

The Empty Bucket of the State Oil Fund of Azerbaijan: Profits and Profiteering

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Recommendations

Based on analysis of the information, this report recommends implementing changes that would improve transparency of oil revenues, reduce waste and corruption, and ensure the intergenerational equality of hydrocarbon profits. These changes include:

1. Increasing public and parliamentary oversight of the state budget by publicizing information about SOFAZ's activities and lifting restrictions on independent civil society and free media.
2. Improving the country's political reputation, especially ratings in international corruption perception indices and other human rights indicators by lifting restrictions on independent civil society and independent media, and promoting independence of the judiciary.
3. Ensuring legal protection for whistleblowers fighting corruption through adoption of legislation, including in the Competition Code, to prevent conflicts of interests.
4. Requiring civil servants to declare family revenues and property assets.
5. Including representation by independent civil society organizations on the Supervisory Board of the Oil Fund to promote public participation and more effectively fight corruption.
6. Compliance by SOFAZ with its founding goal of saving money and directing it to long-term development instead of spending the funds as a priority.

7. The Fund should follow fiscal provisions to reduce transfers from SOFAZ to the state budget.

8. With regard to SOFAZ's real estate portfolio, SOFAZ should implement clear and transparent policies, including:
 - a. Providing public access to information on subsidiary involved in managing SOFAZ real estate assets. Managing investments through affiliated subsidiaries companies reduces the direct liability and accountability of the Fund and creates possible tax deductions that do not benefit the budget;
 - b. SOFAZ should publish lease agreements on property management;
 - c. SOFAZ should withdraw its investment from the Russian real estate market and VTB Bank due to low profitability and losses;
 - d. Developing regulatory and accountability mechanisms to manage SOFAZ real estate investments.

9. SOFAZ should increase the transparency of its investment portfolio by exposing the source revenues in greater detail on an annual basis.

10. SOFAZ should publish timely and detailed information on the management of assets in its investment portfolio. This information would help increase the awareness of ordinary Azerbaijani citizens about oil and gas revenues and assets management.

11. To improve the effectiveness of the Law on Access to Information, an Information Ombudsman should be established, as envisioned in the transition VII provisions of the last chapter of the Law of the Republic of Azerbaijan on Access to Information.

12. The Laws on Commercial Secrets, Tax Code, Criminal Code, and other normative legal acts, which define regulations protecting commercial secrets, should require access to information about beneficial ownerships of commercial companies.

13. Effective fiscal regulations should be enforced in order to improve the balance between budget expenditures and oil revenues; and, ultimately, to decrease the country's dependency on oil revenues and to increase its economic stability and resistance to external shocks.

14. SOFAZ should stop directly financing public projects: all appropriations should be directed through the normal budgetary process and approved by parliament.

15. All existing public investment projects should be subject to public and competitive tendering; auditing of financial-budgetary examination should be conducted by the Chamber of Accounts, and civil society organizations.

16. The Chamber of Accounts should prepare recommendations on financial operations of the Oil Fund, and those recommendations should be discussed at the Parliament.

17. To improve efficiency of the budget process, the Government of Azerbaijan should consider:

- a. Proportional limits on resource revenue items;
- b. Limits on the non-oil budget deficit;
- c. Complete budget disclosure and justification of individual expenditures of all items not involving national security.

18. High cost public investment projects must:

- a. Appraise all projects with a cost-benefit analysis that includes social and environmental costs and benefits, not just financial costs and benefits;
- b. Prioritize projects that will have the largest development impact as measured by a sustainable rise in incomes and standard of living;
- c. Monitor the construction of all projects to ensure quality delivery on cost and on time;
- d. Budget for operations and maintenance of investment projects;

e. All of these documents and budgets should be made public on government websites.