Large, complex projects in high-risk environments, such as the Baku-Tbilisi-Ceyhan (BTC) Pipeline development, make up a small proportion of IFC’s overall portfolio yet receive the largest amount of scrutiny—both externally by concerned parties, and internally in terms of staff time and resources required for social and environmental supervision. Generating good project outcomes requires extensive consultation to involve all stakeholders in the decision-making process—from the project sponsor and local communities, to financial partners, governments, and international NGOs. Accommodating all these interests involves complexity and trade-offs, and remains one of the challenges of development for IFC.
Project Overview

The 1,760 km BTC Pipeline is a multibillion-dollar oil pipeline through Azerbaijan, Georgia, and Turkey, led by a consortium of international oil companies. IFC and the European Bank for Reconstruction and Development (EBRD) are spearheading a group of lenders providing $2.6 billion in financing.

Despite the high level of commitment demonstrated by the project sponsors, regional investment projects of the scale of BTC present complex social and environmental challenges. In this atmosphere of increasing expectations, BTC has become a test case for IFC’s ability to mobilize communities, clients, and partner institutions toward sustainable project outcomes. Three IFC social and environmental specialists worked almost full-time on the BTC project for nearly two years, and two specialists continue to work full-time on the project.

Community Consultation and Disclosure

Project disclosure and transparency remain a controversial issue in extractive industry projects, as affected communities rightly demand forums for public consultation and greater access to project information. At IFC’s request, the project sponsors and governments released the Production Sharing Agreements (PSA) and the Host Government Agreement (HGA) in order to inform civil society and reduce misinformation regarding the project. Additionally, the BTC consortium and IFC have conducted extensive consultation with a wide range of potentially affected and interested parties. In this ongoing process, we engaged communities, local and national authorities, and NGOs through face-to-face discussions and formal meetings. A multi-stakeholder consultation program was conducted in all three countries, together with EBRD, and attended by more than 800 locally affected people. The process provided a number of lessons on improving facilitation and mediation between diverse interest groups.

The BTC project generated probably the largest, most comprehensive set of Environmental and Social Impact Assessment (ESIA) documentation ever released by an IFC client—46 volumes with more than 11,000 pages. IFC worked with BTC to ensure that the findings of the assessment were articulated meaningfully to affected parties, distributing 100,000 nontechnical summaries in relevant languages, and took the step of producing a detailed public response to comments received in the 120-day disclosure period for the impact assessment, prior to consideration of the project by IFC’s Board.

Resettlement and Compensation

The pipeline traverses 17,700 individual land parcels with a total of 60,000 landowners involving complex land tenure systems across three countries. IFC and BTC worked to ensure there was no physical displacement of any households along the entire 1,760 km pipeline route.

IFC provided substantial guidance to BTC on the Resettlement Action Plan and the preparation of the user-friendly summary documents known as the Guide to Land Acquisition and Compensation (GLAC). Over two and a half years, BTC consulted every current land user, including all villages within 2 km of the pipeline and those villages within 5 km of construction camps and facilities. Although groundbreaking, the process would have greatly benefited from
improved communication between consultation teams to disseminate real-time lessons. The use of independent NGOs to assist in the land acquisition process was effective and could be replicated in other projects.

The GLAC proved to be a valuable document in consultation and disclosure. Less than 2 percent of affected landowners have raised issues or complaints related to land compensation, indicating that local people are aware of, and satisfied with, compensation rates that are higher than local market rates. On projects that have numerous landowners and complicated land tenure systems, clients should be encouraged to provide a GLAC as best practice.

Community Investment and Business Linkages

IFC has helped BTC develop a Community Investment Programme (CIP) to help local communities benefit from socioeconomic opportunities. Engaging with implementing partners and local NGOs and with the active participation of communities, the CIP has developed a variety of projects in Azerbaijan, Georgia, and Turkey related to community healthcare, microfinance, upgrading of local infrastructure, agricultural support, and energy efficiency. Successful linkage projects have provided technical assistance to 30 SMEs in Azerbaijan which have received $50 million in new supplier contracts to BTC. A new initiative is the mobile "Energy Bus" equipped with inexpensive renewable energy and energy efficiency products to benefit rural communities in Azerbaijan and Georgia. The bus, supported by IFC, British Petroleum, and the Organization for Security and Cooperation in Europe (OSCE), demonstrates solar water heaters, sawdust heaters, wind-powered generators, and biogas units to produce cooking gas. IFC will assist local enterprises in manufacturing these products by helping them to raise funds from local microfinance institutions.

Continuing Challenges

Despite the efforts undertaken to date, many challenges remain for the BTC project. Civil society lodged 14 separate complaints to IFC’s Compliance Advisor/Ombudsman during FY04 regarding social and environmental aspects of the project. These complaints raise concerns over the effects of the BTC pipeline development on sensitive natural areas and natural resources, including water sources along the pipeline route; on aspects relating to pipeline safety and construction, including disruption and damage to property and services and inadequate mitigation measures; on the actual and potential impact of oil spills and other potential negative project impacts on local communities; and concerns related to information sharing, consultation, loss of income, and compensation. IFC will continue to work with the CAO, BTC, and affected stakeholders to resolve outstanding issues. For full details of these complaints, see [www.cao-ombudsman.org](http://www.cao-ombudsman.org). For more information on the BTC Pipeline, see [www.ifc.org/BTC](http://www.ifc.org/BTC).
REVISING OUR APPROACH TO EXTRACTIVE INDUSTRIES

A three-year independent review of the World Bank’s role in the extractive industries solicited inputs from a wide range of stakeholders—governments, civil society, industry, and academics—on key issues facing the World Bank Group in oil, gas, and mining. The Extractive Industries Review’s findings revealed that our projects had a strong track record of positive economic impacts in terms of generating tax revenue, jobs, technology transfer, and the introduction of higher social and environmental standards. Nevertheless, the central message that emerged from the process was that the World Bank Group must improve its approach on three levels: at the country level, by helping to ensure that governments make the best energy choices and manage project revenues wisely; at the sector level, by ensuring full implementation of our social and environmental standards; and at the project level, by placing greater emphasis on local community concerns.

While the World Bank Group will continue to help its member countries to develop extractive industries, we will also work actively with governments, stakeholders and other investors to ensure greater focus in a number of key areas. IFC’s Board has agreed on the steps necessary to move forward and will be monitoring implementation of these measures with our management.

Good Governance Indicators
To ensure a shared understanding of development goals, we will develop more explicit ways of measuring how extractive industry projects impact the poor. We will agree with stakeholders on good governance indicators in the assessment and design of projects, and use those indicators to track and report on progress.

Revenue Transparency
To ensure the transparency of project revenues, we will immediately begin requiring disclosure of revenue figures for all new major extractive industry projects. We are already working with several countries, such as Azerbaijan, Kyrgyzstan, and Nigeria, to do so through the Extractive Industries Transparency Initiative.

Cleaner Energy Alternatives
To ensure that the governments of poor nations are offered cleaner energy alternatives, we will increase our lending for natural gas projects, and, as announced at the 2004 International Conference on Renewable Energies in Bonn, Germany, the World Bank Group has committed to an average growth rate of 20 percent per year over the next five years in its annual financial commitments for renewable energy and energy efficiency projects. IFC, as a part of the World Bank Group, will contribute toward the achievement of this objective. We are also stepping up our leadership role to develop a broader agenda on renewable energy—one that includes policy reform, research, and financing.

Meaningful Consultation
To protect the interests of local people directly affected by extractive industry investments, we will only support projects in which the affected communities, including indigenous peoples, are engaged through meaningful consultation that is timely, well-informed, and uncoerced, and that leads to broad community support.

For more information, see www.worldbank.org/ogmc and www.worldbank.org/eirresponse

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