

**PUBLIC PARTICIPATION IN PROJECTS ON
FOREIGN DEBT AND
INTERNATIONAL FINANCIAL INSTITUTIONS**

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FINANCIAL INSTITUTIONS

Bank Monitoring Coalition

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ABBREVIATIONS

ACG	Azeri-Chirag-Gunashli
ADB	Asian Development Bank
EBRD	European Bank for Reconstruction and Development
PAAFE	Public Association for Assistance to Free Economy
SOFAR	State Oil Fund of Azerbaijan Republic
UAE	United Arab Emirates
IFI	International financial institutions
WB	World Bank
IDB	Islamic Development Bank
NBG	National Budget Group
LLC	Limited Liability Company
OWRPO	Oil Workers Rights Protection Organization
JICA	Japan International Cooperation Agency
SDR	Special Drawing Rights
PFMC	Public Finance Monitoring Center
NGO	Non-Governmental Organization
SFO	Special Facilitation Office

1. INTRODUCTION

Azerbaijani government has intensified loan taking process from IFIs in order to implement infrastructure and social projects during last 10 years. As oil revenues are increasing Azerbaijan has a better credit rating and uses it to take more loans. In the beginning of January 2012 Azerbaijani government has taken loans amounting to 10.495 million US dollars and 5.818 million US dollars of this amount was already spent¹.

Increasing financial resources and low loans to GDP ratio shows that this amount is not so high. On the contrary, many experts believe that foreign loans are beneficial for the macroeconomical development, as long-term loans are like “ambulances” for financing pressing projects. Azerbaijani government needs more funds in order to conclude important projects, and it seems that Azerbaijan is ready to take on more loans in order to continue financing these projects. However, considering the fact that 96% of the foreign loans Azerbaijan have taken are for the period of 10 years or more, repayment will take place during the period of diminishing oil revenues, so there is a possibility that these loans will be difficult to pay. It should be noted, that amount of loans is expected to increase in 2013-2013. Government forecasts that 1472.6 million AZN of foreign loan will be borrowed in 2002 and 1300 million AZN will be borrowed in 2013. Therefore foreign debt will increase past 8 billion US dollars mark by the beginning of 2014 and will account for 11.7% of the GDP.

Ranks of the foundations and banks that are loaning funds to Azerbaijan are also increasing. South Korea’s Shinhan Bank, Iranian Bank, Kazakhstan government is among donors.

It should be noted, that comprehensive monitoring of Azerbaijani foreign loan has never been implemented before. The reason for that is the fact that state agencies never disclosed reports on foreign loans. Public is also unaware of spheres, creditors and recipient of credits. Law on “Access to information” that came into force in 2005 somewhat helped civil society institutions to get information; however difficulties in implementation of the law created certain problems.

This report researched a few of the directions. These are the composition of spheres, donors, recipients of the loans, policies of IFIs and public participation in the projects.

¹Report on activity of Cabinet of Ministers of the Republic of Azerbaijan in 2011

2. FOREIGN DEBT OF AZERBAIJAN

As USSR collapsed in 1991, republics that gained independence began cooperating with IFIs. Azerbaijan started cooperating with the International Monetary Fund and World Bank in 1992 and took its first loan 2 years later. In the late 90s Azerbaijan increased cooperation with EBRD, the Asian Bank of Development and other international and regional financial institution. As a result, Azerbaijan was able to take loans for various projects in the last 15 years.

International loan obligations are impossible to implement without legal base, therefore Azerbaijan had to adopt various laws, in order to be considered loan recipient. Several adopted laws and normative-legal acts guarantees repayment of the loans Azerbaijan received from the IFIs. Approval of the loan and also guaranteed repayments of the loans are regulated by the several legislative acts:

- Constitution of the Republic of Azerbaijan;
- Law of the Republic of Azerbaijan on Loans;
- Law of the Republic of Azerbaijan on “Signing, implementation and repudiation of the international treaties signed by Azerbaijan”;
- Regulations on signing, implementation and repudiation of the international treaties signed by Azerbaijan;
- Presidential decrees on provision of financial and credit organization with a country office.

By January 1st, 2012 Azerbaijan signed credit treaties with IFIs and other donors amounting to 10.5 billion US dollars. It is a 1.6 billion US dollars or 17.7% increase in comparison with the previous year.

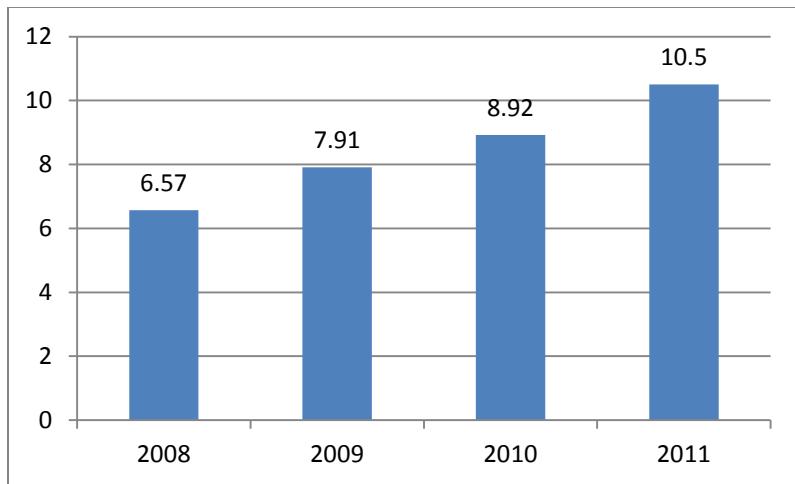


Diagram 1. Loan amount, billion USD

It should be noted that the majority of the credit contracts was signed after 2004. In the period between 2004 and 2011 Azerbaijani government signed 92 loan contracts with international and foreign financial institutions in order to finance 71 projects. These loans amounted to 9550 million AZN (Table 1).

Table 1. Loan projects signed by the government in 2004-2011 and their amounts

#	Loan Projects	Number of Loans	Amount Million USD	Final share %
1	Highways and roads	18	3500	36.66
2	Energy	10	2300	24.09
3	Improvement of the water supply and sewage systems	8	1066	11.17
4	Irrigation, Melioration and Agriculture	9	335.9	3.52
5	Social-cultural	12	354.2	3.71
6	Transport	5	1500	15.71
7	Economy and finance	7	261.9	2.74
8	Environment	2	227.9	2.39
Total		71	9545.9	100

5.8 billion US dollars from the signed contracts have already been spent and by January 1, 2012 Azerbaijan was in debt by 4817 million US dollars. The amount of external public debt per capita was 521.6 US dollars at that time. In 2011 external public debt to

GDP ratio was 7.6% which is by 1.7% less than it was in 2011. It should be noted, that increase in the foreign loan to GDP ratio is expected in 2012 and 2013. Government is planning to receive 1472.6 million AZN loan in 2012 and 1300 million AZN 2013, which will change foreign debt to GDP ratio to 10,2 in the beginning of 2013 and to 11,7 in the beginning of 2014.

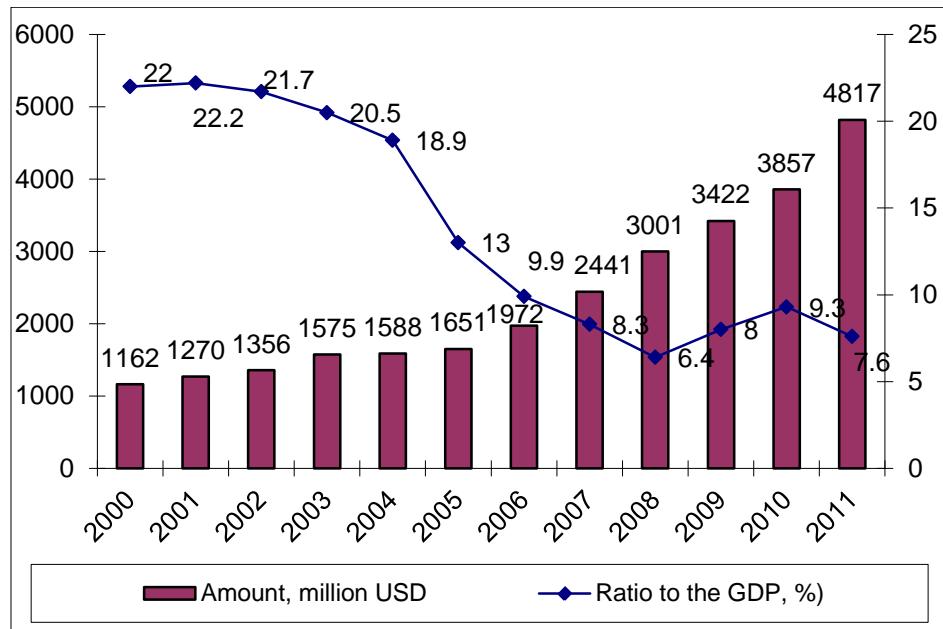


Diagram 2. Azerbaijan's foreign debt and its ratio to the GDP.

It should be noted, that there are discrepancies between statistics from Ministry of Finance and World Bank in the matter of foreign debt. On Diagram 3 this discrepancy is 314 million US dollars in 2008 and 35 million US dollars 2010. In 2009 difference between 2 statistics was even more distinct. These differences have a methodological nature. Loans that state companies has received upon state guarantee are different in two statistics due to the approach.

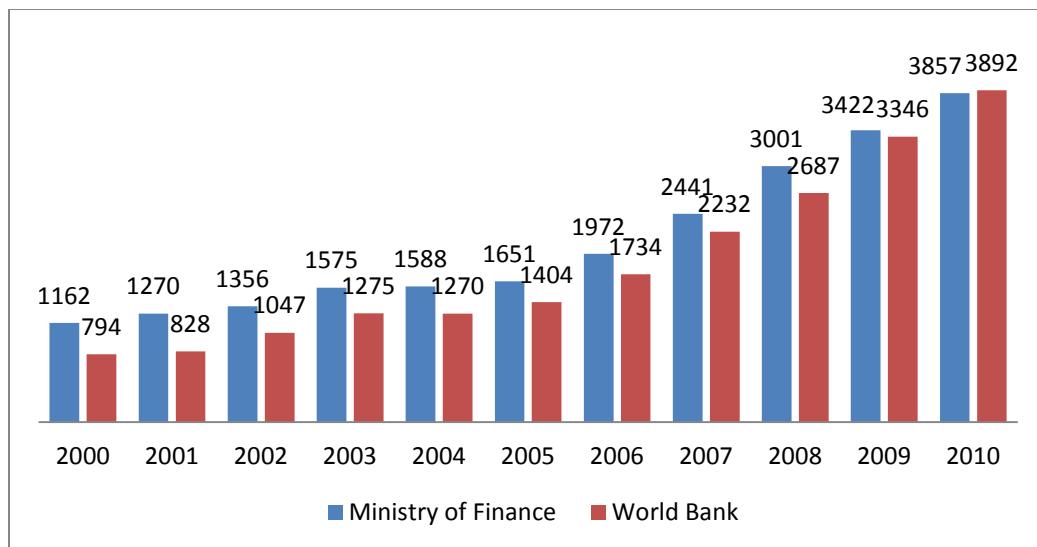


Diagram 3. Statistics from Ministry of Finance and World Bank on Azerbaijan's foreign state debt.

The main spheres these funds were spent are road-infrastructure and industry-energy which amount to 41.4% and 36.2% (Diagram 4). Agriculture amounted to 5.9% and social-culture projects only to 4.2%.

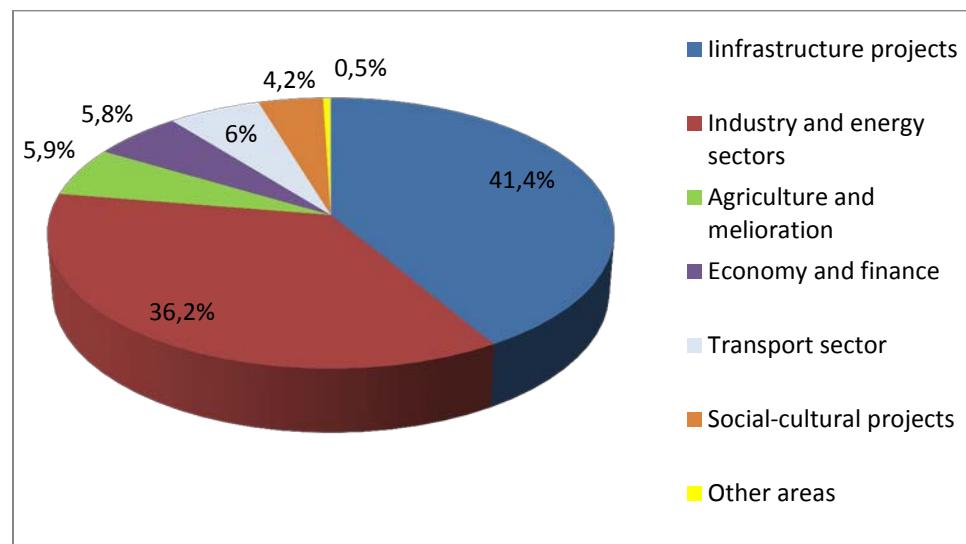


Diagram 4. Spheres foreign loan funds were used in, by January 1, 2012.

If we look upon donor shares in the signed loan contracts we will see this picture: World Bank- 29%, Japan International Cooperation Agency- 14%, EBRD- 12%, ADB- 10%, and Islamic

Development Bank- 7%. IMF that was one of the 2 main creditors for Azerbaijan up until 2004 now only has 5% share and considering the fact that government stopped taking loans from this organization, its share will only decrease in the coming years. As seen from the diagram 5, 20% of the signed loans are provided by other donors among which are Chinese government, Arabic foundations, Scotland Royal Bank, Export Import Bank of the United States and 20 other financial-loan institutions.

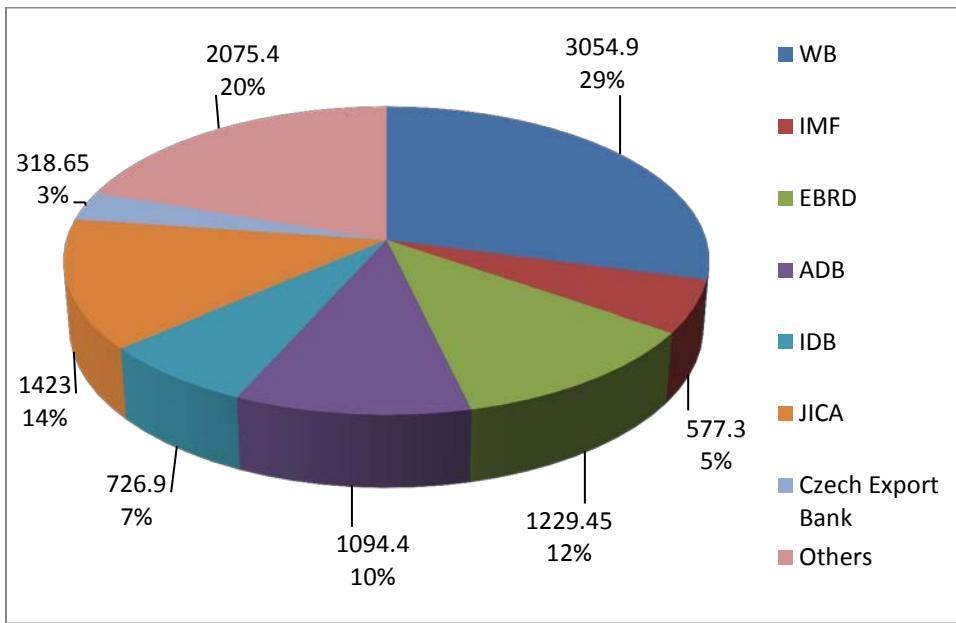


Diagram 5. Donor structure of the credit contracts signed by January 1, 2012, million US dollars.

Azerbaijan received most of its foreign loans in US dollars (35.9%), Euro (30.3%), Japanese Yen (11.9). Percentage of IMF's SDR is 19. Azerbaijan received 1.3% of its loans in Islamic Dinar, 0.8% in Saudi Riyals, 0.4% in Swiss Franc and 0.2% in UAE dirham.

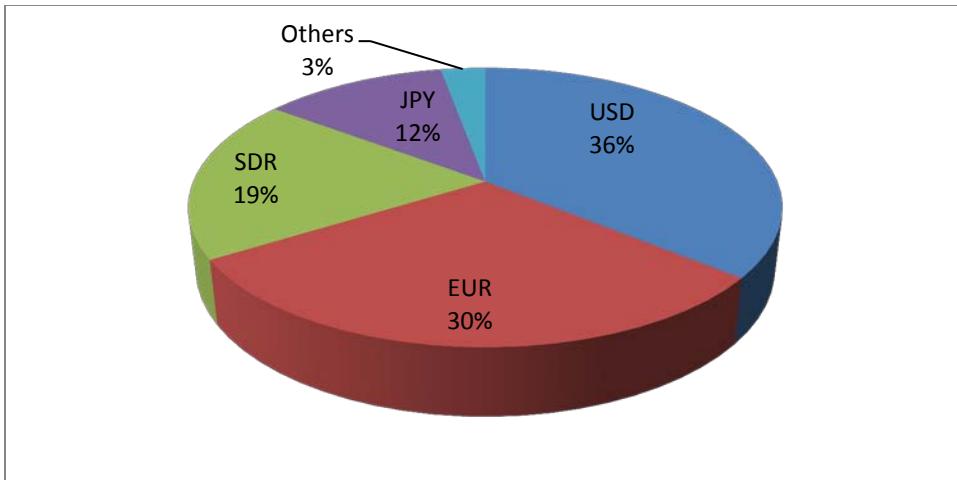


Diagram 6. Currency structure of the foreign debt, by January 1, 2012

Majority of the loans received by Azerbaijan are repaid through the revenues of the budget- 2.6 billion US dollars or 54.1% of the foreign loan. 24.3% or 1.2 billion US dollars are provided by the state guarantee, 21.7% or 1 billion US dollars are the loans received by the state, transferred to the executor of the project and shall be returned by the executor.

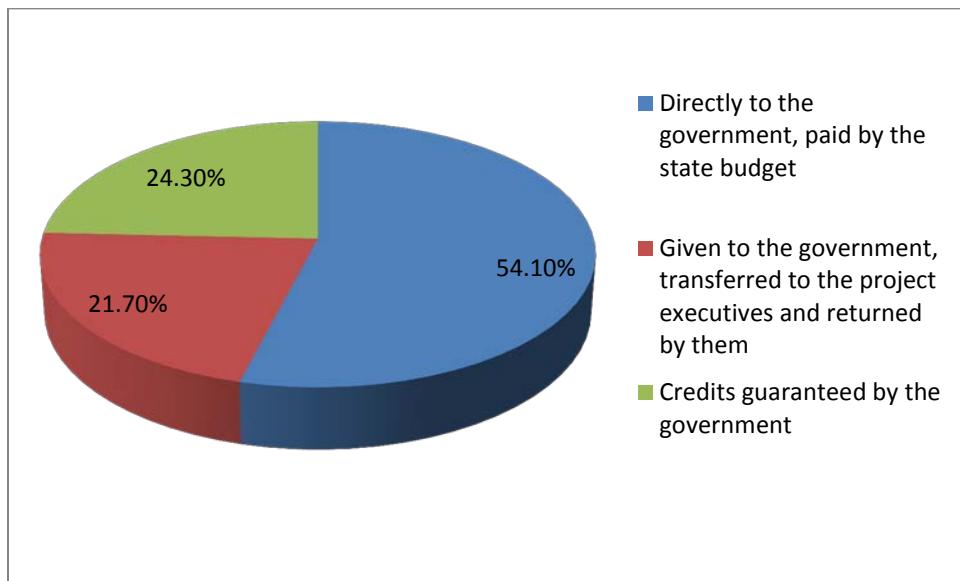


Diagram 7. Structure of the foreign loan by status.

3. AZERBAIJAN'S ABILITY TO REPAY FOREIGN DEBT

Through the income received from oil-gas companies Azerbaijan had increased currency reserves in recent years. On October 1st, 2012 strategic currency reserves of the country were 44698.9 US dollars- 33192.4 million US dollars in SOFAR actives², and 11506.5 million US dollars in Central Bank currency reserves³.

If we take current spending policy of the government into consideration, increase of the currency reserves are not expected. According to the 2013 budget SOFAR's expenditure will prevail over incomes by 1780.5 million AZN. This means, that in case price per barrel of raw oil in world market is below 100 US dollars, currency reserves will decrease.

According to the amendment made to the Law of the State Debt adopted on November 13th, 2007 "Security Fund for the loans received upon State guarantee" was established.⁴ By the decision number 84 of the Cabinet of Ministers adopted on April 10th, 2008, rules of management of this fund were implemented. This fund created within state budget has a function to pay for the loans guaranteed by the state, in case the recipient of the loan cannot pay.

In 2011 Azerbaijan spent 88057.6 thousand AZN to cover the foreign loan. 242500 thousand AZN were transferred to the Security Fund. In 2000s Azerbaijan had no problems with repaying the loans, especially in comparison with 90s, however rapid growth of the foreign debt and decrease in oil revenue does not exclude the possibility that Azerbaijan will face the loan repayment problems in future.

As seen on Diagram 8, 53% of loan contracts signed by October 1st, 2010 have a repayment period of 10 to 20 years, 42% 20 and more years. It means that in coming decades Azerbaijan should repay all loans that it received.

² http://www.oilfund.az/az_AZ/hesabatlar-ve-statistika/son-reqemler.asp

³ http://www.cbar.az/infoblcks/money_reserve_usd

⁴ http://e-qanun.az/files/framework/data/13/c_f_13680.htm

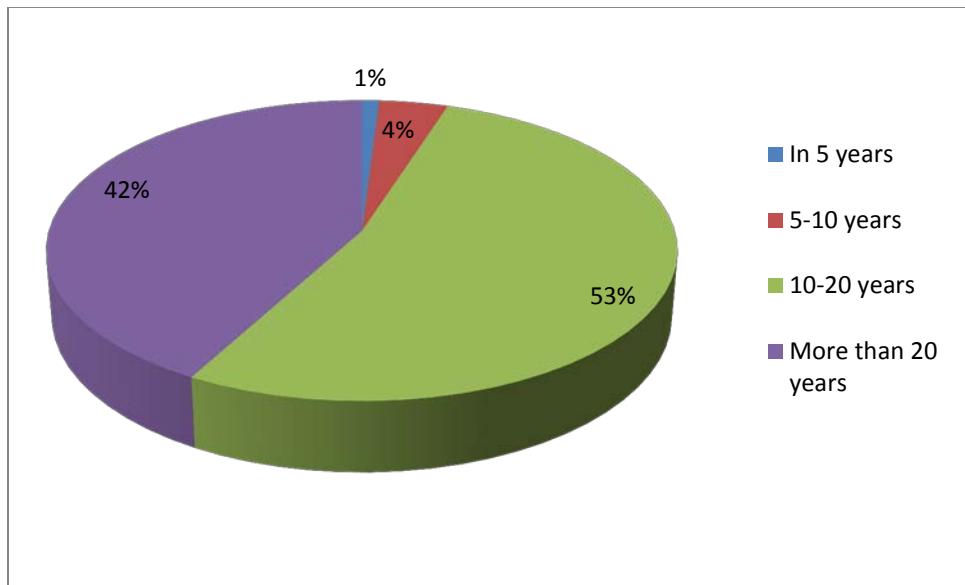


Diagram 8. Foreign debt structure according to the period of the loan repayment, in million US Dollars.

It is interesting that most of the repayment should be made during the decrease in the oil revenues. For example, according to the SOFAR prognosis, in 2015 revenues from ACG will begin to decrease⁵ (Diagram 9). On other hand, transfers to the budget from SOFAR are increasing yearly (5915 million AZN in 2010, 9 billion AZN in 2011, 9.9 billion AZN in 2012, 11.4 billion AZN in 2013 (prognosis), therefore there can be difficulties with repayment of the loans in the post-oil era.

⁵ SOFAR's letter marked dnf/1/mk-455 to the PAAFE as an answer to the information inquiry.

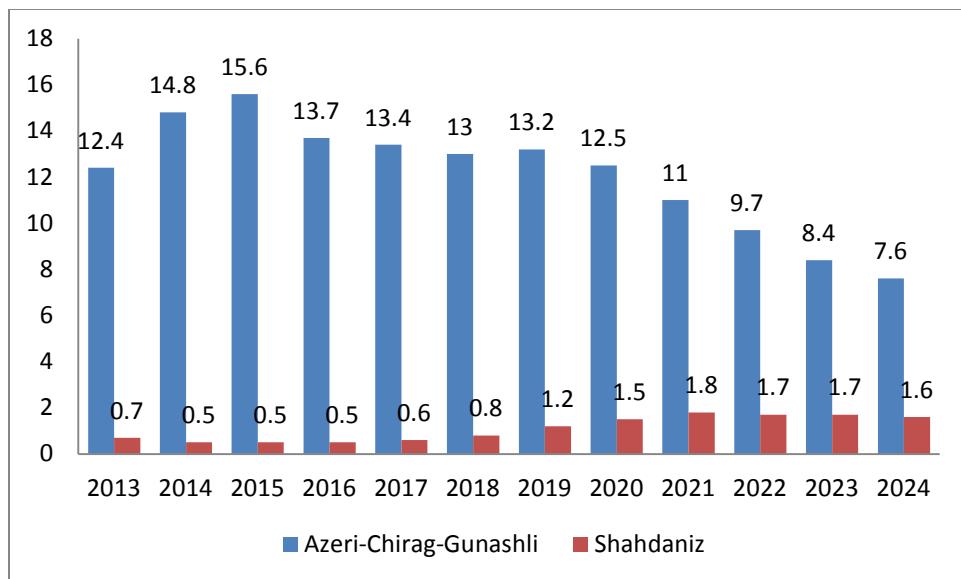


Diagram 9. Prognosis on income from ACG and Shahdeniz fields⁶, billion US dollars.

⁶ Barrel of raw oil is considered to be 80 US dollars

4. STRATEGIES OF THE INTERNATIONAL FINANCIAL INSTITUTIONS IN AZERBAIJAN

Azerbaijan's economical growth and need of the infrastructure rebuilding in 2000s created a favorable ground for the close cooperation with IFIs. Big oil revenues received by Azerbaijan, transformed country into desired partner for both IFIs and regional financial-credit institutions. IFIs renewed their strategies and priorities towards Azerbaijan in 2005.

World Bank strategy for the period between 2007 and 2010 is already concluded⁷ and strategy for 2010-2013 is in effect currently. New projects are implemented according to this strategy. WB is the biggest creditor of Azerbaijan and took part in numerous projects. WB concluded 34 project in Azerbaijan in 2011 and 21 projects are ongoing. As in the previous years, main priority of WB is to increase quality and transparency in the state management, improve private business sector, support of stable and balanced development of the non-oil sector, rebuilding of the water and sewerage systems, increase in the quality of the financial and social services sectors. WB is also interested in healthcare and social protection spheres. 2011-2014 strategy includes all of the above and also development of the railway transportation.⁸

On January 1, 2012 Azerbaijan and EBRD signed a contract and according to it EBRD is funding 9 state projects amounting to 1.1 billion Euros. 32% of banks portfolio is allocated in the energy sector. EBRD allocated 347 million Euros to the resource sectors of the economy. Bank also loaned 213 million euro to the "Azerenergy" joint-stock company. 13% of the current credit portfolio was allocated to the industry, commerce and agricultural business spheres. Bank also invested in 21 projects, including Garadag Cement to the amount of 167 million euro.⁹

EBRD's future strategy in Azerbaijan is as follows:

- EBRD will continue supporting its main partner in the energy sector "Azerenergy" joint-stock company. Also EBRD is intending to finance the construction of Black Sea Fiber optic Line from Georgia. EBRD will use funds

⁷ <http://www.worldbank.org/en/country/azerbaijan>

⁸ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/09/23/000334955_20100923012251/Rendered/PDF/562460CAS0P1191Official0use0Only161.pdf

⁹ <http://www.ebrd.com/pages/country/azerbaijan.shtml>

from European Union Neighborhood Investment Opportunity and is also ready to attract new donors in case it is needed.

- Bank is interested in reconstruction of “Baku Electric Network” JSC’s subterranean cable lines, substations and transformer systems. EBRD will be looking for funds to increase effectiveness of the gas distribution system.
- In infrastructure sector bank is interested in projects on Baku city transportation, solid waste, water and sewerage systems. Among prioritized projects is the funding of construction of the new naval port in Baku.

The Asian Development Bank is implementing its projects according to own renewed strategies and programs. Last renewal was adopted in 2006¹⁰. No country strategy was prepared afterwards, as ADB is leaning from strategies to business operational plans in their policies and business plans for 2011-2013 and 2012-2014 are already decided. Operational plan for 2011 is amounted to 340 million US dollars and will amount to 355 and 250 million dollars in 2012 and 2013. Loan plan of the government implies reconstruction of local and regional infrastructure, and regional scale projects.

In accordance to the program of 2006, ADB was eager to work in education, finance, social, agricultural, transportation, energy and urban services sectors. According to the new business plan,¹¹ ADB will continue crediting Azerbaijan for the next 3 years. In Azerbaijan public sector operations is one of the priorities for ADB. ADB’s Department of Private Sector Operations has already engaged in the research of transportation, logistics and investment in various sectors of finance. This is an incomplete list of public projects according to ADB strategy for 2020:

- **Transportation.** Development Program of Railway Network will continue for some time. This program was adopted by ADB’s Board of Directors in 2007 and first and second phases of the project are under way. Third phase was approved in 2011, fourth will be approved in 2013.
- **Energy.** Rebuilding of the energy sector is on agenda and in 2012 investment program on energy distribution will be adopted.

¹⁰ <http://www.adb.org/documents/azerbaijan-country-strategy-and-program-update-2006?ref=countries/azerbaijan/strategy>

¹¹ <http://www.adb.org/documents/azerbaijan-country-operations-business-plan-2012-2014?ref=countries/azerbaijan/strategy>

- **Water supply and sanitation, urban services.** This project was approved in 2009 and is currently in its second phase. Third phase of the project begin in 2013.
- **Thematic priorities and private business operations.** ADB is eager to help the government in the matter of climate change. Adaptation to the climate, investment possibilities, water resource and recycling management projects are considered.
- **Technical assistance.** ADB prepared a few technical assistance projects, among them 2014-2017 ADB-government cooperation policy.

Loan-investment priorities of the “Big 3” prove that these IFIs will be a major investor in economical project for a foreseeable future. Emergence of a monitoring-supervision scheme is an expected reality.

It should be noted, that only WB, EBRD and ADB give an access to the credit contracts and projects. Most of the documentation is published on their websites.

5. PUBLIC PARTICIPATION IN THE INTERNATIONAL CREDIT PROJECTS

IFIs have created control mechanisms in order to implement projects more efficiently. Inspection groups and instructions created to evaluate environment and property protection is method to protect human rights of citizens suffering from the project. IFIs began creating such control mechanisms in 90s. Damage to the environment and suffering of the citizens created a flow of complaints. Such conditions not only decreased efficiency of the projects, but created obstacles in transparency of the projects and in the end prolonged them. Despite the fact loan recipient country guarantees to return the funds, damage to the environment and violation of property is a serious blow to the IFI's reputation. IFIs are taking that into consideration and create responsibility mechanisms.

Inspection Panel of the World Bank is an independent communication scheme that can be used in cases when there are damages during WB projects. During the period of the project this inspection committee helps to appeal to WB's Board of Directors directly.¹²

There are three persons from different nations in this panel and they are elected for 5 years. Panel's main function is investigation of the facts: it is functioning independently to see if credit operations are undertaken in accordance with DB's policies and procedures. Inspection Panel's website and annual reports presents examinations and other activity undertaken by it. Supervisory Board's authority reaches all projects and programs financed by International Development Association and International Reconstruction and Development Bank. According to the Board's procedure any complaints should be presented personally, by person himself or by NGO on his behalf. Representatives of the international NGOs can also protect the plaintiff. Supervisory Board should provide anonymity to the plaintiff in order to protect him. There were no concerns regarding these procedures until 1993. WB and other IFIs began collecting resources and knowledge of the groups affected by the projects in order to make decision making process on the loans simpler. Two different approaches were adopted. First of them is institutional complaints mechanism. This case regards any group affected by the project implemented or funded by the bank. Second mechanism is focusing on bigger groups.

¹² <http://www.inspectionpanel.org>

Other than that WB have prepared Information Access Policy in 2011 and began publishing Open Statistics for the countries. At the same time WB's Open Statistics is accessible through internet and various mobile platforms¹³.

EBRD adopted very similar procedure. On 14 May, 2002 EBRD Board of Directors held a special meeting during which complaint mechanism for the local groups which were affected by the Bank's projects was created. It was noted that such mechanisms is important for the accountability and transparency.

In 1995 ADB created an independent Inspection Function to help appeal process from the groups affected by ADB's projects.¹⁴ After a broad summary in 2003, in 2010 ADB began creating Accountability mechanism on the basis of Inspection Function.¹⁵

In May 2010 during ADB Board meeting held in Tashkent, Uzbekistan, President of the bank declared Accountability Mechanism Board – Management Summary. This board was created in order to monitor the summary. 2 international consultants were added to the board in order to supervise the reporting process. This supervision is devised to take Bank experience and similar mechanisms into consideration to improve Accountability Mechanism.

It should be noted that in March of 2012 Accountability Mechanism Policy was fully adopted. This policy plays essential role in the appeal process of the bank. Through that ADB vastly improved Special Facilitation Office. This mechanism proved effective and also improved quality of the projects: groups affected by the implemented projects, decision makers and other influential groups, improvement in the skill and experience level of technical staff, effective monitoring, audit and evaluation of the ADB projects.

This document is full of positives. For the first time one of IFIs tries to institutionalize problem solving problems between private sector and state. Accountability Mechanisms have transparency, participation, reliability and affectivity as main criteria. It should be noted that

¹³<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTANDOPERATIONS/EXTINFODISCLOSURE/0,,menuPK:64864911~pagePK:4749265~piPK:4749256~theSitePK:5033734.00.html>

¹⁴<http://www.adb.org/documents/review-inspection-function-establishment-new-adb-accountability-mechanism>

¹⁵<http://www.adb.org/site/accountability-mechanism/overview>

most of the monitoring projects of Azerbaijani NGOs began in the second part of 2000s, after the credit projects began.

First monitoring of this kind had been undertaken in 2007 in the healthcare sphere. Healthcare project funded by WB, Azerbaijani government and USAID was monitored by the credit project's monitoring organization ***Public Finance Monitoring Center*** during its second phase.¹⁶ Main focus of this project is to build new hospitals in districts selected as pilots (Agdash, Qax, Shaki, Ismayilli and Absheron). One of the most important points was that donors were going to train staff on monitoring for a first time. Methodical publication was prepared. Afterwards monitoring group of the project travelled to Ismayilli and Shaki in order to meet local community, members of civil society institutions and representatives of the local administration. As project was on the healthcare meetings with representatives, doctors and medical staff of local healthcare institutions and hospitals were held. As it was noted, the main focus of this project was to learn opinion of the local community on experimental healthcare project which was conducted in the named districts. During the monitoring process, this project has not started yet, therefore there were no reactions or complaints on it. As focus of monitoring was on informing community on this project, objective was to learn the participation level of the target group. Gathered information proved that civil society has very little information on that project. Despite the fact donor organization allocated funds for informing stage of the project, no work was done in this regards by the end of the first year of the project. Conducted polls, observations and other monitoring methods proved that activity within the project was satisfying and this information has been sent to WB.

Despite pause in this work, monitoring of the projects continued. This activity was intensified with problems created by resettlement and damage to the environment and local communities began complaining. There are very few of this monitoring; however any results they achieve makes IFI more responsible towards the problem solution. In some situation NGOs presented their cases well enough and IFIs stopped implementations of the projects until complaints were solved. During the implementation of the credit projects difficulty in deciding compensation amount was one of the most popular complaints. Few of the IFI projects were surrounded with such problems and Azerbaijani NGOs have enough experience to solve them.

¹⁶ <http://az.trend.az/capital/business/911896.html>

Implementation of the arguable projects and their monitoring bears important problems. However evaluation of the environment and resettlement issues made number of NGOs more interested with the problem.

Oil Workers Rights Protection Organization was one of the first NGO's conducting monitoring of IFI projects. During 2010 this NGO evaluated Alat-Astara highway construction project which started in 2008 and was funded by WB (300 million US dollars). This highway is not only connecting Azerbaijan's southern regions, but connects them to Iranian transport corridor and is called North-South highway.¹⁷ According to the project 4 lane highway should be constructed, however the area of the project consists of cultivable land property. It was required to buy additional land from the owners in order to construct this highway. However owners considered compensation to be too small as proposed payment for one acre was less than the market price by 1800 AZN. Local administration didn't consult or negotiate with land owners and began pressuring them. Representatives of the local community decided to make a formal complaint and OWRPO contacted WB on their behalf. Experts and lawyers of the NGO were able to reach representatives of WB and changes were made in the compensation process. OWRPO used WB's policy papers to solve this matter. After negotiation, DB's Central and local offices new monitoring consultant was invited to the project and various changes in the compensation process have been made.

Criteria used in the building of Alat-Masalli highway are unique due to their characteristics. For instance during the monitoring it was proved that not only legislation was breached, but DB's policies were crossed out, there was a little control over implementation of the project and ecological problems took place during it. OWRPO gave its views to solve the problems among which were just welfare guarantees, replacement costs, income recovery and resettlement. After NGO's discussions with WB, decision was cancelled, new division was agreed upon and compensations paid. However, it wasn't possible to restore property rights of some citizens in Salyan district. Two of these families are still continuing to struggle for restoration of their right in courts.

¹⁷ http://www.nhmt-az.org/ts_general/download/hesabat_BMI_yanvar_2012.pdf

Public Association for Assistance to Free Economy has implemented a monitoring of 2 parts of “Reconstruction of East-West Highway” project. This project funded by ADB, IDB and Saudi Fund for Development was going to take into consideration Environment and Social Impact Evaluation to held tender and reconstruct Ganja circular highway (39 km) and Qazakh-Georgia border highway (38 km). Purchase of the property and resettlement of the citizens according to the Bank’s policy was part of the reconstruction process. Monitoring proved that local administration and community have no information on the project and took no participation in the decision making process. In some cases local law enforcement structures warned monitoring group to stop its meetings. Local Municipalities have no documentation on the compensation figure and no effort was undertaken in that regard. Local administration disregard of the complaints was very clear. Public participation was not made possible during this project.

Various problems were encountered during monitoring of construction of this portion of the road and meetings with the local community. Main problems were caused by Resettlement Plan adopted by ADB in 2007. This resettlement was planned to be conducted by Ministry of Transport and confirmed with local administration. In addition, “Resettlement and Effects of the Land Purchase” (2008) clearly states that any resettlement due to the project should be inspected before the project begins in accordance with Banks requirements. However, facts prove that calculations and inspections were not undertaken and no remedial actions took place. In this example we should note that PAAFE conducting monitoring in Aran village of Yevlakh district concluded that 30 families were resettled without a clear need for it and helped citizens appeal to the SFO of ADB.¹⁸ Complaints were posted on the banks site¹⁹ and SFO located in Manila send its representatives to the village and met with local community. Despite the fact SFO did not agree with complaint²⁰, no resettlement took place in Aran.

In some of the projects ecological evaluation took place. It happened during Masalli-Astara highway and Neftchala iodine-bromine factory building projects as damage to the environment was evaluated.

¹⁸ <http://www2.adb.org/documents/reports/consultation-accountability-mechanism/ospf-annual-report-2009.pdf>

¹⁹ <http://www.adb.org/sites/default/files/spf/AZE-EWHIP-complaint-letter.pdf>

²⁰ <http://www2.adb.org/Documents/Policies/Accountability-Mechanism-Review/revised-issues-paper-27-sept-2010.pdf>

Construction of “Azeryod” LLC in Neftchala was funded by EBRD and 15 million US dollars were allocated (total amount is 17 million US dollars). These funds were used to build iodine factory on 10 acres in Neftchala district, just 150-200 meters away from the Caspian shore. 200 meters away from the main building iodine-brome water-raw material reservoirs were created on 1 acres area. Chemical output of the iodine creation process, including chlorine gas, sulfur dioxide, iodine, acid, sulfuric acid etc are spreading to Mirqurabanllar, Gunashli and Soyudlu villages via air. Due to this iodine contamination is entering to water and soil, untreated water is discharged into Caspian Sea. In its summary OWRPO notes that they warned Ministry of Ecology and Natural Resources 3 times, but despite that no attempts to improve ecological situation were undertaken. That is why OWRPO appealed to the bank. Bank has held a discussion with representatives of OWRPO and local community. Project was moved to B category; however OWRPO considers that this category is inadequate for the project with such high level of environmental damage.²¹ Further monitoring of the ecological situation proved that there were no positive changes. Despite that EBRD and “Azeryod” LLC claim that ecological impact is limited.

Masalli-Astara highway that stretches for 59 km is another example of project with an environment monitoring. ADB funded the construction of 4 lane highway and took into consideration carbon emission prognosis in the years to come and how it will affect the environment. Eco-Renaissance Civil Union that was undertaking this monitoring came to a conclusion that carbon emission rate will increase and neighboring green forests can decrease as a result. It is expected that 328 7-65 year old trees will be chopped down in the area. However, ecologists of the union came to a conclusion that this won’t have a serious effect and ecological harm will be regenerated, as new trees will be planted along the way.

According to the results of concluded monitoring and international practice there aren’t vast possibilities or experience to monitor IFI activity in Azerbaijan, but any monitoring concluded during that time can be used in future. However NGOs should focus on purchase and fund management monitoring, gather more experience and knowledge in the environment evaluation and resettlement processes. Despite the fact that local administrations undertake some of these activities there is still a very serious need for public participation propaganda.

²¹ http://www.nhmt-az.org/ts_general/download/AzerYod_Zavod_Astana_2011.pdf

It should be noted, that there are countless obstacles for effective monitoring of IFI projects in Azerbaijan. The fact that state agencies do not present midterm and final reports to the public, difficult access to the information and civil participation is weak, NGOs lack needed technical and expert base to conduct monitoring and as getting access to IFIs reports is relatively difficult, monitoring process cannot be effective. Despite the fact, that Azerbaijani foreign loan now eclipses billions, no summary report was compiled up until now. At the same time, Ministry of Finance has not reported on different indicators (loan sectors, donors, state agencies, projects etc.) in violation of the Law on Access to Information.

RECOMMENDATIONS

1) *To Government Agencies:*

- Limitation of the Azerbaijani foreign debt, involving IFIs to the infrastructure projects, preparation of the long-term strategy in order to efficiently manage foreign debt;
- Preparation of the summary report on foreign state loans;
- Increase of the transparency during the use of the IFI loans, expansion of the public participation in the implemented projects;

2) *To the international financial institutions:*

- Consulting state agencies and state companies on transparency, accountability and public participation during loan contract signing processes;
- Publishing periodic and final reports of the state agencies and state companies on loan projects on their website;
- Holding consultations with civil society during the loan project preparation process;
- Sharing information on financed projects with the civil society and mass media;
- Expansion of practice of translation of policies and reports to the Azerbaijani;

3) *To Civil Society*

- Study of the policies and accountability mechanisms of IFIs, increasing attention to the knowledge and skills of project monitoring;
- Network building, involvement of new NGOs to the process, consolidation of the expert potential;
- Promotion and advocacy of civil participation in IFIs' projects.