



Center for Economic and Social Development (CESD)

Monitoring of Construction of Luxurious Office of Oil Fund in Azerbaijan

Prepared; by Center for Economic and Social Development (CESD), Azerbaijan
To; Partnership for Transparency Fund

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Brief Description of Applicant

The Center for Economic and Social Development (CESD) was established in 2005 to promote research on domestic economic and social issues to positively influence public policy decision-making process. The center has staffed by experienced economists and social work specialists (graduates of western universities), holds regular seminars, conferences and workshops on social and economic topics, exchanges research and papers with research institutions and local experts.

According to the University of Pennsylvania, CESD is the top Think Tank in Caucasus and Central Asia. The center ranked as 3rd position in top think tanks with annual operating budgets of less than 5 million USD in the world category. CESD is also among Best Think Tanks in Central and Eastern Europe (#15) meanwhile the center (#33) is one of top fifty think tanks – worldwide (<http://www.gotothinktank.com/wp-content/uploads/2012/01/2011-Global-Go-To-Think-Tanks-Report.pdf>).

The prestigious US university, Harvard University, has added the Center for Economic and Social Development (CESD) into its official think tank directory. The John F. Kennedy School of Government at Harvard University has released information about it. Moreover, the name of CESD has been posted on the university website: <http://www.hks.harvard.edu/library/research/guides/think-tanks-directory.htm>

CESD has implemented different research projects related to support anti-corruption initiatives in Azerbaijan. CESD papers are available at World Bank, IMF and other international organizations' web-sites. The Government of Azerbaijan approved more than 10 recommendations prepared by CESD in 2010. CESD produced 14 policy papers last year and almost all of them created huge public interest and discussions in Azerbaijan.

USAID cited the Center for Economic and Social Development (CESD), Azerbaijan in its NGO Sustainability Report. The report mentioned that the Center for Economic and Social Development (CESD) presented policy recommendations on the tax system, which the parliament approved in June. CESD experts drafted an anti-financial crisis concept and proposed it to the government. Some ministries have already applied policy recommendations from the concept paper. The CESD activities were stated in the advocacy part.

CESD improved international relations in 2010 as well. CESD joined the Task Force on Financial Integrity and Economic Development (<http://www.financialtaskforce.org/>) last year. The alliance is located in Washington D.C., USA. The Task Force on Financial Integrity and Economic Development addresses the inequalities in the global financial system that penalize billions of people, and advocates for greatly improved transparency and accountability. The opacity and complexity of our financial system is at the heart of the current financial crisis, and significantly impedes development. The Task Force efforts are integral to those of The Leading Group on innovative financing, comprised of more than 60 countries, to mobilize stable and predictable resources to supplement traditional development assistance. CESD is the only think tank from the Commonwealth Independent States (CIS) to become a Task Force member. CESD was also included in the Parliamentary Network on the World Bank (PNoWB) in 2010. CESD was considered as one of the leading research institutes in the region after ABCDE discussions in May 31-June 02, 2010 in Stockholm, Sweden.

The Center's vision is sustainable socio-economic development that reaches and involves all levels of society through institutional, regulatory and capacity improvement for best practices towards participatory and rational public decision making important for sustainable socio-economic development based on its strategy plan. We envisage CESD translating its potential into capacity for broadening and deepening the research and policy reform advocacy and outreach for greater and sustainable impact towards good governance, including gauging the

public interest and fostering the conditions for the public to participate in identifying, implementing and defending that interest. We see the Center's future as a more independent and financially sustainable think-tank providing research and dialogue between and within government and civil society. Our target is to also make CESD the largest and most effective source for data and the distribution of economic and social studies, conducting regular studies to update that base.

Successes

The CESD has been implementing 3 anti-corruption projects with funding from the PTF. Within the previous project, after taking the initiative to hold its government accountable with support of PTF, CESD has [exposed a \\$10.4 million dollar discrepancy](#) in government expenditures on the Baku-Tbilisi-Kars railroad project. While the railroad project will connect Azerbaijan, Georgia, and Turkey, creating one of Eurasia's largest transport hubs, it has cost over \$300 million more than the initial estimate. In an effort to promote transparency and accountability, CESD has worked with partners in Georgia and Turkey to monitor payments from the Azerbaijan government to construction companies. Although the Ministry of Transportation of the Azerbaijan Republic reported state expenditures of \$58.5 million, the State Oil Fund reported spending \$48.1 million. Through international government and non-profit collaboration, this discovery has prompted an investigation and initiated measures to return funds to the Azerbaijan state budget. More information is available at <http://ptfund.org/millions-recovered-azerbaijan/> or <http://pasos.org/6354/cesd-report-sparks-probe-into-missing-millions/>

In the first project, The investigation done by the CESD into the use of SOFAZ's oil revenues led to the discovery and the return of US\$50 million in stolen assets to the Azerbaijan government's budget. Perhaps more important than the recovery of the money, CESD's work sparked a public debate on ways to enhance the public accountability of the state oil fund, which now handles several billion dollars of oil revenues each year.

CESD and other allied CSOs pushed for and achieved a law that requires SOFAZ to publish its audited financial statements and to make its budget information public. The CSOs have also won NGO representation to the board that selects SOFAZ's external auditor. Finally, the use and misuse of oil funds has become part of the public conversation—a common topic on TV talk shows and in newspaper editorials. CESD has helped to end the presumption of secrecy in the management of the state's oil revenues.

Within the second project funded by the PTF, State Procurement Agency of Azerbaijan Republic applied news registration system based on CESD recommendations developed within

“Monitoring of Oil Tenders” Project. New system allows companies to register State Procurement Agency web-site and apply to on-going tenders on-line.

Purpose

Overall purpose of the project is to increase public control on usage of oil revenues in state infrastructure programs in Azerbaijan. The aim of the project is at saving money by fighting corruption in the luxury office construction of the Oil Fund (i) and raising awareness of corruption with the hope of impacting future oil money spending on state investment projects by establishing monitoring group under EITI NGO Coalition where more than 160 civil society organizations involved (ii).

Monitoring of construction of the office of Oil Fund in Azerbaijan results and methodology used within the project are also expected to be applied in monitoring of other state infrastructure/construction projects by even other Civil Society Organizations since more than \$ 5 billion will be allocated to investment projects by Azeri State Budget only in 2012.

The Project Statement

The State Oil Fund Azerbaijan (SOFAZ) has launched the construction of its new office building. According to the results of competitive tender held to determine the company's general contractor, "NV Besix SA", a Belgian construction company will implement the project at a price of EUR 84,916 million. The contract has already been signed between the parties, and the construction of the new administrative center (a 23-storey, 117-meter-high building with a total area of 13 thousand square meters) will be realized in Baku, throughout the Heydar Aliyev Avenue.

The provisions of the State Procurement Law related to the public announcement of projects have been already violated, i.e., the project tender announcement has not been followed.

Ensuring fair competition during tenders held on public procurement is one of the main responsibilities of the state agency. However, the call for participation in the tender tender, , as well as the information about goods and services, haven't been provided properly. Particularly, the NV Besix SA's tender winners, names of the bidders who participated in the tender, and information about their proposals, haven't been publicly disclosed.

The Heydar Aliyev Museum, which will consist of a 200-seat conference hall in the 17 thousand square meter area that will also include a two-storey parking space with the capacity of 150 cars, are planned to be constructed. The cost of the whole 17 thousand square meter-building will approximately total AZN 88 million (\$ 112,8 million).

Although the project has been recently launched, certain CESD observations reflect that it has fallen short of exercising a proper level of transparency of expenditures, an enduring pattern also observed in the previous construction projects funded by the SOFAZ. To name a few, the construction of 1 square meter of the building will cost 5176,0 AZN (\$ 6635,8) . In contrast, current construction companies' charge for 1 square meter of the newly constructed buildings in most expensive areas of Baku is much lower than 1500 AZN (\$ 1923,1)

In addition, the CESD finds out that whereas the Fund's total number of employees is only 110, it, is absurd from an economical point of view to spend 84,916 million AZN (\$ 110 million) for the construction of a building which will serve as an office for people working (implying that the government spends 1 million USD per employee

However, during the major renovation of "Nizami" cinema building in Baku, 20 Bul-Bul avenue, the project funded by SOFAZ in 2002, the information on tender, bids and offers were made publicly available.

One of the issues devoid of further clarification regarding the new building's construction is the foundation ceremony that was held on December 29, 2009. After the foundation ceremony that was attended by the head of the state, the construction of the building was suspended. Moreover, an official statement about the reasons for the suspension was not provided, and in the meantime, the management consultancy of the project established by France's Inter "Art Etudes" was transferred to the U.S. "AECOM" company.

The French company's services were paid AZN 14 million (\$ 18,0 million), notwithstanding that no tender had been announced. To complicate the issue further, in 2010 additional AZN 25 mln (\$ 32,1 million) were allocated from the state budget for the building's construction that was actually not carried out. Whether the amount allocated has already been appropriated or not has not been made transparent yet.

Next two years passed with no serious improvements on the construction of the office building however after the president decreed on July 4, 2011 that the construction of administrative building of SOFAZ be carried out under accelerated focus the construction was initiated again.. Shortly thereafter the SOF announced about the re-start of the project, and this was publicly disclosed .

Furthermore, the SOF also stated that 70 million AZN (\$ 89,8) had initially been planned to be allocated to the new construction however the sum have later been increased. Last but not least, the tender on the selection of the contractor for the construction of the SOF building was announced on 23 November2011, whereas the tender results were announced on 23 December2011.

The Project Activities

Below is the chronological list of activities and relevant outputs:

1. Establishing of Monitoring Group of State Investment Programs under Leadership Extractive Industry Transparency Initiative (EITI) NGO Coalition where CESD Chairman served as Board Member (<http://www.eiti-az.org/en/>);
2. Preparing and signing of an ethic code of with SOFAZ in order to have access to necessary information on SOFAZ funded projects including construction of luxury office of Oil Fund;
3. Establishing of Multilateral Working Group (MWG) with participation of CSOs, SOFAZ and construction companies representatives in order to jointly monitor construction of Oil Fund office.
4. Monitoring of construction of the luxury office of the Fund will be monitored and studied in Azerbaijan;
5. Case study on the construction will be prepared and distributed. The analysis and case study will also be posted on CESD website;
6. Advocacy will be conducted for decreasing corruption risks in the office construction. Analysis of stakeholders will be conducted and strategy will be developed to mobilize them and make them interested and involved;
7. Visiting advocacy companies' headquarters in order to hold meetings with heads of those companies;

8. Roundtable discussions will be organized with participation of representatives of government bodies, oil companies, international organizations, NGOs, mass-media and independent experts. This will give chance to all representatives of the society to participate, contribute to the process;
9. Media-campaign will be organized through broadcasting to increase awareness on findings. Articles and bulletins will be published in CESD website and leading newspapers. Conference will be organized with a follow-up press-release distribution;
10. Final report will be prepared and distributed among government institutes, international organizations, researchers, NGOs, mass-media, universities, libraries and etc. The electronic form of the report will be posted in the CESD website.

Methodology

We are planning to review documents related to prices of services/or materials used in the construction since overestimation of prices is one of main factors in misusing of public moneys. We would like to review tender documents particularly offer done by winner company and interview other companies participated in the tender in order to have clear picture on tender offers. Deep interviews will be made by CESD in all participating countries.

CESD has contacted the construction companies and government agencies and our experts will be allowed to monitor the construction and obtain copies of financial documents. We will also use our personal contacts in all 3 countries' governments and parliaments. The center has never faced problems obtaining data since our monitoring group uses different methods to do it.

Desk research and individual interviews using semi-structured questionnaires will be the main approaches in developing the report. Focus group discussions using the mini-group approach and in-depth interviews using semi-structured questionnaires will be conducted amongst relevant representatives of different stakeholders. The rational for using this method amongst this segment will be in consideration of the tight schedules of the proposed respondents.

The project will be implemented within 7 month. CESD (the applicant) has a broad experience in research and programs in good governance, including oil revenue management and public accountability issues, and has developed an effective network of mass media and local and international NGO focusing in transparency in public expenditures. We intend to capitalize on this expertise and employ existing skills and knowledge of national and local mass media and

NGOs to ensure quality project implementation. The following staff will be involved to the project implementation:

Timeline

The project is supposed to be implemented for 7 months. Within the previously implemented projects, the CESD (applicant) has already identified a network of mass media and NGO specializing in budget transparency issue. This network has already gone through series of training and workshop on various general issues related to transparency of national and local budget. We intend to capitalize on this expertise and employ existing skills and knowledge of national and local mass media and NGOs to ensure quality project implementation.

Project Coordinator will be responsible for all activities planned within the project. He/she will be heavily involved into linking and networking with civil society institutions, in particular mass media and NGO, in Baku.

Project Assistant will assist the Project Coordinator in organizing workshops, training and other project events.

Finance Manager will work closely with CESD Finance Officer to ensure that all monthly interim and annual financial reports are relevant to ESP reporting requirements

Experts will be engaged to monitoring, research, survey summarizing and policy recommendation development process.

VIII. Monitoring and Project Reporting

Since concrete activities and events are scheduled in each stage of the project, at the end of each stage real results will be compared expected ones and reason of dissimilarities will be discussed. All activities and events will be separated based on time-table and activities plan and internal monitoring will be held in order to compare realized activities with the plan. This will help us to find out differences in time-table and to solve such problems.

All activities will be responsibility of concrete persons (employees) and time-table and activities plan will be worked out for each of them and variables will be settled on for assessing the results of each activity. Such a durable monitoring will make clear picture that how each employee meets his/her duties and in general how the project is going on.

In order to assess recommendations and suggestions obtained in the result of researches in each stage, they will be submitted to experts and specialists and public discussion on this issue will be held and feedbacks will be collected.

The project will be periodically evaluated and interim and final reports will be prepared based on this assessment. Programs will be characterized as financial and program. Program reports will be submitted to donor organization and CESD Board and will be posted on the center's website.

Financial reports will be submitted to both donor organization and CESD Control and Inspection Commission and as well as tax administration.

14. February 2012