

DECEMBER 2010

OVERVIEW

IIED Sustainable Markets Group/FIELD

Project name:

Enhancing the stability of the oil and gas investment climate in the Republic of Kazakhstan

Project leaders:

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Time frame:

2009–2010

Cost:

£170,000

Objective:

To stimulate dialogue among industry, government and civil society on oil and gas investment in Kazakhstan, with the aim of encouraging policies and practices that make the sector more economically, environmentally and socially sustainable.

PROJECT SUMMARY

Over the past few years, Kazakhstan has initiated fundamental changes to policy and law governing its oil and gas industry. To improve multi-stakeholder dialogue around this policy shift, IIED, funded by the UK Foreign and Commonwealth Office, organised a series of workshops on oil and gas investment in the country, inviting national and local government, oil and gas companies, NGOs and researchers. Four themes were covered: legislative change, 'local content', companies' investment in community development, and environmental issues. Participants built trust and gained greater legal and practical understanding of these topics, and there is evidence that the dialogues influenced organisational practices and the new laws.

THEORY OF CHANGE

In recent years, Kazakhstan's government has sought to maximise the benefits of foreign investment in oil and gas by exerting greater control over the sector. Laws and policies promote sustainable

Opening up oil and gas policy in Kazakhstan

A series of dialogues on oil and gas investment in Kazakhstan created new lines of communication between government, industry and civil society.

Can Kazakhstan escape the 'resource curse' — the negative development trends that plague developing countries with plenty of oil or other buried riches? The question has received wide attention in a country where revenues from oil and gas contribute about 11 per cent of GDP. The oil industry appears to be contributing to overall human development in the country: Kazakhstan ranks 66th in the 2010 Human Development Index, compared to 80th in 2005. But to maintain this success — and ensure that the oil and gas sector operates sustainably — leaders will have to steer carefully, and some gaps and obstacles are apparent.

President Nursultan Nazarbayev, the former Communist First Secretary who has headed the nation since independence in 1991, is prioritising economic growth over democratisation. Civil society organisations rarely engage in debates on oil and gas development, although the communities they represent are often the most directly affected; their concerns include the health impacts of pollution and gas flaring, the economic inequalities created by the oil boom, and the use of 'social investment' funds that companies provide for local community development. And recently, legislation was drafted that puts oil and gas under stronger state control. Industry players have warned this could discourage investment — and with contracts being renegotiated and shares contested, international oil companies and

government officials find it difficult to build dialogue and trust that would align industry activities better with government development goals.

From 2006–2007 IIED researcher Halina Ward was based in Kazakhstan. To open better communication lines between government, civil society and oil and gas companies, IIED held a round-table meeting in 2007. Participants identified the main issues around oil and gas investment and sustainable development, and agreed to move the dialogue forward through a series of multi-stakeholder meetings that could build common ground and strengthen relationships.

Dialogue design

A key challenge was getting people with respected voices and decision-making power to take part. This required putting time and effort into building relationships, preparing participants and convincing people — especially government — of the importance of being there. As IIED did not have an institutional partner, we relied heavily on individual liaisons to do this groundwork, using their own contacts. We also experimented in working with potential local partner organisations, but had negative experiences with one such organisation and their subcontractors. This underlined the need to check that institutional partners have appropriate expertise and their subcontractors agree on basic values and methods. Much more successful was our

development concepts, but there are restrictions on democratic institutions that might hold government and industry to account. In this context, multi-stakeholder dialogue in a neutral space, supported by sound analytical research, can promote sustainable development and good governance by fostering mutual trust and understanding. Participants can influence evolving legislation and grasp the challenges of implementation; government can explain the intent of the law; and industry can share views on how the law might play out in practice. Civil society organisations are rarely involved in such discussions in Kazakhstan, so including them helps build acceptance of their role in promoting good governance. IIED acts as an unbiased convenor, ensuring that the right players are present and credible analysis underpins the dialogues.

KEY LESSONS LEARNT & INNOVATIONS

- Getting the right people round the table was critical, and required time and effort to build relationships in advance. The involvement of civil society organisations raised their profile with government and industry, while training workshops prepared them to engage more meaningfully.
- The relevance of the discussion themes and the quality of the background materials was important for participants. Because the dialogues took place when legislation was evolving, participants could build understanding of the new laws and the challenges of implementation.
- Participants valued the time allotted for open discussion. Maintaining a neutral space, without media participation or evidence of any political bias, led to more open and frank discussions.

PARTNERS' VIEW

At conferences there is usually no time for in-depth discussion. They have back-to-back presentations, with no time for questions before they announce the coffee break. These meetings were different.

Ministry of Environment representative, Kazakhstan

IIED SUSTAINABLE MARKETS GROUP

The Sustainable Markets Group drives IIED's efforts to ensure that markets contribute to positive social, environmental and economic outcomes. The group brings together IIED's work on market governance, business models, market failure, consumption, investment and the economics of climate change.



Photo: Shutterstock/Tracing Tea

Targeting key sectors: revenues from oil and gas contribute more than ten per cent of GDP in Kazakhstan.

invitation to local NGOs to join the dialogues — a rare opportunity in Kazakhstan that raised their profile with government and industry. An IIED training workshop on the elements of investment contracts and how they are negotiated helped some NGO participants engage more meaningfully in the dialogues.

During the 2009–2010 meetings, we allotted maximum time for free discussion by using background papers to anchor the dialogues, rather than long presentations. Such venues for free exchange on structured topics are scarce in Kazakhstan. To get participants speaking openly, we needed to create a politically neutral environment — a difficult task, as many perceived competing interests among other groups at the table, and even from the UK government, who funded the meetings. Participants reacted negatively to the one meeting that had a strong media presence and was led by a research institute viewed as politically biased.

Impact and influence

The dialogues were relevant, timely and well-received, according to a review conducted afterwards. They fed into the drafting and implementation of new laws, and evidence suggests they had a tangible effect there, as well as on awareness and practices within organisations. For instance, after the dialogues, provisions on how the government grants rights to subsurface resources were amended and provisions affecting access to international arbitration were clarified. It is, however, difficult to attribute direct influence over legislative and policy changes as IIED's

meetings coincided with other efforts in Kazakhstan to encourage discussion among stakeholders on oil and gas policy.

Our participants included people responsible for drafting the legislation, who discussed it openly at a time when the government was generally reticent to do so and when some provisions — such as 'local content' rules that require international companies use local contractors — were still being formulated. Also important was the provision of good-quality background materials in Kazakh, Russian and English. Several participants, including government and industry representatives, later used the materials at work — in one case, as background for a public speech — and shared the information widely with colleagues.

As a result of this project, IIED has cultivated good relationships locally and is seen as a neutral broker with a concern for sustainable development. There is considerable interest in further dialogues. To build on this foundation and achieve greater impact, we would need to develop deeper institutional partnerships and longer-term project-based work. We also believe this dialogue format could be replicated in other countries of the Caspian region. As Kazakhstan works to sidestep the resource curse, it can generate valuable lessons for this whole oil-rich area.

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