



**Economic Research Center**

## **ASSESSMENT**

**of transparency and accountability of budget expenditures for restoration  
and construction in 2021 in the liberated territories**

*This report was prepared by an expert group of the Economic Research Center  
under the leadership of economist-professor Gubad Ibadoglu*

Baku – May, 2022

## **Table of Contents**

<b>Summary .....</b>	<b>3</b>
1. Legal bases of rules of allocation and management of investment budget funds .....	<b>4</b>
2. Analysis of the situation with the transfer of state orders for the distribution of budget funds to the executor and identification of implementing companies .....	<b>6</b>
3. Analysis of funds allocated for construction and installation work in the liberated territories .....	<b>9</b>
3.1. <i>By regions</i> .....	<b>9</b>
3.2. <i>By sectors</i> .....	<b>13</b>
3.2.1. <i>Transport sector</i> .....	<b>13</b>
3.2.2. <i>Energy sector</i> .....	<b>17</b>
3.2.3. <i>Town-building</i> .....	<b>21</b>
<b>Conclusions .....</b>	<b>23</b>

## **ACRONYMS**

**ASAH** - Azerbaijan State Agency of Highways

**CM** - Cabinet of Ministers

**CJSC** - Closed Joint Stock Company

**OJSC** - Open Joint Stock Company

**MoA** - Ministry of Agriculture

**LLC**- Limited Liability Company

**NGO** - Non-governmental organization

**SSC** - State Statistics Committee

**USA** - United States of America

**Keywords:** Karabakh, construction and restoration, liberated territories, highways, energy, urban planning

## Summary

The state budget for 2021<sup>1</sup> projected 2.2 billion manats for the reconstruction and restoration of the liberated territories, which accounted for 44% of the planned investment expenditures and 7.7% of the total budget expenditures for that year. According to the report<sup>2</sup> of the Cabinet of Ministers for 2021, 99% of the funds allocated from the state budget for 2021 for the reconstruction and restoration of the liberated territories have been executed, and thus 2 billion 178.4 million manats have been spent on the restoration of the territories.

No information was found in open government sources on how the 2.2 billion manats allocated under the name of reconstruction and restoration of the liberated territories have been distributed. The Executive Office of the President, the Cabinet of Ministers, the Ministry of Finance, and other relevant government agencies do not respond to information requests without giving any reason. The purpose of this study is to determine how the allocated funds have been distributed by districts, and projects, as well as how the contractors and subcontractors involved in the implementation of projects have been selected, to assess the compliance of the selection of these companies with the requirements of the Law of the Republic of Azerbaijan on Public Procurement, and to identify the ownership of companies and their affiliation with the political elite.

Since the report on the execution of the budget for 2021 and the opinion of the Chamber of Accounts have not yet been made public, the study used information from the Law<sup>3</sup> of the Republic of Azerbaijan on Execution of the State Budget of the Republic of Azerbaijan for 2020 and the opinion<sup>4</sup> of the Chamber of Accounts of the Republic of Azerbaijan on the annual report on the execution of the state budget of the Republic of Azerbaijan for 2020.

---

<sup>1</sup> Law of the Republic of Azerbaijan on the State Budget of the Republic of Azerbaijan for 2021, <http://www.e-qanun.az/framework/46590>

<sup>2</sup> Report of the Prime Minister of the Republic of Azerbaijan, Ali Asadov, on the activities of the Cabinet of Ministers in 2021, March 15, 2022 - 20:00, Speech by Prime Minister, Ali Asadov, <https://nk.gov.az/az/article/2072/print/>

<sup>3</sup> <http://www.maliyye.gov.az/scripts/pdfs/web/viewer.html?file=/uploads/static-pages/files/60daca9478ccb.pdf>

<sup>4</sup> [https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20\(3\)-188749903.pdf](https://sai.gov.az/files/2020-%C4%B0cra-R%C9%99y%20(3)-188749903.pdf)

## 1. Legal bases of rules of allocation and management of investment budget funds

The question of where, how, how much, and by which companies the 2.2 billion manats allocated from the state budget for 2021 for the restoration and reconstruction of the liberated territories were spent, as well as on what basis the executive companies were selected, still remains open. These questions were also left unanswered in the government's report<sup>5</sup> submitted to the spring session of the parliament on March 15 this year. Most likely, the report on the execution of the state budget for 2021 and the opinion prepared by the Chamber of Accounts will not answer these questions.

In this report, we try to find answers to these questions based on limited information. First, let's look at the important points that are not taken into account in the process of preparing the budget for the coming years and affect the budget process. First of all, it should be noted that the funds allocated in the budget documents under the heading "Reconstruction and restoration of the liberated territories" are included in the "urban planning and construction" expenditures. So, by the Order<sup>6</sup> of the Prime Minister on the preparation of the draft state budget, as well as the concept of economic and social development of the country and medium-term forecasts, relevant central and local executive authorities and other state bodies of the Republic of Azerbaijan shall submit proposals to the Ministry of Economy and the Ministry of Finance of the Republic of Azerbaijan on the funds required for the restoration and reconstruction of sectors and areas in the liberated territories by March 1.

Thereafter, according to the Rules<sup>7</sup> for Compilation, Execution, Monitoring, and Evaluation of the State Investment Program of the Republic of Azerbaijan approved by the Decree of the President of the Republic of Azerbaijan No. 239 dated March 17, 2010, the Ministry of Finance shall submit to the Ministry of Economy the initial amount of public investment expenditures in the state budget for each subsequent budget year and the next three years by March 31 and the adjusted amount by July 20. The Ministry of Economy, in turn, shall develop a State Investment Program for the next year and submit it to the Cabinet of Ministers on the basis of the amount provided. Then, in accordance with Article 11 of the Law<sup>8</sup> of the Republic of Azerbaijan on Budget System entitled "Process of drafting the state budget and budget calendar", it is submitted to the Cabinet of Ministers and the Chamber of

---

<sup>5</sup> <https://www.azerbaijan-news.az/az/posts/detail/milli-meclisde-nazirler-kabinetinin-2021-ci-ilde-fealiyyetine-dair-hesabati-dinlenilib-yenilenib-1-1647345630>

<sup>6</sup> <https://nk.gov.az/az/document/5912/>

<sup>7</sup> <http://www.e-qanun.az/framework/19404>

<sup>8</sup> <http://www.e-qanun.az/framework/1126>

Accounts of the Republic of Azerbaijan by September 15, and to the President of the Republic of Azerbaijan by September 25. According to Article 12 of the Law entitled "Documents prepared and submitted together with the draft state budget", in accordance with the draft state budget and consolidated budget for the next year, as well as the consolidated budget for the next three years, the draft State Investment Program, which includes the total amount of investment projects by areas and directions, is submitted to parliament by October 15. As stated in the law, this document reflects the total amount of investment projects by areas and directions. As with other expenditure items, the functional, economic, and administrative classification of investment allocations is not defined in the documents submitted to parliament. Thus, members of parliament are even unaware of the investment expenditures, as well as the distribution of funds for the reconstruction of the liberated territories by projects, the deputies can see only the total amount of investment expenditures in the draft budget.

Thus, where and how much of the 2.2 billion manats approved by the Milli Majlis within the budget for 2021 would be spent is under the authority of the President of the country, and the distribution of these funds by projects is carried out by presidential orders. However, not all presidential orders are published. So, in 2021, the President of the Republic of Azerbaijan issued 73 orders on this issue, which allocated 212 million manats from the state budget investment expenditures and 122 million manats from the Reserve Fund of the President for the socio-economic development of the regions.<sup>9</sup>

Specifically, by the Order<sup>10</sup> of the President of the Republic of Azerbaijan on the establishment of the Coordination Headquarters for the centralized settlement of issues in the liberated territories of the Republic of Azerbaijan, the distribution of expenditures related to the restoration and reconstruction of the liberated territories is carried out by the Coordination Headquarters. By order, the head of the Headquarters was appointed head of the Presidential Administration of the Republic of Azerbaijan. An Interdepartmental Center and 17 working groups have been established within the Coordination Headquarters.<sup>11</sup> The Strategic Action Plan, prepared for the planned and comprehensive activities of the working groups in all areas, but not yet published in full, states that the recovery process in the liberated areas will be carried out in several stages. In the first stage, the funds allocated from the budget will be

---

<sup>9</sup> <https://nk.gov.az/az/article/2072/print/>

<sup>10</sup> <https://president.az/az/articles/view/47738>

<sup>11</sup> <https://apa.az/az/domestic-news/Isgaldan-azad-edilmis-razilrin-brpasi-il-bagli-Strateji-Faliyyt-Plani-hazirlanib-623300>

used for two main purposes, the formation of infrastructure and ensuring the availability of utilities. In the next stage, more space will be allocated to attract private and foreign investment. This stage will start after the preparation of proposals for the application of tax benefits, social insurance, and other benefits in order to effectively manage economic resources and labor resources in the liberated territories, to direct them to the creation of a processing industry and service infrastructure, provided for in the Order<sup>12</sup> of the President of the Republic of Azerbaijan on some measures to accelerate economic development in the liberated territories.

## **2. Analysis of the situation with the transfer of state orders for the distribution of budget funds to the executor and identification of implementing companies**

At present, the funds allocated from the budget are used for two main purposes: to form infrastructure and ensure access to utilities. Although open and competitive tenders are required by law in this regard, a comparison of last year's budget allocations with previous years shows that projects transferred directly to the executor through single-source procurement have increased in both quantity and money compared to the previous year. So, last year, 60 percent of the total public procurement of 6,012 million manats, or 3,366 million manats, was distributed in this way without holding open and competitive tenders; as a result, this figure increased by 9.7 percent compared to 2020 (see Table 1). Undoubtedly, one of the reasons for the increase in the number of projects transferred directly to the executor through single-source procurement compared to previous years is the implementation of investment projects for the past year, mainly in the liberated territories.

**Table 1. Procurement statistics for January-December 2021**

Procurement	2021, in million manats	Change compared to 2020, in million manats	Change compared to 2020, in percent
General procurement	6,012	-555.5	8.5
Competition-based procurement	2,646	-854.4	-24.4
Single-source procurement	3,366	298.9	9.7

**Source:** Government's report for 2021

<sup>12</sup> <http://www.e-qanun.az/framework/48628>

The structure of competition-based procurement shows that 38.3 percent or 1,014 million manats of total procurement, 1.18 percent and 102 projects were distributed through open tenders. Among this kind of procurement, the number of quotation requests prevailed (see Table 2).

**Table 2. Structure of competition-based procurement**

Type	Quantity, in pieces	Amount, in million manats
Open tender	102	1,014
Open tender (electronic)	2,970	805
Quotation request	5,039	102
Request for proposals	524	725
Total	8,635	2,646

**Source:** Government's report for 2021

According to media reports, more than 100 projects are being implemented in the liberated territories, including the construction of Fuzuli International Airport and Zafar Yolu (Victory Road). Many infrastructure facilities and cultural and historical monuments have been restored in Shusha. The foundation of Shusha City School No. 1, Hotel and Conference Center, Shusha District Central Hospital has been laid. The foundation of the International Airport has been laid in Zangilan. Implementation of Aghali-1 and Aghali-2 smart village projects has been started. Four hydropower plants - Gulabird, Sugovushan-1, Sugovushan-2, and Kalbajar - have been reconstructed on the liberated lands on the Lev River. The foundation of the Dovlatyarli smart village project has been laid in Fuzuli. Dost Agropark's Araz Valley Economic Zone and Aghdam Industrial Park have started operating in the liberated territories.

According to the information received, the closest cooperation in the recovery process is established with Turkish companies, and the funds allocated for the restoration work in the liberated territories have been spent mainly on transport, energy, urban planning, and other areas. So, the Turkish company Kolin Construction has been involved in the construction of the Ahmadbayli-Fuzuli-Shusha highway, and other companies are involved in the construction of the Fuzuli airport. So, the installation of airport systems has been carried out by UBS Airport Systems, heating, ventilation, air conditioning, fire protection, and other similar works by DESK YAPI Electromechanical Contracting Company, roof installation by Koniküre LTD. The structural and material engineering of the airport has been carried out by Milatek Engineering Consultancy Company.

Contracts have been signed with Eti Bakir Inc., which belongs to the Turkish Cengiz Holding group, and Artvin Maden Inc. in connection with the study, research, exploration, development, and commissioning of the Gashgachay ore deposit located in Dashkasan and liberated Kalbajar districts, as well as the Elbaydash and Aghduzdag ore deposits in Kalbajar district.<sup>13</sup>

Furthermore, the Azerbaijan Innovation Agency signed a memorandum of understanding with the Turkish GOSB Technopark on the establishment of a joint technology park in the liberated areas.

Moreover, the Turkish Ziraat Bank intends to open a branch in Shusha and has already applied. TŪMKIAD, which brings together leading businessmen in Turkey, has announced plans to invest \$ 50 million in the liberated lands.

During a meeting<sup>14</sup> with the Minister of Economy, Mikayil Jabbarov, US Ambassador to Azerbaijan, Lee Litzenger, expressed interest in managing water resources in the liberated territories, creating roads and other infrastructure, and cooperating in the field of digital and innovative technologies. He also said<sup>15</sup>, “Some US companies have already established contacts to participate in the reconstruction work in the liberated areas. If Azerbaijan is interested in more US companies investing there, I recommend holding an open tender. US companies can apply through these tenders. Thus, they will know exactly in which areas Azerbaijan is interested and how they can contribute to the development here.”

An agreement was signed with the Italian company Ansaldo Energia in December 2020 to supply equipment to four substations in the Karabakh region. The contract is worth \$ 6 million, and the stations with a capacity of 110 kilowatts each are located in Aghdam, Fuzuli, Gubadli, and Kalbajar districts. The British government has also expressed interest in supporting Azerbaijan in the recovery process. Areas of interest for British companies include the creation of smart and green cities, the renewable energy industry, demining, and the mining industry. An agreement has already been signed with Anglo Asian Mining to develop the Vejnali gold deposit in Zangilan. The Hungarian National Bank (Exim Bank) has opened a \$ 100 million credit line for Hungarian companies seeking to participate in the restoration of the liberated lands. Israeli companies have also been involved in the restoration of the liberated areas.

---

<sup>13</sup> <https://www.taxes.gov.az/az/post/1570>

<sup>14</sup> <https://www.taxes.gov.az/az/post/1258>

<sup>15</sup> <https://www.turan.az/ext/news/2021/10/free/Social/en/9034.htm>



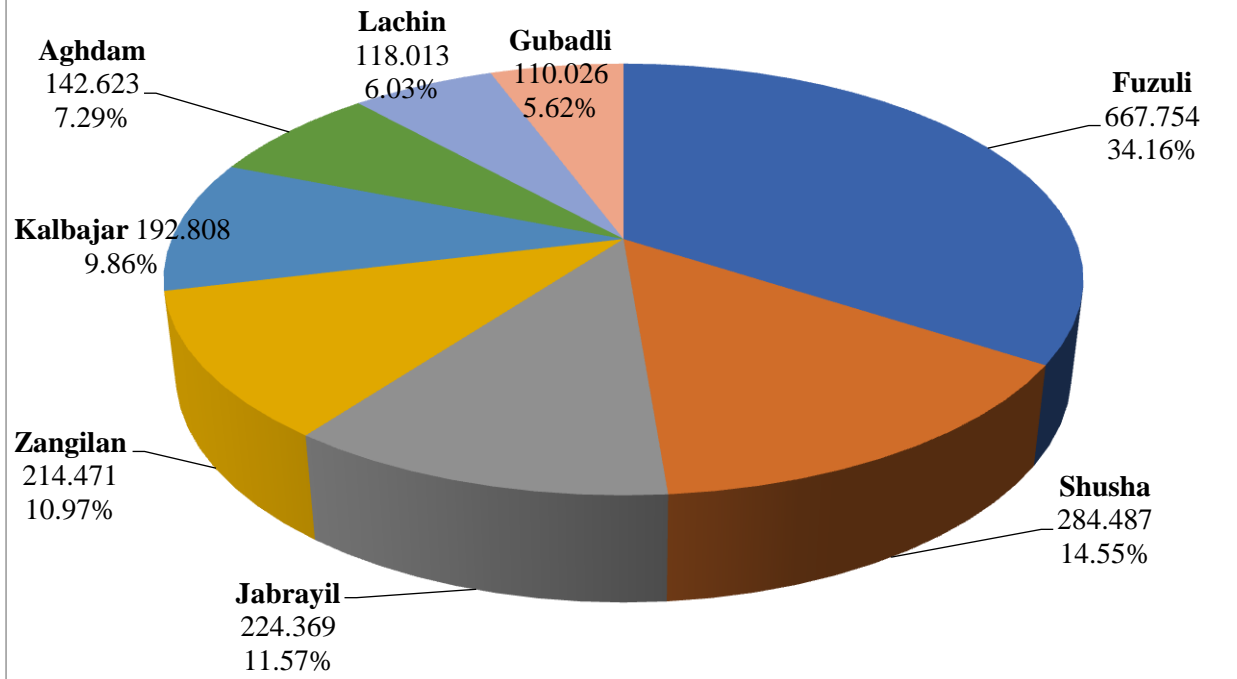
### **3. Analysis of funds allocated for construction and installation work in the liberated territories**

#### ***3.1. By regions***

Although the study determined how the budget funds allocated for the reconstruction and restoration of the liberated territories in 2020 and 2021 would be distributed by the districts, it has not been possible to find the distribution of budget funds by projects and the estimated cost of each project. The government's report only notes that Fuzuli International Airport and Zafar Yolu (Victory Road), which were opened last year, Zangilan International Airport and Lachin International Airport, which are currently under construction, and another important road, rail, and social infrastructure projects have given a significant impetus to the region's development. The report also states that the current year's state budget provides for the same amount (2.2 billion manats) for these purposes.

As a result of the study, it has been found that 667 million 754 thousand manats or 34.16 percent of the 1 billion 954 million 551 thousand manats allocated for construction and installation work in the liberated districts and villages in 2021 were spent on construction and installation work in Fuzuli district, 284 million 487 thousand manats or 14.55 percent - in Shusha city, 224 million 369 thousand manats or 11.57 percent - in Jabrayil district, 214 million 471 thousand manats or 10.97 percent - in Zangilan district, 192 million 808 thousand manats or 9.86 percent - in Kalbajar district, 142 million 623 thousand manats or 7.29 percent - in Aghdam district, 118 million 13 thousand manats or 6.03 percent - in Lachin district, 110 million 26 thousand manats or 5.62 percent - in Gubadli district. The distribution of funds allocated for construction and installation work in the liberated districts in 2021 is presented in Figure 1.

**Figure 1. Distribution of funds allocated for construction and installation work in 2021 in the liberated districts, in million manats and percent**



As can be seen from the data above, in 2021, half of the funds allocated for construction and installation work in the liberated districts were spent on construction and installation work in Fuzuli district and Shusha city, and the other half on the restoration and reconstruction of 6 other districts. Although most of the money spent in the Fuzuli district is connected with Fuzuli International Airport and Zafar Yolu (Victory Road), it is still unknown how much money has been spent on these two mega-projects. As for Shusha city, the estimated cost of the projects implemented there in the direction of restoration, landscaping, and reconstruction has not been announced.

Studies show that the reconstruction and restoration work in the liberated territories were financed not only from the expenditure section provided for in the state budget for 2021 but also from the Reserve Fund of the President of the Republic of Azerbaijan. 98.3% or 475 million manats of the reserve fund of 585 million manats envisaged in the budget of 2021 fall to the Reserve Fund of the President of the Republic of Azerbaijan, 6.7% or 110 million manats - to the state budget reserve fund.

Along with the restoration, damage assessment work has also been carried out. The State Commission was established by the Order of the President of the Republic of Azerbaijan dated November 6, 2020, on measures to assess and eliminate the damage caused to the civilian population, state property, including infrastructure facilities, as well as

business entities as a result of the aggression of the Armed Forces of the Republic of Armenia on the territory of the Republic of Azerbaijan starting from September 27, 2020. According to the information<sup>16</sup> announced by the State Commission for the Elimination of the Consequences of the Aggression of the Armed Forces of the Republic of Armenia on the Territory of Azerbaijan on November 6, 2021, to summarize the work done during the year that has passed since the presidential order, about 113.7 million manats were spent on construction and restoration work at the expense of the state budget reserve fund. At the same time, by the Order of the President of the Republic of Azerbaijan dated 06.07.2021 on the allocation of funds from the reserve fund, the Ministry of Finance has been allocated 5.2 million manats to compensate for the damage caused to the property of the civilian population as a result of the aggression of the Armed Forces of the Republic of Armenia on the territory of the Republic of Azerbaijan.

According to the press service of the Cabinet of Ministers<sup>17</sup>, "So far, 113.7 million manats have been spent to eliminate the damage, including 27.4 million manats for infrastructure (roads, communications, water, electricity, and gas supply), 50.0 million manats for construction, repair, and restoration, 6.6 million manats for the purchase of apartment houses for 89 families in Ganja, 1.4 million manats for agriculture, 4.8 million manats for working capital of entrepreneurs, 0.6 million manats for vehicles, 7.4 million manats for construction and repair of 8 educational institutions, and 15.5 million manats for financial assistance to 12,370 families covering about 50,000 citizens for damage to household and personal belongings."

It should be noted that, by the Order<sup>18</sup> of the President of the Republic of Azerbaijan dated December 14, 2020, additional measures to compensate for the damage caused to the civilian population as a result of the aggression of the Armed Forces of the Republic of Armenia on the territory of the Republic of Azerbaijan starting from September 27, 2020, it was envisaged to provide each family with financial assistance in the amount of 6,000 manats in connection with the damage to household items in the destroyed or damaged houses and 1,500 manats in connection with the damage to personal belongings.

---

<sup>16</sup> <https://nk.gov.az/az/article/1786/>

<sup>17</sup> <https://m.cia.az/news-view/161020-Qarabaga-deymish-ziyanin-aradan-qaldirilmasi-uchun-xerclenen-meblegACHIOLANDI-FOTO>

<sup>18</sup> <https://president.az/az/articles/view/48975>

According to the press service of the Cabinet of Ministers, over the past year, repair, restoration, and construction work has been completed at 12,125 facilities, which is 91.5 percent of the 13,295 facilities to be repaired and restored.

In addition to the above, by the Order<sup>19</sup> of the President of the Republic of Azerbaijan dated May 3, 2021, on measures to establish a "green energy" zone in the liberated territories of the Republic of Azerbaijan, in order to attract a specialized international consulting company to develop a relevant concept and master plan for the establishment of a "green energy" zone in the liberated territories of the Republic of Azerbaijan, the Ministry of Energy of the Republic of Azerbaijan has been allocated the AZN equivalent of \$ 1,391,040 from the Reserve Fund of the President of the Republic of Azerbaijan envisaged in the state budget of the Republic of Azerbaijan for 2021.

By the Decree of the President of the Republic of Azerbaijan dated January 4, 2021, the Karabakh Revival Fund<sup>20</sup> has been established in order to ensure a modern and decent life for sustainable settlement in the liberated territories, to carry out construction, restoration, and landscaping work in all areas, as well as to support safe living, productive activities, and sustainable growth. This Fund is a public legal entity that provides financial support and attracts investment in the measures taken to restore and reconstruct the liberated territories of the Republic of Azerbaijan, as well as to transform it into a region with a sustainable economy and high prosperity, and that ensures the development of public-private partnership in this area, as well as carries out the necessary campaign work within the country and abroad. The presidential decree states that the Fund's funds are formed from donations, grants, and other sources not prohibited by law. By the Decree<sup>21</sup> of the President of the Republic of Azerbaijan on ensuring the activities of the Karabakh Revival Fund, the authorized fund of the Fund was set at 1 million manats and was formed at the expense of the state budget. Although the list of legal entities and individuals donating to the Fund has been provided on the website of the Fund<sup>22</sup>, the information on the total amount of donations has not been posted.

Studies show that to finance the reconstruction and restoration work in the liberated territories, funds have been allocated from two sections (investment and reserve funds) of state budget expenditures and the Karabakh Revival Fund.

---

<sup>19</sup> <http://e-qanun.az/framework/47397>

<sup>20</sup> <https://president.az/az/articles/view/49876>

<sup>21</sup> <https://qdf.gov.az/qanunvericilik/68-Qarabag-Dirchelish-Fondunun-fealiyyetinin-temin-edilmesi-haqqinda-Azərbaycan-Respublikası-Prezidentinin-Fermanı.html>

<sup>22</sup> <https://qdf.gov.az/ianechiler/?donatorType=&letter=L>

### **3.2. By sectors**

#### **3.2.1. Transport sector**

Almost all of the 2.2 billion manats (99.4 percent) allocated from the 2021 state budget for the restoration and reconstruction of the liberated territories has been spent.<sup>23</sup> These funds have mainly been spent on transport, energy, water, urban planning, and other construction projects. Project monitoring showed that the largest construction and rehabilitation projects in the liberated areas were the Fuzuli International Airport, Zafar Yolu (Victory Road), which were opened last year, Zangilan International Airport and Lachin International Airport, which are currently under construction, as well as the Horadiz-Jabrayil-Zangilan-Aghband highway, and another important road, railway, and social infrastructure projects. Monitoring also shows that access to information on the estimated values and executors of these projects is not provided.

Azerbaijani and Turkish companies were involved in the construction of Fuzuli International Airport, the largest construction in the liberated area with a runway length of 3,000 meters, a width of 60 meters, and an apron area of 60,000 square meters, which began in January 2021 and took 8 months to build. However, the website of the State Procurement does not contain any tender information on the companies involved in the implementation of this mega project for the construction of Fuzuli International Airport and the budget of the projects they executed.

Azerbaijan Airlines CJSC, which was responsible for the construction of this project, has not yet responded to the information request we sent a year ago regarding the companies involved in the project and the budget of their projects. Although President of the Republic of Azerbaijan, Ilham Aliyev, and President of the Republic of Turkey, Recep Tayyip Erdoğan, attended the opening of Fuzuli International Airport on October 26, 2022, it has not been operating for six months.

Fuzuli International Airport was registered by the State Tax Service under the Ministry of Economy in January 2021 under the name "Fuzuli Airport" LLC with a capital of 35 million manats. The registered address of this company (Baku, Khazar district, Mardakan Avenue, house 21) is the same as the registered address of several companies included in Silk Way Holding LLC, the largest private carrier in the South Caucasus region.<sup>24</sup>

---

<sup>23</sup> <https://nk.gov.az/az/article/2072/print/>

<sup>24</sup> Silk Way Holding was established in 2006. The holding includes more than 20 companies, including major airlines such as Silk Way Airlines, Silk Way West Airlines, and Silk Way Technics. The company's fleet includes Boeing 747-400F, Boeing 747-8F, Ilyushin IL-76, and Ilyushin IL-76TD-90.

The open data does not specify how much money has been allocated to Fuzuli International Airport. However, according to official data, in 2021, 667 million 754 thousand manats were spent on construction and installation work in the Fuzuli district. Although it is still unknown how much of these funds were directed to Fuzuli International Airport, there is no doubt that the construction of the airport in the Fuzuli district has played an important role in the money spent for construction and installation work in the district in 2021.

As for the companies involved in the construction of the airport, the study<sup>25</sup> shows that the construction of the runway was carried out by AzVirt LLC, and the interior of the airport building was completed by AED Group (Azeurodecor LLC<sup>26</sup>).

Both companies - AzVirt LLC and AED Group - are also involved in the construction and repair of the second airport, Zangilan Airport, which is currently being built in the liberated area.

Although Sika used insulation materials and concrete admixtures in the construction of Fuzuli International Airport, it is not known how much money was spent on the services of the company due to the lack of a tender. The cables used in the construction of the airport are the products of Baku Cable Goknur LTD<sup>27</sup>, founded in 2003. Although the company's products have been used to create energy infrastructure in the liberated territories, financial and budget information on the purchase and sale of its products has not been disclosed. It is only known that the seller of the products used in the restoration of energy infrastructure in the liberated territories is Baku Cable Goknur LTD, and the customer on behalf of the state is Azerenergy OJSC. The leaders of these companies are brothers registered at the same address in Baku, Zira settlement.

---

Zaur Akhundov is the president of Silk Way Holding LLC. According to media reports, the owners of this holding are family members of Azerbaijani President Ilham Aliyev and the head of the AZAL state concern, Jahangir Asgarov. <https://www.azadliq.org/a/2123076.html>

<sup>25</sup> <https://www.abzas.net/2022/01/fuzuli-hava-limanina-x%99rcl%99n%99n-pullarla-bagli-danismaq-qadagasi-arasdirma/>

<sup>26</sup> Earlier, AED Group carried out the design, logistics, and planning work on the projects of the Heydar Aliyev Center, 28 Mall Shopping Center, SOCAR Tower, and the National Olympic Committee. According to the company's website, its main customers are SOCAR, Pasha Construction, Gilan Holding, and others. <https://azeurodecor.com/project.php>

<sup>27</sup> Baku Cable Goknur LTD was established in 2003. Rahib Rzayev, the legal representative of the company, is the brother of Balababa Rzayev, the chairman of Azerenergy OJSC. <https://www.goknurbaki.az/az/products>

All well covers at Fuzuli Airport, including sewerage systems, communications, electricity, and stormwater drains, were manufactured by Azertexnolayn<sup>28</sup>, which has won more than 20 tenders in the liberated areas at the request of Azeravtoyol.

One of the local companies involved in the construction of Fuzuli Airport is ASG Construction<sup>29</sup>, which manages the projects of Azerbaijan Airlines CJSC. ASG Construction is one of the six companies established within the Aviation Services Group (ASG Business Aviation, ASG Construction, ASG Ground Handling, ASG Helicopter Services, ASG Sky Catering, ASG Logistics & Supply). The company has also been involved in the construction of Zangilan Airport in the liberated area.

Although 12 Turkish companies participated in the construction of Fuzuli Airport, orders were also delivered to them directly and without an open tender. So, the installation of airport systems was carried out by UBS Airport Systems, heating, ventilation and air conditioning, fire protection, and other works by DESK YAPI Electromechanical Contracting Company, roof installation by Koniküre LTD, structural and detail engineering work of the airport by Milatek Engineering Consultancy Company, metal, steel construction work by Tork Çelik Contracting Construction Industry Foreign Trade LTD and Koniküre LLC.

Among the projects implemented in the transport sector in the liberated territories, after the construction of airports in Fuzuli, Zangilan, and Lachin, most funds have been allocated for the design and construction of roads.

The summary report<sup>30</sup> of the Cabinet of Ministers on its activities in 2021 states that 1,590.3 million manats were spent on the implementation of 16 road projects in the liberated territories and the purchase of machinery for use in these territories. According to the State Agency of Azerbaijan Automobile Roads (SAAAR)<sup>31</sup>, all occupied roads of national and local significance (2,661 km) would be completely repaired and built at the expense of the funds allocated from the budget. SAAAR's report<sup>32</sup> for 2021 shows that the design and construction works of 15 highways with a total length of 1,516.3 km, as well as drilling and blasting and earthworks in the area where Gorchu Airport will be built in the Lachin district, continued in the 2021.

---

<sup>28</sup> The foundation of Azertexnolayn LLC was laid in February 2012 in the Sumgayit Chemical Industrial Park. <https://www.azertexnolayn.com/about/>

<sup>29</sup> ASG Construction is a construction company involved in the implementation of airport and airfield infrastructure. [http://asg-construction.az/index\\_az.html#](http://asg-construction.az/index_az.html#)

<sup>30</sup> <https://nk.gov.az/az/article/2072/print/>

<sup>31</sup> <https://az.trend.az/business/3340190.html>

<sup>32</sup> <http://www.aayda.gov.az/az/illik-hesabatlar>

Based on the latest information<sup>33</sup> released by SAAAR on road infrastructure projects implemented in the territory of Karabakh and Eastern Zangazur economic regions as of 15.03.2022, the indicators for the construction of 15 roads designed for 2022-26 are presented in Table 3.

**Table 3. Road projects to be implemented in the territory of Karabakh and East Zangazur economic regions**

The name of the highway	Length, km	Technical degree	Number of lanes
<b>2022</b>			
Fuzuli-Hadrut	12	I	4
Hadrut-Tugh-Azykh	22	I	2
Barda-Aghdam	45	I	4
Gubadli-Eyvazli	28.5	IV	2
Gubadli-Mahmudlu-Yazduzu	26,4	IV	2
In the territory of Kalbajar and Lachin districts	726.3	IV	2
New highway without entering Lachin city	32	III	2
Talysh-Tapgaragoyunlu-Gashalti-Naftalan	22	II-IV	2
<b>2023</b>			
Khudaferin-Gubadli-Lachin	70.4	I	4
Shukurbayli-Jabrayil-Hadrut	39.7	I	4
Aghdam - Fuzuli	64,8	I	4
<b>2024</b>			
Ahmadbeyli-Fuzuli	81.6	I	6-4
Ahmadbeyli-Horadiz-Jabrayil-Zangilan-Aghband	123.6	I	4
<b>2025</b>			
Kalbajar-Lachin	72.3	I-II	2-3
<b>2026</b>			
Toghanali-Kalbajar-Istisu	80.7	I-II	2-3

As can be seen from the table, although the construction of 15 roads in the liberated territories is planned for the next 5 years, the estimated cost of any of the projects in this area

<sup>33</sup> <http://www.aayda.gov.az/az/news/3504/qarabag-ve-serqi-zengezur-iqtisadi-rayonlari-erazisinde-icra-olunan-yol-layiheleri-barede>



has not been disclosed. At the same time, although the work on the Zafar Yolu (Victory Road) (101.5 km, II technical degree, 2 lanes) has been completed, information on the funds allocated for its construction from all sources has not yet been disclosed. The only thing that is known is that 50 million manats were initially allocated by presidential order<sup>34</sup> to SAAAR from the reserve fund of the President of the Republic of Azerbaijan envisaged in the 2020 state budget for the design and construction of the Ahmadbeyli-Fuzuli-Shusha highway, called the Zafar Yolu (Victory Road). Information on the funds allocated from the 2021 budget for the completion of this project has not been disclosed.

As for the companies implementing these projects, along with SAAAR's Special Purpose Road Operation No. 16 LLC, Highway Operation No. 7 LLC, Road Operation No. 43 LLC, Road Operation No. 41 LLC, Road Operation No. 55 LLC, Turkish companies Kalyon RSY Construction Unincorporated Association Concern<sup>35</sup>, KOLIN Construction Tourism Industry, and Commercial Inc., and Cengiz Construction, as well as AzVirt LLC, Korpu-Bina-Tikinti LLC, and North West Construction LLC, have been involved in road construction.

In conclusion, I would like to note that as can be seen, the cost of projects implemented in the liberated areas has regarding the construction of airports and roads has not been disclosed, separately, by projects, years, and districts; furthermore, information requests sent to the customer government agencies and executive companies have not been answered. There is no financial information on the electronic public purchases in the electronic resources since these projects were transmitted directly to executors.

### **3.2.2. Energy sector**

Speaking at a meeting chaired by Ilham Aliyev on the results of the first quarter of 2022, Minister of Finance, Samir Sharifov, said<sup>36</sup> that during the first quarter, 346 million AZN or about 16 percent of the 2.2 billion AZN allocated from the state budget for the implementation of the Karabakh reconstruction program has already been executed.

Analysis of the disclosed data shows that as part of the restoration work carried out in the liberated territories, after the transport sector, the most allocated areas are energy and water

---

<sup>34</sup> <https://president.az/az/articles/view/46989>

<sup>35</sup> Since companies included in Cengiz Holding, Limak Holding, Kalyon Group, Kolin Holding, and Makyol Group receive most of the orders from the Turkish state, they are called the "Gang of Five" ("Beşli Çete") in Turkey. *"Public tenders won by Cengiz, Limak, Kolyon, Kolin, and Makyol - the holdings that are called the "Gang of Five" ("Beşli Çete") by Kılıçdaroğlu"*

<sup>36</sup> <https://president.az/az/articles/view/55780>

supply, urban and rural rehabilitation, as well as the development of master plans for the construction of schools and health facilities. On this chapter focuses on the work done in these areas, the projects implemented and the difficulties encountered in their implementation and the problems that need to be addressed.

Ilham Aliyev announced at a meeting on the results of the first quarter of 2022, “Work on arranging electricity supply will be continued in the liberated areas this year. Four 20-megawatt hydroelectric power stations were built on the liberated lands last year. Two are in Sugovushan, one in Gulabird village of Lachin district, and one on the Lev river in Kalbajar district.” He added, “This year, five stations will be restored by AzerEnergy, and the capacity of these stations will be 27 megawatts.” He noted that the potential of wind power plants up to 100-MW in Kalbajar and Lachin districts and solar power plants in Jabrayil and Zangilan districts is exceptionally high, saying, “We can take advantage of these opportunities. Negotiations are underway with BP on constructing a solar power plant in Jabrayil.”

According to the latest information, in connection with the construction of a 240-MW solar power plant in the Jabrayil district. An agreement has been reached with BP. “So we must make the best use of all of them. We need to increase the share of renewable energy in our total energy balance by 30 percent. I issued this instruction earlier, and we may reach an even higher figure in the future. Also, we can save natural gas and export it at its current high price... This year, work on constructing “Khudafarin” and “Giz Galasi” Hydroelectric Power Stations should be accelerated. Negotiations are underway with the Islamic Republic of Iran, and I think they should also be accelerated so that we can reach an agreement here as soon as possible. Because the capacity of these stations will be very large – 240 megawatts... At the same time, the construction of power lines from Zangilan via Iran to Nakhchivan and from there to the Iranian energy system and Turkey is also on the agenda,” Ilham Aliyev said.<sup>37</sup>

Apparently, the Azerbaijani government wants to achieve three goals by mobilizing energy potential in the liberated territories. The first is to provide energy supply to the economic regions of Karabakh and East Zangazur, the second is to save natural gas by increasing the share of renewable energy in domestic consumption and selling more gas abroad, and the third is to export the remaining electricity to Iran and Turkey.

---

<sup>37</sup> <https://president.az/az/articles/view/55780>

According to the statement of the Ministry of Energy to Toplum TV<sup>38</sup>, “The goal is to increase the share of renewable energy sources in total electricity production to 24 percent by 2025 and 30 percent by 2030. An additional 1,500 megawatts will be required to achieve this goal. 470 megawatts of this capacity are already realized by ACWA Power and Masdar companies.”

The achievement of the forthcoming goals, as well as the solution to all three tasks listed above, depends on the amount of investment in the country. The arrival of investors in the country also requires transparency and competitiveness in this area through open tenders. Although the Law<sup>39</sup> of the Republic of Azerbaijan on the Use of Renewable Energy Sources in Electricity Generation was adopted on May 31, 2021, and the law provides mechanisms to stimulate private investment, the rules for conducting renewable energy auctions are still not ready. Therefore, the government determines investors in this sector through a single source and does not hold open and competitive tenders.

Starting from December 2020, the construction of 23 energy facilities has started in the liberated areas. In 2021, 4 small HPPs and 9 digital substations were opened; furthermore, a 110-kilovolt high-voltage transmission line with a total length of 365 km and two circuits was laid in 10 directions.

A study by the abzas.net<sup>40</sup> website on the construction of energy facilities in the liberated territories shows that companies that are carrying out this work and the estimated cost of each of them are not disclosed. Because the chairman of AzerEnergy, Balababa Rzayev, who is currently providing electricity to Karabakh, has entrusted state orders to his family companies.

According to the tender news<sup>41</sup> posted on AzerEnergy's website, Gatdigital, Azconstruction, Electro Industries LLC, Bakelektro OJSC, and GBS CJSC won tenders for the work ordered in Karabakh. Research shows that the founder of GBS CJSC is Fuad Rzayev, the son of Balababa Rzayev, the head of AzerEnergy. Fuad Rzayev founded the company in 2006 with a charter capital of 2010 AZN. Another customer is Emin Rzayev, the director of Bakelektro and the brother of Balababa Rzayev. In addition, Farcon LLC, which won the tender for Kalbajar, belongs to Balababa Rzayev's son-in-law Farid Farhadzade. The company's domain is registered in his name. The legal address of Farcon LLC is the same as

---

<sup>38</sup> <https://toplum.tv/>

<sup>39</sup> <https://e-qanun.az/framework/47842>

<sup>40</sup> <https://www.abzas.net/2022/03/qarabagda-gorduyu-isl%c9%99rl%c9%99-ail%c9%99-s%c9%99rv%c9%99tini-artiran-az%c9%99renerji-s%c9%99dri-arasdirma/>

<sup>41</sup> <http://www.azerenerji.gov.az/tenderannouncements>

the registered address of GBS CJSC established by Balababa Rzayev's son (Narimanov district, Ziya Bunyadov, house 2071).

Elektro Industries, which was re-established in September 2018, was established in 2010 in the name of Agshin Ahmadov, the brother of Rashad Ahmadov, the chairman of the Compulsory Insurance Bureau. The company is engaged in the construction of power lines. Azconstruction CJSC was also established by Rashad Ahmadov almost at the same time as Electro Industries. Bayram Ahmadov, the father of Agshin Ahmadov, was the first director of Azconstruction CJSC. He is also the head of Gatdigital CJSC.

Azconstruction CJSC won the tender for the construction of AzerEnergy's Aghdam-2 substations and the purchase of electrical installation work.

Gatdigital CJSC was declared the winner in the tender held on June 2, 2021, by means of a request for proposals for the purchase of various types of wires and cables to be used under the Karabakh REŞ. Like Azconstruction, the legal address of Gatdigital CJSC is the Ahmadovs' apartment in Bulbula settlement (Surakhani district, Mashadi Azizbayov, Bulbula settlement, house 38).<sup>42</sup>

The tender statement of AzerEnergy states<sup>43</sup> that ATEF Group of Companies LLC was one of the winners in the tenders for work in Karabakh. As a result of a study<sup>44</sup> conducted by the abzas.net website<sup>45</sup>, it was found that the company's tax debt for March 2022 is 3 million 228 thousand 889 AZN. However, according to the legislation governing public procurement, bidders must not have significant financial and tax obligations. But this company not only participated in the tender but also won.

Although an information request sent by the Economic Research Center to AzerEnergy OJSC and Azersu OJSC was answered, it only mentioned the work done and did not disclose any information about the funds spent. However, in the information request addressed to both state-owned companies, the estimated cost of the projects was asked separately.

---

<sup>42</sup> <https://www.abzas.net/2022/03/qarabagda-gorduyu-isl%c9%99rl%c9%99-ail%c9%99-s%c9%99rv%c9%99tini-artiran-az%c9%99renerji-s%c9%99dri-arasdirma/>

<sup>43</sup> <http://www.azerenerji.gov.az/tenderannouncements>

<sup>44</sup> <https://azerforum.com/az/ishgaldan-azad-edilmish-erazilerde-enerji-obyektlerinin-tikintisi-ucun-kecirilen-tenderleri-kimler-ve-nece-qazanir-arasdirma>

<sup>45</sup> <https://www.abzas.net/2022/03/qarabagda-gorduyu-isl%c9%99rl%c9%99-ail%c9%99-s%c9%99rv%c9%99tini-artiran-az%c9%99renerji-s%c9%99dri-arasdirma/>

### 3.2.3. Town-building

According to Ilham Aliyev at the meeting<sup>46</sup> dedicated to the results of the first quarter of 2022, “The master plans of Aghdam and Fuzuli have been approved, and work has begun based on these master plans. I have already gotten acquainted with the progress of my work. The master plans of other cities should be approved soon. Master plans for Shusha, Jabrayil, Kalbajar, Zangilan, Gubadli, Hadrut, and Sugovushan settlements should be prepared and approved this year.”

The Territorial Construction and Planning Center<sup>47</sup> of the State Committee for Urban Planning and Architecture has completed 22 open tenders worth 11,304,000 AZN for the procurement of works for the preparation of urban planning substantiation. Table 4 provides information on the winners of these tenders and the funds allocated to them.

**Table 4. Information on tenders for procurement of works for the preparation of urban planning substantiation**

Name of the settlement	Winner of the tender	Allocated funds
Dadali village of Fuzuli district	BIMD CJSC	1.53 million AZN
Pirahmadli village of Fuzuli district	BIMD CJSC	
Zallar village of Kalbajar district	BIMD CJSC	
Yanshag village of Kalbajar district	BIMD CJSC	
Zar village of Kalbajar district	Bureau Environment LLC	
Khudafarin village of Jabrayil district	Bureau Environment LLC	
Shalva village of Lachin district	Bureau Environment LLC	
Tugh village of Khojavend district	Local branch of REM Mimarlık Dekorasyon Restorasyon Proje ve Taahhüt Hizmetleri Limited	848 thousand AZN
Hadrut settlement of Khojavend district	Local branch of REM Mimarlık Dekorasyon Restorasyon Proje ve Taahhüt Hizmetleri Limited	

<sup>46</sup> <https://president.az/az/articles/view/55780>

<sup>47</sup> <http://merkez.arxkom.gov.az/az>

Gorchu settlement of Lachin district	Azermemarlayihe State Main Project Institute	420 thousand AZN
Khidirli village of Aghdam district	Azermemarlayihe State Main Project Institute	470 thousand AZN
Kangarli village of Aghdam district	Azermemarlayihe State Main Project Institute	325 thousand AZN
Sarijali village of Aghdam district	Azermemarlayihe State Main Project Institute	290 thousand AZN
Shukurbayli village of Jabrayil district	Azermemarlayihe State Main Project Institute	378 thousand AZN
Zilanli village of Gubadli district	Azermemarlayihe State Main Project Institute	335 thousand AZN
Khanlig village of Gubadli district	Azermemarlayihe State Main Project Institute	380 thousand AZN
Mahruzlu village of Gubadli district	Azermemarlayihe State Main Project Institute	360 thousand AZN
Gulabird village of Lachin district	Qala Group LLC	295 thousand AZN
Mammadbeyli village of Zangilan district	Qala Group LLC	340 thousand AZN
Jahangirbeyli village of Zangilan district	Qala Group LLC	330 thousand AZN
Horovlu village of Jabrayil district	Qala Group LLC	387 thousand AZN
Dashalti village of Shusha district	Feniks-AA	250 thousand AZN
<b>Total:</b>	11 million 304 thousand AZN	

The foundations of Aghdam, Zangilan, Hadrut, and Dashalti mosques have been laid in the liberated territories, and although repair work has been started, the estimated cost of construction and repair work has not been announced. Although only general information is posted on the website of the State Committee for Work with Religious Associations of the Republic of Azerbaijan, which is the customer of this work, the estimated cost of the projects has not been disclosed.<sup>48</sup>

<sup>48</sup> <https://scwra.gov.az/az/view/news/10343/prezident-ilham-eliyev-agdam-zengilan-hadrut-dashalti-mescidlerin-in-temeli-qoyulub-ve-temir-ishlerine-start->

At the same time, according to the Ministry of Education, construction work has begun in high schools with 960 seats in each of the cities of Shusha and Aghdam, and Design and estimate documents are being prepared for the 960-seat secondary school in Jabrayil.<sup>49</sup> However, information on the estimated cost and executors of these projects has not been disclosed too.

As for health facilities, according to the State Agency for Compulsory Medical Insurance<sup>50</sup>, “The process of building modular hospitals is underway in Aghdam, Jabrayil, Kalbajar, Zangilan, and Gubadli. In the future, large hospitals will be built in each of these districts but modular hospitals will be used as temporary hospitals.” However, information on the estimated cost and executors of these projects has not been disclosed too.

As can be seen in this report, only, financial information on state orders in the field of urban planning and rural rehabilitation design was disclosed among the analyzed areas. Financial information on projects and executor companies in other areas, in particular the creation of energy and water infrastructure, as well as the construction of social facilities, is kept confidential; hence, transparency and accountability requirements are violated.

## **Conclusions**

In conclusion, I would like to note that according to the restoration of the liberated territories in 2021 and 2022, 2.2 billion manats have been allocated each year from the state budget of Azerbaijan. Presenting the report on the activities of the Cabinet of Ministers in 2021 to the parliament, Prime Minister Ali Asadov said<sup>51</sup> that 99.4 percent of the 2.2 billion AZN allocated from the 2021 state budget for the restoration and reconstruction of the liberated territories was used during the reporting period. But, according to the Rules<sup>52</sup> for Compilation, Execution, Monitoring, and Evaluation of the State Investment Program of the Republic of Azerbaijan, it is impossible to comment on the quality of implementation of these projects, as access to monitoring and evaluation reports is not provided. At the same time, due to non-compliance with the Law on Budget System and the Law on Public Procurement, many of these projects are distributed to foreign companies from friendly countries and local companies belonging to the political elite through a single-source procurement method, and even information about the estimated cost of projects submitted to

---

<sup>49</sup> <https://apa.az/az/sosial/susa-agdam-ve-cebrayilda-960-yerlik-mekteb-tikilecek-687414>

<sup>50</sup> <https://xalqgazeti.com/mobile/az/news/95248>

<sup>51</sup> <https://meclis.gov.az/news.php?id=3199&lang=az>

<sup>52</sup> <http://www.e-qanun.az/framework/19404>

the executor through tenders and the executor companies is kept confidential. In this case, the US ambassador to Azerbaijan rightly recommends to Azerbaijan hold an open tender if it is interested in more US companies investing here.

The cost of projects implemented in the liberated areas regarding the construction of airports and roads has not been disclosed, separately, by projects, years, and districts; furthermore, information requests sent to the customer government agencies and executive companies have not been answered. There is no financial information on the electronic public purchases in the electronic resources since these projects were transmitted directly to executors. In the opinion of the Chamber of Accounts on the execution of the state budget for 2020, the issue is covered in general, not specifically: "Rehabilitation of roads and bridges in the liberated areas requires the mobilization of a large number of resources and makes it necessary to focus more equipment and manpower on the reconstruction of roads in the liberated territories so that this requires the subordinate organizations of the State Agency of Azerbaijan Automobile Roads to develop and implement action plans for operation and maintenance to ensure the maintenance of roads on their balance sheets and in operation, as well as the rational, efficient, and economical use of available resources."

The report on the execution of the budget for 2020 on the reconstruction and rehabilitation of the liberated territories states that in 2020, In 2020, 7 million manats were spent from the state budget for the clearance of unexploded ordnance and mines from the territories of the Republic of Azerbaijan liberated from occupation, as well as previously used as a military landfill, 1 million manats for urban planning and architecture, 0.3 million manats for the preparation of detailed territorial plans for a number of districts and cities.

In conclusion, I would like to note that as can be seen, the cost of projects implemented in the liberated areas has regarding the construction of airports and roads has not been disclosed, separately, by projects, years, and districts; furthermore, information requests sent to the customer government agencies and executive companies have not been answered. There is no financial information on the electronic public purchases in the electronic resources since these projects were transmitted directly to executors.

Although an information request sent by the Economic Research Center to AzerEnergy OJSC and Azersu OJSC was answered, it only mentioned the work done and did not disclose any information about the funds spent. However, in the information request addressed to both state-owned companies, the estimated cost of the projects was asked separately. Thus, The money allocated for the restoration of the liberated territories is devoid of transparency



Therefore, in an interview with BBC Azerbaijan, James Sharp<sup>53</sup>, the British Ambassador Extraordinary, and Plenipotentiary to Azerbaijan said that the bigger question was how to use the victory to promote national development: “It is clear that everyone in the country, all sectors of the population, is willing to participate in the restoration of the liberated territories. The government must allow the entire population, all sectors of society, NGOs, the media, and the opposition to participate in the national rehabilitation program and encourage them to see this as an opportunity. I think these are the main issues ahead. So, there are a lot of issues to work on...”

---

<sup>53</sup> <https://azsiyaset.com/siyaset/4075-Britaniya-Qarabagda-choxterefli-sulhmeramlilarin-olmasini-isteyir-Sefir-Ceyms-Sharp.html>