

EITI AND SUSTAINABLE DEVELOPMENT

Lessons and new challenges for the Caspian Region

Saule Ospanova, Ingilab Ahmadov, Emma Wilson

2013



SHAPING
SUSTAINABLE
MARKETS

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ACRONYMS AND ABBREVIATIONS

CSO	civil society organisation
EBRD	European Bank for Reconstruction and Development
EITI	Extractive Industries Transparency Initiative
IBP	International Budget Partnership
MSG	multi-stakeholder group
NGO	non-governmental organisation
NCOC	North Caspian Operating Company
NSC	National Stakeholder Council (Kazakhstan)
OSCE	Organization for Security and Co-operation in Europe
OGP	International Oil and Gas Producers' Association
PSA	Production Sharing Agreement
PWYP	Publish What You Pay (coalition)

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FOREWORD

Increasing demand for minerals and concerns about energy security are driving new exploration and production in oil, gas and mining. Many emerging economies see extractive industry development as a huge opportunity for improving living standards and the status and economic prospects of their country. But global experience shows that many resource-rich countries lack the strong institutions, accountability and enforcement mechanisms needed to ensure that natural resource wealth translates into tangible benefits for their citizens and ultimately contributes to sustainable development.

Improving the transparency of payments made to governments by mining, oil and gas companies has been hailed as one way to avoid the 'resource curse' – wealth from natural resources being misappropriated and misused.

The Extractive Industries Transparency Initiative (EITI) is a voluntary global initiative to promote revenue transparency in the oil, gas and mining sectors, which became operational in 2006–07. The EITI is a coalition of governments, companies, civil society groups, investors and international organisations. Signatory governments are required to declare the revenues they receive from companies, and the companies operating in those countries are required to declare what they pay. Participation in EITI has grown significantly over recent years – 37 countries have now signed up; 20 are now Compliant.

IIED's Shaping Sustainable Markets (SSM) initiative explores the use and impact of market governance mechanisms – these are the formal and informal tools that change the behaviour of individuals, businesses or governments so that their decisions promote sustainable development. The EITI is of interest to SSM because of its role as a multi-stakeholder-driven market governance mechanism that aims to provide information to civil society (as well as other governments and investors) on the payments that companies make to a government for a country's natural resources.

SSM is interested in the extent to which the information provided by EITI, combined with its multi-stakeholder platform, promotes the sustainable use of natural resource wealth (or at least reduces the likelihood of misuse). Does it incentivise those making and receiving the payments to behave differently? And is civil society able to use the information generated to hold governments and companies to account? And is there potential for EITI to move beyond transparency to push for better use of natural resource payments, or are we expecting too much from such an initiative?

In 2013 the EITI Board will finalise a new set of EITI rules at its international conference in Sydney, Australia. This discussion paper highlights some key issues and challenges related to implementation of EITI and broader issues of

transparency and good governance in the extractive industries in Azerbaijan and Kazakhstan. It also considers the case of Turkmenistan, which is not a signatory of EITI but has expressed some interest in learning about the initiative. The paper draws on a series of dialogues in the Caspian Region, organised by IIED and partners, and funded by the UK Foreign and Commonwealth Office and the Soros Foundation–Kazakhstan. The report aims to inform the forthcoming meeting and the future design of EITI. It can also help to inform the public and other stakeholders working towards EITI implementation in the Caspian Region.

This paper makes an important contribution to the existing knowledge base and the questions that Shaping Sustainable Markets is seeking to answer.

EXECUTIVE SUMMARY

The Extractive Industries Transparency Initiative (EITI) is sparking renewed interest and debate on issues such as transparency of government – company contracts, reporting on revenues from natural resources by company and by project, and reporting on revenue expenditure. An overarching concern is how to focus the momentum generated by EITI so that revenue transparency ultimately leads to better sustainable-development outcomes, including socio-economic development, poverty reduction and environmentally responsible extractive-industry practices.

Following a recent review of EITI's effectiveness (Scanteam, 2011) the EITI Board will finalise a new set of EITI rules at its international conference in May 2013 in Sydney, Australia. Meanwhile the Publish What You Pay (PWYP) coalition of NGOs is calling for broader governance reforms beyond EITI.

Legislative initiatives such as the US Dodd–Frank Wall Street Reform and Consumer Protection Act, with its requirement for project-level reporting, and amendments to European Union transparency and accountability directives, are also pushing the boundaries of the transparency agenda.

This discussion paper highlights key issues and new challenges related to EITI implementation and broader issues of transparency and good governance in the extractive industries in the Caspian Sea Region. It focuses on three countries: Azerbaijan, the first country globally to become EITI Compliant; Kazakhstan, an EITI Candidate country seeking to become Compliant; and Turkmenistan, which is still far from making a decision on signing up to EITI, but has expressed some interest in learning about the initiative, in the light of recent developments in its oil and gas sector.

The paper is based on a series of dialogues relating to transparency and good governance in the Caspian Region, supported by the UK Foreign and Commonwealth Office and the Soros Foundation, Kazakhstan. Presentations and reports from the dialogues can be downloaded at: <http://iied.org/caspian-energy-initiative>.

This paper draws on the discussions, materials and summary reports from these dialogues. It also incorporates the results of subsequent engagement with stakeholders in the three countries, including a follow-up visit to Ashgabat, Turkmenistan, in March 2012 and the results of relevant meetings and further engagement in Azerbaijan and Kazakhstan.

Through EITI, Azerbaijan and Kazakhstan have laid foundations for addressing issues of transparency and accountability. The governments of these countries are trying to integrate new requirements for transparency and accountability into their existing systems. This is an incremental process, best addressed systematically. Stakeholders in these countries believe that EITI may now be ready to start building bridges and creating synergies with other sustainability initiatives (such as the Green Economy in Kazakhstan). The new EITI rules may help this to happen.

Based on the results of the Caspian dialogues, the authors have devised a set of recommendations, to guide the development of new EITI rules and their application at the national and sub-national (regional) levels, along with the essential consideration of specific country needs.

Recommendations from the Caspian dialogues include the following:

- Provide further strategic, administrative and technical support for disaggregated reporting of payments to governments (e.g. company-by-company and project-by-project).
 - Identify current and potential ways in which the EITI process can contribute to accountability and sustainability in host countries and support relevant research on these linkages.
 - Develop guidance on good practice in sub-national reporting, and support pilot initiatives, such as reporting on public monitoring of community development spending.
 - Prioritise capacity building as an essential part of the EITI agenda, especially for local government and CSOs at the sub-national level.
- Ensure clarity in new rules and procedures, to strengthen minimum requirements and avoid any ambiguity that allows too much flexibility in implementation.
 - Develop self-evaluation criteria and processes for EITI, such as progress ranking among member countries, based on competitive and motivational indicators.

This paper will be of interest to stakeholders as they prepare for the next biennial EITI conference in Sydney in May 2013. It will also inform the public and stakeholders working towards EITI implementation in the Caspian Region, and contributes to ongoing debates on EITI and sustainable development more broadly.

ONE INTRODUCTION

The Extractive Industries Transparency Initiative (EITI) is evolving amid lively debate around its future direction, both globally and within EITI Compliant and Candidate countries. Issues include: transparency of government–company contracts; reporting on a company-by-company and project-by-project basis rather than aggregated country reporting; and reporting of revenue expenditure at the sub-national level and throughout the value chain. An overarching concern is how to ensure that the energy, goodwill and technical rigour employed in implementing EITI can be leveraged for greater impact. Revenue transparency should ultimately lead to better sustainable development outcomes, including socio-economic development, poverty reduction and environmentally responsible extractive industry practices.

A recent review of EITI effectiveness highlighted the challenges of ensuring that greater transparency leads to broader benefits for society (Scanteam, 2011). The report spurred the international Board of EITI to agree on a number of potential ways to strengthen the initiative during its annual meeting in Lusaka, Zambia in October 2012. The Board is now considering these proposals in greater depth and will finalise new EITI rules at its international conference in May 2013 in Sydney, Australia. Other key drivers for change include the campaigns of the Publish What You Pay (PWYP) coalition, which is calling for transparency of licences, contracts and project-level payments and broader governance and legislative reforms beyond EITI. Major

legislative initiatives are also influential, including the US Dodd–Frank Wall Street Reform and Consumer Protection Act, with its requirement for project-level reporting, and amendments to European Union transparency and accountability directives.¹

This discussion paper highlights key issues and new challenges related to EITI implementation with a particular focus on the Caspian Sea Region. It focuses on three countries: Azerbaijan, the first country globally to become EITI Compliant; Kazakhstan, an EITI Candidate country seeking to become Compliant; and Turkmenistan, which has expressed some interest in the initiative, but is still far from making a decision on signing up to EITI.

Each country faces unique challenges. Already EITI Compliant, Azerbaijan is now considering how to deepen and broaden EITI implementation in the country. A key area for debate is the introduction of disaggregated reporting, which is strongly supported by the government and civil society participants, and some industry representatives. In Kazakhstan, proponents of EITI are looking forward to passing Validation in 2013 and feel there should be more EITI-relevant activity in the oil, gas and mining regions outside Astana and Almaty. In both countries, there is a strong feeling that the EITI agenda should be more closely linked with environmental and development agendas. In Turkmenistan, the challenge is to build sufficient understanding within government agencies so that they can make an informed decision about whether or not to sign

1. Section 1504 (the Cardin–Lugar Amendment) of the Dodd–Frank Act intended to require mandatory, full and specific disclosure by issuer and project, thereby mandating the best EITI practices and expanding on minimum standards. Sources: <http://www.oxfamamerica.org/files/api-sec-senate-amicus-brief>, <http://www.oxfamamerica.org/press/pressreleases/members-of-congress-oxfam-defend-oil-and-mining-transparency-law-of-dodd-frank-act> 17 January 2013.

up. Involving civil society organisations (CSOs) in EITI also presents a challenge in Turkmenistan, where civil society has virtually no role in resource governance or broader public debate.

The paper is based on the results of a one-year project supported by the UK Foreign and Commonwealth Office (FCO) and the Soros Foundation in Kazakhstan, with further contributions from the Organization for Security and Co-operation in Europe (OSCE). This was a series of dialogues relating to transparency and good governance in the Caspian Region, organised by the International Institute for Environment and Development (IIED) and local partners (the Public Finance Monitoring Centre in Azerbaijan; the Ministry of Environment Protection, OSCE, NGO EkoMangistau (Aktau) and the Zhayik-Caspian Aarhus Centre in Kazakhstan; and the British Embassy in Turkmenistan):²

- **Dialogue 1:** Introduction to EITI and principles of good governance in the oil and gas sector (28 September 2011, Ashgabat, Turkmenistan), with follow-up meetings in March 2012. Notes from the first workshop can be downloaded at: <http://pubs.iied.org/G03222.html>.
- **Dialogue 2:** Implementing a Green Economy in an oil-producing country (November 2011, Astana, Kazakhstan). See workshop report at: <http://pubs.iied.org/G03489.html>.
- **Dialogue 3:** Moving beyond EITI in Azerbaijan (February 2012, Baku, Azerbaijan). See workshop report at: <http://pubs.iied.org/G03343.html>.
- **Dialogue 4:** Moving beyond EITI in Kazakhstan (April 2012, Aktau, Kazakhstan). See workshop report at: <http://pubs.iied.org/G03490.html>

The paper draws on the discussions, materials and summary reports from each of these dialogues (Ahmadov and Wilson, 2012; IIED, 2011a; IIED, 2011b; and Ospanova and Wilson, 2012). It also incorporates analysis of subsequent engagement with stakeholders in the three countries, including the follow-up visit to Ashgabat in March 2012 and the results of relevant meetings in Azerbaijan and Kazakhstan.

This paper summarises some of the key challenges identified in the course of the Caspian dialogues. The issues are presented within their national contexts, but without going into too much detail about the political economy of each country, which lies outside the scope of this paper. All three countries are former Soviet states that are highly dependent on the extractive industries, especially oil and gas, with regimes that exhibit varying degrees of authoritarianism. Azerbaijan and Kazakhstan have recently become middle-income countries whose governments and elites seek to project a positive image of openness to outsiders and investors. EITI is one way to address such aspirations, going hand in hand with reforms in fiscal regimes, public procurement and sustainability.

Based on the results of the Caspian dialogues, the authors have developed a set of recommendations for consideration by relevant stakeholders as they prepare for the next biennial EITI conference in Sydney in May 2013. The paper will also inform the public and other stakeholders working towards EITI implementation in the Caspian Region, and contribute to ongoing debates on EITI and sustainable development within the region and internationally.

2. See the project page at: <http://iied.org/caspian-energy-initiative>.

TWO

EITI AND INTERNATIONAL TRENDS IN THE CASPIAN REGION

EITI is promoted as a global standard for managing revenues from natural resources with the aim of promoting revenue transparency in the extractive industries. It is driven by participating governments, companies, civil society groups, investors and international organisations. It is overseen in-country by a multi-stakeholder group of participants representing government, companies and national civil society. Globally it is overseen by the EITI Board, made up of government, companies and civil society representatives appointed at a global conference that takes place every two years. Supporting the Board, the EITI International Secretariat provides outreach, advocacy, information exchange and other services. A number of governments contribute financially to the international management of EITI, and support its implementation through direct bilateral support to implementing countries or through a multi-donor trust fund managed by the World Bank. Considerable support has been provided to the development of coalitions of CSOs, and their engagement in the initiative. Both Azerbaijan and Kazakhstan have benefited from such support.

The evolution of EITI in the Caspian Region is strongly influenced by what happens internationally within the EITI community, including decisions on EITI rules, procedures and future directions. There have been numerous attempts to

widen the scope of the EITI mandate internationally. These include EITI++ (a technical assistance initiative promoting transparency throughout the extractive industries value chain, initially focused on Africa), and the current development of new EITI rules to be approved in 2013. These efforts have led to exploration of potential applications at the national and sub-national (regional) levels.³

The work of the Publish What You Pay (PWYP) coalition is also influential, spanning CSOs in 60 countries. PWYP's work ranges from demands for change within EITI processes, to promotion of transparency and good resource governance at national levels, to support for local civil society networks. Their new strategy, *Vision 20/20* outlines their strategic *Chain for Change* framework, which includes monitoring of government expenditure as well as revenues.⁴

At the same time, legislative initiatives such as the US Dodd–Frank Wall Street Reform and Consumer Protection Act (known as the Dodd–Frank Act) and amendments to European Union (EU) transparency and accounting directives are also influencing the opinion of stakeholders globally, while having direct implications for US- and EU-listed extractive companies operating in these regions.⁵ The recent 'Arab Spring' protests have resulted in governments seeking to

3. See, for more information: FAQs on EITI++: <http://go.worldbank.org/XYLUR236T0>; announcement of the launch of EITI ++: http://archive.transparency.org/publications/newsletter/2008/spring_2008/anti_corruption_work/world_bank_eiti_initiative_announced; <http://eiti.org/news-events/revised-version-2011-eiti-rules-now-available#>; <http://www.publishwhatyoupay.org/resources/africa-eiti-extends-oil-and-mining-transparency-agenda>.

4. See more on the PWYP website at: <http://www.publishwhatyoupay.org/about/objectives>.

5. Dodd-Frank and the EU directives apply to companies listed on the US and EU stock exchanges respectively, and to large unlisted EU-registered companies. See: <http://www.publishwhatyoupay.org/resources/european-commission-proposals-oil-gas-and-mining-transparency-laws-welcomed-publish-what-y>.

avoid instability and opting to make steps towards greater transparency and civil society freedoms. Within the Caspian Region, Central Asia and their close neighbours, there is enduring and growing interest in EITI. Azerbaijan, Kazakhstan, Mongolia, the Kyrgyz Republic and Afghanistan have all signed up. In 2012, Ukraine and Tajikistan officially announced that they are to join.⁶ Even China has expressed support for the initiative in international fora.⁷

2.1 DRIVERS AND KEY ISSUES FOR AZERBAIJAN AND KAZAKHSTAN

Azerbaijan was the first EITI country to pass Validation,⁸ becoming Compliant in 2009. So far, 20 countries have achieved Compliant Status.⁹ A further 17 countries, including Kazakhstan, have Candidate status. To achieve EITI Compliant status, a country must complete Validation within two-and-a-half years of becoming a Candidate Country. Although the Validation process stalled for Kazakhstan in 2010–2011, recent developments indicate that the government intends to follow up and ensure the country passes Validation in 2013.

International image and investment promotion have been key drivers for the involvement of Azerbaijan and Kazakhstan in EITI. A participating country's commitment to reconcile company

payments and government revenues via a multi-stakeholder process signals a commitment to good governance; it improves international credibility, and is seen as demonstrating the government's dedication to fighting corruption. The three countries included in this analysis have a shared cultural heritage, Soviet history, similar dependency on oil and gas, and comparable challenges associated with high levels of corruption and a higher degree of government control over civil society. Yet their governments nonetheless desire to break into global markets and gain international recognition – and see EITI as a tool that can assist with this.

In Azerbaijan and Kazakhstan, involvement in the multi-stakeholder group (MSG) has served to empower civil society, which hitherto had limited potential for engagement in decision-making on natural resource governance and in the political sphere more widely. To become an EITI Candidate, a country must meet five sign-up requirements, including the establishment of a multi-stakeholder group (MSG), including CSOs, and development of a work plan documenting how the country intends to achieve Compliance. The MSG is required to discuss and agree the plan.

6. See: <http://eiti.org/news-events/colombia-and-ukraine-commit-implement-eiti>; <http://eiti.org/news/tajikistan-s-president-eiti-will-improve-governance-our-natural-resources>.

7. See: <http://eiti.org/blog/china-and-eiti>.

8. Validation evaluates EITI implementation in consultation with stakeholders, verifies achievements with reference to the EITI global standard, and identifies opportunities to strengthen the EITI process going forward (EITI, 2013). For more information see: <http://eiti.org/eiti/implementation/validation>.

9. See: <http://eiti.org/countries>.

A major focus for reform in EITI is the question of disaggregated reporting. Often, as in Azerbaijan, reporting is aggregated by country, offering no detail on what individual companies have spent or what individual projects have yielded. The most recent Kazakhstan national EITI report (2010–2011) provides disaggregation by company, thereby advancing application of the EITI standard (EITI Kazakhstan, 2011).¹⁰ The disaggregation debates are, however, complicated. There are four different types of disaggregation – by company, revenue stream, project, and commodity. A full disaggregation programme would be a very challenging step to integrate into current EITI frameworks in most countries. The draft new EITI rules propose disaggregation by company and by revenue stream.

Observers increasingly question the effectiveness of EITI in fighting corruption and supporting sustainable development. Of 174 countries listed in Transparency International's Corruption Perceptions Index, Azerbaijan is 139th and Kazakhstan is 133rd, only a slight improvement from five years ago in 2007 when they were joint 150th out of 179.¹¹ Observers doubt that EITI has contributed significantly to achieving broader societal goals, such as socio-economic development and poverty reduction, by stimulating public-sector reform (Darby, 2010). This concern was highlighted in a recent review of EITI effectiveness, commissioned by the Board (Scanteam, 2011).

NGOs and other stakeholders are therefore starting to ask 'Why are we doing all this?' EITI started out as a technical activity, but has evolved into a network of interested stakeholders who want to see more than just technical outcomes. NGOs in many participating countries are starting to feel disappointed that EITI has not been able to stimulate socio-economic change such as considerably reducing high levels of corruption or reforming the economy and improving living conditions.¹² This is true in Azerbaijan, despite its 'pioneer' status within the initiative. A key challenge is how to address this disparity between the genuine goodwill and largely successful efforts to advance the EITI agenda, and the ultimate achievement of broader policy reform and societal change.

At the same time, people are aware that EITI cannot deliver on all fronts. There is a need to build bridges between the EITI agenda and other ongoing efforts within a country, including other policy initiatives and civil society networks that aim to address broader sustainable development goals. In Kazakhstan, for example, the government's interest in passing Validation in 2013 has revitalised interest in EITI, while ongoing promotion of the Green Economy on the government agenda creates distinct opportunities for coordination and reinforcement of both initiatives.

10. To download the report and see Kazakhstan's EITI facts and figures, go to: <http://eiti.org/report/2013>

11. See: <http://www.transparency.org/cpi2012/results> (Turkmenistan lies in 170th place).

12. See for example the workshop reports at: <http://pubs.iied.org/G03343.html> (Baku, Azerbaijan) and <http://pubs.iied.org/G03490.html> (Aktau, Kazakhstan).

2.2 IMPLICATIONS OF THE NEW EITI RULES

On 25 and 26 October 2012, the EITI Board made progress in strengthening the initiative during its meeting in Lusaka, Zambia, by agreeing to expand reporting requirements.¹³ This followed a review process to address weaknesses identified in the 2011 evaluation (Scanteam, 2011). The Board will consider these proposals further and new rules will be finalised at the next international conference in May 2013 in Sydney, Australia. New proposals include reporting requirements related to:

- disclosure of information about natural resource licences and licence holders
- bidding processes for the allocation of extractive industry contracts and the owners of companies holding or bidding for licences
- transparency of payments from national government to regional or local level
- social payments that are part of contracts
- transactions between state-owned companies and governments
- disaggregated data by company and revenue stream (not project-level)

The decisions made relating to the new rules will have a major impact on how EITI is implemented further in Azerbaijan and Kazakhstan. Therefore, local CSOs have great hopes and expectations of the outcomes of the Sydney conference.

The PWYP coalition – representing its national CSO members – has called for EITI to incorporate

transparency of licences, contracts, project-level payments and other information into the new rules. However, extractive industry companies oppose proposals to make project-level reporting mandatory, citing difficulties in defining projects. They also oppose the idea of including contract transparency in EITI. EITI Board members BP, Chevron, Exxon, Shell and Statoil are also members of the American Petroleum Institute (API). The API launched a lawsuit against the US Securities and Exchange Commission to overturn Section 1504 of the Dodd–Frank Act (the natural-resource disclosure provision that includes project-level reporting). Companies have also lobbied against similar provisions in revisions to EU Transparency and Accounting directives. Despite this opposition, on 26 October 2012, the European Union Council agreed to include project-level reporting in these directives, which are designed to mirror US law. These developments, and companies' responses to them, are likely to influence further the transparency and accountability landscape in the Caspian Region.

The following two sections take a closer look at how EITI is being implemented in Azerbaijan and Kazakhstan respectively, and at some of the key challenges facing these countries. This is followed by a reflection on current discussions in Turkmenistan on EITI and transparency in the oil and gas sector. The final section compares the countries, considers their common needs and the potential for collaboration between countries, and provides recommendations for stakeholders in the run-up to the May 2013 conference in Sydney.

13. For more detail see the meeting notes from the Lusaka Board meeting at: <http://eiti.org/files/Minutes-from-the-21st-EITI-Board-meeting-Lusaka.pdf> and the Board paper *Building on Achievements* at: <http://eiti.org/files/Board%20Paper%2021-2-A%20Building%20on%20achievement%20-%20w%20B-F.pdf>.

THREE

AZERBAIJAN: BEYOND COMPLIANCE, TOWARDS GREATER SOCIETAL CHANGE

As a pioneer EITI country, Azerbaijan has always attracted great interest from the international community and enjoys a positive reputation within the EITI 'family'. The main motivation for Azerbaijan to join EITI was to project the image of a transparent government, as it was engaged in oil and gas business mostly with Western companies. The government is keen to retain its positive reputation and also appears interested in implementing wider reforms in the country. There is some frustration among NGOs, who would like to see faster change and do not entirely trust the government. However, they acknowledge that EITI has had a positive impact on their ability to engage in debate on revenue management with government and industry.

Stakeholders are now planning to broaden and deepen EITI implementation. This section considers the key drivers pushing various stakeholders to engage in EITI, some of the challenges in effective implementation, and some key opportunities offered by broader and deeper engagement with EITI in Azerbaijan.

3.1 DRIVERS

3.1.1 The Government of Azerbaijan seeks to maintain its reputation for reform

As the first EITI Compliant country and winner of the UN General Assembly *Strengthening Transparency in Industries* prize in 2008, Azerbaijan is keen to preserve its good reputation within the EITI international family. Despite criticism during this period from the Board and Secretariat, Azerbaijan remains a key EITI country. Consequently the government will do all it can to continue implementing EITI and address related

issues, particularly in the light of the new rules.

The government has the political intention to initiate a substantial reform process, towards greater transparency and good governance. It has signed up to several commitments before European and global institutions. The government sees EITI as an effective instrument for initiating political reform, and has already achieved some tangible results. The effect of the 'Arab Spring' provided an additional incentive for the government to open up more and address people's concerns. Presidential elections will take place in October 2013. As in many emerging countries oriented towards democracy, this political event is important for Azeri society. Many people pin their hopes on the election to promote democratisation and human rights. As all stakeholders are going to demonstrate more activity, 2013 could realistically be a time for positive change, including for EITI implementation.

Azerbaijan's state oil company, SOCAR, is on the way to being presented in the world market as a public company. It is important for it to be seen as a responsible, transparent company internationally. SOCAR's management has made progress, but so far it has not been quite enough. SOCAR's international investment activities (in the downstream business in Georgia, Turkey, Ukraine, Romania and Switzerland) require greater efforts in management, accountability, responsibility and transparency, to demonstrate predictability and build trust. If the company wants to make real gains in the world market, it must change, and it sees EITI as a cost-effective tool for achieving this.

BOX 1: EITI IN AZERBAIJAN: BACKGROUND AND KEY ISSUES

The Government of Azerbaijan made the commitment to join EITI in London, UK on 17 June 2003. In February 2009, it became the first country to pass the Validation process and achieve the status of Compliant Country. In accordance with the EITI Validation Guide, Azerbaijan must be revalidated within five years (by 15 February 2014).

To date, Azerbaijan has published 16 reports. The latest was published in June 2012, covering the fiscal year 2011.¹⁴ The most important reporting fields relate to the oil and gas sector. In 2010 the government started reporting on gold and silver mining. Deloitte and Moor Stephens have provided audit services since 2005.

At the very beginning of the EITI process in Azerbaijan, NGOs set up a coalition. This NGO coalition now has its place together with the government and companies in developing EITI in Azerbaijan, as part of the multi-stakeholder group (MSG). Since 2004, the coalition has grown from 32 to 160 NGOs.

Participants in the March 2012 dialogue in Baku identified several key issues for EITI implementation:

- **shifting to disaggregated reporting**, company-by-company and project-by-project
- **improving the effectiveness of the MSG**, with decision-making based on the equal opportunity of each stakeholder and ensuring that consensus-based procedures enable progress rather than hampering it
- **increasing awareness of EITI**: there is currently a lack of public information; analysis needs to be accessible to a broader range of people than the narrow group of stakeholders currently engaged in EITI
- **EITI and sustainable development**: there is a need to establish the macro-economic effect of EITI, analysing its contribution to sustainable development over the long term
- **employing the NGO network as a broader platform for social change**: there is potential to make more use of this valuable civil society association to address broader social and environmental issues, even organising formally as an active civic platform from which to challenge and debate government policy.

Sources: EITI Azerbaijan (2013), Ahmadov and Wilson (2012).

3.1.2 International oil companies support transparency

Well-known international oil companies, such as BP, Statoil and Exxon, are realising the importance of improving their transparency ranking in the world. A key driver for them in supporting EITI is to demonstrate clearly to the international community that they support greater transparency. Globally, however, their position is ambiguous. EITI Board members, BP, Chevron, Exxon, Shell and Statoil are also members of the

American Petroleum Institute, which launched a lawsuit seeking to overturn Section 1504 of the US Dodd–Frank Act that would require project-level reporting. Companies also lobbied against similar provisions in revisions to EU transparency and accounting directives. Stakeholders in Azerbaijan hope that the new EITI rules will make company-by-company reporting compulsory, thus resolving this ambiguity in the current process and paving the way for disaggregated reporting in Azerbaijan.

1. See: <http://eiti.org/node/61/reports>.

3.1.3 Increased civil society buy-in and confidence

Civil society in Azerbaijan is growing stronger, and the potential of experts and NGO leaders is increasing. Thanks to opportunities provided by EITI to present their ideas to the Board, and various EITI networks, alliances and groups – both nationally and internationally – they have gained the knowledge, skills and desire to play a significant role in EITI implementation in the country. Presentations by Azerbaijan's NGO coalition to the EITI Board, the PWYP coalition and the Eurasia Transparency Regional Network, demonstrate their strong support for implementing revised EITI rules as soon as possible.¹⁵

3.1.4 Support from international organisations for reform

The EITI Board and Secretariat have always taken a stance of 'exacting critic' with regard to the Azerbaijani government. They have been pushing the government to shift to disaggregated reporting and towards further expansion of the EITI framework in the country.¹⁶ With the prospect of new EITI rules, there now appears to be an opportunity to demand real progress from the government.

Other international organisations, such as the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, the Open Society Institute, the Revenue Watch Institute and Global Witness, have sought to make tangible contributions to EITI implementation in Azerbaijan. The international NGOs in particular have been working hard to shape and promote the new revisions to the EITI

rules. Between them, these financial institutions and international NGOs have the capacity and funds to provide support to EITI development in the country. Azerbaijani stakeholders believe there will be a real chance to support further reform following the launch of the new rules in 2013.

3.2 CHALLENGES

3.2.1 Disaggregated reporting

Within Azerbaijan's MSG, NGOs are pushing for a shift to disaggregated reporting (company-by-company and project-by-project) in line with international trends. Companies have stated that if EITI makes this compulsory at the international level, then they are prepared to implement it. Thus, there is high expectation of the revised EITI rules to include a compulsory requirement for disaggregated reporting. Also in line with international trends, there is an increasing push to assess EITI's contribution to sustainable development over the long term and to build bridges with other policy agendas.

3.2.2 Declining oil production and need for clearer contracts

There is some evidence of declining oil production in Azerbaijan, and the resulting tension between BP and the government is relevant to EITI debates. The government feels that the production sharing agreements (PSAs) that frame oil and gas projects do not set out favourable terms for them in comparison to the companies. This relates to sharing what is termed the 'profit oil', as opposed to 'cost oil' that is used by the companies to cover production costs before a profit can be made. The Azeri–Chirag–Guneshli PSA relates to a set of offshore oil and

15. Announced by the Azerbaijani NGO delegation at the Eurasia Transparency Network meeting in Dushanbe, 12 November 2012.

16. Personal communications, statements at various EITI-related meetings.

gas fields operated by BP with partners including SOCAR, ChevronTexaco, ExxonMobil and Statoil. It was signed in 1994, the first PSA to be signed between the Azerbaijani Government and foreign oil companies. In the PSA there are some discrepancies relating to further investment and maintaining current levels of production. The government believes that the companies are not so interested in investing more as, due to the terms of their contracts, they have already returned a significant part of their original investment and made considerable profits. This is particularly important as oil output from the Azeri-Chirag-Guneshli fields represents more than 76 per cent of total oil production in Azerbaijan.

Some information on this situation is available to the public, but not all of it. This is why civil society is keen to have full information related to the sharing of 'profit oil' between the government and the companies. This would mean making public the contractual terms and being able to check these against the actual implementation of the agreement. The revised EITI rules would support greater transparency in this area and may positively influence the situation in Azerbaijan.

3.2.3 Lack of capacity and information

There is a strong need to enhance awareness of EITI. Currently, there is a lack of public information and available analysis for a broader group of people, rather than the narrow group of stakeholders currently engaged in EITI. For example, the public does not have enough information about the terms of contracts and thus lacks the capacity to argue about whether contracts are good or bad. The challenge is how to popularise EITI reporting, and how to connect EITI reports to the real issues that concern the public. There is a need for greater capacity among CSOs in EITI-related matters. In particular they lack understanding of how to analyse EITI reports, and how to understand the terms of PSA contracts, cash-flow movement, and how 'profit oil' is shared between companies and the government.

3.3 OPPORTUNITIES

3.3.1 Approval of workplan for 2013

The Azerbaijani MSG work plan for 2013 indicates significant changes and improved scope. As 2013 is the tenth anniversary of EITI in Azerbaijan, the MSG is keen to organise an

international conference in Baku. This will be a way to demonstrate to the international community Azerbaijan's willingness to promote EITI. Stakeholders have high expectations of the new EITI rules to support their aspirations, notably in relation to disaggregated reporting.

3.3.2 Potential for reform

Azerbaijani CSOs have a clear understanding of how the revised EITI rules should be implemented in their country. They are keen to push companies and government to achieve tangible benefits from EITI. While CSOs have gained considerable knowledge and skills, it is essential to increase the capacities of the national network within Azerbaijan and the Eurasian regional transparency networks.

EITI is evolving and changes happen quite quickly. In order to be 'on the same page' all stakeholders, particularly CSOs, should have an opportunity to increase their capacity regularly. The Eurasia Extractive Industries Knowledge Hub at Khazar University in Baku can provide this support. Thanks to support from Revenue Watch International and others, the Baku Hub is able to serve stakeholders not just from Azerbaijan, but also from other regions, thus promoting collaboration in the Caspian Region and Central Asia. As noted above, there is potential to make use of the NGO coalition to address broader social and environmental issues.

3.3.3 International support for further EITI reform

International organisations still support the Azerbaijani government and CSOs in increasing transparency in the country. Some of these initiatives relate to broader platforms, for example the International Oil and Gas Producers' Association (OGP), and the International Budget Partnership (IBP). EITI has built useful links with these organisations and is seen as a workable and effective instrument for promoting transparency. International organisations have the capacity and funds to provide support to EITI, and Azerbaijani stakeholders believe there will be a real chance to support further reform following the launch of the revised EITI rules in 2013. International organisations, including finance institutions such as the World Bank and the European Bank for Reconstruction and Development (EBRD), have indicated that they are happy that Azerbaijan is a key EITI country and support further reform in the country.

FOUR

KAZAKHSTAN: WORKING TOWARDS COMPLIANCE AND SUSTAINABILITY

The Government of Kazakhstan signed up to EITI in 2005 for a variety of reasons. These include enhancing the reputation of the highly centralised resource-based country internationally, as well as addressing domestic pressures to increase public scrutiny of oil-revenue management. Following a period of difficulty in making progress with EITI implementation, it appears that the Kazakhstan government is now keen to overcome challenges and push to achieve Validation in 2013. CSOs continue to push to shape the agenda. There are some areas of dissatisfaction, though CSOs agree that efforts to promote EITI have, as in Azerbaijan, had a positive impact on their ability to engage in debate on revenue management with government and industry. This section considers the key drivers pushing various stakeholders to engage in EITI, and some of the challenges and opportunities relating to achieving validation and further implementing EITI in Kazakhstan, while ensuring that it has a positive impact on broader societal reform.

4.1 DRIVERS

4.1.1 Renewed interest from government, selective interest from industry

The Prime Minister's office is overseeing new efforts to ensure that Kazakhstan passes Validation. This renewed commitment provides a foundation for broadening the discussion and exploring new directions, addressing accountability and sustainability issues in the country. Such government support enabled disaggregated reporting in the national reports of 2010–2011. In addition to enhancing

Kazakhstan's international image, this commitment attracts interest from the countries undergoing reform in transparency and accountability (for example, in connection with the Dodd–Frank Act in the USA).

One can expect more activity from industry once the government starts making real steps to advance the EITI agenda. Usual supporters or active participants in such discussions at the moment include: the national oil and gas association, KazEnergy, headed by the national oil and gas company, KazMunaiGaz; the local operating branch of Statoil, reflecting the parent company's commitment to good practice in accountability; and the North Caspian Operating Company (NCOC), as part of the strategic plan for the Kashagan project that it is operating.¹⁷ The finance and tax reforms establish impetus for exploring new directions for EITI applications and potential alignment with EITI activities (Revenue Watch Institute, 2013). This area is not generally subject to wide public discussions and only a handful of high-capacity CSO representatives can access this technical domain. However, this step is crucial to advancing the transparency and accountability agenda.

4.1.2 Reorganised NGO coalitions and role of international NGOs

The NGO coalitions present a diverse range of interests and various competing platforms addressing issues of transparency and accountability. While this makes it more challenging to achieve a unified position in relation to other stakeholders, such as industry and

17. See: <http://www.ncoc.kz/en/default.aspx>.

BOX 2: EITI IN KAZAKHSTAN: BACKGROUND AND KEY ISSUES

Kazakhstan joined EITI in 2005 and achieved Candidate country status in 2007. The country has not yet passed the Validation stage, having attempted to do so in 2010. It is preparing to undergo a second Validation by August 2013. In discussions around EITI in Kazakhstan, proponents feel there should be more relevance to the oil, gas and mining regions such as Atyrau, Aktau, Uralsk, Kyzylorda, Aktobe and Karaganda. This includes addressing issues such as how extractive industry-related funds are spent locally and how civil society, industry and government engage at the local level. Other important issues brought up repeatedly by the CSO coalition and other stakeholders include: disaggregated reporting, transparency of social investments and wider participation in EITI of all extractive companies.

The 2007 report, *Two Years of EITI Implementation in Kazakhstan: Conclusions and Recommendations* stated that progress has stalled and government obligations are not being fulfilled. Cited issues include low levels of company participation, inefficiencies in the work of the National Stakeholders

Council (the EITI multi-stakeholder group in Kazakhstan), and a lack of public awareness about EITI.

Since 2007, EITI implementation has progressed and matured. At the October 2012 EITI National Stakeholders' Council conference, most recent plans and next steps for EITI in Kazakhstan were addressed and debated. The government representatives confirmed their intent to prepare and pass Validation in 2013, while representatives of CSOs, industry and observers also discussed their positions on new directions and applications for EITI in Kazakhstan.

The most recent national EITI reports covering 2010–2011 apply to more than 170 extractive companies. They are now publicly available at <http://www.geology.kz>. These reports achieve an important milestone in providing **disaggregation by company**, as well as **detailed reporting on social payments**, enabling more concrete and practical debates around hot topics in the extractive sectors. In addition, a more popularised version of the latest national EITI reports will be soon developed for the wider public.

Sources: EITI, 2007; EITI, 2012; EITI Kazakhstan, 2012; IIED, 2012

government, it does enhance the representation of various regions and community interests. There is now more interest in the sub-national applications both from national and international perspectives. One promising initiative is the establishment of the Aktau regional council on the environment, which was discussed at the Aktau workshop in May 2012. There is also a Working Group on transparency of social infrastructure projects financed by extractive companies, which has been operating since 2009 in Aktau.¹⁸ There are other important undertakings in East Kazakhstan, such as public monitoring of memoranda on social investments between resource companies and local governments, evaluation of local communities' needs and work on environmental payments, such as pollution fines.

The World Bank, PWYP coalition, Revenue Watch Institute and other organisations are pushing to address the finer details of disaggregated data provision, public finance reforms, social investments' payments disclosure and other themes currently circulating globally. The World Bank and Soros Foundation–Kazakhstan enabled CSO participation and sponsored the EITI National Stakeholders' Council. The new directions for EITI are still under discussion, and will affect how these global messages translate in a sub-national context.

4.1.3 Addressing the sustainability agenda: Green Economy strategy development

As the Green Economy strategy is being developed nationally, it aims to strengthen the foundation for exploring accountability and sustainability dimensions, potentially providing new linkages with the EITI agenda. For instance, introduction of green procurement practices and

sustainability screening of resource companies' social investment portfolios could potentially be discussed both nationally and internationally in connection with a revised or evolving EITI standard. Greening of the Kazakhstan economy cannot happen without redistribution of the extractive industry revenue stream or without public debate over such issues. This is where lessons from the EITI process in Kazakhstan, and convergence – where possible – of ideas on fiscal transparency, industry reporting and multi-stakeholder processes can advance the national sustainability or green economy agendas.

4.2 CHALLENGES

4.2.1 Lack of government urgency

Transparency issues and EITI implementation specifically are not always high priority in Kazakhstan, and may lose urgency and become stagnant. However, when the government does engage with these issues, it tends to make decisions quickly and sometimes with limited discussion among external stakeholders. It is difficult for CSOs to have a meaningful part in the process when they arrive at the table after most significant decisions have been made. This can also exacerbate the lack of clarity on what the revised rules of EITI applications could be in the Kazakhstan context. Despite such setbacks, CSO coalitions have been trying to maintain a constructive dialogue with the government to ensure that the EITI process does not become one-sided. In turn, the government recently confirmed its commitment to the EITI process, which is a reassuring sign.

While ideas about applying the EITI agenda to disaggregation, social investments, local content or environmental payments circulate and are being

18. See: <http://www.iied.org/caspian-energy-initiative>.

discussed internationally and domestically, it is as yet unclear which applications will have most relevance in Kazakhstan. Working groups were formed under the National Stakeholders' Council (the Kazakhstan equivalent of the MSG) around these different issues, but their activity has slowed down. Revitalising and reorganising their work in the context of 'new' EITI discussions would be a step in the right direction, according to workshop participants in Aktau.

4.2.2 Organising CSO coalition positions for lobbying; role of international players

The CSOs active in the EITI process vary according to access to power, funds and expertise. Their ability to act cohesively invariably faces some constraints. Kazakhstan civil society is not well developed; there is still a high degree of government control or various co-optation mechanisms – direct and indirect – resulting in a rather limited number of independent non-governmental organisations (Trust Law, 2013). There is an EITI coalition of CSOs called 'Dialogue Platform' – the official civil society representative on the National Stakeholder Council – which has been undergoing internal shifts. Certain vocal sub-national CSOs left Dialogue Platform to form a dissenting camp, following concern about voting and representational bias in Dialogue Platform. It would be beneficial for these camps to join under one umbrella representing diverse civil society interests on the National Stakeholder Council.

The World Bank, PWYP coalition, Revenue Watch Institute, Open Society Institute and Soros Foundation, Kazakhstan are trying to address finer

details of disaggregated data provision, public finance reforms, social investments, payments disclosure and others via projects with relevant government agencies. Institutionalisation of such initiatives as EITI becomes a highly political and contested process, where often only non-radical and 'constructive' CSOs end up representing civil society – to ensure government buy-in. Typically, if radical views are more prevalent among NGO representatives, government tends to stall or delay the process. There has been a concerted effort on behalf of CSO stakeholders to leave an imprint from EITI in the national legislation and to ensure continuity of the process through discussions of the evolving EITI standards.¹⁹ It is yet unclear what shape and form the efforts to follow up international developments will take, and how they will be institutionalised.

4.2.3 Uneven involvement from financial institutions and wider industry stakeholders

The Ministry of Finance, the Tax Committee and the Accounts Committee have all been involved in ensuring accuracy of the national EITI reports, and their role cannot be underestimated. However, whenever there are broader stakeholder discussions on EITI and related issues, these key financial institutions are notably under-represented. Within the context of broader government reforms, the 2013 Validation process and the World Bank fiscal reform activity, there is good potential to re-engage these authorities. However, the next engagement steps need to be formulated more strategically, with mid-to-long-term planning projections of where EITI is heading in future.

19. See also Footnote 3 above.

Although most companies that have signed up to EITI in Kazakhstan are compliant with the set of reporting requirements, there is limited support from industry for expanding the EITI mandate. This typically applies to specific social and environmental payment reporting and, to a lesser extent, concerns fully disaggregated reporting. However, the most recent 2010–2011 national EITI reports cover more than 170 companies and provide disaggregation by company. These demands have been at the forefront of the CSO agenda for the last five years and have finally been addressed and supported by the government.

4.3 OPPORTUNITIES

4.3.1 Alignment of key interests to achieve results

Non-government stakeholders need to identify sources of alignment strategically with the key government and industry focal points (in the short-to-medium and medium-to-long terms). The Dialogue Platform needs to reach out proactively to other key CSO associations active on transparency and sustainable development, and align interests and positions necessary to advance the EITI agenda within the National Stakeholder Council. Only through such measures will some form of organised lobby become possible. Aligning CSO positions for the next round of negotiations, while widening outreach and representation within the coalition, is a difficult but necessary process. It will strengthen CSO bargaining power and legitimacy at the National Stakeholder Council. Due to the recent government push to prepare and pass Validation in 2013, these organising efforts have a narrow but very promising window of opportunity to develop and succeed.

4.3.2 Piloting good practice and building local capacities in the regions

EITI stakeholders can identify one or two specific issues in the new EITI agenda, such as transparency of social and environmental investments, or regional multi-stakeholder councils, and apply these in one of the regions piloting best practice. Donor support requires some development and direction. Consideration of capable local partners, development of high-capacity support networks around these issues specific to the chosen region, careful design and conceptualisation, and management and implementation are some of the most important measures to ensure success of such pilots.

In the eyes of donors, such as the World Bank and Soros Foundation–Kazakhstan, CSO participation in EITI was funded specifically to ensure the legitimacy of the process and to build up CSO capacity to deal with such technical and highly sophisticated concepts as public finance, revenue-stream analysis, resource contracts and tax management. Capacity building takes time and resources. The process therefore to date has favoured high-capacity representatives, mostly from Almaty and Astana, who subsequently developed closer relations with donors and ended up representing civil society at the National Stakeholder Council. While this is a typical trend in most countries, in order to advance the EITI agenda and develop regional applications, capacity building has to be aimed also at the local and sub-regional independent CSOs working directly with local government and industry.

Following the 2011 oil worker riots in Zhanauzen in western Kazakhstan,²⁰ and earlier labour conflicts around the northern Tenghiz and other fields, accountability and sustainable governance are increasingly pertinent. Capacity building for sub-regional multi-stakeholder councils, or some other forms of sharing best practice and participating in resource governance with local governments and industry, would help inform and raise the profile of local dialogues, improving accountability and transparency in the process.

4.3.3 Identifying EITI linkages with the Green Economy agenda

The Green Economy agenda is still very fresh in Kazakhstan and requires further work and engagement. IIED and the Kazakhstan Ministry of Environmental Protection conducted the Astana

dialogue on the Green Economy in an Oil-Producing Country in November 2011, introducing themes and linkages such as transparency of environmental payments, environmental impact assessments, state budgets, more transparent redistribution and reinvestment in sustainable practices.²¹ With development of the Green Economy concept, there are more opportunities to explore and potentially reinforce selected corresponding positions between these two initiatives. Further analysis will inform next policy steps in this direction. Meanwhile, some of the more immediate areas to address include financial monitoring of environmental payments from operators, environmental spending by sub-national authorities (*Akimats*), and further improvements in fiscal transparency.

20. On 16 December 2011, violence broke out in Zhanaozen, western Kazakhstan, following a seven-month strike among oil workers. At least 16 people were killed after police opened fire on protestors. For more information see: <http://www.eurasianet.org/node/65491>, <http://www.hrw.org/news/2012/02/01/kazakhstan-letter-prosecutor-general-regarding-december-events-zhanaozen-and-shetpe>.

21. Presentations and a workshop report can be downloaded at: <http://iied.org/caspian-energy-initiative>

FIVE

TURKMENISTAN: PROSPECTS FOR ENGAGING WITH THE TRANSPARENCY AGENDA

Turkmenistan has some of the richest hydrocarbon resources in the world. According to the BP Statistical Review, in 2011 Turkmenistan was fourth in the world for proven natural gas reserves after Russia, Iran and Qatar.²² At the same time, Turkmenistan is one of the least transparent countries in the world.

With regard to transparency and the extractive industries, the situation in Turkmenistan is very different from that discussed in the other two countries considered in this paper. Turkmenistan has not joined EITI and is still some way from making that step. However, there are several indications that the country is interested in learning more about the initiative. There are several possible reasons for this. First, Turkmenistan has expressed the desire to implement economic reforms and introduce international norms and standards. This is especially relevant given the increasing interest on the part of international investors in Turkmenistan's gas reserves. Second, there are precedents close to home, as noted in Section 2, with Azerbaijan, Kazakhstan, Mongolia and the Kyrgyz Republic already having signed up to EITI.

Overall, EITI is seen as an initiative of potential benefit to Turkmenistan. It would provide a framework to promote international good practice standards, sound financial management and good business practice, to reduce corruption and increase the benefits from oil, gas and mining activities. EITI also increases a country's

investment prospects. Some international investors and development banks (such as the EBRD) invest in major revenue-generating sectors only in countries that have made a public commitment to transparency. Companies welcome such a commitment because it means that the rules are clear – it creates a 'level playing field'.

5.1 GOVERNMENT INTEREST

While the Government of Turkmenistan is still a long way from officially starting to engage, it has expressed interest in getting more information. Several representatives of the Ministry of Oil and Gas and the state oil companies attended the September 2011 workshop organised by the UK Embassy and IIED in Ashgabat. This was the first meeting of its kind to take place in Ashgabat. EITI has since been raised with the Foreign Minister and the Deputy Prime Ministers of Oil and Gas, and Economy and Finance. Information materials from the EITI Secretariat have been shared with these and other government departments. They see this as a good area for international training and assistance, especially in the light of Turkmenistan's wish to implement economic reforms and progress towards international norms and standards.

In March 2012 the British Embassy invited experts from IIED and Khazar University, Baku, to Ashgabat for further engagement with government agencies, domestic and foreign

22. For more information, see: <http://www.bp.com/statisticalreview>.

extractive companies, international financial institutions and civil society representatives. The aim was to identify interest in transparency and good governance in the extractive industries in the country, inform people about potential benefits and challenges of joining EITI, and discuss possible next steps. Following the September 2011 workshop, representatives of the Ministry of Oil and Gas had read the workshop report and considered the potential role of the Ministry. A representative of the Ministry had been identified to consider issues related to EITI.

5.2 INTERNATIONAL SUPPORT

In Turkmenistan, there is increasing international support behind the idea of Turkmenistan signing up to EITI. This support was expressed strongly by the UK Embassy, the EBRD and others at the September 2011 workshop. Since then, the UNDP and the US Embassy have also expressed strong support. The initiative was mentioned at an OSCE-sponsored energy conference in November 2011, which a representative of the EITI Secretariat attended. Following his visit, he concluded that it was early days yet for such an initiative in Turkmenistan, but that it was important to remain engaged and to encourage Turkmenistan towards transparency principles.

While there is undoubted support from international players operating in Turkmenistan, there is a need for coordination of the efforts of donors, banks and embassies. An international body needs to be identified to finance the costs of capacity building, consult with and occasionally nudge the government. In neighbouring countries such as the Kyrgyz Republic, Ukraine and Afghanistan, the World Bank leads this process through its Multi-Donor Trust Fund.

5.3 CAPACITY BUILDING AND COORDINATION

Next steps might include work with senior government representatives to build understanding of the benefits of EITI, including how signing up to the initiative can enhance a country's position in the international community and help to attract investment in extractive industries. The government needs to identify the economic and extractive-industry profile within the overall budget, and how engagement can bring benefits. Government needs to understand the

steps of engagement, including what is required to prepare for the first stage (the 'sign-up' phase). Government would need to decide which government department would be the 'champion' to push for EITI and make it happen (currently it is the Ministry of Oil and Gas). There is also a strong need, even at this stage, to engage other ministries in dialogue, including the ministries of Economy and Finance, Statistics and Nature Protection. The government also needs to start engaging in a more targeted way with companies.

5.4 CIVIL SOCIETY INVOLVEMENT REMAINS A KEY CHALLENGE

EITI creates a platform for multi-stakeholder engagement: the participation of three key groups – government, industry and civil society – is seen as essential. There is currently no civil society demand for the government to engage with EITI, largely due to lack of awareness of the initiative and its relevance to civil society concerns. There are no existing registered CSOs engaged in transparency and accountability issues in Turkmenistan. EITI requires a well-prepared civil society group as part of the MSG. This requires awareness-raising and engagement of CSOs.

Civil society participation in EITI would be a major challenge for Turkmenistan, as there is no experience of multi-stakeholder dialogue involving government, industry and civil society. However, the government has engaged with CSOs and international organisations on issues such as health and refugees. Appropriate CSOs need to be identified, to take an interest in transparency and good governance in the extractive industries, along with efforts to increase government interest in engaging with CSOs. Joint learning can be made possible via educational hubs in the region, such as Khazar University in Baku.

With international support, especially from those with experience of implementing EITI in similar contexts, there is potential for Turkmenistan to engage more proactively with the EITI agenda and promote transparency practices in the energy and mining sectors. However, it is clear that change will not happen overnight.

SIX

CONCLUSIONS AND RECOMMENDATIONS

EITI started as a technical initiative, developing standards and practices of transparency and accountability in the extractive sectors. A key tension in EITI evolution is that its goal to date has been transparency in and of itself, while CSOs and other parties have been pushing for EITI to address a much wider range of issues all along. However, this is a challenging process, since the initiative typically struggles with political, economic, legal and social sensitivities. There has been a learning curve in developing a participatory process, overcoming institutional barriers, generating political will and popularising the EITI mandate.

The experience of EITI in the Caspian Region underscores the need to consider the sustainable development outcomes of transparency and resource governance efforts. EITI cannot resolve or address all resource governance issues, but there is a clear recognition that its present scope is too narrow. The EITI Board and Secretariat need to consider this as they finalise revised standards and rules. It is critical to consider and address this from both bottom-up and top-down perspectives, considering the demands and needs voiced by CSOs and community organisations, as well as government priorities and implementation capacities.

Azerbaijan, Kazakhstan and Turkmenistan are at different stages in their engagement with the revenue–transparency agenda. While Azerbaijan is EITI Compliant, but still debating whether to introduce disaggregated reporting, Kazakhstan has achieved disaggregated reporting by company, and is looking to pass Validation in 2013 and target sub-national engagement. Meanwhile, Turkmenistan is considering its options, and has yet to officially demonstrate any

interest in EITI. Nonetheless, several common themes have emerged from the Caspian dialogues, and other discussions in the region around EITI.

6.1 TRANSPARENCY AND SUSTAINABILITY LINKAGES

Advancement of the sustainability agenda in a resource-based economy involves moving beyond compliance on social and environmental fronts, minimising social and environmental risks, and reinvesting revenues into economic diversification and cleaner technologies. Public access and monitoring are critical in the assessment of development options at the local and national levels. Transparency in itself, without credible mechanisms of ensuring accountability at national and local levels, can prove meaningless, while applying both in the process of sustainable governance of resources will invariably lead to enhanced and socially desirable development.

Even though much of this remains aspirational for the countries in the Caspian region, initial breakthroughs by such initiatives as EITI can be developed incrementally in relation to relevant social, environmental and sustainability programmes. For instance, development of the Green Economy strategy in Kazakhstan presents a good opportunity for building bridges across various sustainability issues, drawing on lessons from the EITI process. Elsewhere, as well as in Kazakhstan, these practices can include 'green' accounting, sustainable public procurement, environmental reporting and greening extractive processes, thereby complementing much of the 'new' EITI agenda.

More importantly, EITI dialogues with and within civil society could address a wider audience, building bridges across various sustainability coalitions and popularising the EITI mandate. Exchange and mutual learning will help to form a sound expert foundation for accountability and sustainability, as well as organising more effective policy networks and strengthening grassroots lobbying capacity.

6.2 RENEWED INTEREST IN EITI

As well as criticism of EITI's shortcomings, there is strong recognition of its benefits in many countries where it has been implemented – and it has even greater potential in future. There has been renewed interest in the EITI agenda recently, both in the Caspian Region and globally. The initiative got a boost in 2012 from new joiners, including Ukraine and Tajikistan, and from the announcement that the USA is preparing to join.²³ Meanwhile, legislative developments in the US and the EU have galvanised international interest in transparency and good governance in the extractive industries, and have raised the stakes for companies publicly listed and/or registered in these countries, who operate globally, including in countries of the Caspian Region.

Both Azerbaijan and Kazakhstan have recently become middle-income countries, with governments and national elites keen to project better governance capacity and raise their profile on investment climate and regional leadership (within Central Asia and the Caspian Region). EITI is seen as one mechanism through which to address such aspirations, going hand in hand with reforms in fiscal regimes, public procurement and sustainability.

In EITI-Compliant Azerbaijan, disaggregated reporting has become hotly debated, with proponents of EITI also questioning how to deepen and broaden the implementation process. Following a period of relative inactivity, the government of Kazakhstan is demonstrating renewed interest in EITI as it pushes for a speedy Validation process to be completed in mid-2013. This new wave of activity provides enabling conditions for transparency and accountability networks to strengthen dialogues with the government and industry.

Turkmenistan is dealing with many challenges, embarking on an ambitious development plan with a potentially dramatic increase in foreign investment. The government is upgrading its subsurface-use legislation, investment law and monitoring functions, trying to adopt international best practice and selectively incorporate lessons from neighbouring countries. It is too early to tell which aspects of the EITI Turkmenistan could embrace in the longterm. There is recognition, however, that some legitimate form or mechanism of transparency and accountability in the oil and gas sector is required, especially if a country wants to be seen as an international player. Developing well-constructed dialogues in Turkmenistan might be a challenging but welcome first step.

6.3 LOW CAPACITY NEEDS

One clear achievement for countries involved in EITI has been development of CSO networks around transparency and accountability issues, thus building overall civic potential to organise and develop necessary expertise, skills and processes. Some CSOs get involved in aspects

23. For US announcement, see: <http://eiti.org/news-events/president-obama-us-will-implement-eiti>.

such as public finance issues, tax regulation and contract reviews. While building such capacities in the regions remains a priority for the near future, multi-stakeholder dialogues over such technical issues became possible only due to EITI processes in these countries.

Multi-stakeholder councils or expert groups in oil, gas and mining regions would be a potential model for good practice. This approach requires much support, commitment and organising effort from local government as well as national and local CSOs. Donors also have to coordinate their support, for such initiatives to be effective. Typically, piloting one or two such cases in the most sensitive and potentially conflict-prone sub-regions, where there is political will to support such initiatives, can strengthen EITI outreach and help translate accountability practices from national to local levels.

Further capacity development for various types of stakeholders requires a long-term strategy. Creative approaches should be encouraged in the form of partnerships, donor coordination tables, cross-stakeholder engagement, and utilisation of e-technologies. EITI and related initiatives are growing and transforming; capacity building is likely to remain an ongoing concern. There are different types of opportunities to assess, including both existing opportunities (e.g. Eurasia Extractive Industries Knowledge Hub in Baku) and potential ones.

6.4 RECOMMENDATIONS

Based on the results of the Caspian dialogues, the authors have devised the following recommendations. These are intended to guide the development of new EITI rules and their application at national and sub-national levels,

along with the essential consideration of specific country needs.

- **Provide further strategic, administrative and technical support for disaggregated reporting of payments to governments (e.g. company-by-company and project-by-project)**

Adopting a full disaggregation programme is a challenging step to take. In order to make progress, participants need to assess the pros and cons carefully. Institutional, contractual and legislative gridlocks are numerous. Therefore, disaggregation requires a tailored, step-by-step strategy, full expert support for implementation, and a realistic assessment of expectations. There may be options for selective application to social and environmental reporting in some countries.

- **Identify current and potential ways in which the EITI process can contribute to accountability and sustainability in host countries and support relevant research on these linkages**

Linkages between EITI and sustainability issues and programmes need to be assessed. A set of sustainability indicators specific to EITI could be identified. These could be employed to clarify pathways within the new agenda for collaboration with other networks and programmes. There are many concurrent initiatives on accountability, and related subjects of transparency, anti-corruption, good governance and sustainability. EITI is well positioned as a mechanism for resource-rich countries to start addressing such complicated issues. Research on such linkages, and relevant next steps for EITI, should be encouraged with appropriate sources of funding, cross-learning opportunities identified, and support provided for translating plans into actions.

- **Develop guidance on good practice in sub-national reporting, and support pilot initiatives, such as reporting on public monitoring of community development spending**

Sub-national applications and good practice standards and guidance are currently being developed. Typically, they require a lot of support from local governments, CSOs, industry and donors. New concepts and practices addressing concerns across different stakeholders on management of social and sustainable investments, regional development and sub-national reporting would involve training and institutionalisation of processes. This all requires financial, implementation and communication support. Pilot initiatives might include incorporating sub-national reporting into public monitoring of MoUs on social investment or environmental fines.

- **Prioritise capacity building as an essential part of the EITI agenda, especially for local government and CSOs at the sub-national level**

Capacity building has to be addressed more systematically, through creative partnerships between various stakeholders, as well as establishing some clear alliances internationally to motivate cooperation between donors, industry and CSOs. Local governments and CSOs are important partners for sub-national developments. It is at this level that capacity building should be prioritised, particularly if EITI is keen to pilot local applications.

- **Ensure clarity in new rules and procedures, to strengthen minimum requirements and avoid ambiguity that allows too much flexibility in implementation**

This measure is intended to strengthen minimum standards of certain practices of accountability and reporting. Clearly, some rules are intentionally ambiguous, to provide space for adjustment to individual country conditions. However, more clarity in the application of rules is desirable.

- **Develop self-evaluation criteria and processes for EITI, such as progress-ranking among member countries, based on competitive and motivational indicators**

Development of EITI progress criteria and ranking assessment of member countries can help inform both participants of the process and the wider public about achievements and lessons learned, thus contributing to the EITI self-evaluation process. Moreover, this could increase opportunities for learning and motivation to advance the transparency and accountability agenda, deriving and exchanging lessons on the process.

Through EITI, Azerbaijan and Kazakhstan have laid down foundations for addressing issues of transparency and accountability. The governments of these countries are trying to integrate new requirements for accountability into the existing system – an incremental process, best addressed systematically. EITI may now be ready to start building bridges with other sustainability initiatives, joining and coordinating efforts. The new EITI rules may influence how this can be done.

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EITI AND SUSTAINABLE DEVELOPMENT

LESSONS AND NEW CHALLENGES FOR THE CASPIAN REGION

The Extractive Industries Transparency Initiative (EITI) is sparking renewed interest and debate on issues such as transparency of government-company contracts, reporting on revenues from natural resources by company and by project, and reporting on revenue expenditure. An overarching concern is how to ensure that revenue transparency ultimately leads to better sustainable-development outcomes, including socio-economic development, poverty reduction and environmentally responsible extractive-industry practices.

This discussion paper highlights key issues and new challenges related to EITI implementation, as well as broader issues of

transparency and good governance in the extractive industries. It focuses on three countries of the Caspian Sea Region: Azerbaijan – the first country globally to become EITI Compliant; Kazakhstan – an EITI Candidate country seeking to become Compliant; and Turkmenistan – which is not a signatory of EITI but has expressed some interest in learning about the initiative. This paper will be of interest to stakeholders as they prepare for the next biennial EITI conference in Sydney in May 2013. It will also inform the public and stakeholders working towards EITI implementation in the Caspian Region, and contributes to ongoing debates on EITI and sustainable development more broadly.



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