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BP in Azerbaijan: a test case of the potential and limits of the CSR agenda?

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ABSTRACT *Azerbaijan displays some of the features of the phenomenon known as the 'resource curse': high revenues from extractive industries coupled with high levels of corruption, a weak system of tax collection, lack of development of other sectors of the economy but oil, and increasing social inequality. As the leading foreign investor in Azerbaijan and a company with a salient image on corporate social responsibility (CSR), the question is what BP does to address this situation on its own behalf and that of its consortia partners. The article shows that Azerbaijan has taken a lead among 'new' petroleum states in promoting oil revenue transparency in recent years, not least as result of the prominent position of BP in the country, but that lack of transparency on the government's spending of oil revenues remains a major barrier to reliable oversight. As for community investments and regional development, BP on behalf of its consortium partners operates programmes that could provide models for extractive industries around the world. The article argues that while BP has acted to establish collective goods in the CSR realm for all foreign oil companies, it risks having all corporate efforts to promote social and economic development undermined by the host government's macro economic policies and lack of commitment to develop democratic and accountable political institutions.*

Multinational oil companies operating in developing countries are faced with major gaps in the government provision of social services, widespread poverty and distorted local economies. In response to such challenges, many oil companies have developed corporate social responsibility (CSR) policies related to micro-level issues and, more recently, macro development in the countries they operate. While the *micro-level* CSR field typically is related to small-scale projects, such as local community health and education projects and business development, the *macro-level* CSR field concerns broader societal issues such as human rights, good governance and social development.

International organisations, non-governmental organisations (NGOs) and civil society groups expect multinational corporations to engage with the broader social and development agenda and promote transparency, social equality and political rights. Companies investing in difficult and unstable regions bring with them the 'spotlight' of outside media and transnational activists bent on scrutinizing company performance in those regions.[1] On the other hand, private companies involved in this field risk upsetting host governments and detrimental publicity—both at home and abroad—if they intervene 'too much' or in the wrong ways. If corporations are expected to combat corruption and shady business practices, how far could or should they go in promoting transparency and a broader social and developmental agenda?

This study investigates the response of BP to the macro-level CSR challenges in Azerbaijan, and what lessons gained in Azerbaijan tell us about the potential and limits of the wider CSR agenda in 'new' petro-states. BP is widely regarded as a global leader in the CSR field and sees Azerbaijan as a critical case for pushing the limits of the widening social agenda in 'new' petroleum provinces. While Azerbaijan relies heavily on oil and gas revenues, the country suffers from high levels of corruption, a weak system of tax collection, lack of development of non-oil sectors of the economy, and increasing social inequality. As operator of the main oil and gas fields in Azerbaijan, BP is the leading foreign company in the country. The policies and behaviour of BP in Azerbaijan therefore seem well suited as a critical test case of the potential and limits of the macro-level CSR agenda.

The data for this study derive primarily from interviews with representatives of oil companies, NGOs and independent experts in Baku, Azerbaijan, in 2002 and 2006. The longitudinal approach allows us to investigate developments and institutional change over time.[2] In addition, we reviewed company reports, policy documents, contractual arrangements and publications of oil companies' revenues and payments to the Azerbaijani government.

In the next section, we briefly review previous research on the nexus between oil, CSR and development. We go on to examine the recent political and economic history of Azerbaijan, especially in the petroleum sector, since independence from the Soviet Union in 1991. This is followed by an analysis of BP and partners' response to the widening social agenda in the country. We conclude with a discussion of the effects of oil company involvement in the macro-level CSR field.

Previous research on oil, CSR and development

According to the 'resource curse' thesis, countries with strong dependence on oil and mineral resources perform markedly worse than those with a poorer resource base. Qualitative and quantitative studies show slow or negative economic growth following steep, sudden increases in revenue from extractive industries.[3] This is, in part, due to a phenomenon known as the 'Dutch disease', named after the decline in non-petroleum exports and ultimately the Dutch economy as a result of booming gas exports in the 1960s. As shown by Corden and Neary,[4] a rapidly expanding export sector (such as oil) causes large inflows of foreign currency, faster growth in the non-tradable goods sector (such as construction and government services), and slower growth in other export sectors. In short, the traditional export sector is crowded out by the non-tradable goods sector and the booming export sector, thereby undermining economic development in the long run. In many developing countries, oil exports have resulted in overspending due to exaggerated expectations of petro-riches, neglect of non-mineral tax collection, widespread corruption and increasing social inequality.[5] Other studies show that a steep rise in revenue from extractive industries is related to increased risk of civil war,[6] although this finding has been questioned and qualified by another study;[7] problems establishing or consolidating democracy;[8] and failures to invest in public education.[9]

However, while the key negative effects of the oil and gas sector occur at the macro-level, the traditional CSR activities of oil companies typically focus on the micro-level and are directed towards the communities in which they operate, encompassing activities such as the provision of clean water or the building of community schools and health clinics. In some developing countries such engagements provide basic services that the host governments are not able to offer, but they do not address, challenge or interfere with governmental policies. By their nature, micro-level CSR activities involve 'benign' and uncontroversial issues and projects, potentially benefiting both company reputation and community development. By contrast, macro-level CSR refers to the responsibility of transnational companies (TNCs) for the broader economic, political, social and human development in host countries. More specifically related to foreign oil companies and other extractive industries operating in developing countries, the question is whether they assume some responsibility for the indirect consequences of sudden, steep rises in revenue from extractive industries on a country's development.[10]

TNCs are increasingly expected to move away from a focus on the traditional micro-level CSR activities towards a focus on the contribution to the social and economic development in the regions where they operate. Calls for such involvement represent a turnaround from the prevalent position some decades ago when foreign companies were expected to not intervene in the internal affairs of host countries. This shift reflects the emergence of a new CSR agenda, partly driven by the rhetoric of TNCs themselves and partly driven by demands from NGOs, shareholders and other stakeholders, linking social responsibility to macro development issues such as poverty alleviation, good governance and transparency. However, while numerous claims have been made about the potential of CSR to reduce poverty and contribute to other development objectives, there is a dearth of detailed case studies testing such claims.[11]

Research on CSR activities in the developing world has concluded that claims about the positive effects of such activities are generally not supported by empirical evidence.[12] Oil companies in particular have been criticised for failure to acknowledge the resource curse and for not contributing to fostering good governance and development in host countries.[13] No multinational oil company would conceivably deny the benefit of positive social and economic development in host countries to operations, but companies vary in the extent to which they acknowledge responsibility for achieving this good. While unilateral action on micro-level CSR issues is likely to benefit both company reputation and host country, fear of falling out with the authorities is likely to dampen ambitions of addressing macro-level issues such as corruption, oil revenue spending, social inequality and lack of transparency.[14] As a result of the collective action problem, public goods such as improved regulatory, social and economic conditions in host countries may not be established, even though all oil companies presumably would benefit from socio-economic growth and a stable investment climate.

Given the resource curse and the calls for oil companies to contribute to macro-solutions, the case of BP in Azerbaijan is probably one of the best test cases of the potential and limits of companies' CSR activities in developing countries. First, whereas the collective action problem may impede collaboration among oil companies on macro CSR issues, a dominant company, such as BP in Azerbaijan, that values the collective good sufficiently may be willing to cover all or a significant proportion of the cost of establishing the good on its own.[15] Oil companies heavily involved in exploration and production not only have a greater need for stability and predictability than less involved companies, their wider personal contacts and channels of influence are simply not available to other companies. Second, BP is seen as a leader in the CSR field and has acknowledged, at least rhetorically, a measure of responsibility for the resource curse in difficult petroleum states.[16] Some European companies like BP, Shell and Statoil have been shown to pursue a proactive policy on macro CSR issues, whereas American companies like ExxonMobil are more cautious about pursuing such policies, limiting both rhetoric and activities to traditional, 'safe' micro CSR issues.[17] Although some scholars argue that there is not that much difference between so-called 'world-leaders' like BP and 'bottom feeders' like second tier western oil companies and Asian state-owned companies,[18] we expect—as a point of departure—a certain degree of correspondence between what oil companies say about CSR matters and what they actually do. Even if this is not correct, it is certainly more interesting to test the correspondence between CSR rhetoric and CSR realities for the more ambitious companies like BP than for those companies which make no claims about the macro-level effects of their CSR activities. Finally, and related to the above, the fact that BP itself sees Azerbaijan as a promising test case of its widening CSR agenda, coupled with international initiatives to enhance transparency and development in Azerbaijan, makes it a particularly interesting case study.

Oil and Development in Azerbaijan

Azerbaijan is one of the world's oldest petroleum producing countries. Since becoming independent from the Soviet Union in 1991, Azerbaijan has relied heavily on foreign investment to develop its vast deepwater offshore oil and natural gas resources in the Caspian Sea. Despite an existing non-oil industrial sector, including chemical and petrochemical industries, manufacturing and export sectors, the fact remains that since 1991, Azerbaijani economy has become ever more dependent on petroleum revenue. With the collapse of the Soviet Union, Azerbaijani industry lost its main market and little has been done to develop non-oil sectors of the economy in a way that would stimulate broader economic prosperity. Due to problems with tax collection, regulatory enforcement, and a capricious legal regime, the government realised that revenues from oil projects presented the best hope for providing sufficient income to the chronically under-funded national budget.[19] In 1992, the State Oil Company of the Azerbaijani Republic (SOCAR) was established with responsibility for executing government policy, as well as to help maximise oil revenue for the country.

Agreements covering the offshore fields were framed as production-sharing agreements (PSAs), which, once signed by the parties, are ratified by Parliament and thus become Azerbaijani law. The force of law of these PSAs provides for a high level of contract stability. However, early negotiations were tainted by corruption allegations. After Heydar Aliyev took power in 1993, SOCAR was sidelined and foreign oil companies informed that all future negotiations on a PSA for the giant Azeri, Chirag and Guneshli (ACG) fields in the Caspian Sea were to be handled by a new body—the Committee for Oil Development in Azerbaijan—headed by an Azeri-born Slovak citizen and friend of the president—Marat Manafov. The committee allegedly insisted that the companies pay $300 million into the personal account of the head of the committee, before negotiations could start. This information came out in an unsigned letter circulated among embassies in Baku. It was also maintained in the letter that the western companies had explained that they could not make such payments under their corporate policies. The letter, reportedly, was written jointly by several of the involved companies, but nobody was willing to comment on participation of their particular company.[20] This represented an uncommon display of collective action among oil companies.

In the event, Manafov was replaced and negotiations taken over by SOCAR. In 1994, the BP-led Azerbaijan International Operating Company (AIOC) consortium signed a multi-decade offshore contract with the government, described as 'deal of the century', to develop the three giant fields in the Caspian Sea, by far the country's largest hydrocarbon structures. As of today, Azerbaijan has signed 24 PSAs with more than 30 companies, but the increase in the country's rate of oil production since 1997 comes almost entirely from the BP operated

AIOC consortium.[21] Among the multinational oil companies in Azerbaijan, BP has remained firmly in the driver's seat ever since the establishment of AIOC.

Currently, oil sector revenues make up more than 40 per cent of Azerbaijan's GDP, and the oil industry accounts for more than 90 per cent of total foreign direct investment in the country.[22] It was not until 1998, however, that the long-term decline in oil production, which started in the late 1960s, was reversed. In 2006, the ninth consecutive annual increase in Azerbaijan's oil production was announced, though expectations on future oil production are now lower than some years ago and it is expected that production will peak around 2011 and fall rapidly afterwards.[23] Developments in the country's real GDP seem to mirror foreign investment trends in the oil sector closely. Following the collapse of the Soviet Union, Azerbaijan's real GDP plunged, contracting by almost 60 per cent from 1990 to 1995. By contrast, GDP has grown significantly every year since 1995.[24] It is expected that as a result of the opening in July 2006 of the pipeline from Baku via Tbilisi in Georgia to the Ceyhan Terminal on the Mediterranean coast of Turkey (BTC pipeline), oil revenues will contribute to a doubling of Azerbaijan's GDP by 2008.[25] Although lack of reporting, transparency and a considerable black economy undermine confidence in official figures and statistics, it seems safe to conclude that petroleum investments have reversed a negative trend for some macroeconomic figures. Nevertheless, Azerbaijan's dependence on oil makes it vulnerable to the Dutch disease. It is only now, in fact, that the real oil money is flowing into government coffers. According to BP, the country's oil export revenues are expected to jump from $2.9 billion in 2006 to $15–20 billion in 2010, depending on the oil price.[26]

The main barriers to economic prosperity and development in Azerbaijan are said to reside in its political system and societal structures.[27] President Heydar Aliyev, head of state since a bloodless coup in 1993, and re-elected in a controversial election to a five-year term in 1998, remained the leading political figure for a decade until his death in 2003. In October 2003, his son Ilham Aliyev was elected in an equally controversial election, leading to the greatest eruption of civil unrest since independence. The Azerbaijani constitution, adopted in 1995, set up a modern system of government based on a nominal division of powers between the legislative, judiciary and executive branches of state, but in reality it established a very strong presidency, designed arguably to reinforce, rather than moderate, the powers of the executive.[28] The most recent parliamentary election in November 2005 showed an improvement in some areas, but it was plagued by numerous irregularities and still fell short of international standards.[29] Networks of informal and kinship ties among state officials expose foreign investors to a difficult investment climate. According to Rasizade,[30] 'business has infiltrated all levels of government and is inseparable from the state'. Cohen adds that 'monopolies still dominate most of Azerbaijan's economy outside of the oil sector, and many are run by associates of the President'.[31] Another Azerbaijani observer points to the growth of monopolisation.[32] The political and economic systems are organised in such a way that they stimulate rent-seeking behaviour and short-term gain rather than long-term planning and development.[33] It should come as no surprise then that the country features at the bottom of Transparency International's corruption perceptions index for 2005.[34] Azerbaijan's human rights record continues to be bleak according to Human Rights Watch[35] and the official US 2005 human rights report for Azerbaijan, displaying a lack of respect for the integrity of the person, civil liberties, and political rights.[36] In short, human rights abuses, corruption, limits on civil society, and lack of control mechanisms to check the executive are likely to hamper social and economic development in Azerbaijan.

Finally, how the government's oil revenues are spent is of critical importance to Azerbaijan's economic and social development. According to World Bank statistics, some 47 per cent of the population live in poverty;[37] huge disparities in income are attributed to patronage and corruption among other things.[38] In 2001 a State Oil Fund (SOFAZ) was established, with the purpose of ensuring 'intergenerational equality of benefit with regard to the country's oil wealth, whilst improving the economic well-being of the population today and safeguarding economic security for future generations'.[39] Whether the oil fund really will deliver welfare to the people remains to be seen. It has been criticised by opposition parties for its investments in the petroleum sector and for not supporting diversification of the economy and by IMF economists for lax expenditure limits.[40] The IMF has also recommended the implementation of systems that would allow better monitoring of public institutions and their expenditures.[41] With the current regime and power structures in Azerbaijan, many observers believe that oil-led economic growth is not likely to benefit the public in the long-term, unless powerful actors—among them multinational oil companies—put pressure on the government to spend oil revenues more wisely.

BP and other foreign oil companies in Azerbaijan

BP is by far the leading foreign oil company in Azerbaijan, and its investment in the country is one of the company's biggest foreign operations. In the following we outline five of the most important CSR activities and achievements of BP and its partners in terms of addressing macro issues: (1) engagement with the government, (2) pursuit of oil revenue transparency, (3) community investments, (4) national and regional development and (5) local business development. It is too early to evaluate the broader effects of these activities or the future prospects for avoiding the resource curse. The aim here is, therefore, primarily to explore what BP is doing to address macro-level issues in Azerbaijan, and to discuss BP's achievements to date.

Engagement with the government

Most large oil companies, including BP, have traditionally been engaged in micro-level projects at the local level. Unlike many other companies, BP is generally abandoning the previously criticised focus on one-off sponsorships and donations in favour of a holistic longer-term approach to social investments. Collaboration with national and international NGOs and communities is another priority. What really separates BP from many other foreign oil companies, however, is the shift in the CSR agenda from micro-level to macro-level issues. While BP initially focused on traditional community projects and did not address any broader societal issues in Azerbaijan, the company has more recently adopted a policy of dialogue with government on macro-level issues.[42] Although framed as capacity building, it comes close to proffering advice on domestic policy: 'Engage in policy-making processes and offer assistance, as appropriate, on the development and implementation of policy agendas, which include for consideration addressing poverty alleviation, revenue management, and domestic energy'.[43]

Obviously, there is little or no information regarding the exact nature of the advice proffered or assistance given by BP in its talks with the government, but the company has spoken out on sensitive issues. Corruption in government is a particular concern. In 2002, David Woodward, President of BP in Azerbaijan, publicly stated that 'a clear distinction should be established between people in business and people in government, including a much clearer separation of the roles in those government bodies who currently act as both regulator and provider of services'.[44] When Woodward subsequently met with President Heydar Aliyev, he argued for the cessation of claims on advance tax payments.[45] Tax authorities demand generous advance tax payments, before taxes are calculated. Moreover, Woodward has also addressed revenue management, declaring that 'we are looking for ways to help facilitate responsible and imaginative stewardship of the State Oil Fund for the benefit of all Azerbaijani people'.[46] The Oil Fund is of course a key factor in the use of oil revenues.

BP not only comments or criticises government policies from the outside, it is treated as a legitimate participant in broader development processes. It is, for example, involved with the UNDP in their Poverty Reduction Strategy Plan, a broad poverty alleviation programme. When the final document was presented in October 2002 to an auditorium gathering of government officials, international organisations, NGOs and diplomatic missions, BP was the only company invited by the government to give a presentation.

Beyond BP's general public statements on the need for good governance and fighting corruption it seems that the company stops short of advice on specific concerns. In recent years the company has sponsored groups of independent economic experts who engage government representatives and agencies on a range of specialist issues. According to our interviewees, such sessions, where the requests and needs of the government are given attention, have sometimes helped facilitate badly needed coordination among government agencies, but there is no indication that they have addressed fundamental problems like corruption.[47]

Even if BP has made some bold pronouncements about involving itself in the solution of fundamental problems in the development of Azerbaijan, the company steps carefully to avoid sensitive issues likely to harm business activity. The explanation is partly normative—there are limits to how far a company should involve itself in the government of a sovereign country—but there is also a strong element of self interest: 'Can we push forward without undermining our business?'.[48] According to NGO representatives and critics in the political opposition, BP does not use its substantial access to and leverage over the government to address the fundamental development problems in Azerbaijan.[49] Some of the critique directed at BP is very harsh, and puts the company squarely in bed with the government in a grand conspiracy against the Azerbaijani people.[50] Many of the allegations seem to be based on poor information, but the point here is that BP—and the other oil companies—are not unequivocally regarded as a 'force for good'. On the other hand, the foreign oil companies, just like the international financial institutions, seem to feel that whatever leverage they had is shrinking with soaring oil revenues and the accompanying boost to the regime's self-confidence. Thus BP finds itself under pressure from several quarters. At the moment, a change in the ruling elite in Azerbaijan does not seem imminent, but changes in the future cannot be ruled out. Companies with long-term investment must also take this into account. In the short term company self-interest is clearly to be on good terms with the government, but over the longer term they must be sure they are accepted in society at large. These two concerns are not easily reconciled in a country with strong internal divisions and conflicts.

In conclusion, although the focus of BPs engagement with the government clearly has shifted from the micro-level to the macro-level, the company is careful to avoid upsetting the host government and undermining its business interests. Its actual engagement with the government does not seem to live up to some of the company's statements about contributing to the solution of fundamental development problems in Azerbaijan.

Oil revenue transparency

Openness with regard to the money paid by oil and mining companies to host governments has been a prime concern of several NGOs and is the focal point of the 'Publish What You Pay' campaign by Global Witness and other NGOs. A key issue in the discussions about transparency in the oil sector has been disclosure of so-called signature bonus payments.

Signature bonuses are one-off payments to governments for licences and can in principle be regarded as just one form of advance taxation. However, the sheer size of the instalments and the fact that they very often are undisclosed, are viewed as symptomatic of rampant corruption.

In a then rare act of transparency, BP went public with the bonus payments it had made in connection with the ACG oil fields and the Shah Deniz natural gas field developments at a press conference in April 2001. The Government of Azerbaijan had by then been paid $360 million. In 2002, the PSAs and host government agreements covering all the various projects where BP is involved were posted on the Internet.[51] Because of the legal status of PSAs as acts of Parliament, they have, in principle at least, been in the public domain all the way. But in reality it was extremely difficult to gain access to these voluminous documents. The decision to put the documents online was taken by the AIOC, which also includes the Azerbaijani State Oil Company—SOCAR, but it seems evident that BP was the driving force. As the company explained, this 'will lead to a clearer understanding of the payments we make to the government'.[52] Interestingly, whereas the disclosure was an unprecedented move internationally, no company seemed to argue against it in retrospect. Even SOCAR dismissed it as a practical expedient to increase accessibility, and later published all other PSAs in Azerbaijan.

The most important revenue transparency initiative in Azerbaijan is the Extractive Industries Transparency Initiative (EITI). Launched by British Prime Minister Tony Blair in 2002, it is a voluntary public–private initiative to increase transparency of payments made by extractive industries companies to the host government. Azerbaijan agreed to pilot the project, with foreign oil companies, local companies and national NGOs signing in 2004 a memorandum of understanding on its implementation. EITI is a triple component operation. Companies are obliged to report what they pay, in cash and in oil and gas volumes;[53] the government has to report what it receives; and an independent auditor (called Aggregator) reconciles the numbers and compiles reports. Azerbaijan became the first country in the world to join the EITI and there have been four EITI reports for Azerbaijan already.[54]

As the biggest foreign investor in Azerbaijan, BP has headed support of EITI, but 22 other foreign oil companies in Azerbaijan participate in the initiative. Three oil companies, namely BP, Statoil and Shell, also publish payments in addition to reporting them to the auditor (only the aggregated figure of oil companies' payments is published by the auditor).[55] The main weakness of EITI is the lack of reporting and monitoring of the government's *spending* of oil revenues. According to one prominent NGO, as long as spending is not monitored they are only able to do half the job; they know quite well what is being paid, but in the absence of transparency on spending there is little they can do with this information.[56] The significant crude oil black market in Azerbaijan,[57] which obviously is not reported, is another obstacle. A new law on freedom of information, adopted in 2005, in theory gives significant insight in oil revenue management, but in practice it remains extremely difficult for NGOs to obtain insight because government institutions do not respond to most requests for information on spending.[58]

Besides playing a lead organizational role among the oil companies participating in EITI, BP has worked with the government to facilitate expert advice on the management of the State Oil Fund and oil revenues. For example, BP supported an independent economic consultancy to help the State Oil Fund develop a software-based model of Azerbaijan's economy, with the purpose of strengthening the government's capacity to manage oil revenues and assess their long term impact on the economy. It seems safe to conclude then that BP, on its own and through EITI, has contributed to enhance oil revenue transparency in

Azerbaijan. However, EITI's failure to monitor spending of oil revenues remains a major barrier to reliable oversight.

Community investments

Significant community investments were committed during the construction work on the BTC pipeline.[59] On behalf of all four joint ventures, BP headed the Community Investment Programme, which ran community investments during the construction phase. Here, BP contracted international NGOs such as Save the Children to carry out projects along the pipeline, not only in Azerbaijan but also in Georgia and Turkey. It should be mentioned, however, that several NGOs campaigned to stop the construction of the BTC pipeline, and in connection with its official opening they accused BP of causing pollution, infrastructure damage, and social and economic disruption throughout the construction period. It was also alleged that titles to land was manipulated by authorities, diverting compensation paid by BP to the legitimate landowners to relatives of officials instead.[60]

Reflecting the transition from construction to operations, BP currently heads two major CSR initiatives on behalf of its consortium partners. The first is the Future Communities Programme, focused on communities in a two-kilometre-wide corridor on either side of the BTC oil pipeline and the parallel South Caucasus Gas Pipeline, as well as terminals and compressor stations. The social investments are operated by BP and financed according to oil companies' share in the pipeline consortia. While earlier community investments programmes run by BP in Azerbaijan operated on an ad-hoc basis, with little consistency and no clear connection to BP's business operations, the Future Communities Programme is primarily focused on mitigating non-technical risk in the operation of oil and gas activities and looks at the business case for social investments. Such projects give local communities a stake in protecting the pipeline. BP also contracts NGOs, local as well as international, in the on-going community investments work. The projects do not carry eye-catching company logos—there is a tendency to play down this aspect of the public interface. They play up instead identification with the pipeline projects.[61] Oil companies may also direct community funds beyond their proportion in the consortia into projects; this has been done by Statoil and Unocal.

In contrast to traditional micro-level CSR projects such as funding the building of schools and health clinics, the Future Communities Programme aims at enabling local communities to develop themselves by teaching them a set of skills and providing a toolbox to be self-sustaining. In each community, a community action group elected by the inhabitants is set up to identify needs and prioritize among them. The community is trained to work out a budget, write a proposal for a tender process, a procurement plan, project implementation plan, and long-term management plan. The training focuses on financial transparency and effective governance in all stages of the project. In this way, claim BP representatives, communities learn to plan and manage development projects in a transparent and effective manner. BP aims to engage local government authorities without giving them control and envisages that community investments also will be a learning experience for them. The programme also tries to involve regional governors, but deals only rarely with the central government.[62]

Besides enabling concrete community investments, the Future Communities Programme can be said to constitute a bottom-up approach to addressing the problems related to widespread corruption, lack of transparency and poor governance at the community level in Azerbaijan. These are key macro-level CSR issues and would most likely be controversial if they were raised as a matter of principle with the local authorities, but since they come wrapped in a community investment programme there does not seem to be any problem. That said, there is a lack of field studies that could tell us about the actual effects of the Future Communities Programme and we have not conducted such fieldwork ourselves. In a study of the Chad-Cameroon pipeline project in Africa, Pegg found that World Bank policy interventions designed to address the resource curse effects of large-scale oil production were sorely lacking in terms of on-the-ground performance.[63] It would be premature to draw any conclusions about the on-the ground performance of the Future Communities Programme in Azerbaijan, but the fact that programme activities are limited to communities nearby the BTC pipeline and other BP operations is clearly a limitation on the macro-level effects of the programme.

National and regional development

The second CSR initiative that BP operates on behalf of its consortia partners is the Regional Development Initiative. It was conceived in 2003 and became fully operational in 2005 after agreement with the other oil companies on financial commitments, internal governance structure, operational guidelines, and a three-year strategy and budget. The initiative is intended to enhance oil and gas partners' long-term business interests and contribute to sustainable socio-economic development in the Caspian region. Like the Future Communities Programme, it reflects the transition from construction of oil and gas installations to operation, and is managed by BP on behalf of four joint ventures involving 15 foreign oil companies and the state oil company SOCAR. The initiative covers Georgia, Turkey, and Azerbaijan, with 50 per cent of funding allocated to the latter, for the full lifespan of the projects. Unlike the Future Communities Programme, it is directly focused on macro-level issues and large-scale, country-wide and cross-regional programmes. According to a BP representative, 'it's an investment approach to development rather than the old philanthropy'. It also brings in money from the main lenders, particularly the European Bank for Reconstruction and Development (EBRD) and the World Bank, that basically match the contributions from the oil companies. The international financial organizations seem to have concluded that their leverage in Azerbaijan is diminishing by the day as oil export income soars. Cooperation with the oil companies is one of few vehicles allowing commitment to broader programmes that will not be subject to the whims of the government. Their participation has also spurred coordination among the oil companies. The proposed budget for both the Future Communities Programme and the Regional Development Initiative is currently about $20 million annually (see Table 1 for the budget for 2006).

TABLE 1. Future Communities Programme and Regional Development Initiative finances for 2006

USD million	Azerbaijan	Georgia	Turkey	Total
Future Communities Programme	2.75	1.90	1.50	6.15
Regional Development Initiative	6.00	4.00	2.00	12.00

Source: Partner Social Investment Meeting 29 August 2006, Regional Sustainable Development.

The Regional Development Initiative seeks to maximize its developmental impact by focusing on three core themes: enterprise development, effective governance, and access to energy. Focus has thus far been on enterprise development (see next section), but BP also sees a significant potential for enhancing effective governance through civil society capacity building, strengthening rule of law, and proffering expert advice and assistance.[64] Whereas the CSR efforts of foreign oil companies in other countries have been criticised for lack of developmental expertise in staff recruited from the echelons of the companies,[65] BP has hired specialists from outside the oil sector dedicated to managing CSR activities and development work in Azerbaijan.

The Regional Development Initiative is unique because it unites all oil companies in all four joint ventures led by BP in a common and long-term CSR partnership, and involve matters relating to social organisation and institution-building. All selected projects are run through a complicated vetting process by all consortia partners. BP and its partners have committed to the initiative for as long as the PSAs run, which will be for another 20 years, an extraordinarily lengthy period for a joint CSR project. We see again that the CSR agenda in Azerbaijan has clearly shifted from the micro-level to the macro-level. However, it is too early to draw any conclusions about the impact of the Regional Development Initiative, and it remains to be seen whether the initiative will be more successful than CSR initiatives hampered by lack of development expertise in other oil-producing countries.

Local business development

As mentioned above, enterprise development is one of three focal areas of the new initiative for regional development, but the foreign oil companies have actually been addressing this issue area for several years in Azerbaijan. In 2000, BP in partnership with Statoil and UK-based NGO International Alert, established the Enterprise Development Committee (EDC) to facilitate local business development. The idea was to encourage greater involvement of local companies in the oil sector in Azerbaijan through providing a forum where multinational oil companies and local companies could meet to discuss issues of mutual interests.[66] Specifically, EDC focused on how small and medium-sized enterprises could be assisted in capacity building to enable them to become service providers and subcontractors to the oil companies. EDC was restructured and re-emerged as the Business Development Alliance in 2002, but the activities of this informal alliance of like-minded companies and other stake-holders petered out and it was formally dissolved in June 2004. One reason may be that establishing an Enterprise Centre in 2002 on behalf of its consortium partners to facilitate local business development streamlined the key function of the alliance for BP.[67]

Within the new regional development scheme, formally connected to the business consortia, BP and partners have prioritized to help local suppliers access credit and develop micro-finance schemes. A new instrument allowing local companies to use their contracts with BP and partners as collateral has also been developed.

According to critics, the foreign oil companies nevertheless are failing to use domestic industrial capacity as much as they could,[68] but BP itself is quite satisfied with its achievements in engaging local companies as partners in the oil industry. According to BP, the direct spending with local companies in 2005 ‘resulted in Azerbaijani suppliers achieving the third highest level of in-country spend by revenue, after the US and UK, of any country where BP is represented’.[69] BP intends to double the value of contracts placed by Azerbaijan owned companies within five years (2010), amounting to an additional $250 million annually with small and medium-sized enterprises and local joint ventures and bringing its total spend with locally-owned companies to more than $500 million a year.[70]

In conclusion, BP has clearly had some success in engaging local companies as subcontractors in the oil sector and it has adopted ambitious targets for local business involvement. Despite those results and targets, however, Azerbaijan has yet to develop a viable non-oil sector. The fate of local companies dependent on contracts with foreign oil companies when the oil revenues decline in the not too distant future is also uncertain.

Conclusion

BP and other foreign oil companies have worked with the Azerbaijani government to promote transparency, knowledge-sharing and a stable investment climate. Azerbaijan has taken a lead in promoting transparency through EITI, not least as a result of the prominent position of BP in the country. The increased openness related to oil revenue payments and the activities of oil companies in recent years is significant, and the situation is clearly different from the early years of foreign investment. But the lack of transparency with regard to the government's spending of oil revenues remains a barrier to actual civil society oversight. While the allocation of funds to each ministry from the oil fund is in the public domain, it is impossible to follow the money thereafter.

Whereas earlier efforts to address macro-level CSR issues through voluntary collaboration among foreign oil companies were fairly unsuccessful, the more recent efforts discussed in this article link CSR activities to formal collaborative ventures in core activities, that is, the various joint ventures and PSAs. Thus it seems correct to say that they represent shared priorities among the oil companies and that there has been a general shift in such priorities. Earlier CSR projects financed by the consortia were strictly micro-level, whereas now they clearly exhibit macro-level elements. There seems to be no doubt, though, that it was BP, closely supported by Statoil, which took the initiative to expand the agenda. This lead taken by BP in establishing public goods in the CSR realm on behalf of its consortium partners goes beyond what could be expected relative to its share in the consortia. It supports our contention that the level of involvement in a host country is not the only thing to play on the level of engagement in the macro-level CSR field. Company policies reflected in willingness and commitment to address social and economic development in host countries are important as well. All of the NGOs and independent experts we interviewed confirmed BP's increased commitment to macro-level CSR issues relative to other foreign oil companies operating in Azerbaijan. That said, by linking the activities closely to the business consortia, BP shares the costs and political risk, as well as the benefits, of macro-level CSR investments with the other foreign oil companies.

Connecting the CSR initiatives to the business consortia means that decisions are made by cumbersome procedures. The alternative would be structures where the most interested and likeminded companies took part. Such a set-up could probably be smoother for BP, but in the long run it might drain commitment from other oil companies which are less interested in contributing to local business development. Experience from the past also suggests that it is difficult to sustain such informal structures over time.[71]

The fundamental problem for BP and other foreign oil companies wanting to contribute to social and economic development in Azerbaijan lies in the country's wider political system and the government's oil revenue management. Will the considerable revenues from the oil sector improve the welfare of Azerbaijan's eight million people, or will they only continue to benefit President Aliyev and his allies? Insofar as the really 'big bucks' from the petroleum investments in Azerbaijan are only now starting to materialise, it would be premature to draw conclusions. Moreover, many CSR projects are still on the drawing board and the broader and long-term effects of the community investments and regional development initiatives remain to be seen. Although a negative trend in GDP development was reversed with increasing oil production, Azerbaijan displays several of the features of the resource curse thesis. An examination of indicators tapping development of non-oil sectors of the economy and social and economic development for the population at large paints a bleak picture. The conclusion is clear: thus far, oil revenues have neither led to development of non-oil sectors of the economy nor to any country-wide distribution of benefits.

While BP on behalf of foreign oil companies in the consortia is developing macro-level CSR policies in Azerbaijan, it risks having all these efforts to promote social and economic development undermined by the host government's macro-economic policies and lack of commitment to develop democratic and publicly accountable political institutions. Indeed, parts of the little opposition that exists in Azerbaijan hold the oil companies directly responsible for the government's misuse of income. In the long run, the problem for BP and other foreign oil companies is that when oil and gas start running out in Azerbaijan some 20–30 years down the road, they risk leaving a country that is no better or even worse off than when they arrived.

As oil revenues flow into the country, Azerbaijan has a unique historical opportunity to reduce poverty, develop other industries in addition to oil and gas, and provide welfare and political opportunities for all citizens. The government has taken some steps in the right direction, but has thus far not been willing to address the fundamental structural problems related to the resource curse. This is both a worry and a challenge for foreign oil companies operating in the country. The future social, economic and political development of Azerbaijan is not only critical to its citizens but also to the credibility and reputation of BP and other oil companies which value their image as responsible businesses.

More generally, this article shows the challenges related to measuring the societal effects of CSR activities. We have seen that BP has moved from a focus on micro-level activities to a focus on macro-level activities in Azerbaijan. It seems warranted to conclude that BP not only in terms of *rhetoric* but also with regard to CSR *activities* goes over and beyond most other oil companies in addressing macro-level issues. The key problem is that we do not have enough field research to evaluate the macro-level *impact* of such CSR activities to date.[72] Studies of foreign oil companies in other developing countries show that companies fail to address the crucial issues of governance and the negative macro-level effects that they cause in host countries.[73] A critical research agenda is needed to evaluate the societal effects of CSR activities in the developing world.

Notes

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