Assessing Kazakhstan's policy and institutional framework for a green economy

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Country Report
January 2014

Green economy

Keywords:
green growth; green economy policy; environmental economics; participation

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Acknowledgements

We are grateful to the Ministry of Environment and Water Resources, Ministry of Industry and New Technologies, UNDP-Kazakhstan, the Global Green Growth Institute (GGGI), the Organization for Security and Cooperation in Europe-Kazakhstan (OSCE-Kazakhstan) for valuable discussions at different stages in the development of the Concept on Kazakhstan's transition to green economy.

This paper benefitted from the invaluable input and support of Steve Bass (Head, Sustainable Markets Group/IIED), and comments from Emma Wilson (Energy Team Leader/IIED) and Linda Siegele (international expert, climate change).

This research was funded by UK aid from the UK Government. However, the views expressed belong to the authors and do not necessarily reflect the views of the UK Government.

Produced by IIED's 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.

Published by IIED, January 2014

Ospanova, S., 2014. *Assessing Kazakhstan's policy and institutional framework for a green economy.* IIED Country Report. IIED, London.

http://pubs.iied.org/16559IIED

ISBN 978-1-84369-997-2

Printed on recycled paper with vegetable-based inks.

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Kazakhstan has taken a lead among Central Asian countries in mapping a path towards a green economy. While environmental degradation has often been discussed, only recently have environmental concerns begun to be addressed within the mainstream economy. In 2011 the Kazakhstan government asked IIED to help define its approach to 'greening' the economy. Focused initially on the Green Bridge Partnership Programme of investments, in a positive step the Kazakhstan government adopted its own *Green Economy Concept*, which provides the overall policy context. This report analyses progress to date and makes ten recommendations on the enabling conditions needed for Kazakhstan to achieve a substantial transition to a green economy.

Contents

Summary

Kazakhstan has taken a lead among Central Asian countries in mapping a path towards a green economy. In 2011 the government asked IIED to help explore how to achieve economic growth through better use of natural resources within ecological limits, and especially how to ensure the success of its proposed Green Bridge Partnership Programme.

IIED began by running a national stakeholder dialogue process, opening up debate among government, industry and civil society representatives. This identified the building blocks that already exist in Kazakhstan upon which a wide-scale shift to green economy could be made: pinpointing existing green activities, key actors, and policies – as well as barriers that entrench the 'brown' economy. The workshop emphasised the importance of revising overall enabling conditions: not only could this make the most of the proposed Green Bridge investments, it could also encourage a system-wide shift away from 'brown' to 'green' economic activity. In a positive step this year, the Kazakhstan government adopted the *Green Economy Concept*. The challenge now is to implement that Concept. This country report provides an analysis of progress to date and makes ten recommendations so as to achieve an inclusive transition to a green economy, mobilising domestic resources, attracting relevant international support to Kazakhstan – and crucially ensuring that the transition benefits the majority of the population.

The ten recommendations are

- *Implementation of the new GE policy 'Concept' would benefit from a clear focus* for example on renewable energy sources (RES), energy efficiency, water governance, and waste management.
- *The viability of the proposed investment mechanisms will need to be carefully assessed*, with special attention to being accessible to a wide variety of economic actors and not just the largest technology and infrastructure players.
- *A coherent set of mainstreaming measures should be considered, such as* a multi-stakeholder forum for a green economy, green screening of public expenditure, green accounting, and environmental fiscal reform.
- *An inter-agency green economy coordinating body is required* with a sufficient regulatory mandate, for example a State Commission or a Council under the President (the Sustainable Development Council offers lessons, and could be a basis for this).
- *Special attention and resources need to be allocated to increasing institutional capacities and governance*, notably for accountability and effective public oversight and state monitoring of programme implementation.
- *Environmental fiscal reform is needed* to shift incentives from 'brown' to green economic activities, and towards inclusive approaches; this will require specialised inter-agency expertise.
- *Subsidies and other incentives will need a thorough review*, notably in oil and gas, mining and agriculture – addressing social impacts as well as environmental, and integrating necessary social protection mechanisms and green re-investment.
- *Ensure public finance accountability and oversight over new environmental programmes* for example by integrating Extractive Industries Transparency Initiative (EITI) approaches into a wider range of economic activity
- *Industry engagement and dialogue* requires a step-by-step approach and needs to be strategic; with many vested interests, a strong business case needs to be developed in support of the Concept.
- *A targeted communication strategy* needs to focus on achieving necessary policy breakthroughs in the short- to mid-term. This would aim at attracting a good investment climate for renewables, energy efficiency, water and waste management.

Introduction and overview

1

The Republic of Kazakhstan has stood out as a leader in Central Asia in laying out paths towards a green economy, beginning with its brokering the Green Bridge Partnership Programme between Asian and European countries. Kazakhstan has also been selected to host one of the major international exhibitions, EXPO-2017, which is themed 'Future Energy'. The notion of an oil-producing country showing the way towards low-carbon, natural resource-conserving and inclusive economic growth is one that has attracted the attention of the International Institute for Environment and Development (IIED). IIED has been pleased to play a small part in helping the Kazakhstan Government to bring together the diverse green economy ideas, initiatives and stakeholders in the country, so that the policy and institutional foundations for a shift from 'brown' to 'green' economic activity are robust, and the various players are heading in similar directions.

In August 2011, IIED was invited by the Ministry of Environment and Water Resources (MEWR, formerly MEP[1]) to recommend how best to prepare the Green Bridge Partnership Programme for the country. Given the Green Bridge's emphasis on major low-carbon infrastructure investments, IIED recommended exploring the enabling environment for these large investments – and in addition for inclusive greening across the economy, involving big and small players alike.

In partnership with the Ministry and the OSCE Astana Office, IIED co-organised the Astana Green Economy Dialogue in November 2011. This brought together stakeholders from government, industry and civil society to discuss the notion of green economy, what 'glimpses' of green economic activity already existed in Kazakhstan, what an economy-wide approach might mean in an oil-producing country, and how it can be applied. The materials from that workshop can be accessed at: http://www.iied.org/sustainable-markets/key-issues/energy/caspian-energy-initiative/.

The Workshop revealed the increasing number of international initiatives, each with slightly different approaches and strengths. For example, UNDP in Kazakhstan has been supporting many initiatives by the MEWR in low-carbon development and sustainable environmental management over many years. UN agencies, the World Bank, EBRD, EU/EC and other international donors have been contributing to sustainable development efforts as well, assisting MEWR and other ministries. All these bodies are now revising their policies and operations in relation to green economy. Four UN agencies have joined to form the UN Partnership for Action on a Green Economy.

Beginning in 2011, the South Korea-based Global Green Growth Institute (GGGI), with EBRD support, led the development of the Kazakhstan National Green Growth Plan (KNGGP, 2012). The GGGI analytical framework for 'green growth' hinges on the changing prices of commodities, their association with climate change and environmental degradation, and the productivity opportunities that could arise from greater resource efficiency. This approach focuses on the most financially rewarding opportunities for greenhouse gas abatement, and as such raised the game in terms of attracting mainstream interest in Kazakhstan. However, social dimensions such as welfare and poverty alleviation are not integrated; they are assumed to be delivered through trickle-down effects.[2]

At the global scale, these diverse notions of green economy, green growth and associated frameworks can encourage innovation. But they can also exacerbate confusion, leading to strategically different objectives and implementation paths, as well as potential clashes between national and introduced instruments.

One conclusion of the workshop was that it is critical to enable stakeholders to understand conceptual distinctions, and to make choices relevant to the realities of Kazakhstan in the short- to long term.

A second was the need to conduct an independent assessment of the wide range of analyses and prognoses concerning green economy or green growth in Kazakhstan, with an emphasis on diagnosing how far the policy and institutional climate would be conducive. This is the focus of the current document. IIED made a draft version of this assessment available to the MEWR in its earlier work to develop a formal 'Strategy' for Kazakhstan's Transition to Green Economy. In May 2013, the first step, the 'Concept' for Kazakhstan's Transition to Green Economy was passed.[3] Furthermore, the 'Action Plan' detailing activities for implementing the Concept was approved by the Government in August 2013.

We hope this paper will continue to be helpful to both government and other stakeholders in working together towards a 'Kazakhstan green economy'. In it, we assess green economy opportunities and drivers in Kazakhstan, the current enabling conditions and opportunities, including core green economy policies and instruments, and offer ten recommendations for sharpening implementation of the Concept for Kazakhstan's Transition to Green Economy.

[1] While this paper was in the process of publication, on October 31, 2013, by the Presidential decree, the Ministry of Environment Protection (MEP) has been transformed into the Ministry of Environment and Water Resources (MEWR), thus making it responsible for 'supply of water to the end users and hydro-melioration of agricultural lands'. These functions will be transferred to it from the Ministry of Agriculture of Kazakhstan.
[2] GEC (2012). Surveying the 'green economy' landscape post Rio+20
[3] In Kazakhstan legislation, a 'Concept' introduces a new policy to the government and public, followed by the development of an action plan. 'Strategy' constitutes a policy plan which will be legislated and accepted as the government vision for a specific number of years. The 'Concept' is essentially a blueprint for a strategy, which becomes viable only if there is a follow-up action plan reflected in and accounted for by the national budget.

Green economy opportunities and drivers

2

How is the country's economy linked to the environment?

Kazakhstan's economy is based predominantly on systems of natural resource extraction and rent.[4] The New Innovation Industrial Strategy currently pursued by the government of Kazakhstan is highly aware of the potential problems of over-dependence on natural resources. Elements of the natural resource 'curse', deriving from excessive reliance on resource extraction revenues, have been broadly discussed in a number of documents that formed the basis for this Industrial Strategy.

Sensitivity and vulnerability of Kazakhstan economic sectors to climate change and other environmental risks is similarly high. The Second National Communication to the UN Framework Convention on Climate Change (2009) as well as the recently presented Third National Communication (November, 2013) indicate an increasing scarcity of water resources for population and economy, with significant risk to the agriculture sector in the coming years. Because of the environmental legacy from the Soviet times and continuing environmental degradation throughout the periods of transition and independence, unaddressed and increasing risks now pose a formidable problem for the policy-makers.

Moreover, the GGGI (2012) analysis also suggests that the prevailing economic system is unfavourable towards environmental conditions in general, and is limiting the practical applicability of environmental incentives introduced – but not fully developed – by the 2007 Environmental Code.

Information on how the economy is linked to environmental assets and hazards is not strong enough to inform policy. Accountability and transparency in the extractive industries have always presented a challenge to resource-based economies. Since Kazakhstan signed up to the Extractive Industries Transparency Initiative (EITI) in 2005, however, revenue reporting mechanisms have been slowly progressing, with important milestones being achieved, such as disaggregated reporting by companies with special attention to social investments.[5] Similar scrutiny could be applied to wider environmental issues and further economic activities, and to government stakeholders such as the Ministry of Finance and Tax Committee integrating green mechanisms in government accounting practice, as well as utilising civil society experience in pushing the green accountability agenda forward.

How are poverty and wealth creation in the country linked to the environment?

It is significant that the areas adjacent to the oil-extracting regions in Kazakhstan have experienced very uneven development. Environmental impacts have been compounded by higher rates of poverty in those regions as well. Access by low-income and poor households to economic benefits of intensive hydrocarbon development has to be further studied in the sub-regional context. However, existing evidence[6] suggests increasing income gaps, higher incidences of poverty, lower access to quality education and training, and fewer opportunities for the rural population (in comparison with urban) over the last decade. Yet, it is precisely the rural population adjacent to the extraction fields that is most vulnerable to the environmental and health impacts. While the provision of social services has improved in the 2000s compared to the 1990s, it continues to face challenges in rural and especially remote areas due mostly to the decreased level of public investment and economic opportunities.

Future economic and social prospects for Kazakhstan are linked directly not only to environmental assets – abundant natural capital and resources, but also to the limitations that environmental hazards can pose. Much evidence has been cited by UNEP, UNDP, UNECE, UNESCAP and other international agencies'[7] all referring to the dire consequences and high price paid for growth unhindered by concerns for sustainability, respect for ecological limits, social inclusion, participation and good governance. The Aral Sea catastrophe, environmental problems in the Caspian Sea, significant desertification (66% of the total land area), other land degradation patterns throughout the country, water quality and access, are all repeatedly cited as top issues facing the country. They are difficult to resolve without a systematic approach correlating policy measures in land reform, subsidies, environmental protection and social services provision.

[4] The mineral and natural resources sector accounts for 60–75% of the industrial production, 30–35% of the GDP and 60–65% of FDI. Figures vary depending on the source and exact time of quotation over the last five years. Sources: Agency of Statistics RK, KNGGP Report 2012, CIA World Factbook 2013.

[5] Ospanova S., Ahmadov I. and E. Wilson (2013), EITI and Sustainable Development: lessons and new challenges for the Caspian region. Discussion Paper (Shaping Sustainable Markets), IIED.

[6] UNDP HDRs Kazakhstan 2002–2009 http://hdr.undp.org , Human Development Indicators 2011 (http://hdrstats.undp.org/en/countries/profiles/KAZ.html),

[7] UNDP (2007) Water resources management in Kazakhstan; UNFCCC (2009) Kazakhstan Second National Communication to the Conference of the Parties of the UNFCCC; World Bank (2004) Water-energy nexus and regional cooperation in the Syr-Darya Basin; GRID-Arendal/CEP (2011) State of Environment-Caspian Sea http://www.grida.no/publications/caspian-sea/ ; others

BOX 1: POVERTY AND ENVIRONMENT: IMPACTS AND LINKAGES

Poverty patterns

There has been much progress in Kazakhstan to achieve MDG1 on income poverty reduction. The national target to halve the proportion of rural people with incomes below subsistence level has been exceeded. There has been a significant decrease in overall poverty rates, from 46.7% in 2001 to 6.5% in 2010 (WDI, World Bank 2012) and 5.3% in 2011 (National Agency of Statistics, 2012). Nevertheless, levels of rural poverty tend to be more than double the urban rates (with 3–4% urban and 8–9% rural in 2011).

Regional dynamic

Regional differences are especially pronounced in the higher rural poverty rates of heavily extractive regions such as Mangistau (47% in 2005 and 18% in 2011 – still the highest rate in the country), as well as Atyrau and Kyzyl-Orda. It is notable that these regions had some of the higher investment and economic growth rates. There has, however, been heightened attention to alleviation of rural poverty, with controversy sparked by the 2012 riots in Zhanaozen (Mangistau region). There have been increasingly vocal calls for more effective measures to increase access to economic opportunities, entrepreneurship, reliable employment and education for rural and remote communities while ensuring social protection and benefits particularly for the most vulnerable segments of society in those areas.

'Hot' environmental issues

Several issues typically feature, albeit in different ranking order, depending on the locality or policy arena. Typically these include: industrial, municipal, and toxic waste disposal and processing; water access, quality and scarcity patterns; urban air pollution; the Aral Sea legacy; desertification and land degradation; Caspian Sea ecosystem degradation; oil spills; biodiversity loss; and low utilisation of renewable energy sources (RES). While environmental degradation is widely discussed and referenced, it is rarely addressed systemically or integrated into the mainstream economy. The Green Economy Concept constitutes a new attempt to do that, and as such demands good information on environmental assets and hazards, and a well-framed debate and policy formulation process.

Framing the debate

The underlying challenge in linking poverty reduction and environmental management is to create resilience in both livelihoods and ecosystems. Unsustainable resource development is exacting a huge toll on the environment. In turn, this affects livelihood options and the incidence of poverty. Policies and institutions, both national and local, need to build the resilience of ecosystems, so that they are able to deliver services that support productive agriculture, forestry, water supplies and health within vulnerable regions. Those local organisations closest to rural populations need to be involved in building and nurturing the resilience of the environment. Some of the most recent initiatives by the government and donor agencies (including UNDP and EU projects) are making progress by involving local CSOs and community organisations, and aiming to improve their resilience and effectiveness. They can be a good basis for learning and debate about the future institutional landscape that supports equitable green economies.

What steps have been taken to promote green economy? Who and what are the drivers of greener, more inclusive approaches to the national economy?

We have reviewed recent reports[8] that record the steps outlined above that Kazakhstan has taken to start developing mechanisms for 'greening' the economy. We have identified gaps in the coverage of such reports – notably in issues of inclusion, access, and participation, and in looking beyond individual mechanisms to the wider enabling environment for green economy. These gaps are interesting in that they reveal the emphases, if not biases, of the institutions that commissioned them.

Over the last few years, the government has introduced tighter environmental regulations, and begun to propose changes in the economic regime which would better prioritise environmental concerns. The Environmental Code of 2007 was progressive in its intent to tackle some of the linked environment-poverty problems and to introduce new policy measures ensuring appropriate environmental safeguards are in place and environmental protection is proactive enough to keep pace with intensifying economic development and growth. It has constituted a milestone in national environmental policy, a major effort to systemise and improve the nature protection regime in the country, laying out the frameworks, mechanisms and aspirational targets. However, follow-up to the Environmental Code has been much slower and less ambitious. It needs the development of viable legislative mechanisms and amendments to put some of its aspirations into practice: this is still in progress. Currently evolving mechanisms include means for integration of environmental management systems into business models, and stronger health, safety and environment records for companies. The new emissions trading scheme (ETS) in January 2013 has also attempted to push and motivate domestic and international companies to develop and apply new ways of addressing climate change concerns.

The Green Bridge Initiative[9] was launched by the government of Kazakhstan at the UN ESCAP, UNECE conferences in 2011, and at the UN Rio+20 Summit 2012. It aims to attract green investments, integrate innovative green technologies, and promote government-business partnerships to move the economy from 'brown' to 'green'.

Such initiatives towards a green economy remain largely based on the aspirations of the MEWR, as well as some forward-looking positioning in the foreign policy domain. They are not yet fully grounded in domestic economic and business policy. A challenge for the near future is to bridge the gap between what is a politically practicable change/reform in the economic policy and what is necessary to ensure the transition to 'greening' the economy. While the Kazakhstan National Green Growth Plan (KNGGP, 2012) and earlier attempts to integrate sustainability into the national economy – namely, the 2005 Concept on Kazakhstan's Transition to Sustainable Development – have all proposed reforms to address such challenges, success in reality has been elusive, dependent on buy-in from the domestic economic and finance establishment, as well as political will generated in higher government circles.

The strategy of the MEWR in trying to generate more support for the new GE Concept is therefore to emphasise economic incentives for low-carbon development and to promise means for green technologies transfer, especially in the energy domain. Its allies in this respect now include the Ministry of Industry and New Technologies (MINT) which targets implementation of the New Industrial-Innovation Strategy, progressive academia, environmental NGOs and donor community. Yet key resources, financial and business agencies and institutions are quite conservative in expressing their full support for such an initiative. However, in the light of extensive preparations by the government of Kazakhstan for the upcoming EXPO-2017: Future Energy, the emphasis on green technologies and overall business case for green economy are promisingly timed for new policy breakthroughs.

Sceptics say that this new Concept may end up being shelved in the same way as its predecessor (Concept on transition to sustainable development, 2006), unless broader governmental support is ensured at the key stages of its development and implementation. One likely outcome is that it serves as a policy vehicle for

[8] See OSCE Assessment and Development of Strategic Structure of Environment-oriented Economy for Kazakhstan, May 2012; GGGI KNGGP final report, November 2012. The latter covers in detail current key economic policy documents and strategies and attempts to outline strategic policy directions for Kazakhstan Green Growth. Other reports, such as those prepared for the Green Bridge Partnership Programme, highlight some of the provisions in various policy documents of the past decade relevant to green economy, transition to sustainable development, or other 'greening' measures in general.

[9] www.uncsd2012.org/index.php?page=view&type=99&nr=55&menu=62 ; www.unescap.org ; http://sustainabledevelopment.un.org/index.php?page=view&type=1006&menu=1348&nr=2237

the current MEWR leadership; another, somewhat less visible outcome, might be its reduction to a green technology component of the MINT-implemented State Programme on Forced Industrial-Innovative Development.[10] While either outcome would advance dialogue on the subject of green economy in Kazakhstan, more may be needed to ensure practical advances in the fields of renewables, energy efficiency, and low-carbon development, as well as more effective and sophisticated environmental and resource management.

There are, however, several sources that might provide broader governmental support to the GE Concept, and that favour its full development and subsequent implementation:

- Opportunities in energy, waste and water management sectors that provide 'low-hanging fruit' for making a GE transition
- Existing institutional mechanisms for addressing sustainable development concerns, such as the Council on Sustainable Development under the Prime-Minister's Office
- The diverse low-carbon development agendas of both donors[11] and government, especially if brought together and further consolidated
- Policies for economic diversification that could find real potential in green technology investment, as well as ways to realise higher value from renewable natural resources
- New legislation since 2006, which favours the GE Concept's strategic directions

These entry points, as well as other Kazakh foundations for a green economy, are picked up in the discussion below.

[10] This State Programme is being implemented by the MINT across the range of industries. The green technologies aspect forms the bridge for cooperation between the MEWR and MINT in the light of the new GE Concept.

[11] UNDP support for low-carbon development strategy and relevant projects www.undp.kz , CAREC (Central Asia Regional Environmental Center) projects for example Integrated Approach for the Development of Low-carbon Development Strategies in Central Asia among others at www.carecnet.org/programmes-and-activites/?lang=en

Enabling conditions for a green economy

3

We have noted how some existing provisions for policy coordination and coherence could be of real help in getting the GE Concept implemented. Moreover, the current 'brown' economy presents diverse barriers that will need to be overcome if individual green investments are to have a chance of succeeding. In other words, the full-scale transition to green economy requires a wide range of enabling conditions – a set of policies, mechanisms and focal initiatives to encourage and incentivise inclusive green practices and innovations. This is what green economy is all about, even if attention to date has been on large projects. Hence this section offers a brief diagnostic on the state of enabling, or disabling, conditions.

GE awareness

The level of public awareness regarding green economy transition is difficult to ascertain, yet it is possible to say that awareness of environmental impacts and risks is quite high among the Kazakhstani public. This topic always produces heated discussion, as perceptions of the linkages between degraded environment and increased health risks are widespread across the different segments of society in Kazakhstan. Legacies of the past, such as the Aral Sea degradation or the Semipalatinsk nuclear testing, have resulted in higher public sensitivity regarding unaddressed environmental risks. Current problems such as water scarcity and quality, land degradation, Caspian Sea issues, air pollution and others rate highly in public debates and media.

Green economy represents a more challenging concept to explain to a wider public. There are typically three challenges:

1. awareness of negative issues (the problems of brown economy), which is often quite good, except for the economic consequences of brown economy
2. awareness of positive issues (the green economy potential) which is often restricted to a few high-profile projects and their financial implications; and
3. awareness of the governance, policy and institutional conditions required – which is inadequate in Kazakhstan as in most countries.

Informative and popular media campaigns, and accessible policy information on recent regulatory and legislative developments, can generate interest and support, but only if they cite current 'hot' environmental problems. However, wider GE awareness can be tackled in parallel or after the principal branches of government are won over. Indeed, building the necessary support among other branches of government and business is most important at present. This might best be done through joint exploration of potential viable green economy mechanisms, in fora such as:

- Council on Sustainable Development (CSD) working groups or a specifically designated inter-ministerial working group on green economy (if the latter option proves viable);
- Open discussion of the GE Concept in a multi-stakeholder setting, including various government branches and non-government entities (President's Administration, cross-ministerial representation, international organisations, domestic NGOs, academia);
- Proactive engagement with relevant Parliamentary Committees (for example Natural Resources and Environment, Economic Development), working groups and secretariat in the forms of expert workshops and roundtables;
- Exploration with industry of specific public-private options with green economy potential, in open forums such as KazEnergy, KIOGE, and Astana Economic Forum, or in the context of preparation for EXPO-2017.

While the environment does not typically feature high on the agenda during business forums or economic policy discussions, its entry point is typically in the discussion of innovative green technologies, environmental certification and standards, and the new frameworks for EIA/SEA with which businesses have to comply. Such discussions rarely lead to direct breakthroughs in business attitude and behaviour, but can improve understanding of new legislative mechanisms that ensure viability and implementation of GE policy measures.

GE opportunities

Two of the 'low-hanging fruit' where green economy opportunities are more easily accessible and present win-win-win scenarios are in the energy and waste management sectors. In addition, water management may offer other opportunities. While policy initiatives in these sectors will be important entry points for GE initiative, engaging business and industry is fundamental to making the transition to a green economy. These are typically long-term investments that reflect socio-economic trends and affect sustainable production and consumption patterns. Big changes to investment and business practice may be tougher to achieve than changes in policy documents. Energy and waste management sectors have both 'green' and 'brown' industries, which are not mutually exclusive but rather present a continuum in development. Progress is made in shifting along that continuum – so opportunities may be connected as much to 'brown' sector as to 'green' leaders.

Energy: A number of reports on energy efficiency and effectiveness in Kazakhstan point to high levels of energy loss in industrial and domestic consumption, at 40–60%. The new law 'on energy-saving and increasing energy efficiency' (2012) was enacted specifically to target significant decreases in industrial and municipal energy consumption. But significant investments in refurbishing and modernizing current plants, as well as programmes to encourage green investments and green technologies, are needed to achieve such cuts.

The recent draft concept for the Sustainable Energy Strategy for Kazakhstan to 2050[12] outlines policy options, including further energy efficiency gains, development of renewables, modernisation of the existing power plants and infrastructure.

An important ingredient in the 'greening' of Kazakhstan's energy supply options is in policies that shape hydroelectric power. The more environment-friendly and biodiversity-preserving option is mini-to-mid hydro where possible, discouraging large hydro developments.

Further opportunities exist in the oil and gas sector, especially in the recent legislation around gas and its increased development. There are different gas utilisation methods being currently explored. The choice of method for utilisation, as well as for transportation will play a pivotal role in terms of sustainability. Such methods are improving yearly in the global industry. Environmental and social regulations in the oil and gas sector have to be sound and anticipate potential for further 'greening' of the industry.

The discussion on energy efficiency and promotion of renewable energy sources tends ultimately to focus on the issue of increasing tariffs – on electricity, water. Increasing tariffs would be necessary in order to attract investment in these sectors, yet such measures have to be interlinked with a comprehensive social protection policy to ensure vulnerable groups are protected and do not become further marginalised. The phrase that has emerged in dialogues in Kazakhstan and elsewhere is 'inclusive green economy'.

Waste: While green energy programmes have received considerable attention and resulted in many recent initiatives, a comprehensive national waste management programme is not yet fully in place. However, it is becoming a top priority for the Ministry of Industry and New Technologies in coordination with the Ministry of Environment and Water Resources and other agencies, which will then need to integrate it well with upcoming development plans. Reducing waste in the first place can save an organisation both materials and waste management costs; conversely recycling waste, turning it into useful materials or energy can also be a viable business proposition. This is clearly an area where significant gains can be made on both environmental and economic fronts, thus constituting a solid basis for public-private-community partnerships.

Water: Much has been discussed in relation to water management; there are numerous reports on integrated water management (IWRM) and related recommendations.[13] Most of them revolve around the river basin commission (RBCs) roles in implementing IWRM. Strengthened RBCs and restructured water governance regimes would play an important role in the transition from large to mini-mid-hydro, in ways that ensure balanced water use, savings and distribution, as well as maintaining a participatory approach in the planning process.

Water quality and water access continue to feature prominently as top priorities in rural and urban settings. Given the projected increased scarcity of water in specific sub-regions, development of a long-term viable plan for water supply by each region and district is an important measure. The cross-sectoral programme *Ak Bulak 2011–2020* targets water supply quality and systematic improvements in water legislation to ensure water use efficiency and savings.[14] Water tariffs will increase gradually by 2015 in order to recover expenditures on water treatment plants upgrade and construction.[15] These and similar measures, which might form parts of a coherent green economy package of incentives, will need to be evaluated to ensure social equity, protection and responsibility. Now that the water resources governance is under the jurisdiction of the Ministry of Environment and Water Resources (MEWR), a more systematic approach to implementation is finally possible.

The Zhasyl Damu ('green development/growth') Programme for 2010–2014 has been full of promise as a catalyst for a green economy, targeting issues such as GHG reduction, natural protected areas, water quality, air pollution and waste management. KZT 163.5 billion have been earmarked for programme implementation. However, the programme has been criticised at the local level, as well as nationally, for ineffective use of funds and corruption.[16] Lack of compliance with the

[12] http://2013.astanaforum.org/events/russian; http://en.trend.az/capital/energy/2175155.html

[13] UNDP (2007). IWRM Plan.

[14] http://www.kzvkp.kz/files/00000340.doc?sid=dn82rjuk841cdqsc53fsg9r883 Website of the Committee for construction, housing and utilities of the Ministry of Regional Development RK

[15] http://www.primeminister.kz/program/event/view/3315; November 22, 2012

programme was particularly significant in Atyrau and Mangistau regions, where most oil and gas exploration and development activities take place. Indeed, governance issues feature prominently in explanations of ineffective policy implementation or regulation enforcement in various arenas from economic and financial to social and environmental. Related issues of governance are discussed further below.

GE technology

The Green Bridge Partnership was designed specifically to address technology transfer from developed to developing and transitional countries. The issues of incentives, pricing, affordability, access and capacity to adapt and use 'green' technologies still stand and require a comprehensive policy response. This is because there are very few incentives to use often more expensive green technologies in the subsidised industries and public sector organisations that dominate the present-day economy. They need to be specifically promoted and integrated into subsidy reform and investment programmes. Access to the best and most effective green technologies on the world market is far from open. Kazakhstan, along with other transitional and developing countries, faces cost-prohibitive procurement of such technologies as a result of intellectual property regulations and trade barriers. Questions of labour skills, experience and capacity to shift to green production techniques and to advance green innovation become important, too.

Since the 2008 financial crisis, the President of the Republic of Kazakhstan, Nursultan Nazarbayev, has repeatedly stressed the need for an efficient resource- and energy-based economy in re-establishing strong economic growth and resilience. He has specifically emphasised the need for a global mechanism for technology transfer to improve energy efficiency and conservation. This will be critical if Kazakhstan is to transform its global positioning from being a mere source of raw materials and energy into an advanced, resource-efficient and environmentally-friendly economy.

Kazakhstan's potential in renewable energy, particularly wind and solar, attracts ongoing interest in such investments. The right market incentives will need to be established and guaranteed by legislation. Laws On Support for Use of Renewable Energy Sources and corresponding amendments were passed in 2009. These, however, lacked specific financial mechanisms to encourage investment in RES. Another effort to introduce such mechanisms has been pending in the Parliament since 2012. The GE Concept might serve as a catalyst for making that happen.

In January 2013, Kazakhstan became the first CIS country to launch a cap-and-trade emissions trading system targeting reduction of GHGs. In its submission to the UNFCCC, the country left the option of offset mechanisms' use open. At the moment, only domestic offsets are allowed.[17] The idea behind such a market mechanism is to reduce the cost of compliance by identifying the cheapest mitigation options, while also using it as a means to receive climate funds from developed countries. Depending on the success of the emissions trading scheme in Kazakhstan, a few paths ahead could be considered – such as linking the cap-and-trade scheme to other countries' schemes, and experimenting and piloting new approaches on a bilateral basis. In order for this to work, the following will need to be considered:

- Establishing clear and transparent rules
- Ensuring environmental integrity of offsets; and
- Developing design and enforcement consistent with international standards.

All such measures constitute positive steps towards getting the technology right for 'greening' the economy. Yet it should not be forgotten that green technology is not all about highly complex imported equipment and processes. Some 'technology' already resides in the practices of local managers of natural resources, including farmers and often in tradition, even if good practice has become marginalised due to the prevailing policy and market pressures. Other technology concerns institutional innovations, such as community and partnership regimes for managing resources for multiple benefits.

Political economy

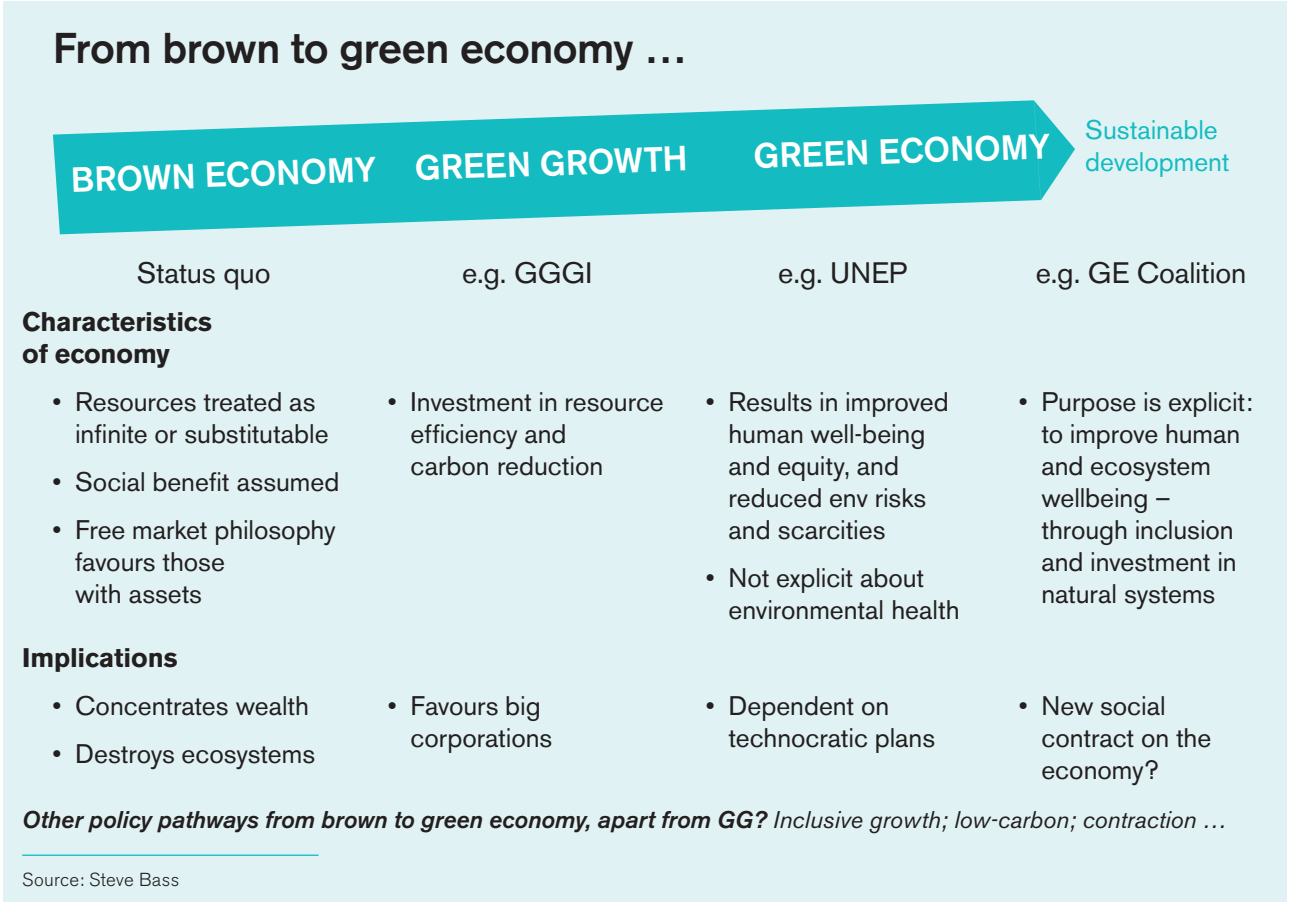
The vision for transition to green economy is only now being shaped in Kazakhstan. The recent introduction of the GE Concept is timely. There is a clear interest in exploring ways to encourage green investments, to attract green technologies, and to improve the overall environmental outlook and profile of the country that is one of the top oil and gas producers in the region. It is a real challenge and there are no easy solutions.

The wider political economy of environment in the country (for example attitudes and treatment of public goods, ownership of natural resources) is shaping different views of what green economy pathways might be for Kazakhstan. Depending on the political will and resource capacity of the current leadership, we are bound to see some competing ideological visions at work in the GE Strategy development process –

[16] http://kapital.kz/economic/10279/programma-zhasyl-damu-realizuetsya-s-narusheniyami.html; '430 million has been stolen from the *Zhasyl Damu programme in Mangistau', Forbes Kazakhstan, Feb 14, 2013. Source:* http://forbes.kz/news/2013/02/14/newsid_19017

[17] UNFCCC: FCCC/SB/2011/INF.1/Rev.1

Figure 1 From brown to green economy



Source: Steve Bass

and bound also to need continued multi-stakeholder exploration, learning and mapping of pathways.

There are always many inherent policy contradictions in trying to harmonise different objectives. Many well-developed strategies and concepts that have tried to do this in Kazakhstan were ultimately not implemented (for example Concept on Transition to Sustainable Development), or were brought down to such a low common denominator, lacking viable financial and institutional mechanisms, to make them practically 'toothless' (for example earlier laws on renewables, energy effectiveness).

One of the key issues is clarity of political vision. Here, we have to highlight an important distinction between the notions of sustained economic growth, green growth and green economy. The majority of policy documents in Kazakhstan tend to refer to 'sustained economic growth'. The new paradigm of 'green growth' adapts the classical economic model by attempting to capture new sources of wealth from sustainable use of environmental goods and services. This is based on overcoming the market failures which tend to impede that vision. At present, Kazakhstan is coming close to this model.

An important distinction of the 'green economy' is its transformational focus on economic resilience, environmental sustainability, equity and generation of social benefits. It concerns widening the purpose of the economy beyond 'growth' per se and towards a wider range of longer-term issues of human and ecosystem wellbeing. It suggests also transformation of economic systems and the assumptions on which they rest. In spite of credible bodies such as the United Nations and the Green Economy Coalition promoting such an approach, there aren't many active proponents of this direction as yet in Kazakhstan, aside from a few environmental NGOs and individual activists. This is mainly pragmatic – a judgment that government is far from being ready to discuss it in these wider terms and will likely oppose it.

GGGI attempted to address both of these notions in the draft Kazakhstan National Green Growth Plan (KNGGP), focusing on Kazakhstan growing in narrow and traditional economic terms through meeting some of the climate change challenges by GHG abatement in major industry and infrastructure, and by diversifying the hydrocarbon-based economy, while understanding there is a longer road ahead. This may well be a good first step, especially if it attracts mainstream finance

and business. However, options may decrease if green growth remains the only step – investment in sustainable natural resource use, and greater attention to inclusion in green job and livelihood creation, may be more attractive to many.

While it is important for Kazakhstan to realise the distinction between green growth and green economy concepts as they are emerging in other countries (see diagram), more important still is for the country to choose its own 'Kazakhstan new economy' approach and an appropriate pathway that marries short-term and long-term interest.

For MEWR a successful green economic transition would have to satisfy a wider range of green economy principles and respect a wider range of ecological limits than those associated with green growth (which focuses on greenhouse gas reduction and resource efficiency), at the same time fulfilling the imperative of sustained growth indicated in a number of key Kazakhstan development documents.

For MEWR and other ministries too, the issue of inclusion might also be given more attention – how actors who have been failed by current economic policies, notably poor groups, might become part of greener economic activities. Since social capital and social limits are not a focus of green growth frameworks, they might themselves become constraints to greener development pathways if not tackled early on.

We have not seen yet what green economy principles and criteria will be embraced during implementation of the GE Concept together with the Action Plan. One option to inform them are the Green Economy Coalition's set of principles and desirable green economy outcomes (Green Economy Coalition, 2012). These were developed by a combination of UN agencies, environmental and social NGOs, businesses and in consultation with government bodies at the 2012 UNEP Governing Council. Another would be to check them against a set of green outcomes as identified by IIED, based on literature review and what emerged in national green economy/growth dialogues in several countries (Bass, 2013):

a) *Human wellbeing:* decent jobs, health, livelihoods, freedoms, culture – as well as income

b) *Climate and other ecological limits not exceeded:* reducing carbon levels; and operating within eight other planetary boundaries (biodiversity, nitrogen cycles)

c) *Equity:* inclusion of stakeholders in process, economic activity, and benefit-sharing – especially those who are most dependent on natural resources and vulnerable to environmental risks

d) *Economic growth:* in those sectors and areas where it is most needed to support wellbeing

e) *Sustainable natural resource management:* improving natural resource productivity per person to achieve above

f) *Resilient systems:* adaptation to climate change, diversification, risk management, effective institutions, creating competitive advantage from this, and attracting investment.

Foreign policy

In proposing the Green Bridge Partnership in 2012, Kazakhstan sent clear signals about its aspirations to move towards an environmentally sustainable future. But its call for green technology transfer and joint investments may be stronger than what it can deliver in environmental sustainability. A number of recent reports by the international organisations (UNDP, OSCE, GGGI)[18] list all the preceding international environmental agreements and conventions to which Kazakhstan is a party. Yet the implementation of these is a much slower and more incremental process. Since getting the environmental institutions right is a foundation for a green economy, more effort is needed on harmonised approaches to the different objectives of the international agreements. At the implementation stage, the Concept on Transition to Green Economy needs to signal a clear and coherent intention of effective governance of public goods and environmental and social standards, select appropriate definitions and objectives, be they green growth or green economy, and offer a roadmap for achieving them.

Reputational risks for pushing the 'green' agenda to the forefront of foreign policy appear to be low. At best, it enhances the international image of a fossil-fuel-based country pioneering a 'green' path. Leadership of the country typically reaps rewards and, if successful in 'walking the talk', advances its position regionally and globally, enhancing new business opportunities and the environment in the process. At its worst, potential accusations of 'greenwash' practices may be defused by references to as-yet unaddressed institutional gaps, barriers, and governance issues typical for most countries. Thus, the country leadership only stands to gain from advancing its position on green economy.

This is not to say that such initiatives should be content with a low common denominator. Rather that there is scope for learning and improvement over time. In this sense, building a green economy is clearly not an overnight affair. For example, the Extractive Industries Transparency Initiative (EITI) started off rather modestly in Kazakhstan in 2005, but managed to develop a rather vocal civil society network around it and incrementally

[18] UNDP (2012) Low-Carbon development strategy (draft); OSCE (2012) Assessment and Development of Strategic Structure of Environment-oriented Economy for Kazakhstan, May 2012; GGGI KNGGP final report, November 2012.

improve accountability. There is some critique of EITI's compartmentalisation of issues, level of political buy-in, degree of civil society involvement and potential compromise, as well as uneven support from the government for the EITI agenda. But such arguments tend to be common to any multi-stakeholder process.

A successful green economy agenda is likely to include an even wider pool of stakeholders and civil society interests. This risks resulting in a heavily watered-down concept, even within government circles. Implementation of the GE Concept will need to prioritise concrete legislative wins (such as restructuring of tariffs and subsidies for energy and water, or green investment screening and incentives) in order to ensure its viability, as well as key sectors such as renewables, energy efficiency, water and waste where there is potential for progress.

Investment in GE

Individual projects have characterised GE investment to date in Kazakhstan. In-depth discussions are needed with investors on the overall investment climate, and on the viability of specific incentives and financial mechanisms – domestic, foreign and international – to help the Concept on transition to green economy to become mainstream.

For green economy to take off, long-term shifts in investment patterns are required, often with a considerable upfront element. New and reliable financial mechanisms and incentives will be required to achieve this, and to ensure the long-term viability of both individual investments, as well as of government guarantees on rates and due process. That means there has to be a serious discussion by national economic, budget, tax, investment and environmental protection authorities on the nature of investment in GE, and what form it should take. What type of incentives should be introduced to induce producer and consumer willingness to pay for full environmental and social costs? What is the feasibility of environmental tax, carbon or energy tax and tariffs? How to ensure equity and fair distribution of costs, benefits and risks? What would be the social protection mechanisms for the vulnerable and marginalised groups?

The KNGGP has prepared, as part of its energy plan, scenarios for introduction of carbon tax and other energy scenarios, including the introduction of the Emissions Trading Scheme (ETS). While the introduction of a carbon tax has been a contentious subject and not well-received by stakeholders, the ETS is now being implemented and could be considered as a foundation of the climate change mitigation component of the Concept for transition to green economy.

Various experiments can be drawn upon, too, to examine the ways in which instruments can be introduced. For example, some World Bank and UNDP-funded pilot projects have enabled assessment of the effects of different scenarios of energy tariff increases. Government policy could not initially accommodate such increases, even though they served to guarantee returns on investments in renewables or energy efficiency. Nonetheless, over the next few years the tariffs did increase and there are further energy and water tariff restructuring measures in the near future.

Government expenditure

To what extent can Kazakhstan government expenditures move away from activities that waste, overuse and degrade environmental assets (and that will make green investments less competitive) towards activities to improve efficiency and sustainable use?

As the KNGGP analysis of the Kazakhstan economy concluded, the present-day economy is heavily based on the predominant industrial development, with disproportionately higher subsidies in traditional economic sectors such as oil and gas. While this is a typical approach in resource-based economies, since the government has now decided to choose a greener path, that structure of subsidies (direct and hidden) will need to change. Otherwise, environmental and social programmes embedded and integral to the green economy will continue to struggle. Yet the GE Concept does not fully cover government expenditure reform and does not outline a path for restructuring of subsidies in key economic sectors.

One desirable approach would be the re-investment of government revenues from environmental payments by companies (for environmental degradation, pollution, lack of compliance) towards activities to improve efficiency and sustainable use of assets and environmental programmes. Few attempts have been made to introduce these, almost none of them succeeding. Another would be environmental screening in public procurement processes. However, despite much discussion on the subject when the rules on public procurement were being revised in 2009–2010, this has not been properly introduced either.

However, there are some indications in the new GE Action Plan that enabling conditions are being developed through support for projects on subsidies assessment and agricultural reform. Moreover, new opportunities are being developed for civil society and interested branches of government to raise questions of equity and sustainability of government expenditure and revenue, and of re-investment.

One major advance has been opening the national accounts and budget revisions to public scrutiny over the last decade. While reforms to the Tax Code have advanced significantly over the past few years to clarify a complicated system of tax regulation, there is still too much state autonomy to increase revenues in a variety of ways from the extractive sectors, especially mining, oil and gas. But major steps in terms of public finance monitoring have been made within the Extractive Industries Transparency Initiative (EITI) framework since 2005, and as part of the new Tax Code (2009) development. EITI is promoted as a global standard for managing revenues from natural resources with the aim of promoting revenue transparency in the extractive sector. Despite setbacks in achieving EITI-compliant status, Kazakhstan has already benefitted from the process by building the capacity of civil society to participate in public finance oversight. Originally, the EITI NGO coalition focussed on social investments by the major oil and gas operators. Now, it has significantly expanded its scope to the whole revenue management process. There is much cross-learning to be done in advancing this particular agenda between environmental NGOs, coalitions such as EITI and proponents of the GE Strategy.

The *Mazhilis* (lower chamber of Parliament) approved the draft Law on Local Governance in March 2013. This is designed to strengthen capacities of local communities to monitor local state budget spending, as well as encourage development of multi-stakeholder public and local community entities which can interact with the local and sub-regional authorities (*Akimats*). This legislation provides *de jure* support to public expenditure oversight and strengthens local governance and communities' participation. This Law is therefore one of the more promising government initiatives to deliver necessary institutional arrangements for ensuring good governance and accountability at the local to sub-regional and sub-regional to national axis:

'The Law targets increasing role of the local population in the villages, townships, small cities and communities in the local decision-making through meetings and local community councils, based on the number of amendments to the Law on local state governance in the Republic of Kazakhstan on regulation of the order, formation and implementation of councils and meetings in local communities…There will be a mechanism for active involvement of local populations in the decision-making process over most vital issues…' Bakhytzhan Sagintaev, Minister of Territorial Development[19]

Pro-GE legislation

What legislative enablers are there in supportive of inclusive approaches to a green economy – economic activities that produce value from sustainable use of natural assets, and do not exceed ecological limits?

The Environmental Code (2007) introduced the principle of 'free prior and informed consent' (FPIC)[20] and the 'polluter-pays' principle, but they still require legislative enablers and amendments in order to be fully implementable. The draft Law on Local Governance, noted above, is one such enabler helping to institutionalise local participation in local economic development.

Kazakhstan is a signatory to the Aarhus convention, which commits to public involvement in environmental protection decision-making, access to environmental information, and access to justice in environmental matters. Sub-regional Aarhus centres have been established to address precisely such issues and provide an independent platform for discussion. They are most effective in supporting collaboration between local NGOs and *Akimats*, initiating community and business engagement and strengthening public discussion of hot environmental and social topics. Connecting this work with implementation of the new Law on Local Governance could become key to addressing accountability issues at the local to national levels.

Legislation is also being pulled together for essential shifts towards green energy and waste management. The new amendments to the Law on renewable energy sources (signed 2009, amendments 2011, 2012) packaged with stronger investment incentives are currently being discussed in *Mazhilis* (lower house of Parliament). If they pass through Parliament and apply in practice this year, they will serve as a positive signal for further green energy developments and promotion of green economy. Likewise, introduction of the comprehensive national waste management strategy and associated laws and regulations – currently at the early stages of development – will be a necessary component of the green economy package.

Business models that fully integrate sustainability and equity concerns

Over the past few years, practically all large companies in Kazakhstan have adopted some kind of corporate

[19] Quoted from www.zakon.kz/4548045-pravitelstvo-odobrilo-proekt-zakona-rk.html , March 26, 2013; http://tengrinews.kz/kazakhstan_news/proekt-zakona-razvitiya-mestnogo-samoupravleniya-utverjden-pravitelstve-230744/ Last accessed on May 13, 2013

[20] Establishment of conditions under which people exercise their fundamental right to negotiate the terms of externally imposed policies and programmes that directly affect their livelihood or wellbeing, to which they may give or withhold their consent

responsibility vision, incorporating many of the corporate social responsibility (CSR) approaches in operation worldwide, including sustainability reporting, stakeholder engagement practices, and becoming more strategic about their social investment portfolios.

Over the last five years, the government of Kazakhstan has encouraged formation of public-private partnerships (PPPs) in order to boost investment and learning. Advanced local content legislation and policies were introduced to ensure increased access of local contractors and suppliers to larger investment contracts and oil and gas exploration activities with general contractors. Introduction of environmental screening in the sub-contracting process for extractive and other industries is slowly getting under way. Rules on public procurement have incorporated elements of environmental screening, but the employed criteria will need to be strengthened, prioritised and better enforced, in order to have a tangible impact; there are inter-sectoral and regulatory contradictions which the GE Strategy should address, removing gridlocks and avoiding over-regulation.

Developing a business case for green economy in a country, where the entire economy is dominated by the extractive industry and its interests, is a challenging task. Such a business case would need to include incentives for altering 'business-as-usual' practices in the extractive sectors. Some of the advances could include sustainable gas utilisation, investment and diversification in the renewables sector and integration of advanced clean technologies in the core business practice – see Box 2.

BOX 2: NEW OPPORTUNITIES FOR GREENING THE EXTRACTIVE SECTORS

Renewables

Despite superficial perceptions that there are contradictions between oil and gas (O&G) business and renewables, over the 2000s many O&G companies have increased investments in RES.[21] Some advantages of moving early into this field include the ability to influence regulatory standards and practices, better positioning for energy market transitions, reputational benefits for both companies and host communities, and enhanced public image overall.

Typical applications of renewables include electricity generation, heating/cooling and liquid transportation fuels. For O&G companies, the most promising initial engagement results in remote off-grid applications, where typically they operate. Company activities can include leveraging core competencies, investment in R&D and specific projects, venture funds and advocacy. Challenges include RES integration in standard O&G engineering practice, competing for capital against higher-return projects, and lack of RES technical expertise. The National company KazMunaiGas, in collaboration with key investors (under the auspices of KazEnergy Association) could develop a strategic focus in this area, leading some of the work close to core business competencies.

Gas utilisation

Kazakhstan has made significant efforts in reducing gas flaring and participates in the World Bank-led Global Gas Flaring Reduction Partnership. However, the next obvious targets, namely increasing gas utilisation for local development benefits, while reducing environmental impact and GHGs emissions, present some challenges.

Typically, larger companies can afford the best practice technologies, and rapid and effective implementation, possibly even developing gas-to-power schemes in order to deliver electricity to remote local communities. Monitoring of the smaller and mid-size companies, as well as remote locations still remains a significant barrier. Re-investment in more sustainable practices will require more local and national advocacy, as well as appropriate policy foundations, which both the national companies and investors are well-positioned to promote and apply. The January 2012 Law on Gas and Gas Supply started to cover preconditions for establishing a unified gas system in Kazakhstan, increasing government oversight and control of the sector. Further development of regulations in the gas sector could usefully address those issues directly.

Sources: Pembina Institute (2013) Renewable energy opportunities in the oil and gas sector; http://livingearth.org.uk/projects/gas-to-power/; http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSDNET/0,,contentMDK:22949562~menuPK:64885113~pagePK:7278667~piPK:64911824~theSitePK:5929282,00.html;

[21] US-based companies invested approx $9bln in wind, solar and biofuels – about 20% of the total US investment in RES in the same period of 2000–2010 (www.iogawv.com/Resources/Docs/2011_api_ghg_investment.pdf)

The KazEnergy Association is involved in the discussions around the emissions trading scheme (ETS) implementation, 'green' technologies development and applications, and business sustainability concerns. Such discussions are not typically open to the wider public and do not include much cross-sectoral sharing; but they do indicate increasing the interest and opportunities for the business community to broaden the national debate on sustainability and 'greening' options.

But green economies are not made by large businesses alone. Another potential driver is those small and medium enterprises (SMEs) that have a green and innovative focus in their business model. Provided with well-supported legislation and initial state support in support of renewables, SMEs have great potential to blossom in Kazakhstan, spurring innovation and creative PPP solutions. Referenced in numerous UNDP reports (based on the Wind Power Market Initiative supported by GEF/UNDP over the last decade), European Commission research findings, World Bank and EBRD advisory, and recently by the MINT RK and Samruk-Kazyna, if this business development opportunity is to really take off, it requires well-crafted investment pilots guaranteed by the State and supported by legislation.

Civil society actors

Civil society in Kazakhstan does not have a long-standing tradition of being independent in relation to economic issues, and particularly regarding the extractive sector. There is a widespread perception that NGOs tend at least to be politically-associated, or indeed effectively 'spin-offs' of the governing or opposition political groups. In addition, there are locally affiliated entities that represent and are being funded by the international NGOs; here, donor-dependence and lack of indigenously-driven funding streams are a big constraint on civil society development.

Kazakhstan is not alone in its civil society being integrated into the political establishment. Government tends to select more compliant 'civil society' representatives from industry associations, parliamentary groups, party affiliates, or even specific individuals who represent specific government or industry interests. Quasi-NGOs have been established with the specific purpose of participating in an externally-driven multi-stakeholder process, where in practice they represent little more than the aligned interests of the government or industry groups. Where the transition to an inclusive green economy is inescapably a multi-stakeholder affair, the process of legitimacy and impact can be considerably undermined if the representation is co-opted by government or industry groups.

In countries with relatively high corruption indices – such as Kazakhstan – truly independent NGOs would insist on sources of finance for their participation in sensitive and controversial initiatives to be independent of government or vested interests, precisely to avoid negative perceptions and/or accusations of their being influenced or co-opted by the government. For example, revenue transparency is a hot topic with considerable social relevance, and is highly politicised and contested between the government and members of opposition. Involvement of civil society groups as watchdogs in monitoring the oil revenue stream has been a very challenging process, making slow progress. Despite the advances of EITI (see above), the monitoring role of civil society is generally regarded with suspicion and presented with numerous barriers from the industry and the government. Typically, it involves a high level of paperwork, time and resources spent on proving the validity and credentials of the civil society organisations (CSOs), as well as the capacity to penetrate multiple links in contracting chains – all of which requires the type of technical and administrative sophistication and perseverance on behalf of CSOs that is limited to a handful of organisations. These tend to be international NGOs or stronger government counterparts. An important measure then becomes to what extent such CSOs represent or coalesce with the local and regional interests and concerns, which is typically resolved with those organisations closest to the regional authorities.

Despite such trends, there are socio-environmental coalitions and NGOs in Kazakhstan with a long-standing history. They have been successful in campaigning against radioactive waste disposal and Caspian degradation, and have been effective in their engagement with legislators. These NGOs have the capacity to organise and promote green economy principles ensuring (despite limitations) public discussion of the newly emerging policy documents, such as the GE Concept, as long as they are provided with such an opportunity. That opportunity might be to organise an effective accord with the MEWR and the cross-sectoral body in charge of the GE Concept implementation. The Council on Sustainable Development under the Prime Minister is expected to be revitalised and its mission strengthened to contribute to the GE Concept implementation unless an alternative coordinating mechanism is established. Such a partnership should be expanded to include progressive academia and the teaching establishment, as direct routes to identifying the best policy mainstreaming solutions and improving both economic and environmental education.

A closer look at core green economy mainstreaming mechanisms

4

We suggest that four basic mechanisms are particularly valuable as foundations for mainstreaming green economy – a multi-stakeholder planning and review forum, strategic environmental assessment, reviewing public expenditure through a 'green' lens, and green accounting:

Multi-stakeholder debate, planning and review forum

A high level of inter-agency cooperation is vital in driving the green economy agenda. The existing Council on Sustainable Development (CSD) is tasked with addressing sustainability policy in Kazakhstan and regional sustainability concerns in collaboration with other Central Asian states. It has credibility, cross-sectoral outreach and good potential to strengthen its mission. However, CSD has not been instrumental at influencing economic and financial decisions in Kazakhstan. The new GE Concept could provide both an impetus for strengthening the CSD, and some of the tools to enable it to really address economic and sector-wide governance.

If CSD is ultimately unable to ensure good inter-agency cooperation, an alternative coordinating body, such as a State Commission or Council under the President, would still need to have strong backing from the key economic and social interests if it is to be successful in transforming the economy.

The Concept on transition to sustainable development (2006) and the earlier Concept on Environmental Security (2003) constituted attempts to get backing from economic and social interests for environmental initiatives. But without proper follow up and developed legislative framework, those concepts were ultimately shelved, with some elements absorbed into a new programme *Zhasyl Damu ('green development/ growth')* which itself is currently struggling. One of the primary reasons is the cross-sectoral nature of such programmes, which is impossible to tackle without also ensuring the implementing agency's (MEWR) regulatory capacity over the resources it is supposed to protect, and gaining it sufficient institutional influence to engage key institutions. The October 2013 transition from MEP to MEWR (i.e. getting water resources under the jurisdiction of the environment ministry) is one of the most recent outcomes of the GE Concept development process, resulting in strengthened capacity and influence of the Ministry over this most essential resource.

We therefore suggest that fundamental work on resource and public goods regimes is a prerequisite to green economy transition. To do this, implementation of the new GE Concept should specifically work out the most synergetic basis for cooperation between particular agencies – in learning, in action and in investment. For example, in South Africa, the National Sustainable Development Strategy was followed by a Green Economy Accord where different players made green economy commitments to influence their own constituencies; for example local government committed to changing procurement policies, and business to improved CSR and transparency practices. There are precedents in Kazakhstan: for green energy, green technology, or low-carbon development, business, financial and environmental interests are increasingly being brought together. This is perhaps best represented by the working group between the MINT and MEWR with participation of Samruk-Kazyna, Innovation Fund, and key resource ministries.

Strategic environmental and social assessment

Strategic Environmental Assessment (SEA) provisions are being reviewed with a view to their full integration into the Environmental Code, which has not yet fully covered SEA regulation. Even though Environmental Assessment is mandatory, much discussion around SEA continues to focus on the precise types and extent of environmental and social factors to include in the assessment methodology, criteria and implementation process. Evaluation of the SEA results and follow up requires additional enforcement and monitoring capabilities too.

Screening major investments and development systematically against environmental and social factors has to be done transparently with public oversight. Currently, it is not as accessible a process as it should be. Moreover, depending on the nature of investments, security considerations (legislated to apply to a wider range of development) prevent public disclosure of the pre-feasibility assessments. However, discussions around SEA screening point to general government openness and willingness to further regulate this process in order to more effectively utilise results.

Public expenditure review

In public budgeting and in reviewing public expenditure, a routine set of questions should be mandated on environmental spending, costs, benefits, sensitivities and risks across all sectors. To kick this off, a public *environmental* expenditure review, or PEER, can be highly effective (a one-off review might be institutionalised and regulated following a pilot exercise). Many pre-requisites for a PEER are in place such as the emerging new Law on Local Governance, the MEWR which, in coordination with the Ministry of Finance and Ministry of Territorial Development, can have a higher capacity to monitor expenditure, better

reporting from the companies on environmental and social spending, as well as capable CSOs with local community ties who can offer public scrutiny. This can be done in coordination with the process of applying the EITI standard.

The comprehensive application of PEER would clearly signal a change in the budgetary review process, and provide a necessary step to 'greening' accounts, introducing budget coding for the kinds of priority environmental/green activity which need to be systematically incentivised and tracked.

Accounting for development: green accounting processes and alternative development measures

If a green economy entails managing, building and making highest-value use of the portfolio of Kazakhstan's natural and associated human and social capital, then accounting for the stocks and flows of that capital will be crucial. This kind of 'green accounting' complements GDP. It is now agreed under the UN framework System of Environmental Economic Accounts. A major programme, WAVES (Wealth Accounting and Valuation of Ecosystem Services) is currently being implemented by the World Bank and many partners to help countries develop a green accounting system that best suits their needs.[22]

Green accounting is not entirely new to Kazakhstan: one of the first attempts to introduce a wider range of environmental and social protection indicators into Kazakhstan's national accounting practices was undertaken in 2008. Although that pilot did not go beyond narrow theoretical exploration at the time, it constituted an attempt by the Ministry of Economic Development to broaden the dialogue on alternative development measures 'beyond GDP', supported by UNESCAP. In the light of the new GE Concept, lessons from that exercise should be incorporated by the MEWR in the provisions for green accounting practices.[23]

[22] www.wavespartnership.org

[23] There are many hidden precedents for a green economy in Kazakhstan. Unfortunately, lessons learnt from the numerous donor-funded projects and pilots are frequently lost, or shelved by different jurisdictions and host agencies, and end up unprocessed and inaccessible to the developers of new concepts and strategies. This leads to 'reinvented wheels', repeated mistakes and contradictory initiatives. The government body tasked with green economy transition would benefit from capturing and processing outcomes and lessons from relevant projects more systematically.

A closer look at core green economy policies and instruments

5

Eight basic policies have been identified by the OECD, with the advice of IIED, as being particularly valuable for making the shift to inclusive green economies (OECD, 2013). The table briefly identifies where Kazakhstan already has experience of them, and their potential:

Note, however, that Kazakhstan's green economy policy framework should not necessarily be limited to the above. For example, we have also identified that *environmental insurance and environmental liability insurance,* especially in connection with large infrastructure and extraction projects, require extensive legislative coverage and constitute an important gap.

Table 1 Eight policies for inclusive green economies

GG Policy 1: Payments for ecosystem services (PES)	PES potentially provides land users with a financial incentive to manage the land in ways that will also provide ecosystem services such as watershed protection, carbon storage and biodiversity management. Funds may be transferred by government, or by businesses through a market mechanism. Many GE programmes including the Green Bridge Initiative recommend piloting PES. The principal pilot programme promoting PES in Kazakhstan is implemented by CAREC. Still in pilot phase, the results will likely be integrated into a package of amendments to the Environmental Code, which will enable scale-up of pilot approaches.
GG Policy 2: Sustainable government procurement	Sustainable government procurement enables government to shift markets towards sustainability by preferentially buying infrastructure, goods and services that are produced through environmentally- and socially-sound methods. Rules of public procurement have been under revision in Kazakhstan over 2009–2011 but have introduced criteria relevant to GE. The Tax Code and budgetary review are also undergoing transformation. This will require coherent and systematic follow-up, pilot practices in key selected areas, system design and enforcement. Although transparency and corruption are inherent problems in any sustainable procurement regime, this is one of the most promising areas for pioneering best practice.
GG Policy 3: Subsidy reform – away from 'brown' subsidies of for example fossil fuels, towards GE	Subsidies entrench 'brown' practices and are inadequate for 'green' practice. But the reform of subsidies, especially those that are in effect hidden, is a difficult area given vested interests. Improving information and transparency can be a useful first step: here, the OECD has initiated a study of subsidies in Kazakhstan, the results of which would be beneficial for comprehensive subsidy reform in the energy and extractive sectors, as well as agriculture. Agriculture came under scrutiny in the context of incomplete reforms in the mid-2000s, which are directly linked with water supply sustainability problems. We are likely to see significant restructuring in this sector. The extractive sector is the leading force of the current economy. Even after significant regulatory changes of 2010–2011, a closer assessment of the oil, gas and mining subsidies in Kazakhstan has not yet been done. A starting point could be to initiate a study similar to the IISD-WWF assessment of government support for upstream oil and gas activities in Russia.[24]
GG Policy 4: Environmental taxes/ environmental fiscal reform	Where environmental assets are increasingly scarce, public environmental hazards are increasingly damaging, and the distribution of costs, benefits and risks is biased to richer groups, fiscal reform is warranted. It can also result in higher government revenues for resource rents. The introduction of environmental taxes in Kazakhstan was considered in 2009 during the preparation of the new Tax Code. However, their application has been postponed. The proposed green revenue re-investment schemes present a rather long-term prospect, requiring some preparatory steps and investment in capacity. The introduction of a GE Concept for Kazakhstan is therefore the right time to complete the reform of taxation away from taxing 'goods' towards taxing 'bads' such as pollution.

[24] Gerasimchuk, I. (2012) Fossil Fuels – At What Cost? Government support for upstream oil and gas activities in Russia. WWF-Russia and IISD.

GG Policy 5: Green energy investment frameworks and incentives	Real financial and investment incentives are required to cover the short-term costs and risks of a shift to greener energy systems. While incentives for renewables are clearly needed, they are best coupled with nearer-term possibilities for bringing cleaner technologies for fossil fuel extraction practices. This is where Kazakhstan has made considerable progress, preparing the foundations and building up donor support (if not yet the full investment needed) over the last decade. Indeed, the necessary provisions look most likely to pass through the Parliament and be supported by the leadership, despite some opposition from parts of the fossil fuel lobby.
GG Policy 6: Certification of sustainable production and trade	Certification can give independent assurance to the market that goods and services are produced in green and inclusive ways. As such, it acts as a driver towards green activities. It is increasingly important in food and forestry markets globally, though not yet in energy. Certification is being implemented at a pilot scale in Kazakhstan with applications in agricultural and dairy production, and gradually expanding into other areas. Well on its way to become more widely accepted and at least incrementally practiced, this would require significant development of public and producer education on sustainable production and consumption modalities, responsible consumer behavior, and investment in capacity-building for both large national companies and SMEs.
GG Policy 7: Green innovation policies	The shift towards greener production and consumption patterns is often enabled only when there are breakthroughs in hard (technology) and soft (institutional) innovation to improve resource efficiency and reduce 'footprint'. This is one of the components for the new Industrial-Innovation Strategy (MINT). The hope is to address this more comprehensively with the GE Concept implementation, notably analyzing government subsidies, creative partnerships and technology transfer schemes so that they can lead to improved innovation policies.
GG Policy 8: Policies in support of inclusive green social enterprise	Social enterprises can prove to be an effective way to develop, test and roll out technology that enables SMEs and the informal economy to contribute to green growth. For example, a social enterprise in India has directly contributed to the creation of 1 million green jobs. Social enterprise corporations initiated in 2008 were tasked to incorporate green components. However, it has been difficult to assess their effectiveness due to lack of transparency and oversight. Re-assessment under the GE Concept implementation could establish a clear role for the future.

Conclusions Kazakhstan's path to 'greening' the national economy

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The Ministry of Environment and Water Resources, in coordination with the Ministry of Economic Development, are tasked with the implementation of the Concept for transition to green economy adopted in May 2013. With McKinsey having been one of the influential developers of this Concept, using well-established cost curves to identify promising GHG abatement technologies, we can see a strong market-based approach that will favor major energy investments and some of the biggest players.

However, Kazakhstan's path up to the Concept was also marked with many earlier experiments and unfinished initiatives, as well as some solid foundations that we have identified. We believe these should not be neglected in the process of developing and implementing a full green economy Strategy that works for Kazakhstan's society and environment. They point to other needs and solutions that suit smaller players, and to changes in the machinery of government that can 'mainstream' green economy principles across all economic activity as well as provide a support for the planned major investments. They also point to a wider range of environmental opportunities and limits than GHG abatement. Nonetheless, effective implementation of the GE Concept will need to prioritise a few concrete economic and legislative wins to ensure its viability.

Ten key recommendations therefore emerge from our analysis:

1. *Implementation of the new GE Concept needs a clear focus:* 2–3 thematic areas where breakthroughs are most realistic and progress matches with the demands and interests of many stakeholders. Our assessment is that these are renewable energy sources (RES), energy efficiency, water governance, and waste management.
2. *The viability of the proposed investment mechanisms will need to be carefully assessed.* Adoption of financial investment mechanisms suitable for the above themes is essential if the Concept is to take off. Investment mechanisms also indicate the ideological underpinnings of the Concept. Typically, each option will present gains and losses to specific constituencies and segments of the population. In the longterm, an inclusive approach is needed even if, in the short term, practical implementation considerations suggest the need to focus on major players.
3. *A coherent set of mainstreaming measures should be considered.* Options include a multi-stakeholder forum for a green economy, green screening of public expenditure, green accounting, and environmental fiscal reform. These kinds of mechanisms provide the foundations for a wide-scale shift to green economy – an essential complement to a focus on a few major investments. This institutional foundation will require a comprehensive discussion across government, industry and CSOs.
4. *An inter-agency green economy coordinating body is required with a sufficient regulatory mandate.* Options, such as a Council under the President or State Commission, will need to be able to enforce at least a few key measures to ensure the policy breakthroughs necessary to 'green' the Kazakhstan development path. This body will need to signal a clear and coherent intention of effective governance of public goods and environmental and social standards, and to define institutional roles for them. The Sustainable Development Council offers lessons, and maybe a basis. It will need to work well with NGOs, progressive academia and the teaching establishment in order to achieve mainstream changes.
5. *Special attention and resources need to be allocated to increasing institutional capacities and governance.* Given prevailing governance challenges (patterns of corruption, lack of accountability and effective public oversight), entrenched 'brown economy' behaviours, and insufficient capacities in public and state monitoring of programme implementation, attention is essential if green economy measures are to be equitable and avoid unintended damage.
6. *Environmental fiscal reform will require specialised inter-agency expertise.* With environmental assets increasingly scarce, and the distribution of environmental benefits, costs and risks biased towards richer groups, fiscal reform is warranted. It can also result in higher government revenues for resource rents. An initial task is to examine the current regime and make necessary changes.
7. *Subsidies and other incentives will need a thorough review.* Building on earlier OECD studies, examination of direct and hidden subsidies and tariffs in oil and gas, mining and agriculture should inform re-structuring and reform. Tariffs and subsidies should be restructured so that the economic signals are right for green growth, addressing social impacts as well as environmental, and integrating necessary social protection mechanisms and green re-investment.

8. *Ensure public finance accountability and oversight over new environmental programmes*. Steps include rolling out the new Law on Local Governance; building bridges across various constituencies to broaden outreach for GE initiatives; and integrating Extractive Industries Transparency Initiative (EITI) approaches into a wider range of economic activity
9. *Industry engagement and dialogue requires a step-by-step approach and needs to be strategic*. The types of policy breakthrough required for 'greening' the economy will likely encounter strong resistance from some industry lobbies. A strong business case needs to be developed in support of the Concept, presenting arguments and counter-measures to overcome potential barriers and make the transition smoother.
10. *A targeted communication strategy for stakeholder outreach needs to focus on achieving necessary policy breakthroughs in the short- to mid-term.* This would aim at attracting a good investment climate for renewables, energy efficiency, water and waste management. Relevant government, industry and non-governmental stakeholders will need to be 'mapped' for their respective interest, capabilities and influence, and prioritised.

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List of Acronyms

CAREC	Central Asia Regional Environmental Center
CSD	Council on Sustainable Development
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ETS	Emissions Trading Scheme
EU	Green Economy Coalition
FDI	Foreign Direct Investment
GBP	Green Bridge Partnership
GDP	Gross Domestic Product
GG	European Union
GE	Green Economy
GEC	Green Economy Coalition
GEF	Global Environmental Fund
GG	Green Growth
GGGI	Global Green Growth Institute (South Korea)
GHGs	Greenhouse gas emissions
GoK	Government of Kazakhstan
HDR	Human Development Report
IIED	International Institute for Environment and Development
IISD	International Institute on Sustainable Development
KIOGE	Kazakhstan International Oil and Gas Exhibition (and conference)
KNGGP	Kazakhstan National Green Growth Plan
KZT	Kazakhstan Tenge (national currency)
MEP	Ministry of Environmental Protection
MEWR	Ministry of Environment and Water Resources
MINT	Ministry of Industry and New Technologies
MOG	Ministry of Oil and Gas
NGO	Non-governmental organization
OECD	Organization of European Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
PEER	Public Environmental Expenditures Review
PES	Payments for ecosystem services
PPP	Public-private partnership
RES	Renewable Energy Sources
SD	Sustainable Development
SEA	Strategic Environmental Assessment
SIA	Social Impact Assessment
SMEs	Small and Medium Enterprises
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UN ESCAP	United Nations Economic and Social Commission for the Asian-Pacific Region
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank
WWF	World Wildlife Fund

Kazakhstan has taken a lead among Central Asian countries in mapping a path towards a green economy. While environmental degradation has often been discussed, only recently have environmental concerns begun to be addressed within the mainstream economy. In 2011 the Kazakhstan government asked IIED to help define its approach to 'greening' the economy. Focused initially on the Green Bridge Partnership Programme of investments, in a positive step the Kazakhstan government adopted its own *Green Economy Concept*, which provides the overall policy context. This report analyses progress to date and makes ten recommendations on the enabling conditions needed for Kazakhstan to achieve a substantial transition to a green economy.

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This research was funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the views of the UK Government.

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