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International Finance Corporation  
Executive Directors  
2121 Pennsylvania Ave., N.W.  
WASHINGTON D.C. 20433  
U.S.A.

Date: 26 September 2003 Our reference: ECA-03-552 *WES/FV*  
Subject: Baku-Tbilisi-Ceyhan pipeline

Dear executive directors,

Novib (Oxfam Netherlands) appreciates the commitment IFC has shown to improving transparency in the extractive industries, especially in a resource rich country like Azerbaijan where good governance is weak. You have already asked BTC (and BTC has agreed) to 'publish what they pay' and the governments of Georgia and Azerbaijan have agreed to 'publish what they receive'. We agree with IFC's view that transparency, supported by the commitments made in the PRSPs, is one of the most effective ways to ensure that revenues will be wisely spent.

However, based on general and local NGO apprehensions, Novib would like to share its concern with you regarding the transparency of the oil income in Azerbaijan. Our main concern is that the State Oil Fund is not transparent to the public and functions as a closed entity. We would like to ask IFC to use its power to effect the following changes to the State Oil Fund:

- In order to prevent inappropriate expenditure of oil revenues, the aim, working principles and mechanisms of the Fund have to be specified and legally embedded. In our opinion this fund should be one of the key tools to alleviate poverty and to diversify the economy of Azerbaijan.
- In order to improve democratic accountability, the Fund has to be held accountable before the Milli Mejlis (parliament) and needs to improve its governing mechanisms by intensifying public control over its activity.
- In order to ensure an efficient and integrated approach to poverty alleviation and diversification of the economy, efficient co-ordination and integration must be ensured between the activities of the Fund and the state budget.
- In order to allow for public scrutiny, the short, medium and long-term government programs financed by the Fund have to be elaborated and made public.

In addition to this transparency issue, we would like to draw your attention to the need for the creation of community monitoring mechanisms to track the potential effects of the pipeline. Ongoing monitoring of the social and

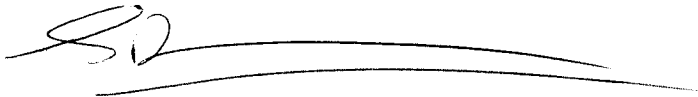
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environmental impacts of the pipeline project, as well as monitoring of poverty alleviation impacts of its revenues should become important elements in this project. For the local communities it is important that clear grievance procedures and effective means of communicating with BTC will be developed. For example, the mitigation and oil spill prevention mechanism should as soon as possible be made public and accessible.

In the light of recent suppressive developments related to the upcoming elections in both Georgia and Azerbaijan, Novib would like to express its concern about the lack of progress in the democratic transition process and the impact that this could have on the fight against poverty in these countries.

We hope that you will take these remarks into consideration when considering the financing of the Baku-Tbilisi-Ceyhan oil pipeline during the coming weeks. If IFC decides to finance this project we would suggest that IFC in its own monitoring procedures and practices for this particular case will not hesitate to incorporate specific benchmarks bearing on the issues raised in this letter.

Yours sincerely,



Sylvia Borren  
Director