



October 31, 2003

Ms. Sylvia Borren  
Director, NOVIB  
Mauritskade 9  
PO Box 30919  
PostBank 645300  
THE NETHERLANDS

Dear Ms. Borren:

*Baku-Tbilisi-Ceyhan Oil Pipeline*

Thank you for your letter of September 26, 2003. We appreciate your acknowledgement of the commitment IFC has shown to improving transparency in the extractive industries, especially through BTC and ACG projects in a resource rich country like Azerbaijan where good governance is weak.

We also recognize your concerns on the State Oil Fund of the Azerbaijan Republic (SOFAR). IFC has been working very closely with the World Bank and IMF to better understand and help in developing effective and transparent management of SOFAR. SOFAR serves as the financial mechanism for separating commercial decisions on oil extraction from public spending decisions. SOFAR affords the authorities considerable flexibility to "smooth" public expenditures over time in a manner that can maintain macroeconomic stability and it also allows the Government to maintain a degree of continuity in medium-term expenditure programs.

The governance rules of SOFAR to a large extent follow the Norwegian model. Consolidation of SOFAR expenditures with the state budget is stipulated in detail in the Budget Systems Law, and are subject to consistent budget preparation procedures. Parliament approves the consolidated budget expenditures including SOFAR's contribution, and the consolidated budget deficit. All expenditures, including SOFAR's, are executed through the single Treasury account. Use of funds is subject to the State Procurement Law, which governs all budgetary expenditures. The World Bank Group has supported the establishment of SOFAR and its governance framework and, together with the IMF, is monitoring the strict adherence to the framework.

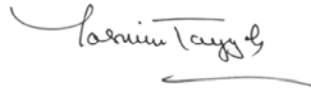
SOFAR's statutes stipulate full transparency through external published audits according to international standards, portfolio investment of SOFAR in highly rated securities overseas and use of the resources for projects of benefit to the people of Azerbaijan.

Regarding your concern on the monitoring of the project implementation, IFC has spent considerable time analyzing the monitoring framework put in place on various high-profile projects to determine how to design the most effective monitoring program for BTC. The project is currently designed with multi-layers of monitoring/assurance, and some of the reports will be made public.

IFC believes that multi-layers of monitoring and publicly released reports provide the correct balance of internal monitoring verified by external, independent monitoring and public disclosure for the BTC project.

Once again, we appreciate your interests in the project.

Sincerely,

A handwritten signature in cursive script, appearing to read "Yasmin Tayyab".

Yasmin Tayyab  
Civil Society Coordinator