossible to buy house and land area for this money within Devechi district. Getting no reply to the complaints, the applicants applied to OJSC twice on February 13, 2007. This time, they were received by deputy chairman Rasul Pashayev. During the reception, it was found out that while the proprietors have signed any document, there were some documents with their signatures. Inspection implemented in presence of applicants found out that signatures were false and did not belong to them (R.Pashayev made the complainers sign on additional paper and compared signatures).

In connection with this residents addressed a letter of complaint to General Public Prosecutor of Azerbaijan Zakir Garalov.

State acts on land shares of proprietors were collected by the municipality in 2006 to be used in making of contracts and were not given back despite demand of residents.
Compensations counted for proprietors are too less in comparison with market prices. It is not possible to buy house in Devechi district for this money. Price of houses within the district for the moment is 35-40,000 AZN, a hundred hectare of land costs 600-700 AZN.

Articles 70.2 and 71.3 of Land Code of Azerbaijan were violated while lands were taken back from villagers.
9.6. Presentation of Monitoring Group at the public discussion of results of the monitoring of the SOCAR TDC Construction Projects

Results of the monitoring of the SOCAR TDC Projects

Zohrab Ismayilov, Monitoring Group Head
Baku, June 19, 2007

Question 1. Which body defined dislocation for construction of TDCs of SOCAR in 10 regions?

Result: Mountainous Shirvan economic district was not taken into consideration while making dislocation for TDC construction.

Question 2. According to information SOCAR provided to the public in 2004, $50 mln was required for TDC construction. Has any change been made to project cost?

Result: Volume of funds meant for TDC construction has been lifted. But it is not the last limit, funds allotted are to be lifted.

Question 3. Please, inform of duration of realization of every project.

Result: Construction works were continued according to the schedule and are to be ended in time.

Question 4. Which body made TES of project?

Result: SOCAR did not submit information on TES documents of its projects.

Question 5. How much funds of SOCAR have been used for construction of TDCs from the start of implementation of projects till early October 2006?

Result: No information was given to the public in funds used for construction of TDC in the Autonomous Republic of Nakhchivan.
Question 6. How many works have been done in projects from the start of implementation of projects till early October 2006?

**Result:** Weak and general information was given by the Company on the question given. Information on implementation of separate projects was not provided.

Question 7. How many funds have been allocated for realization of projects in 2006 and how many are to be used?

**Result:** Information on funds used in 2006 for Gazakh TDC project that was selected as the monitoring object was not presented to MG.

Question 8. How many funds are forecasted to be allocated for realization of projects in 2007?

**Result:** Information demanded from the Company was provided.

Question 9. Please provide the following information on every project performed
   a) Estimate cost?
   b) Volume of funds in estimate cost for construction-installation works?
   c) Volume of funds for purchase of medical equipment?

**Result:** Public is not informed of estimate cost of separate TDC projects and structure of expenses.

Question 10. Please give the list of contractors and subcontractors implementing construction works.

**Result:** Some contractors were changed during project implementation.

Question 11. Upon which bases SOCAR selected contractors and subcontractors (tender, order, decision etc)?

**Result:** Identifying the contractors SOCAR violated Law 245-IIQ of the Republic of Azerbaijan ‘On public purchases’ (December 27, 2001).

Question 12. Please give details, if the selection based on tender.

**Result:** Legislation has been violated.

Question 13. What is share of the following expense items in total funds of project?
   a) Matters and goods
   b) Labor payment and bonus to wage
   c) Transport
   d) Energy
   e) Purchase or rent of motors and equipment
   f) Other (count if possible)
   g) Purchase and installation of medical equipment

**Result:** Structure of expenses on separate projects is differed from each other and structure of total expenses on TDC projects.
<table>
<thead>
<tr>
<th><strong>Question 14.</strong> Please, inform of name of contractor companies for purchase and installation of medical equipment and details of the respective contract.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Result:</strong> Information on contractor for supply of TDCs with medical equipment and respective contract was not given to the public.</td>
</tr>
<tr>
<td><strong>Question 15.</strong> Please, present the list of medical appliances bought for TDCs.</td>
</tr>
<tr>
<td><strong>Result:</strong> Information demanded from the Company was provided.</td>
</tr>
<tr>
<td><strong>Question 16.</strong> Please inform of volume of funds used or to be used for maintenance of TDCs until they are given to disposal of respective executive structure.</td>
</tr>
<tr>
<td><strong>Result:</strong> Despite SOCAR has increased social investments, it does not carry out planning for exploitation expenses of those social units in future.</td>
</tr>
<tr>
<td><strong>Question 17.</strong> Which works are done to assure technical safety of employees in construction? (Question is addressed to contracting companies).</td>
</tr>
<tr>
<td><strong>Result:</strong> Technical safety norms are not fully observed in construction yards.</td>
</tr>
<tr>
<td><strong>Question 18.</strong> Has labor contract been signed with employees in construction? (Question is addressed to contracting companies).</td>
</tr>
<tr>
<td><strong>Result:</strong> Majority are involved in construction without labor contract.</td>
</tr>
</tbody>
</table>
10. THANKS

Thanks to the following organizations and persons for support to the project implementation:

1. Organization ‘Oxfam Novib’.
2. Sahib Mammadov, Labor Rights Protection League, Head.
3. Konul Khalilova, SOFAR, Public Relations Section, Chief.
4. Mikayil Ismayilov, SOCAR, Vice-President for Social Affairs.
5. Gorkhmaz Huseynov, SOCAR, Social Development Department, Chief, and Giymet Mehtiyev, Deputy Chief.
6. Management of Melioration and Water Economy OJSC, and Mammad Asadov, Construction and Foreign Relations Section, Chief.
8. Mehman Umudov, Garachay Construction Company, Manager.
11. ABBREVIATIONS

CIW – Construction and installation works

OJSC – Open-Type Joint Stock Company

SOCAR – State Oil Company of the Republic of Azerbaijan

SOFAR – State Oil Fund of the Republic of Azerbaijan

TDC – Treatment and Diagnostics Center

MG – Monitoring Group