



**European Bank**  
for Reconstruction and Development

27 July 2015

Dear representatives of:

1. Article 19
2. Both ENDS
3. CEE Bankwatch Network
4. Committee to Protect Journalists
5. Counter Balance
6. Friends of the Earth, US
7. FOCUS—Association for Sustainable Development
8. Index on Censorship
9. International Federation for Human Rights (FIDH)
10. ODG
11. PEN
12. People in Need
13. Platform
14. Polish Green Network
15. Re:common
16. Urgewald
17. World Organisation Against Torture (OMCT)

Thank you for your letter to EBRD President Suma Chakrabarti dated 20 July where you express your concerns and opposition to the EBRD's potential loan to Lukoil for the Shah Deniz II offshore gas project in Azerbaijan. The President has asked me to respond on his behalf.

Please be advised that the Bank approved the financing for this project during the meeting of its Board Directors on 22 July. Please note that management had shared your letter together with this response with the Board Directors on 21 July in advance of the EBRD Board meeting.

In relation to your concerns about human rights and democratic structures in Azerbaijan, I ensure you that the management monitors the human rights situation in its countries of operations and informs the Board on a regular basis, which is considered to be essential for our work. The EBRD is a long-term investor and partner in the countries where it invests. Our experience tells us that remaining engaged, conducting quiet diplomacy when necessary, working closely with other institutions with common goals and values and promoting the development of a dynamic and productive private sector is the best way to enhance the transition to a transparent sustainable private sector.

Please note that in terms of compliance with Article 1 a complete assessment of the direction of change against 14 separate criteria is conducted at the time of each country strategy. The Bank included a detailed assessment in the Strategy for Azerbaijan (Annex 1 – Political



Assessment) issued on 9 May 2014. The Strategy acknowledges many CSO issues including concerns regarding human rights in general and the situation of civil society and freedom of press in particular.

In relation to the Lukoil Shah Deniz Stage II project, the Bank has maintained an ongoing dialogue with CSOs to ensure that all concerns about the project are adequately addressed during the process of consideration of the Bank's potential participation in the financing of the project. For example, CSOs discussed their concerns with the Board of Directors both during a meeting in HQ in February 2015 and at the Annual Meeting in Tbilisi in May 2015 where CSOs also met with the EBRD President and senior management in relation to this project.

It is also important to bear in mind that this is a private sector project for which investments were launched in 2014 and the Bank is financing Lukoil's 10% share in the project. The ability of EBRD to influence the Azerbaijani government through this project is therefore limited. Nevertheless, the Bank including through its Regional Office remains in a constant dialogue with the Azerbaijan Government on the role of CSOs.

With regards to the concerns you expressed related to transparency issues, including Azerbaijan's compliance with the Extractive Industry Transparency Initiative (EITI), the EBRD President raised the issue of the country's EITI downgrade with President Aliyev in his meeting in Baku in May 2015 and offered the Bank's assistance in regaining fully compliant country status. The Azeri government appears to be following the EITI Board's requests to reaffirm its commitment to work with CSOs and ensure an enabling participative environment related to the EITI process. As confirmed by the head of EITI Secretariat within SOFAZ (State Oil Fund of Azerbaijan), SOFAZ has put in place a "remedial action" plan to re-qualify which includes an extensive public consultation process and training of the coalition NGO responsible for monitoring the transparency of revenue flows. This has been done with the support of the World Bank. The country has now until April 2016 to become compliant with the revised EITI Standard 2013. The Bank including through its Regional Office is in regular contact with the Azerbaijan Government, the Azerbaijan EITI secretariat, SOFAZ and with the EITI Secretariat in Oslo.

In relation to the Lukoil Shah Deniz Stage II project itself, the Shah Deniz consortium is EITI compliant. Also, BP serves as an alternate international Board member of EITI and has played an active role in local EITI processes in several countries, including Azerbaijan. Moreover, Lukoil continues to report to EITI standards in Azerbaijan and to adhere to the EITI principles as confirmed by the company and reported on the EITI website. In addition, compliance with EITI is covenanted in EBRD's previous loan agreements with Lukoil and will be included in the new loan agreement.

Regarding economic diversification in Azerbaijan, as you may know, in the last three years EBRD signed 54 projects in Azerbaijan, only one of which was a sovereign loan facility with the government of Azerbaijan for the development of regional roads. The majority of the Bank's work is with the private sector and EBRD goes to a great deal of effort and expense to ensure that the Bank is not working with Politically Exposed Persons (PEPs).



I hope this adequately addresses your main concerns. Please rest assured that, as with all other investment projects, the Bank is committed to continue the engagement with civil society and other relevant stakeholders in relation to the Lukoil Shah Deniz Stage II project going forward both in Azerbaijan and internationally.

Yours faithfully

A handwritten signature in black ink, appearing to read 'BRK-2'.

**Biljana Radonjic Ker-Lindsay**  
Head, Civil Society Engagement Unit