

Board decision on the Validation of Azerbaijan

Decision reference: 2016-23/BM-35/BP-35-5-A

On 26 October 2016, the EITI Board came to the following decision on Azerbaijan's status:

The Board agrees that Azerbaijan has made meaningful progress in implementing the 2016 EITI Standard, and with considerable improvements across several individual requirements compared to the first Validation in 2015. Azerbaijan retains its Candidate status, taking into consideration recent developments.

The EITI Board agreed that Azerbaijan had not made satisfactory progress on requirement 1.3 on civil society engagement. Accordingly, Azerbaijan will need to take corrective actions. Failure to take corrective actions to the satisfaction of the Board will result in suspension in accordance with the EITI Standard. The Board tasked the International Secretariat with preparing an assessment in advance of the next Board meeting. On the basis of this assessment and in accordance with the EITI Standard, the Board will take a decision at its next meeting.

In addition, the Board agreed corrective actions related to requirements 1.4, 2.6, 6.2, 7.1 and 7.4 to be assessed in a third validation commencing on 26 July 2017.

The Board welcomed Azerbaijan's sustained commitment to timely reporting and focus on EITI mainstreaming. However, these positive aspects are undermined by challenges related to civil society engagement, which limits the potential for the EITI to contribute to a greater public understanding of revenues and to encourage high standards of transparency and accountability. The Board was encouraged to hear reports of recent developments and looked forward to evaluate these in the near future.

The Board's determination of Azerbaijan's progress with the EITI's requirements is outlined in the assessment card, below, together with corrective actions with respect to requirements 1.3, 1.4, 2.6, 6.2, 7.1 and 7.4. The major areas of concern relate to civil society participation (#1.3), the independence of civil society members of the multi-stakeholder group (#1.4), reporting on state participation (#2.6) including quasi-fiscal expenditures (#6.2), public debate (#7.1) and documentation of impact (#7.4). The EITI Board disagreed with the validator on the following requirements: work plan (#1.5), license registers (#2.3) and comprehensiveness (#4.1). The Board also agreed additional recommendations aimed at further strengthening EITI implementation.

The Board agreed that progress in addressing these corrective actions will be assessed in a third Validation commencing on 26 July 2017. In accordance with the EITI Standard, the Azerbaijan's Multi-Stakeholder Group may request an extension of this timeframe, or request that Validation commences earlier than scheduled.

The Board's decision followed a Validation that commenced on 1 July 2016. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed an Independent Validator, who submitted a Validation Report to the EITI Board. Azerbaijan's Multi-Stakeholder Working Group were invited to comment throughout the process. The final decision was taken by the EITI Board.







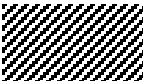
Assessment card

The EITI Board agreed the following assessment card:

EITI Requirements		Level of progress					Direction of progress*
		No progress	Inadequate	Meaningful	Satisfactory	Beyond	
Azerbaijan 2016 Validation scorecard							
Categories	Requirements						
MSG oversight	Government engagement (#1.1)						-
	Industry engagement (#1.2)						-
	Civil society engagement (#1.3)						-
	MSG governance (#1.4)						
	Work plan (#1.5)						→
Licenses and contracts	Legal framework (#2.1)						
	License allocations (#2.2)						
	License register (#2.3)						
	Policy on contract disclosure (#2.4)						
	Beneficial ownership (#2.5)						
	State participation (#2.6)						
Monitoring production	Exploration data (#3.1)						
	Production data (#3.2)						
	Export data (#3.3)						
Revenue collection	Comprehensiveness (#4.1)						
	In-kind revenues (#4.2)						
	Barter agreements (#4.3)						
	Transportation revenues (#4.4)						
	SOE transactions (#4.5)						
	Direct subnational payments (#4.6)						
	Disaggregation (#4.7)						
	Data timeliness (#4.8)						
	Data quality (#4.9)						
Revenue allocation	Distribution of revenues (#5.1)						
	Subnational transfers (#5.2)						
	Revenue management and expenditures (#5.3)						
Socio-economic contribution	Mandatory social expenditures (#6.1.a)						
	Discretionary social expenditures (#6.1.b)						
	SOE quasi-fiscal expenditures (#6.2)						
	Economic contribution (#6.3)						
Outcomes and impact	Public debate (#7.1)						
	Data accessibility (#7.2)						
	Follow up on recommendations (#7.3)						-
	Outcomes and impact of implementation (#7.4)						-
Overall assessment	Meaningful progress with improvements						

* Direction of progress is only indicated for the requirements that were assessed in Azerbaijan's first Validation.

Legend to the assessment card

-  The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
-  The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
-  The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
-  The country is compliant with the EITI requirement.
-  The country has gone beyond the requirement.
-  This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
-  The MSG has demonstrated that this requirement is not applicable in the country.

Direction of progress

- No change in performance since the last Validation.
- ← The country is performing **worse** than in the last Validation.
- The country is performing **better** than in the last Validation.

Corrective Actions

The following corrective action will be evaluated in accordance with the EITI Standard at the next meeting of the EITI Board:

1. The government should take further steps to ensure satisfactory progress with the requirements related to civil society engagement 1.3.b-d. Specifically, the government should in accordance with 2.2 of the civil society protocol, ensure that there is an enabling legal and operational environment for civil society substantively involved in the EITI process. Specifically, this should include legal and regulatory amendments eliminating:
 - i. The need for civil society to obtain an extract every two years confirming their registration.
 - ii. The need for civil society to register grants with the Ministry of Justice.
 - iii. The need for foreign donors to register individual grants with the authorities, and obtain an opinion on the purposefulness of the grant.

The following corrective actions will be assessed in a third Validation commencing on **26 July 2017**.

2. In accordance with 2.5 of the civil society protocol, ensure that there are opportunities for civil society to engage in debate on natural resource governance issues. The government should remove any barriers preventing civil society from arranging free and independent public events related to the EITI process, or engage in advocacy related to natural resource governance.
3. In accordance with 2.1 of the civil society protocol, ensure that civil society are able to engage in public debate related to the EITI process and express opinions about the EITI process without restraint, coercion or reprisal.
4. In accordance with requirement 1.4.a.ii, the civil society MSG members should demonstrate that they are operationally and in policy terms independent of government and companies.
5. In accordance with requirement 2.6.b, the government and SOE(s) should ensure that the level of government ownership in all oil, gas and mining licenses and contracts, including ownership held by SOE subsidiaries and joint ventures, and any changes in ownership during the financial year covered by the EITI Report, is disclosed in the 2015 EITI Report. This information should also include details regarding the terms attached to the equity stake, including the level of responsibility to cover expenses at the various phases of the project cycle. Where there have been changes in the level of government/SOE ownership during the EITI reporting period, the government and SOEs are expected to disclose the terms of the transaction, including details regarding valuation and revenues.
6. In accordance with requirement 6.2, the MSG should agree a definition of quasi-fiscal expenditures and a disclosure mechanism for ensuring full transparency in quasi-fiscal expenditures by any SOEs, SOE subsidiaries or joint ventures. The MSG should ensure that any quasi-fiscal expenditures are comprehensively disclosed in the 2015 EITI Report.
7. In accordance with requirement 7.1, the MSG should ensure that the EITI Report is presented to key audiences such as government, parliamentarians, civil society, companies and the media. The MSG is also encouraged to ensure that all stakeholders participate in dissemination activities.
8. In accordance with requirement 7.4, the annual progress report should include an assessment of the impact and outcomes of the implementation of the work plan objectives.

The MSG is encouraged to consider the other recommendations in the Validator's Report and the International Secretariat's initial assessment, and to document the MSG's responses to these recommendations in the next annual progress report.

This decision can be found online under: <https://eiti.org/validation/azerbaijan/2016>

The documentation on this Validation (Validation Report, MSG Comments and initial data collection) can be found here: <https://eiti.org/document/validation-azerbaijan-2016-documentation>