

**BENEFICIAL OWNERSHIP ROADMAP  
FOR THE EXTRACTIVE INDUSTRIES  
IN AZERBAIJAN  
EXECUTIVE SUMMARY**

**December 2016**

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**1. Introduction**

This roadmap for beneficial ownership disclosure in the extractive industries of the Republic of Azerbaijan (the "Roadmap") is prepared in accordance with the guidelines of the Extractive Industries Transparency Initiative (the "EITI").

The Roadmap is intended to outline the actions and timeline to ensure that the Republic of Azerbaijan has a beneficial ownership disclosure framework applicable to extractive industries meeting international best practices and the recommendations of the EITI by January 1, 2020.

The Roadmap is not intended to contain a final product or responses to all questions on this issue - rather, it stipulates the steps that should be taken to achieve such final results. In other words, the Roadmap is called to mandate and describe the process which must result in the final and effective framework for beneficial ownership disclosure.

**2. Scope**

According to provision 2.5 of the EITI Standard, the EITI has agreed that by January 1, 2020, all implementing countries must ensure that corporate entities that bid for, operate or invest in extractive assets disclose the identity of their beneficial owner. Additionally, beneficial owners who are politically exposed persons shall also be identified and disclosed within the suggested framework.

**3. Purpose**

The very purpose of the beneficial ownership framework is to foster further transparency in the extractive sector and avoid corruption and tax evasion by unaccountable corporate entities.

#### **4. Definition of Beneficial Ownership**

Although a specific and tailor-made definition for Azerbaijan will be developed and enacted during by end of the Roadmap actions, EITI generally defines a beneficial owner as, in respect of a company, as the natural person(s) who directly or indirectly ultimately owns or controls the corporate entity. In other words, for the purposes for this project, a corporate entity cannot be a beneficial owner - it must always be an individual, i.e. natural person.

#### **5. Structure of the Roadmap**

The Roadmap is drafted in the form of a table providing information on the following points:

- Roadmap action item/category;
- objective of such an item/category;
- contemplated activities;
- responsible parties;
- timeframe; and
- required financial funding.

#### **6. Main Activities**

The Roadmap envisages the following general categories of activities to implement the beneficial ownership disclosure mechanism:

- Cooperate, discuss, and consult with various government authorities, business community, and civil society on developing general framework for the BO framework and pieces of legislation;
- Review international best practices, develop all necessary mechanisms and draft all necessary pieces of legislation;
- Conduct capacity building and PR activities;
- Establish a public register for BO disclosure and complete other legislative and administrative works; and
- Conduct monitoring to oversee the implementation of the activities envisaged by the Roadmap.

#### **7. Monitoring**

It is envisaged to hold regular meetings of the MSG to hear and approve progress reports of the responsible parties on implementation of respective roadmap items.

## **8. Budget**

It is planned to allocate the total amount of AZN 600,000 (AZN 200,000 per year) for implementation of the Roadmap activities and the financing will be provided by SOFAZ in full. In case of the Roadmap items that should be performed by external parties, such parties will be chosen by the MSG upon public tenders. This was the reason why it was impossible to indicate specific amounts in relation to the corresponding Roadmap activities.

## **9. Content**

This Executive Summary introduces and attaches the Roadmap and the separate timeline document for the ease of reference.

## BENEFICIAL OWNERSHIP ROADMAP FOR THE EXTRACTIVE INDUSTRIES IN AZERBAIJAN

ROADMAP ITEMS	OBJECTIVE	ACTIVITIES (CAPACITY BUILDING NEEDS, TECHNICAL ASSISTANCE)	RESPONSIBLE	TIME FRAME	FINANCIAL ASSISTANCE (COST AND FUNDING)
<b>1. Links between BO and national reform priorities</b>	Ensure that this initiative is in line with the Government's reform agendas and priorities for better effectiveness	<p><b>a. Already done:</b></p> <ul style="list-style-type: none"> <li>• The National Action Plan on Promotion of Open Governance in 2016-2016 approved by the President of the Republic of Azerbaijan on 27 April 2016 - purports support of and cooperation with the MSG for the sake of transparency in the extractive industry. This should be implemented and closely followed up.</li> </ul>	MSG and SOFAZ	January 2017-June 2017	N/A
		<p><b>b. To be done:</b></p> <ul style="list-style-type: none"> <li>• Cooperation and consultations</li> </ul>			

		with the Anti-Corruption Commission under the President of the Republic of Azerbaijan to include this initiative in the Government's upcoming anti-corruption programs, plans, and reform agendas.			
<b>2. Legal reforms needed to ensure BO</b>	Identify and lobby main amendments to be done to the respective legislation to ensure implementation of this BO initiative	<ul style="list-style-type: none"> <li>Consult with the Milli Mejlis (Parliament) of the Republic of Azerbaijan and the Administration of the President of the Republic of Azerbaijan to achieve the following amendments to legislation: <ul style="list-style-type: none"> <li>- amending the Law of the Republic of Azerbaijan on Subsoil to introduce a definition of beneficial</li> </ul> </li> </ul>	MSG and Secretariat	July 2017-December 2017	N/A

		<p>ownership and specify the process on disclosure of beneficial ownership;</p> <p>- amending the Law of the Republic of Azerbaijan on Registration of Legal Entities to incorporate the BO disclosure mechanism into the existing register of commercial legal entities kept by the Ministry of Taxes of the Republic of Azerbaijan;</p> <p>- amending the Law of the Republic of Azerbaijan on Registration of Legal Entities and the Law of the Republic of Azerbaijan on Commercial Secret to ensure that disclosure of beneficial ownership in the extractive industry</p>			
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		<p>is not prohibited and not covered by the definition of a "commercial secret";</p> <p>- amending other normative acts (if needed) to implement the suggested BO disclosure mechanism.</p> <ul style="list-style-type: none"> <li>• Prepare drafts of amendments suggested above.</li> </ul>	External legal counsel	January 2018-June 2018	100.000 AZN
<b>3. Institutional framework for BO disclosure</b>	Ensure that a relevant and experienced government authority is responsible for collection and disclosure of BO information	<ul style="list-style-type: none"> <li>• Cooperate and consult with the Ministry of Taxes of the Republic of Azerbaijan to identify if the existing register of commercial legal entities is suitable to incorporate the BO disclosure mechanism.</li> <li>• Consider alternative options for collection and disclosure of BO information</li> </ul>	MSG	July 2017-December 2017	N/A
			MSG	July 2017-December 2017	N/A

<b>4. Beneficial ownership definition</b>	Develop and advocate of an acceptable beneficial ownership definition consistent with the legal system of the Republic of Azerbaijan	<ul style="list-style-type: none"> <li>• Review existing international definitions and definitions used in other countries.</li> <li>• Draft definition of beneficial ownership containing the following key elements: <ul style="list-style-type: none"> <li>- ownership percentage threshold;</li> <li>- it includes both direct and indirect ownership;</li> <li>- it clearly defines extractive industry companies that must be covered by this definition;</li> <li>- it refers to an individual (as opposed to an entity) who factually</li> </ul> </li> </ul>	External legal counsel  External legal counsel	July 2017-December 2017  January 2018-June 2018	30.000 AZN  60.000 AZN
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		<p>owns a respective entity.</p> <ul style="list-style-type: none"> <li>• Discuss such definition with the Anti-Corruption Commission under the President of the Republic of Azerbaijan (together with the discussion specified in Section 1 above);</li> <li>• Discuss such definition with major extractive industry companies and civil society organizations working in Azerbaijan (together with the discussions on the below topics).</li> </ul>	<p>MSG</p> <p>MSG</p>	<p>January 2017-December 2017</p> <p>July 2017-December 2017</p>	<p>N/A</p> <p>N/A</p>
<p><b>5. Reporting obligations for Politically Exposed Persons</b></p>	<p>Consider introduction of definition of "Politically Exposed Person" consistent with the legal system of the Republic of Azerbaijan</p>	<ul style="list-style-type: none"> <li>• Investigate existing national definitions and reporting requirements for politically exposed persons with a view to align the</li> </ul>	<p>MSG</p>	<p>July 2017-December 2017</p>	<p>N/A</p>

		beneficial ownership definition accordingly.			
<b>6. Level of detail to be collected and disclosed</b>	Identify adequate and efficient level of detail to be collected and disclosed under this initiative	<ul style="list-style-type: none"> <li>Consult with the Ministry of Taxes of the Republic of Azerbaijan (together with the discussion specified in Section 3 above).</li> </ul>	MSG	July 2017-December 2017	N/A
		<ul style="list-style-type: none"> <li>Consult with major privately-held extractive industry companies and civil society organizations working in Azerbaijan (together with the discussion specified in Section 4 above and the discussion specified below).</li> </ul>	MSG	July 2017-December 2017	N/A
		<ul style="list-style-type: none"> <li>Outline a level of detail for collection and disclosure that is consistent with the</li> </ul>	External legal counsel	January 2018-June 2018	40.000 AZN

		Constitution of the Republic of Azerbaijan and the Law of Personal Data of the Republic of Azerbaijan			
<b>7. Data collection and accessibility</b>	Identifying appropriate and accessible mechanism for data collection	<ul style="list-style-type: none"> <li>Identify scope of companies and their officers who would be required to submit BO information.</li> <li>Consult with the government agencies (cross-ministerial), extractive industry companies, and civil society organizations to identify the circle of entities that should be covered.</li> <li>Develop a national beneficial ownership declaration form.</li> <li>Organization and legal</li> </ul>	MSG	January 2018-June 2018	N/A/
			MSG	July 2017-December 2017	N/A
			External legal counsel	July 2018-December 2018	70.000 AZN

		establishment of public beneficial ownership register	Respective central executive bodies and the Ministry of Taxes	July 2019-December 2019	64.000 AZN (State budget)
<b>8. Assuring the accuracy of the data</b>	Ensure accuracy of data provided by companies	<ul style="list-style-type: none"> <li>Drafting piece of legislation introducing administrative liability/fines for submission of inaccurate and out-of-date information to the public register.</li> <li>Consult with the government agencies, extractive industry companies, and civil society organizations (together with the above and below discussions).</li> <li>Identify and develop an appropriate mechanism for companies to assure the data in the beneficial ownership</li> </ul>	External legal counsel	July 2018-December 2018	56.000 AZN
			MSG	July 2017-December 2017	N/A
			External legal counsel	January 2018-June 2018	30.000 AZN

		<p>declarations prior to data collection.</p> <ul style="list-style-type: none"> <li>Consider the documentary list that should be incorporated into the proposed legislative amendments to verify information submitted to the public register</li> </ul>	External legal counsel	January 2018-June 2018	10.000 AZN
<b>9. Data timeliness</b>	Ensure that data submitted on time and always up-to-date	<ul style="list-style-type: none"> <li>Consult with the government agencies, extractive industry companies, and civil society organizations on appropriate timing for collection and update of information (together with the above discussions).</li> <li>Develop mechanism on collection of information that may contain the following: <ul style="list-style-type: none"> <li>- submission of information promptly after adoption of all</li> </ul> </li> </ul>	MSG	July 2017-December 2017	N/A
			External legal counsel	July 2018-December 2018	50.000 AZN

		<p>necessary laws to implement this initiative; and</p> <ul style="list-style-type: none"> <li>- imposing the obligation to update the submission within 30 days after any changes happen on the data submitted earlier.</li> </ul>			
<b>10. Capacity Building</b>	Ensure that general public, the industry, and civil society organizations are well informed about this initiative	<ul style="list-style-type: none"> <li>• Hold a public seminar on beneficial ownership to present this roadmap.</li> <li>• Publish semiannual reports or newsletters to be shared in the web site of the MSG on things done in connection with this roadmap.</li> <li>• Organize a capacity building training/seminar for the representatives of the ministries and state authorities that would be involved in this project.</li> </ul>	Secretariat and a selected outside legal expert	March 2017	20.000 AZN
			Secretariat	March 2017-December 2019	10.000 AZN
			Secretariat and a selected outside legal expert	January 2018 and September 2019	20.000 AZN

		<ul style="list-style-type: none"> <li>Organize a capacity building training/seminar for the representatives of related entities/companies.</li> <li>Organize a capacity building training/seminar for the representatives of civil society organizations.</li> </ul>	Secretariat and a selected outside legal expert	March 2018 and November 2019	20.000 AZN
			Secretariat and a selected outside legal expert	March 2018 and November 2019	20.000 AZN
<b>11. Monitoring</b>	Ensure that the activities specified in this Roadmap are consistently and properly monitored	<ul style="list-style-type: none"> <li>Hold regular meetings of the MSG to hear and approve progress reports of the responsible parties on implementation of respective roadmap items</li> </ul>	MSG	June 2017, December 2017, June 2018, December 2018, June 2019, and December 2019	N/A

#### ABBREVIATIONS USED IN THE ROADMAP

<b>MSG</b>	Multi-Stakeholder Group
<b>BO</b>	Beneficial Ownership
<b>SOFAZ</b>	State Oil Fund of the Republic of Azerbaijan
<b>Secretariat</b>	The local EITI Secretariat for Azerbaijan

**TIMELINE ON THE BENEFICIAL OWNERSHIP ROADMAP  
FOR THE EXTRACTIVE INDUSTRIES IN AZERBAIJAN**

<b>TIME</b>	<b>RELEVANT ROADMAP ITEM</b>	<b>GENERAL DESCRIPTION OF ACTIVITIES</b>	<b>RESPONSIBLE</b>	<b>FINANCIAL ASSISTANCE (COST AND FUNDING)</b>
<b>January 2017-December 2017</b>	1-4, 6-9	Cooperate, discuss, and consult with various government authorities, business community, and civil society on developing general framework for the BO framework and pieces of legislation	MSG and SOFAZ	N/A
<b>June 2017-December 2019</b>	11	Conduct monitoring of the implementation of the Roadmap activities	MSG	N/A
<b>July 2017-December 2018</b>	2, 4, 6, 7-9	Review international best practices, develop all necessary mechanisms and draft all necessary pieces of legislation	MSG, Secretariat, and external legal counsel	Total: 446.000 AZN
<b>March 2017-December 2019</b>	10	Conduct capacity building and PR activities	Secretariat and a selected outside legal expert	Total: 90.000 AZN
<b>July 2019-December 2019</b>	3, 7	Establish a public register for BO disclosure and complete other legislative and administrative works	Relevant government authorities	Total: 64.000 AZN (State budget)



### ABBREVIATIONS USED IN THE TIMELINE

<b>MSG</b>	Multi-Stakeholder Group
<b>BO</b>	Beneficial Ownership
<b>SOFAZ</b>	State Oil Fund of the Republic of Azerbaijan
<b>Secretariat</b>	The local EITI Secretariat for Azerbaijan