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The Contribution of Foreign Oil Companies to Human Capital Development in Azerbaijan: The Case of BP's CSR Program

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Abstract

This article provides an assessment of the contribution of BP to Human Capital Development (HCD) in Azerbaijan, focusing on the oil boom years (2007–2014). Its corporate social responsibility (CSR) agenda has included activities targeting HCD through both the employment of nationals stipulated in local content requirements and 'social responsibility investment projects.' Additionally, BP has invested in a number of projects that train students and professionals involved in the oil sector. I argue here that the contribution by BP to HCD has not gone beyond the traditional CSR investment pattern of major oil companies. Company activities have focused mainly on project-affected regions or in and around the Baku area, and most of the education investments of this firm have targeted professionals in extractive industries. This raises the concern that the post-oil legacy of the company in terms of HCD will be very limited. This is partially the result of the weakness of a state-led policy framework on HCD, which could be effectively complemented by the activities of BP.

CSR and HCD in Azerbaijan

During the years of the oil boom, human capital development (HCD) fell far behind the levels of economic growth in Azerbaijan. The current realities of low oil prices clearly demonstrate the inability of the country to convert its resource revenues into a source of sustainable wealth. The failure of Azerbaijan to nurture skilled and diversified human capital resources to support other industries for economic diversification has reinforced the dependency of the country on non-renewable resource income.

The dominant discourse in natural resource governance theory claims that investments in health and education (which are the main components of HCD) are the best way to grow human capital. By number of projects, BP has been the biggest international oil company operating in the country, and Azerbaijan has long been one of five major growth points for BP. An overview of the CSR policies of BP mirrors the formal sense of responsibility of the company towards the community, expressed in the form of investments in educational and social projects. BP has always been at the forefront of CSR policies in Azerbaijan and has publicly expressed its commitment to contributing to the development of communities in Azerbaijan. Thus, we can analyze the contribution of the CSR policies of BP to economic diversification in Azerbaijan via human capital development during the oil boom years as a test case for the role of oil corporations in sustainable development processes.

Before coming specifically to the social investment policies of BP, it is worth mentioning that CSR has become a somewhat infamous practice among companies in Azerbaijan. Meaningful CSR strategies have been scarce, and in most companies, CSR activities have taken the form of sporadic social investments or blunt philan-

thropy. Moreover, no governmental initiatives exist to promote the conduct of such meaningful CSR policies. The only body monitoring and awarding companies for best CSR practices is the American Chamber of Trade in Azerbaijan, which is also a recently established practice.

When 'done right,' the social investments of oil companies can play a pivotal role in facilitating the economic diversification of resource-rich communities. Given the finite nature of natural resources, the main objective of social investments in resource-rich developing countries should be to facilitate development beyond the extractive industries. Investments in human capital are typically the cornerstone of promoting such economic diversification with a long-term perspective. The terminology used of achieving a "Social License to Operate" (SLO) suggests that the primary intention of social investments should be for the benefit of host communities. Nevertheless, in practice, SLO serves companies in ensuring smooth operations by building corporate-community relations. Moreover, if social investments in education and skills training target the employment of beneficiaries for further project activities, this facilitates only single-fold economic development.

Despite the embrace of CSR activities by major companies, a number of researchers remain critical and call CSR a mere "window dressing" rather than an effort to make a meaningful contribution to sustainable development.

The Oil Boom and the CSR Policies of BP in Azerbaijan

From the point of view of a company, the main business motivation behind CSR is the improvement of its reputation and the consequent benefits for competitiveness. Moreover, most companies comply with CSR require-

ments merely to avoid criticism from government or political action groups. In the case of BP, the company does not have to ‘share the crown’ of being the foremost international oil company in Azerbaijan with anyone.

According to scholars analyzing the latest developments in CSR (see Frynas 2009; Frederiksen and Nielsen 2013), societal expectations from international companies in terms of their social engagement has grown over the last decade. Thus, companies are expected not only to sporadically invest in philanthropic projects but also to spur sustainable development in the societies in which they operate. The strong support of the host government for BP projects, however, already ensures the credibility of the company among the population. In addition, the weakness of local civil society allows BP additional room to decide on its social investments independently. Nevertheless, one of the major motivations for the company to act in a socially responsible way is the fact that ethically irresponsible behavior could cast a shadow of distrust on the international reputation of BP. Moreover, CSR policies became of special importance for BP after the Deepwater Horizon oil spill in 2010: since that disaster, the company has been trying to rebuild its image as a socially and environmentally responsible company.

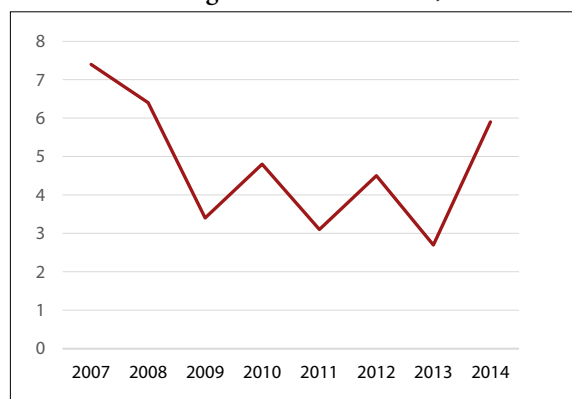
Policy papers on this topic suggest that HCD investments by corporations can be undertaken in two ways: 1) education, to contribute into knowledge acceleration; or 2) skills development programs, for raising employment rates. In the case of BP, one of the most significant obligations in terms of HCD was the ‘nationalization’ of the work force. The employment and training of a national work force was part of the local content obligations, stipulated in Production Sharing Agreements between BP and the government of Azerbaijan. For example, according to the Shah Deniz agree-

ment, an amount in excess of \$200,000 should be spent annually to train Azerbaijani citizens. According to the latest Sustainability Report (2014), 86% of its permanent employees are Azerbaijani nationals. We should bear in mind, however, that the oil sector is capital-intensive and employs a limited number of people. Nevertheless, a major part of the investment by BP was directed towards implementation of this goal, pursued through a number of projects. For example, since 2002, BP has been granting bursaries for undergraduate and graduate students in engineering and geosciences studying at a number of universities in Turkey and Azerbaijan. By 2014, \$692,000 had been spent on this program, with \$153,000 allocated for future recipients. BP also invested \$2.5 million in Qafqaz University, which was allocated towards establishing new departments and laboratories in chemical, mechanical and civil engineering programs. The company allocated \$59,000 for 60 bursaries for students in oil and gas related fields to allow them to take an English language course. A further program was offered to students of sedimentology and structural geology for a summer course in geology. In collaboration with the state oil company SOCAR, BP provided vocational training for individuals from the Garadagh district, with a view to employing them later as technicians.

One of the most important CSR projects of BP—the Enterprise Development and Training Program (EDTP)—can also be classified as an investment designed to meet the obligation to ‘nationalize’ the supply chain. EDTP was launched in 2007 to support local companies in meeting international standards of production and becoming competitive, at least on a regional level. The project aimed to promote the supply of products and services to industries in the region by participating companies, thereby contributing to economic growth. As a result, in 2014, the companies involved secured contracts worth a total of \$542.7 million. A large share of this (\$348.4 million) was services provided to BP in Azerbaijan.

Therefore, once we review the projects that in one way or another served the business interests of BP, most of the education projects were conducted in project-affected communities. For instance, one of its more famous CSR activities, ‘PCs4KIDS,’ was designed to provide 110 rural kindergartens in regions traversed by a BP pipeline with computers. BP also installed heating systems in schools in the Yevlakh region, which increased attendance in winter. The company invested in repairs to kindergartens in Yevlakh and Ujar with the goal of improving pre-school education. Nevertheless, all these projects were conducted in project affected communities as “an effort to compensate” for the negative effects of pipelines on the livelihood of communities, rather than a proactive project serving only the social good.

Figure 1: BP’s Social Investments in Azerbaijan During the Oil Boom Years, mln. USD



Total social spending of BP in Azerbaijan from 2007 to 2014 was USD 38.2 million.

Other educational projects include joint projects with USAID and AMCHAM—for example, the Youth Leadership Project for 120 students from Baku and Ganja to help develop business management skills through internships and a project for preschool education among young children in the Deller Jirdakhan and Duyerli regions. One of the biggest non-industry related education projects, with a budget of \$2 million, was the School of Project Management, through which students could earn an Associate's or Master's Certificate in project management from George Washington University.

What Are the Major Obstacles and Major Shortfalls for BP?

Gulbrandsen and Moe (2007) argue that the commitment of BP to promoting social and economic development with CSR programs is undermined by the macroeconomic policies of Azerbaijan and the absence of democratic and accountable political institutions. Representatives of BP in Azerbaijan have frequently repeated their commitment to complementing the development policies of the state. Here, shortfalls of the government in assuring the efficiency of social investment by BP can be extended further, given the absence of any rigorous sustainable development strategy of the government with which the company could carry out its investment projects. HCD is an essential part of a sustainable development strategy, and developing a mechanism to assess the human capital situation in a country is an important tool for meaningful HCD planning. The Development Concept adopted in 2012, "Azerbaijan-2020: Look into the Future," defines the acceleration of the competitiveness of knowledge-based industries as a priority. This document, however, provides neither an assessment mechanism for the current stage of human capital development, nor any clear strategy by which the government is planning to meet that goal. Overall, except the report prepared by UNDP in 2007, "Black Gold into Human Gold," there is no holistic assessment or advisory document setting an integrated HCD strategy for Azerbaijan.

Conclusion

There is a growing consensus that coordination and communication between extractive companies, governments and local communities is the key for assuring a meaningful CSR strategy. Testing the practices of BP within the relevant statements of the report will help us to summarize assessment of its success and shortfalls in contribution into HCD in Azerbaijan:

1. Inclusion of local community members into the process of identifying social investment projects. Participation of people in the project design and implementation is crucial for preventing depend-

ency culture and will make the impact of social projects sustainable. Skills and abilities gained will be valuable assets for a community to "help itself" once the company is out of the country. BP involved community members by interviewing them at the needs assessment stage of several projects. The project design part, however, was mostly implemented either by Baku-based international or national NGOs, or by in-house experts at BP.

2. Alignment of social investment projects with government policies. This can also prompt a collaborative approach, as governments have valuable assets such as local knowledge. Moreover, joint projects and shared-use mining infrastructure would take the impact of social investments a step further. Nevertheless, the only cooperation we see between the government of Azerbaijan and BP in terms of social investments is from its legal obligations. Even interactions of BP with the national oil company SOCAR do not seem to bring any perspectives on HCD beyond policies targeting employment in the energy sector. Since 1992, SOCAR has been performing the role of executor of government policy with the aim of maximizing the benefits of oil revenues for the country. SOCAR annually confirms the annual budget of BP Azerbaijan, which includes spending on social activities. Nevertheless, if we consider the state oil company as a responsible body for setting out an example of a successful CSR policy, then examining its activities to date will demonstrate that the company did not have any concrete CSR framework, and none of the investments were specifically targeting HCD, except the project to build schools across the country. Taking a different perspective, one can also say that BP as a company with an extensive experience of CSR failed to transfer knowledge and skills in the field of social investments to the state oil company of the newly independent country.
3. Members of civil society can play a crucial role in identifying issues and capacity building of local governments with oil companies. Members of civil society were involved in several BP projects addressing the needs and expectations of the community. This practice was especially proactive when the company was working on projects for project-affected communities. Otherwise, especially given the drastic weakening of civil society in Azerbaijan, there is currently no testing body that would push the limits of the CSR activities of BP.

Information about the author and recommended reading are overleaf

About the Author

Nazaket Azimli is working as the Communications and Development Manager for Eurasia Extractive Industries Knowledge Hub, Khazar University. She also is an adjunct lecturer in World Economy and Energy Diplomacy at Khazar University. Her previous research work examined communication strategies of Sovereign Wealth Funds and developmental challenges of emerging economies.

Further Reading:

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