

**POLITICAL ECONOMY OF CORPORATE SOCIAL RESPONSIBILITY IN THE
EXTRACTIVE INDUSTRIES: A GAME-THEORETICAL ANALYSIS**

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Abstract

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Political Economy of Corporate Social Responsibility in the Extractive Industries: a Game-Theoretical Analysis

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The local community and social infrastructure development projects implemented by the extractive sector companies in the frame of their corporate social responsibility (CSR), if effective, can be an important source of long-term development for the local communities affected by the mining operations. However, their effectiveness depends on whether the projects are tailored to the needs of the local community, and whether the decision-making for each project is done in a transparent manner and in cooperation with key stakeholders and beneficiaries (including the governments of different levels and communities themselves).

In this regard, the dissertation is aimed at answering the following research question: how the decisions on CSR priorities are taken in the context of political economic relations and interactions between corporations, governments, and communities in developing countries. The dissertation does so by developing a game-theoretic model (based on the non-cooperative sequential games design) as an instrument to analyze the decision-making for community and social infrastructure development projects in the frame of CSR of the extractive industries. The model describes possible strategies for four key players (the company, the national government, the regional government, and the local community) and points at the factors (variables) that can determine their decisions. The variables include the costs of cooperation, including sharing the political control over the CSR resources, the value of the social license to operate (SLO), which is an important

incentive for companies to fully cooperate with the local communities, and the perceived risk of social conflict (unrest) in case of non-cooperation with the local community. The model is intended to be applied to more than one case of the decision-making for the CSR projects. In the frame of this dissertation research, it was applied to the analysis of three case studies, two in Kazakhstan and one in Mongolia, all of them related to mining companies. The data collection for each case was done using the qualitative analysis of semi-structured interviews and the document analysis of policy documents and legislation. The practice of decision-making revealed in each specific case was compared to the “typical” case for the countries, which is the typical practice of the extractive sector companies as described by the experts working in the field and interviewed by the author.

In general, the model proved to be useful for the analysis, as it is pointing at the key factors that determine the costs, benefits, and the perceived risks of decentralization of the decision-making and cooperation with the communities in each case. As a result of the analysis, particularly of the Mongolian case, the model was revised to incorporate the strategies related to cooperation/non-cooperation with the local (sub-regional) level of government. The model can be developed further with the operationalization of the key variables in quantitative terms and application to the new cases.

The analysis presented in the current dissertation provides grounds for policy recommendations aimed at decreasing the costs of cooperation with the communities for the companies and governments and increasing the value of this cooperation (and the SLO) for the companies. For example, raising awareness of the communities, involving the civil society organizations to work with the communities, and establishing permanent channels of consultations between the company and the community reduces the costs of cooperation with the community. The Mongolian

experience of legally establishing the community development agreements as a prerequisite for mining activities of the companies increases the value of cooperation with the communities for the companies, while the requirements for these agreements to be openly discussed and published improve their transparency and overall quality. This is a practice that can be introduced in other countries, including Kazakhstan.

Dedication

This work is dedicated to the memory of my grandmother, Rauza Akhmetova (1927-2018), who always encouraged me to love, respect, and enjoy literature and science.

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List of acronyms

CDA – community development agreement

CSR – corporate social responsibility

JV – joint venture

LDF – local development fund

NGO – non-government organization

OECD – Organization for Economic Cooperation and Development

SIA – social impact assessment

SLO – social license to operate

SOE – state owned enterprise

UNECE – United Nations Economic Commission for Europe

UNFPA – United Nations Population Fund

Introduction

The purpose of this thesis is to develop and test a model of decision-making for actors involved in corporate social responsibility (CSR) projects in developing countries. The research will take into account interactions between actors rather than just concentrating on decisions and motivations of a corporation to perform CSR. Therefore, this thesis will investigate an understudied aspect of the CSR analysis in the literature and thus will constitute a contribution to the academic research field. In order to perform the analysis, this thesis will use a game-theoretic approach, which is rarely used in the CSR studies (as will be discussed in the literature review section). Thus, the original approach to the analysis of an understudied aspect of the thematic field may make the present dissertation to be of interest to academics. This thesis will also be of value to the practitioners and policy makers, since CSR is (or can be potentially) an important contributor to regional and local economic, environmental, and social development; and improved understanding of decision-making and interactions of the actors involved can eventually increase its value for society.

Political economy as a scientific research domain is focused on the interrelationship between economics and politics (Weingast and Wittman, 2008). The political economy of each policy area is important for public policy research and application, since all public policies are created and implemented within certain political environments that shape the policies and impose their constraints on them. As Mesquita (2016) points out, “an optimal policy response to a problem must be optimal given all the constraints, including the political constraints” (electronic publication, page number is not available). It is important to take into account the political economic aspects of decision-making for the CSR, since each of the stakeholders involved in this

decision-making, including the government structures, has its own agendas. As was highlighted by Ostrom, “Policy analysts who would recommend a single prescription for commons problems have paid little attention to how diverse institutional arrangements operate in practice. The centrists presume that unified authorities will operate in the field as they have been designed to do in the textbooks – determining the best policies to be adopted for a resource base on valid scientific theories and adequate information. Implementation of these policies without error is assumed. Monitoring and sanctioning activities are viewed as routine and nonproblematic...” (1990, 29th reprinting 2011, p. 22). Therefore, in the analysis of decision-making for the CSR projects of the extractive sector companies it is necessary to take into account political economic situations, interests, and agendas of various actors involved, including governments, companies, and communities.

The major assumption of this thesis is that since communities are supposed to be major benefactors of the community development aspect of CSR, better correspondence between the needs and interests of the community and the goals of the implemented CSR projects improves the effectiveness of CSR projects. The policy recommendations will be given from the position of this assumption.

The relevance of the research on CSR project management for policy making can be illustrated using an example of CSR in Kazakhstan. According to the Extractive Industries Transparency Initiative (EITI) report (2019) on Kazakhstan, in 2017 “expenditures [of extractive industries companies] on the social sphere and local infrastructure amounted to 47.9 billion tenge¹, of which oil and gas companies [spent] 39.9 billion tenge (83% of the total), mining companies – 8.0 billion tenge” (p. 53). The government portal “United State System of Subsoil Usage Management in the

¹ USD 147 million, as calculated using USD/KZT official exchange rate for 2017 (average rate for the period)

Republic of Kazakhstan” shows for the same period (2017) 212 projects on social development and local infrastructure reported by 28 extractive industries’ companies in 12 out of 17 regions of the country. This is quite a typical number of projects per year, in 2018, for example, the system reported 208 projects. The indicated purposes of the 2017 projects vary from construction of local infrastructure (heating, water and sewage systems, schools, kindergartens, sport centers, roads) to the financial assistance provided to religious organizations, as well as organization of various events and building of monuments. Therefore, the CSR projects of extractive industries provide a significant resource for local social development in Kazakhstan. At the same time, Lobacheva (2018) highlights that there is not enough information on the CSR projects of extractive industries in Kazakhstan available to the public. This researcher finds that the typical projects selection mechanism is not transparent and that communities are rarely involved in selection of the projects for implementation. Usually, the decision-making on these issues is done in the process of regional or local government negotiations with the company without involvement of the local community., At the same time, specific cases may differ in the scope and depth of company-government-community cooperation (Chapter 5). The example of Kazakhstan shows that there is a policy problem related to decision-making on CSR priorities.

The model developed in the course of this research was tested empirically through qualitative comparative case-study analysis. The empirical application provided an opportunity for falsification of the model as unrealistic. Empirical falsification is necessary in order to achieve scientifically sound and realistic understanding of the actors’ behaviors (Popper 2005). The empirical part of the research (hypotheses testing) was based on qualitative methodology (case study design). The method of data collection included interviews and document analysis. The methodological approach is discussed in more detail in Chapter 3 of the thesis.

From the point of view of political economy, several key actors are involved in the decision-making on CSR projects: (1) the government (subregional, regional and national levels), (2) companies working in extractive sector, and (3) local communities. Each of these actors have their own set of interests, beliefs, and goals. These interests are determined by economic, political, and ethical considerations, as well as by the perception of risks. The process of actors transforming their interests into actual decisions on specific projects is shaped by the regulatory requirements, institutional framework, level of knowledge and capacity of the actors, their perception filters and biases, their previous experience and relationships, and general context of a national and regional development. As a result, it is possible that economic and political objectives of the actors may be in conflict. Such conflicts constitute one of the research fields of political economy as a social science discipline.

The CSR projects, if successful, can be extremely beneficial for all the participating actors. Besides direct benefits from the project to local communities and to local authorities, these projects can bring a positive externality of building the capacity for social cooperation between sectors (public, private, and possibly non-profit). Selsky and Parker (2010) discuss the possibility of cross-sectoral partnerships (between public, private and non-profit sectors) such as CSR to bring benefits at individual, organizational, sectoral, and societal levels, including possible disruptive social innovations. This thesis suggests that a political economic angle of analysis can constitute a key insight into our understanding of the mechanics of this cooperation, thus giving the actors an opportunity to improve the existing practices and to gain the full potential benefits of the CSR projects performed by an extractive sector in a developing country, specifically in Kazakhstan.

The first chapter of the thesis presents the literature review with identification of the key gaps in the literature to be addressed by the present research. The second chapter suggests a theoretically constructed model which can then be applied and tested on the qualitative case-studies in the subsequent chapters. This chapter will also contain the hypotheses since they will be drawn from the model. Chapter 3 is devoted to the discussion of the research methodology, its benefits and limitations. Chapter 4 presents the two countries for case studies (Mongolia and Kazakhstan) along with justification of their relevance based on the comparative analysis of legislature and statistics. Chapter 5 contains the description and analysis of the “typical” case and two specific case studies in Kazakhstan. Chapter 6 is devoted to the identification of the “typical” case in Mongolia and the analysis of the specific case study. The concluding section of the thesis presents theoretical reflections and policy recommendations.

Chapter 1. Literature review and research question

1.1. The key concepts

The concept of CSR

Corporate social responsibility (CSR) is a term so difficult to define that Crane et al. (2013) suggest to understand it as a field of research rather than a specific concept. Thus they tried avoid the unresolved problem of various competing definitions. Okoye (2009) thinks that one definition of CSR is not even possible, since this is an essentially contested concept. Gond and Moon (2011) call it “a chameleon concept”. There is only a vague common component of all the definitions, which Okoye defines as “various issues which arise out of the dynamic relationship between corporations and society over time” (p. 623). Therefore, CSR is one of the abstract notions for which we can apply the famous saying of Alexis de Tocqueville: “An abstract term is like a box with a false bottom: you may put in it what ideas you please, and take them out again without being observed” (2006). Nevertheless, a short review of the literature concerning possible definitions is useful. Not for the purposes of deciding which definition is the correct one (this would be a useless exercise), but for understanding the variety of CSR aspects studied in the scientific literature and used in practice.

There are several meta-analyses of various definitions (Dahlsrud 2008, Lockett et al. 2006) in which the authors summarize definitions into groups based on the aspects or dimensions of CSR that are highlighted by each definition. Lockett et al. (2006) distinguishes four major themes: business ethics, environmental responsibility, social responsibility and stakeholder approaches. Dahlsrud (2008) provides an empirical analysis of 37 definitions of the CSR and divides them into 5 dimensions:

- (1) the stakeholder dimension;
- (2) the social dimension (interaction between business and society);
- (3) the economic dimension;
- (4) the voluntariness dimension (CSR as actions not prescribed by the law); and
- (5) the environmental dimension (p.5).

Therefore, an attempt to provide a universal and comprehensive definition of CSR has to include all these dimensions. A good example is the generalized formula which is critically used by Utting and Marques (2013), who describe CSR as being “typically defined in terms of greater responsiveness on the part of companies to societal and stakeholder concerns; integration of social and environmental considerations in business operations; voluntary initiatives that go beyond philanthropy and standards embodied in law; and “doing no harm” (p. 2). Utting and Marques then criticize this already broad list for being incomplete and suggest adding labor and human rights, distributional justice and equity to the definition, and, therefore, to the focus of discussion. However, an attempt to include all these dimensions into a definition makes it useless for practical analysis. Every researcher has to choose the focus of her research by defining the term CSR in some limited and intentionally incomplete way. For this reason each of the researchers tailors the definition for her needs.

Despite the broad scope of the CSR term, there is a dominant perspective, which this thesis intends to contest. Most of the discussion and analysis of CSR is done from the point of view of a private corporation engaging in CSR and principally answers the question of the corporation’s motives. For example, Schwartz and Carroll (2003) suggest three overlapping domains for analysis of CSR: economic, legal, and ethical. Motives for the firms to engage in CSR, as well as the activities themselves, can be understood through the combination of these three domains. This is a

comprehensive approach, but it lacks an analysis of other actors involved in CSR – namely, governments and communities. Garriga and Melé (2004) provide an overview of theories in CSR studies. They developed a typology consisting of four groups of theories: “(1) instrumental theories, in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results; (2) political theories, which concern themselves with the power of corporations in society and a responsible use of this power in the political arena; (3) integrative theories, in which the corporation is focused on the satisfaction of social demands; and (4) ethical theories, based on ethical responsibilities of corporations to society” (p. 51). However, all these theories mostly try to answer two questions – Why do corporations perform CSR? What are their motives for choosing specific CSR strategies? How much do they spend on the CSR? Therefore, the focal point is the corporation and its behavior, not an interaction between the corporation and other actors in society. The external demands (from governments and communities) on corporations related to their CSR activities are either missing from the discussion or considered as a constant exogenous parameter, as is the actual institutional environment in which the interaction is happening.

For some researchers, this “corporation-centered” point of view is the only logical way for CSR analysis, since they define CSR strictly as voluntary activity of corporations. They then use different terms for the mandated activities determined by the firm’s interaction with the government. For example, Bice (2015) states that for the analysis of non-voluntary social activities of firms (determined by state regulation, for example), researchers should use the concept of social impact assessment (SIA). However, the term SIA is less fit for the purposes of this research than the term CSR, because the former is too narrow and concentrates on technical assessment criteria

of social infrastructure projects, only partially covering decision-making of actors. Therefore, I will continue to use the term CSR.

I am not trying to provide the ultimate comprehensive definition of CSR; this is beyond the scope of this research. The purpose of my analysis of definitions was to show the dominant understanding of the term, as well as to prove that this concept is broad enough to include different focuses and angles of research. For the purposes of this thesis, I am going to use the discretion provided by the vague nature of CSR as a term in order to include both voluntary and non-voluntary activities. This suits my purposes of studying CSR in a developing country context, because, as we will discuss in one of the following sections, in developing countries corporations sometimes have to complement or even substitute government development policies for local communities. This makes a purely philanthropic understanding of CSR inadequate. At the same time, I will exclude the activities directly related to a firm's primary business operations. I realize that, according to the literature, one of the primary social responsibilities of a firm is its profitability for the shareholders (its economic dimension in terms of Dahlsrud (2008)). However, I put core business operations beyond the scope of my research. My research will deal with the "extra" social responsibilities, either voluntarily undertaken by a firm or in order to fulfill some mandate developed by a state and communities, aimed at social development, so, mostly the **community social investment** dimension. Therefore, my working definition of CSR (strictly for the purposes of this thesis) is the following: *CSR – community development and social infrastructure projects of a corporation, which are not part its core business operations.* The nature of CSR as a field rather than of a specific concept allows me the discretion to make these decisions about the definition.

Social license to operate

Another important concept for this research is the concept of social license to operate (SLO). The SLO is a metaphorical term used to conceptualize the notion that, alongside legal permits and licenses, there is the often less tangible ‘social acceptance’ without which a company may face ‘non-technical’ risks such as community conflict and workforce protests (Wilson 2015).

Cooperation with the community for the decision-making on the CSR projects does not automatically guarantee obtaining the SLO for the company, but the CSR and the SLO are related. Therefore, cooperation with the community gives the company a chance to obtain the SLO from this community with a certain probability. According to Moffat et al., (2014) obtaining a social acceptance of mining operations (the SLO) requires three factors: (1) procedural fairness (“the extent to which the industry listens to and respects community opinions, and changes its practices in response to community concerns”); (2) distributive fairness (“the extent to which economic benefits from mining are distributed fairly”); (3) governance capacity (the extent to which the government and regulation can ensure compliance of the mining companies). (p. 14). Together these three factors create trust between the companies and the communities, and this helps the companies to get the SLO from the communities.

Meesters and Behagel (2017) discuss the criticisms of the SLO concept, consisting of several important points: (1) it is unclear who exactly grants the license. The local community itself is not a precise concept, and it can be exclusive regarding the poorer, marginalized, vulnerable groups; (2) it is unclear who can revoke the SLO and how this happens. The protests and dissatisfaction can be rejected in certain political contexts; (3) the process and criteria for granting the SLO are unclear. We do not know when the SLO is granted; (4) the analysis based on the concept of SLO

often concentrates on the economic benefits for the community but neglects the offsetting environmental damage and negative social impacts.

Still, the concept of SLO is important for this research since I will assume that the companies are interested in obtaining the SLO from the local communities in order to ensure smooth business operations.

1.2. Research gap 1: political economic aspects of the CSR

Some researchers (Utting and Marques (2013), Kallio (2017)) explicitly note a specific gap in the discussions around CSR, which is related to the power and political relations between social actors, the factors that shape the strategic decision-making by the actors. Thus, Utting and Marques (2013) suggest several understudied topics within the CSR research. One of them is the changing role of state and “power relations between different social actors and stakeholders, and their role in framing the CSR agenda, as well as how costs and benefits of CSR are negotiated and distributed among stakeholders and within value chains” (p. 9). Kallio (2017) goes as far as to suggest that there is a specific taboo on discussion of the political aspects of CSR. Kallio understands this taboo to be related to the intention of corporations to use CSR for the purpose of gaining social legitimacy.

If one agrees with the existence of the gap (understudied area) in the CSR research related to power/political economic relations and interaction between actors in the process of decision-making on CSR issues, then it is necessary to figure out what actors need to be included in the research focus. Calvano (2008) draws attention to community as a key stakeholder. Communities often are sole beneficiaries of social development projects within CSR, but at the same time they might not be the strongest actors in the decision-making process. Calvano thinks that communities

face three interrelated problems in relation to corporate decision-making concerning CSR: stakeholder power inequality, stakeholder perception gaps, and cultural context. These problems are neglected both in research and in the practice of multinational corporations. From her point of view, better understanding of communities might have the practical effect by helping to prevent conflict between communities and corporations. Muthuri et al. (2012) also highlight the necessity to better understand company-community relations in the analysis of CSR, especially in the developing countries context. At the same time, they warn against homogenization of communities, stating that only better understanding of communities may provide a basis for practical research leading to social innovations.

Another obvious but often understudied actor that the analysis of CSR relations needs to consider is the state. Schrempf-Stirling (2016) reminds us that “the state sets the context within which business takes place and within which firms fulfill their responsibility”. In her view, one of the major topics of future research in “political CSR” studies is the effectiveness of the nation state. However, it is as naïve to consider the state as a homogeneous actor, as it would be to do so for communities. First, different levels of public administration might have their own agenda in dealing with CSR social infrastructure development projects. Secondly, there is a principal-agent problem, which might affect governments’ decisions. This last point is especially important for the present research and will be discussed in more detail in the subsequent chapters.

In sum, both communities and governments are complex actors that (1) can have their own agenda, (2) influence the corporation’s decision-making on CSR, and (3) undertake actions to define the content of CSR, even in the cases when CSR is voluntary. According to the authors referenced above, both of these actors and their relations with corporations are in some way understudied areas in the CSR research.

Besides the power relations gap, Utting and Marques (2013) state that the existing CSR studies often fail to grasp the historical and institutional context of CSR. Therefore, the next logical direction in the research on CSR is to study it in the new historical and institutional contexts (for example, in the developing countries), in addition to paying attention to the power relations between the actors and stakeholders involved in CSR. This brings us to another understudied area in the literature, which is the role of CSR in developing countries.

1.3. Research gap 2: CSR in developing and transition countries

The literature suggests that (1) the role of corporations is especially important for social and economic development in the poorer countries; and (2) that this role is different than in the developed world. For example, Valente and Crane (2010) state that in developing countries corporations go beyond CSR, in fact sometimes they become quasi-governmental entities and make major contributions in the provision of welfare and public services, including education and healthcare. The authors highlight that there are positive and negative aspects of this. The negative effects can be related to “reckless business practices that disregard the social and environmental costs of doing business” (ibid., p. 54), while positive examples include various social innovations developed by business, which in some cases have more flexibility and resources for social development projects than the public sector. Valente and Crane (2010) provide several examples of such innovations, including social entrepreneurship for fair treatment of rural suppliers in the Brazilian Rainforest.

Based on the analysis of 30 corporate social responsibility strategies, Valente and Crane (2010) make an interesting distinction between supplement and substitute strategies on one hand and support and stimulate strategies on the other. **Supplement and substitute strategies** mean that companies are directly providing some public services, either supplementing the state provision or

completely substituting it (for example, building hospitals, roads, etc.). **Support strategies** mean that the companies try to develop institutions for social development (for example, strengthening capacity of local self-government). **Stimulate strategies** are related to development of innovations that could be invented by the private sector and then implemented by the public sector. The supplement and substitute strategies give immediate and visible results, while support and stimulate strategies work in the longer-term and decrease the dependence of the communities on the company. These strategies potentially are so different in their effects and impacts that it is both interesting and important to know what factors determine a company's choice in favor of one or another approach. Valente and Crane (2010) do not provide an answer for this question, which opens a new field for research.

The present research uses the experience of two countries, Mongolia and Kazakhstan, to perform a comparative analysis of the decision-making for CSR projects. In recent years, there has been a significant progress in the research on the CSR of the extractive sector companies in Mongolia. For example, a comprehensive research on the Mongolian regulatory regime concerning natural resource extraction, including community relations and the CSR topics, was done by Lander 2019. Almost any research on Mongolia uses Oyu Tolgoi mine as a case study since this is the largest, most significant mining project in the country, and it presents interesting evidence for many different research questions. The herders living close to Oyu Tolgoi mine even express “research fatigue” due to the number of times they were interviewed (Meesters and Behagel 2017). Yet, comparative analysis is rarely done. Recently, there were a few attempts of comparing Mongolian experience with other developing countries. Blunt (2014) briefly compares Mongolia with Peru and other Latin American and African countries. Unfortunately, the regulatory situation in Mongolia that he describes changed significantly in just seven years after the publication. There is

also a recent major comparative study published on the Mongolian and Kyrgyz experience (Sternberg, Toktomyshev and Ichinkhorloo 2021). However, most of this work is descriptive, and the authors do not try to suggest a theoretical model for analysis of the tendencies they discuss.

The literature related to the extractive sector CSR regulation in Kazakhstan is scarce. In this dissertation, I will rely on several policy reports on Kazakhstan relevant to this topic, but the academic literature demonstrates a gap that this research aspires to partially cover.

In general, CSR in developing countries is an understudied subfield of CSR research. First, the geographical scope of studies is still limited. Visser (2013) provides a review of literature on this question and states that “only about one fifth of all the developing countries have had any CSR journal article published on them. Of these, the most commonly analyzed and written about countries are China, India, Malaysia, Pakistan, South Africa, and Thailand” (ibid., p. 476). Baskin (2006) also states that “[Corporate Responsibility] in specific emerging markets has only recently received attention from both academics and practitioners” (p. 61), though some additional research can be found in the area of socially responsive investment studies. Second, still a lot of research is to be done on the factors influencing CSR in developing countries. Visser (2013) suggests the following classification of such factors:

- (1) *internal drivers* (from within the country) – cultural tradition, political reform, socio-economic priorities, governance gaps, crisis response, market access;
- (2) *external drivers* (from outside the country) – international standardization, investment incentives; stakeholder activism; supply chain.

Still, this is just one version of a possible theoretical approach and more research can be done on the driving forces, significance, and strategies of CSR in developing countries. For example, Baskin (2006) suggests an alternative approach by stating that corporate responsibility is a

response to three pressures on companies: (1) biosphere pressures (environment), (2) legitimacy pressures (societal values), and (3) market pressures (investors, consumers, etc.). However, he calls for “theoretical research to test some existing models of CSR and develop new modes of theorising capable of being applied to both developed and emerging markets” (ibid., p. 81). In sum, the academic community is in search for models to analyze CSR in developing countries context. In this regard, in the following section let us consider the methodology of CSR studies and, specifically, applications of game-theoretical approach in the existing studies.

1.4. Research gap 3: methodological gap (application of game-theoretic approach)

The existing metareviews of methodology have shown that CSR studies use both quantitative and qualitative methods (Lockett 2006, Kraus and Britzelmaier 2012). Lockett highlights the gradual growth of empirical studies, while Kraus and Britzelmaier specify that for such studies the most popular research designs include questionnaires, case studies, secondary research, and interviews. At the same time, Crane et al. (2017) initiates a discussion of various new methods that can be applied for the CSR studies, such as, for example, quasi-natural experiment design.

One of the promising approaches relatively new to CSR studies is game theory. Game theory can be useful for two major reasons: (1) it allows to analyze dynamic interaction between multiple actors with different preferences in the context of interdependence of their strategies; (2) game-theoretic models allow explaining the rationales behind the strategies preferred by the players. At the same time, modelling of complex social and political relations in the policy area of CSR using game-theoretic approach requires making a lot of assumptions and taking into account the uncertainties and information asymmetries.

There have been some attempts to apply a game-theoretic approach to the decision-making related to CSR. For example, Fanti and Buccella (2016) use a game-theoretic model to understand why

some firms engage in the CSR and the other firms do not. The authors relate this decision to social concerns of consumers of the firm's product. These concerns are part of consumer surplus. The firm makes a decision based on its estimation of consumer surplus. Sacconi (2004) uses the concept of a bargaining cooperative game in order to understand the rationale for a firm to commit to CSR and to self-regulate CSR. One of his assumptions is to consider reputation to be the main benefit for a corporation in CSR. In 2011, Sacconi continued this line of research (Sacconi 2011a and 2011b). He applied game theory concepts to understand why a firm would extend its obligations to all the stakeholders, i.e. to take additional obligations in a frame of CSR.

The research projects described above show that there is an interest among researchers to understand CSR from the game-theoretic point of view. At the same time, all of these studies have several common limitations:

- (1) they are theoretical and do not include practical case studies in order to falsify their conclusions;
- (2) they are concentrated on internal decision-making within a firm, trying to answer why a firm chooses to take additional commitments related to CSR. The strategies of other social actors and their interactions with the firm are not considered in these analyses, which undermines application of the game theory since game theory studies interaction between several players;
- (3) the studies do not consider the question of quality and priorities of CSR, limiting themselves to the question of whether or not the firm decides to perform CSR.

The closest to the area of my research interest (interaction between corporations, governments, and communities for decisions-making on specific projects in the frame of CSR) is the study by Salazar et al. (2018), which considers CSR in China through a prism of interaction between

multinational corporations and local stakeholders (i.e., governments, communities). The authors use a cost-benefit model, stating that CSR presents direct costs for the firm, while not performing CSR causes indirect costs due to the regulatory power of stakeholders (for example, government). Still, Salazar et al. analyze only general decision-making on firm's engagement in CSR (engage vs. not engage). This study does not analyze decision-making for specific projects (selection of priorities within CSR). A similar approach (with the same limitation) is used by Wang (2015) and Xie et al. (2015). Both studies propose game-theoretic models of firms' participation or not participation in CSR or fulfillment/non-fulfillment of the CSR obligations conditioned on government regulation. However, these three studies consider government regulation as a constant exogenous parameter, part of a situation for the firm. They do not answer a question of what happens in the interaction between a firm and a government related to CSR requirements and priorities. These studies do not consider communities at all. This simplifies the analysis, but makes it very abstract and rigid, not reflecting the bargaining that might be happening between governments, communities and corporations in real life.

Therefore, there is an open field of research concerning the question of what happens once a corporation is involved in CSR; and how the strategic decision-making on specific priorities (directions of spending, projects) is organized between a firm, a government and a community. At the same time, this later question is essential for the analysis of effectiveness of CSR, because CSR can be successful or unsuccessful depending on the level of benefits that are gained from it by all the stakeholders. CSR is a coordination game, because in the ideal situation it is possible for all the players to benefit from the CSR project, however, this depends on the players' views on the nature of the game and their available payoffs. This is a bold assumption, but it provides motivation for CSR.

Decision-making on the CSR issues (specific projects) involves bargaining with incomplete and imperfect information (here and from now on my analysis is based on game-theoretical concepts as described in Morrow (1994)). The players also take into account their beliefs while developing strategies on the CSR issues. Therefore, the analysis needs to be based on a Bayesian approach.

The foreseeable counterargument against using game theory to investigate CSR is that a game-theoretical model for this kind of research would be too complex and, therefore, prone to mistakes.

One must consider decision-making over a CSR project as a non-cooperative game involving three players: corporation, government, and community. This statement already involves two simplifications. First, local, regional, and central governments can have different interests and different bargaining powers, but it would be easier to consider them as one player (government).

The second simplification must be involved when dealing with local community, which is not homogeneous and consists of citizens and groups of citizens with different interests, but probably will have to be considered as one actor. These two simplifications are necessary, otherwise our first step – defining the players – already overcomplicates the subsequent analysis. The simplification is necessary for any modelling, since the purpose of the model is not to explain everything, but to isolate and describe essential causal relations in the policy field under study.

An additional complication is that the actors are not equal in their bargaining power and typically do not consider each other as equals. For example, the relations between local authorities and local communities can be built on an asymmetric or a symmetric model (Murphy 1991). An asymmetric model involves manipulation of public behavior. In the symmetric model, the public is considered as an equal partner. It almost goes without saying that asymmetric relations are more frequently met in reality. Therefore, all the strategies and decisions of the actors will have to be analyzed while correcting for their bargaining power.

These counterarguments have to be taken into account. One has to accept that attaining an exact mathematical model of decision-making on this issue might be unrealistic at the current stage of research development. However, the concepts of game-theory can and should be applied in order to approach an understanding of the interactions between stakeholders on CSR projects. The alternative is a case-by-case inductive approach, which would not advance the research field until some kind of generalization is attempted.

1.5. Research question

This thesis will answer the following research question: **How the decisions on CSR priorities are taken in the context of political economic relations and interactions between corporations, governments and communities in developing countries.** The study will answer this question by using a **game-theoretic approach** to develop the hypotheses and subsequent practical **case-studies** to test them. Therefore, this research will address all three gaps described above, i.e. both the understudied areas of political economic context of the decision-making on CSR projects and the CSR in the context of developing countries. The study will also partially cover the methodological gap of application of game-theoretical concepts to the CSR research.

As stated in the Section 1.1, for the purposes of this study, CSR will be interpreted as corporate contributions for social development. In other words, I narrow down the scope of research to CSR projects with identifiable external beneficiaries, particularly local communities.

Chapter 2. The game-theoretical model for political-economic analysis of the CSR in the context of developing countries

2.1. Assumptions

2.1.1. General assumptions on the game

This is a sequential non-cooperative game consisting of three stages, each of which can be presented as a separate sequential game. Information is imperfect. Beliefs of the players can be an important factor. In each of the subgames, the players can choose to cooperate (and the game will continue) or to terminate the game.

The goal of the game for all players is to get maximum utility for themselves from the CSR projects. The negative externalities from mining activities (for example, negative effect on environment) are assumed constant and do not depend on the strategies and decisions of the players in this game. They can be considered to be external constraints. Thus, the community, for example, may get higher or lower utility from the CSR, and this utility may or may not be sufficient to compensate for the negative effects of mining for the environment, but the harm to the environment itself does not change during the current game about the CSR. It is constant for any strategy chosen by the players; therefore, it can be ignored when comparing payoffs for the players in the current game.

2.1.2. Introduction to the players

The model of the game is necessarily simplified compared to reality. In this initial model, there are four rational players, each of them with its own strategies, bargaining powers, and opportunities for making decisions. In reality, each of these players consists of groups and individuals with their own utilities and interests. However, simplification is necessary for the purposes of modelling. The model will stay open for corrections in the course of analysis of the real-life cases. This is the general description. Specific benefits for each player will be discussed at each stage of the game in the further sections.

The four players include:

1. National government
2. Regional government

Note: the local government is not an independent player in the situation of Kazakhstan (it does not have functions and resources), but it can be an important player in a different country. However, for the initial model we will start with only two levels of government. When analyzing the case of Mongolia, I considered it necessary to include the subregional (district) government as a separate player (see Chapter 6).

3. Firm (extractive industries company performing mining operations).
4. Local community (people living close to the site of mining operations that can be affected by the externalities of the mining operations and are expected to be the beneficiaries of the CSR).

Four is the minimal possible number of players in the game. The legislation of Kazakhstan (Code on Mineral Resources and Mineral Resource Management) assumes that interests of the local population are fully represented by the government. If this were true, then it would be possible to

reduce the number of players to three: two levels of the government and the company. However, the principal-agent problem in the relations between the government(s) and local community requires considering the community as a separate player with its own interests. The probability of the principal-agent problem increases for Kazakhstan since the regional executives are not yet elected by the region's population, they are appointed by the President (though there is a policy suggestion to change that in the future) and therefore, are not directly accountable to local communities. As a result the local community is introduced as a separate player. In the current model the community has its own decision node with different strategies, so the community is a player. Let us consider each player separately.

National government

While land may or may not be private property (depending on national legislation), the subsoil mineral resources before they are extracted are usually considered to be public property. The national government provides permissions for companies to operate in a specific location. In both Kazakhstan and Mongolia, according to the legislation, the licenses are issued by the national government and the subsequent compliance of the license-holder with the terms of the license is controlled by the national governments as well. The national government can also participate in the joint venture with the firm through a national company. This is quite typical for both countries. The examples will be presented in the subsequent chapters. Therefore, the role of the national government may include granting permissions, controlling the compliance, and forming the joint ventures (participation in the business). The national government is also a player which has a power to change the payoffs for the other players through legislation and policies (nested games, as conceptually described by Tsebelis 1991). Thus, before entering the present game, the national

government plays another game deciding whether to change the rules of the CSR game or not.

This will be discussed in greater detail and with examples in the subsequent chapters.

Regional government

Regional government is supposed to know the specific needs that the CSR can address. In Kazakhstan, the legal authority of the regional government in managing and regulating extractive industries is limited. However, since the purpose of the CSR (at least the part of it that is done to fulfill the legal requirements and contractual obligations of extractive-industries companies) is to advance regional social and infrastructural development, it is logical that regional government plays an important role in negotiating with the company on the specific needs and priorities for the CSR. In addition, the regional governments are playing several other games with the companies operating within the territory of their regions, such as, for example, providing permissions and enforcing regulations in other policy areas. This also brings a “nested games” element into the picture since those games can affect the strategic decisions in the CSR game and vice versa. The examples will be provided in the chapters devoted to Kazakhstan and Mongolia. The literature shows that usually decisions on the specific priorities for the CSR are taken by the companies (or joint ventures) in cooperation with regional governments (Lobacheva 2018). The regional governments may derive utility from the CSR when the company’s expenditures and work compensate for the lack of regional budget’s resources. The value of the CSR for the regional government increases when it indirectly improves the level of satisfaction of the population.

Company

The company is trying to get higher utility from its CSR with lower administrative costs. The company’s utility increases if the company obtains the SLO from the local community. The

relations with the local community are important in terms of obtaining the SLO – the willingness of the community to accept and welcome mining operations of the company in the vicinity.

Community

The community can be considered as a player because it can decide to cooperate or not to cooperate with the other players. Its advantage is that only the community knows its own preferences. The regional government can provide some insight into the needs of the region, but there is a possibility that the community will get higher utility from some other project in the frame of the CSR, should it decide to cooperate and express its preferences. The community has a bargaining power in its relations with the company and two levels of government since (1) the company is interested in obtaining the SLO, and (2) the national and regional governments are interested in pacifying the local community and preventing social unrest. The bargaining power of the community (the value of cooperation with it for the other players) depends on the institutional structure, previous and current political economic relations, history, beliefs, and perceptions. The changes in bargaining power are therefore slow. Moreover, the existing bargaining mechanism and the previous outcomes reinforce the path dependency. As Bowles points out, “bargaining outcomes, norms of distribution, and bargaining power coevolve. Bargained outcomes are thus likely to be path dependent, and there may be many outcomes capable of persisting over long periods” (2006, p. 200).

The local community is a complex player. The complexity comes from the fact that it consists of various interest groups, some of which are formed, and some which have the potential to form. Their preferences may differ depending on the composition of a family (children, elderly people), economic activity, place of living (access to the transportation, to education and health institutions), and level of income. However, we have to simplify the local community to one

player for the initial model in order to figure out the general mechanism of bargaining over the CSR.

2.1.3. Stage 1. National government and the company

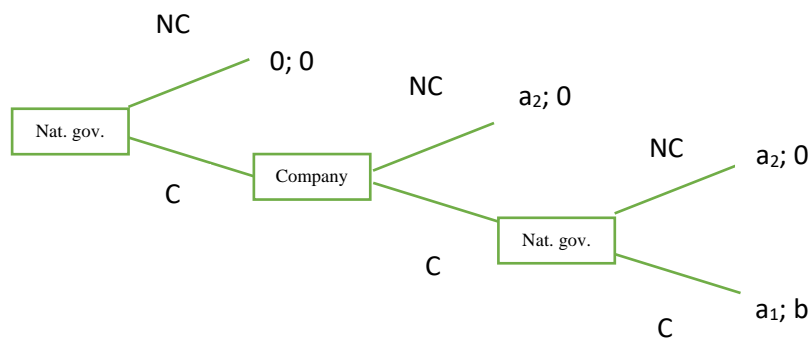
First, the national government decides whether to cooperate with the company. For the company, the choice to cooperate or not to cooperate with the national government is between getting zero utility or positive utility **b**, since the company cannot do anything in the country without cooperation with the national government. The national government can choose not to extract minerals at all (conservation), then, if it decides to extract, it can choose between several companies, so in this case it chooses between several positive utilities (**a₁** from cooperation with this company and **a₂** from cooperation with another investor)².

The national government gains utility by attracting the company as an investor in the extractive sector (this is associated with taxes, royalties, and general economic development, as well as with getting profits from participation in the joint venture companies). However, the payoffs of the government already take into account the company's obligations for CSR. According to the study done by Flammer (2018), CSR (and reputation of the company in terms of CSR) increase

² In the context of extractive sector, this part of the model (the government comparing payoff from cooperating with two different companies) is obviously a simplification. In reality, the format of competition between companies depends on the national regulations concerning exploration and exploitation concessions. If exploration and exploitation are combined into one concession agreement, the government indeed can compare its payoffs from working with two or more different companies more or less simultaneously. However, if concessions for exploration, exploitation, and refinement of minerals are separated, the company that has done exploration would expect to get the concession for exploitation of the discovered mineral resources. In this scenario, if the government decides not to cooperate with this particular company and look for another investor, the government: (1) damages its own reputation for all future contracts in extractive sector; (2) faces the risk of not finding another investor in the future; (3) decreases efficiency of exploitation of the mineral reserve in question because transfer of the newly discovered mineral reserve from one company to another will be associated with some losses in efficiency. Therefore, in this second scenario, the government payoff from working with the second company **a₂** will necessarily be smaller than the payoff from cooperating with the first company **a₁**. However, in order to highlight the possibility for the government to choose between different companies, I will not take into account the second scenario and use only the scenario when the national regulation combines exploration and exploitation into one concession agreement. Then the government can compare the payoffs from two companies taking into account their CSR obligations and without the limitation of predetermined preference of **a₁** over **a₂**.

probability of the company getting a government contract. This relation appears to be especially significant for the long-term (multi-year), large-scale, and costs-intensive projects. Despite the fact that Flammer’s research was based on the US experience, it is reasonable to assume that in the developing countries some part of the payoffs a_1 and a_2 compared by the government at this stage is determined by CSR of the respective companies. Therefore, CSR resources are already part of the payoffs of the national government and the company at this stage of the game.

Figure 1. Stage one



If both players decide to cooperate with each other, they form a joint venture. First, the national government decides to start mining operations and attract investors, then the company announces its intent to cooperate (starts negotiations), and then the national government makes its decision. If they form the joint venture, the game continues, if not – this game is over. NC stands for “not cooperate”, C – “cooperate”.

To find the equilibrium, let us start with the final decision by the national government. It compares the utility levels of cooperation with the company (a_1) against an alternative utility level from cooperation with another company (a_2). If a_1 is larger than a_2 , then the national government would choose the company we are considering. Knowing that, the company would be interested in offering the national government some attractive conditions for cooperation, probably including spending on the CSR projects. The company is interested in cooperation if its payoff b is larger

than zero. Therefore, if the extraction of minerals is economically rational, the company will decide to cooperate and will be interested in winning the bid by providing better conditions for the national government than the competing company.

It is important to note that when entering the market, the company signs an investment contract. This contract includes some obligations in terms of the CSR. In Kazakhstan, for some companies (in oil, uranium, and coal sectors) these obligations are already imposed by the law. For the other companies, their responsibilities are included in the contracts for mining. Therefore, the amount **b** received by the company in case this stage of the game concludes in cooperation, already excludes the amounts of money the company will spend on the CSR, as well as taxation and other expenditures. In the subsequent stages of the general game the company will compare its benefits and costs from different modes of allocating the CSR resources, but not the amount of the CSR itself.

We know that at the first move the national government would probably choose to cooperate, because in this case it gets a choice between several payoffs from different companies, and each of these payoffs is probably larger than zero. If both players decide to cooperate at each move, the game proceeds to the next stage (Stage 2).

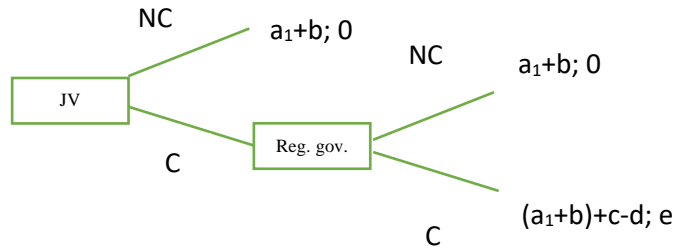
2.1.4. Stage 2. The joint venture (JV) (of the national government and company) plays with the regional government

If the game reaches this stage, it means that the JV of the national government and the company has been formed. Now this JV has a task of prioritizing the needs of the region for the CSR projects. In Kazakhstan, the legislation stipulates that CSR should address the social and infrastructure development needs of the region. In order to know these needs, the JV can enter a coalition with the regional government. This is not explicitly required by law, so this is not

compulsory, however, the regional government brings value of knowledge of the regional needs.

Therefore, the payoff for the JV (in terms of maximizing utility from the CSR projects is higher) is higher if it forms a coalition with the regional government.

Figure 2. Stage two



If the coalition of the JV and the regional government is not formed, then the CSR projects will still be implemented in some form, but the regional government will not benefit from them in terms of its political capital, trust, and fulfillment of its obligations on regional development.

Therefore, for the regional government the choice is between the payoff of 0 and some positive payoff e ($e > 0$). For the JV, the projects implemented without the knowledge, competence, and cooperation of the regional government will still bring some value and the coalition will keep the sum of payoffs of its two members from the previous stage (Stage 1), which is equal to a_1+b .

However, if the JV decides to cooperate with the regional government, both of its members can increase their benefits by using the knowledge, competence, and cooperation (this additional benefit is marked as c). However, if the JV decides to cooperate with the regional government, it loses some political control over the CSR resources. The cost of the lost political control is indicated by the value d . Therefore, the benefit of cooperation for the JV at this stage is indicated as $(a_1+b)+c-d$, where (a_1+b) is the sum of payoffs of the JV members from Stage 1, c is the benefit and d is the cost of cooperation with the regional government.

Now let us solve this stage of the game. The regional government will decide to cooperate, because it compares the positive value of cooperation e with zero. Knowing that, the JV of the national government and the company needs to compare its payoff (a_1+b) in case of non-cooperation with the payoff in case of cooperation $(a_1+b)+c-d$. Therefore, the result of this stage of the game will be determined by the difference between c and d , i.e. benefits of including the regional government into the coalition versus the loss of political control over the resources. If c is larger than d , then the coalition is formed, the game continues to the next stage. If the coalition is formed at this stage, the sum of payoffs for its three members would be equal to $(a_1+b)+c-d+e$. In order to simplify the analysis of the next stage of the game, I will denote this combined payoff as f .

2.1.5. Stage 3. The coalition (JV plus the regional government) and the local community

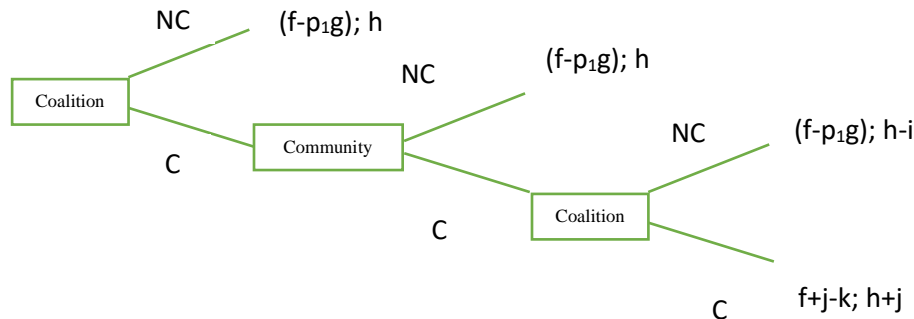
In this stage, the coalition from the previous game has to decide whether to engage or not to engage the local community in the decision-making on the CSR priorities. The local community then has to decide to cooperate or not to cooperate. Finally, the coalition has to decide whether to take into account the preference of the community for the CSR projects.

The local community is supposed to be a beneficiary of the CSR. Successful implementation of the CSR addressing the preferences of the local community leads to higher utility for the local community. However, higher utility for the local community also means higher utility for the coalition of the national government, the company, and the regional government. The reason is that higher utility for the local community transforms into a social license to operate for the JV and better popularity for the regional government.

The local community can increase the payoff of the coalition since it has the unique knowledge of its own preferences (the company, the national government, and the regional government do not

have full knowledge of these preferences). The problem is that there is asymmetry of information on both sides: the coalition of the original three players does not know the preferences of the community, while the community does not fully know the preferences, beliefs, and payoffs of the coalition (the coalition might decide that the engagement of the community is not necessary). Why does the community have two strategies here? Because it might choose not to cooperate with the coalition on the CSR. The reasons can be (the first two are based on Hillman 2009): (1) there is a disincentive for the community members to invest time and effort in obtaining the information, because the information is a public good; (2) there is a rational ignorance phenomenon (the members of the community might prefer to know less than more about the available options); and (3) the community might not trust that its preferences will really be taken into account.

Figure 3. Stage three



At the final node, the coalition of three players, if it decides to cooperate with the community and follow the preferences of the community, loses value k in terms of the administrative and time costs of engaging the community, but gains j equal to the additional gains of the community. This is an altruistic behavior, but one should not forget that the additional gains of the community can then be transformed into the SLO, valuable for the joint venture of the national government and the company, as well as for the regional government (the regional government does not desire

social unrest in the region and is interested in the satisfaction of the people living in the region).

So, j is a positive value for the coalition since it is linked to the probability of getting SLO.

However, the decision here is difficult to predict because it will depend on the comparative values of j and k . If the costs of engaging the community k are higher than the benefit j , the coalition will decide not to cooperate with the community. It is important to remember that the costs k include not only the direct costs, but also the costs of losing part of the political control over the CSR resources.

In case of non-cooperation, the community also get some value from the CSR projects (h).

However, the community can get higher payoff if the CSR is tailored to its preferences, the payoff will be $h+j>h$. If, however, the coalition at its final decision node decides not to take into account the preferences expressed by the community, then the community still gets h , but loses in terms of the time spent and trust invested, the amount of i ($h-i<h$). If the community predicts that the coalition will not take into account its preferences at the final decision node (will not cooperate), then it is more beneficial for the community not to cooperate at its move.

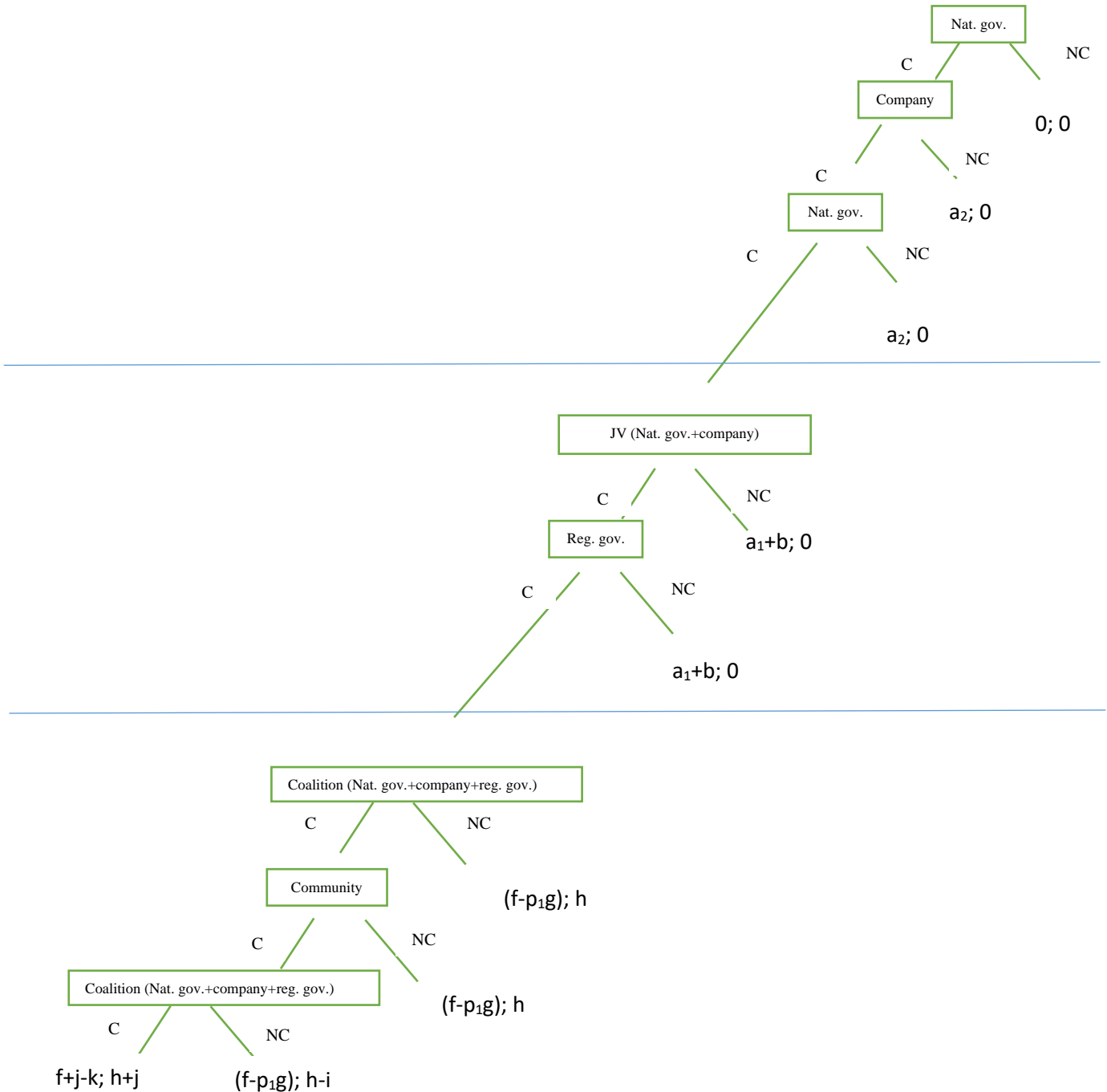
If the coalition of three players at its first decision node decides not to engage the community, it still gets its positive payoff that it has reached at the previous stage f (the sum of payoffs for all three members of the coalition from the previous stage). However, there is a problem since in case of non-cooperation with the community some kind of social unrest is possible. The social unrest is indicated by letter g with probability p_1 . The probability is estimated by the coalition players based on their perceptions, analysis of the social economic situation in the community, and the previous experience. For example, after the massive social unrest in Kazakhstan in January 2022, all the actors would probably increase their estimation for the probability p_1 .

The decisions of each player (in this case, of the coalition and the community) depend on the following factors: (1) how costly it is to engage the community (what is the value of \mathbf{k}); (2) how much more the community values the projects selected with its participation versus the projects selected by the coalition alone (the value of \mathbf{j}); (3) the value of losses (in terms of the time, effort and trust) for the community if the coalition decides not to take its preferences into account after the consultations (the value of \mathbf{i}); and (4) how does the coalition estimate the probability of social unrest p_1 . The outcome might be unique for each case.

2.1.6. Full picture of the game

The entire game can be presents as follows:

Figure 4. the full picture of the game



Analyzing this game backwards from the last move, in order for the cooperation to happen at each stage, the following conditions are necessary:

- 1) the benefit j from fully cooperating with the community should exceed the costs of this cooperation k and/or the cost of social unrest g multiplied by its probability should exceed the difference between j and k , **if k is larger than j** . Either of these conditions would lead to the coalition of the national government, regional government, and the company choosing to fully cooperate with the community.
- 2) the community should believe that the coalition of the national government, regional government, and the company would choose cooperation at its final move. If the community believes that the coalition would not listen to its opinion (not cooperate) at the final decision node, for the community it is better not to cooperate. Therefore, a fake cooperation is harmful for the CSR.
- 3) the cost of social unrest g multiplied by its probability p_1 should be significant for the exceed the difference between j and k , **if k is larger than j** .
- 4) for the regional government, the benefit of cooperating with the national government and company on the CSR projects should be larger than zero (the opposite case is extremely rare in practice, so the regional government almost certainly would choose to cooperate).
- 5) for the JV of the national government and the company, the benefit of including the regional government into the coalition should exceed the costs that include a partial loss of political control over the CSR resources.
- 6) for the national government, in order to choose cooperation with this particular company over another, the benefit of this cooperation should be larger than the alternative. Usually, this benefit includes some kind of commitment for the CSR projects.

- 7) for the company, the estimated net profits from the project, including the costs of the CSR commitments, should have economic rationality.
- 8) the national government should decide to open the mining project in the first place (the estimated payoffs from the mining operations should be above zero).

2.1.7. Hypotheses

The hypotheses follow the model and include:

1. If the costs for conducting negotiations with the community are high and the estimated probability of the social unrest is low, the coalition of JV (corporation and national government) and the regional government will prefer not to cooperate with the community.
2. If the coalition of JV and the regional government values the SLO and, therefore, the value of including the community in decision-making is high, the coalition will prefer to cooperate with the community.
3. If the probability of social unrest in case of non-cooperation (p_1) is considered to be high, the coalition of JV and the regional government will prefer to cooperate.

Chapter 3. Research methodology

The hypotheses developed in the previous chapter will be tested using qualitative case study analysis on the three cases in two countries. This chapter will outline the methodology selected for this research, including its benefits and limitations.

3.1. Argument for using qualitative case study research method

3.1.1. Research approach: qualitative research

The qualitative approach was selected for this research for several reasons. According to Gillham (2010), qualitative methods are justified in the following situations:

- (1) the other methods, such as experiments are either not practical or not ethically justifiable;
- (2) little is known about the situation (research area);
- (3) it is necessary to explore complexities beyond the scope of more “controlled” approaches;
- (4) the research requires understanding of informal “insider” point of view of a group or an organization and perspective of the participants;
- (5) the research is focused on the process leading to results rather than on the results themselves (p. 11).

Baxter and Jack (2008) point out similar factors for selecting case study method. According to these authors, case studies are applicable when: (1) context is highly relevant; (2) there are no clear boundaries between the phenomena and the context; and (3) the researcher cannot manipulate the stakeholder behavior (experimental designs are not applicable). This section will

argue that these criteria are applicable to the present research, which justifies the use of the qualitative exploratory research approach and specifically the case studies method.

Firstly, since we are dealing with decision-making in complex politico-economic systems involving interests of several actors, including the actors that have political power, the ethical concerns are relevant, and oversimplification is a danger to the quality of research. Experiments are out of the question, and quantitative methods will be better used on the later stages of research, where it would be possible to test one or two individual aspects of the model. At the current stage of research, it is necessary to model the situation in its entirety, and quantitative testing one or two variables seems to be inadvisable. Modelling this complex situation still requires a great deal of simplifications, for example, community is represented in the model as one player, even though it might include many actors with heterogenic interests. However, due to the qualitative case study research design, I can at least point out the complexities of the actors and their decisions in my analysis, and check if the level of simplification required by the model does not distort representation of the reality in the present research. These issues will be addressed in the discussion of specific cases in the subsequent chapters. Another significant obstacle for applying quantitative analysis is the poor quality of the available data. For example, in Kazakhstan, extractive sector companies self-report their spending on the CSR projects in the government portal United State System of Subsoil Use Management in the Republic of Kazakhstan. While the data on individual companies is relatively consistent and can be analyzed (the data was used for the analysis in Chapter 5 of this thesis), a cross-company quantitative analysis is impossible due to the inconsistencies of the data. This particular problem can be resolved in the future if the oversight of the database is improved. This would make future research involving quantitative analysis more feasible.

Secondly, in view of the research gaps discussed in the literature review section, the research area is understudied, and indeed little is known about the real-life situation. The available knowledge is restricted to the practitioners and practical experts and is not represented in the academic literature. Some progress is made, particularly on Mongolia, with the growing number of publications describing various aspects of CSR in this country, but still a lot can be revealed only through in-depth interviews and other qualitative methods of data collection. Moreover, as will be demonstrated on the material of the case studies, the situation is not stable, and regulatory or social changes, which are characteristic for the developing countries, can change the decisions the actors take and outcomes of the game. This requires additional flexibility of the research approach and data collection method. The grounded theory approach is called for since the research model should be adaptable to the changing situation in practice.

Thirdly, political economic analysis of the complex process of decision-making for the CSR spending requires in-depth analysis of the social, economic, political, and partially cultural factors that define constraints of the game and preferences of players, as well as their understanding of probabilities of other player's decisions. In order to understand these complexities, sometimes it is necessary to introduce to the analysis such factors as the history of a specific local community and its relations to the mining company, as will be done in Chapter 5 of the present thesis for the history and characteristics of Zhairem community in Kazakhstan. Business prospects and decisions of the companies are also highly relevant to understanding the value assigned by the company to the SLO. For example, again in case of Zhairem, a difficult transformation of the production increases the importance of the SLO for the company. Thus, the contextual factors determine the values of the key explanatory variables in the study. The use of the qualitative approach and

particularly the case studies method make understanding these contextual factors and complexities possible.

Fourthly, even though this research used analysis of documents including government documents, official corporate and non-governmental non-profit reports, and other documents, as one of the research methods, it was impossible to build a comprehensive picture of the CSR decision-making in each case without “insiders” views and perspectives. For example, as several Mongolian experts point out, the practice of implementation of the national regulation on CSR in Mongolia differs from enterprise to enterprise, from region to region, and from community to community, which makes it impossible to identify a “typical case” of the decision-making for the CSR in Mongolia. Chapter 6 of the present thesis will discuss the factors influencing these differences. However, even identification of these factual differences would be impossible without internal perspective achieved in the interviews with representatives of companies, non-governmental organizations, and other practitioners and experts working in Mongolia. This would not be possible if the qualitative research approach were not employed.

Fifthly, the present research is indeed focused more on the process leading to a specific result rather than on the result itself. The purpose of the selected research approach lies less in fixing the discovered characteristics of each specific case and more in developing and testing the suggested game-theoretic model as an instrument of analysis and understanding of the changing situation. As the cases themselves show, the companies can reevaluate the value of the SLO because of the business situation, the national and/or regional governments can change the expected outputs for some of the players (nested games concept was discussed in Chapter 2 and will be illustrated in practice in subsequent chapters), the communities can be more or less prone to conflict and social unrest depending on the situation. There can be other changes in the specific values of the

variables. Therefore, the purpose of this study is not to define how the decision-making over CSR is currently done in each specific case. A more fruitful and promising goal is to develop an instrument for analysis of various cases and situations in the form of a model. In other words, even if in the nearest future the players will reconsider their decisions in the game due to changes in certain variables, but it would continue to be possible to apply the model for the analysis of their decisions, the present research will retain its value. This can be done only through the in-depth analysis of the factors that need to be taken into account and included in the model. The qualitative research approach seems to be more productive for such an exploratory research purpose.

There seems to be a contradiction between the deductive initial development of the model as presented in Chapter 2 and the choice of the qualitative approach, which is traditionally associated with inductive reasoning. However, as discussed by Ormston et al. (2013), the association between inductive reasoning and qualitative research is an oversimplification. These authors argue that neither pure deduction nor pure induction exists, and both types of reasoning can be employed in the qualitative research. Therefore, this contradiction in case of the present research is misleading.

In sum, the use of the qualitative research approach is justified in the case of the present research due to its exploratory, context-dependent nature and the purpose (expected output) of developing a new methodological instrument in a form of a game-theoretic model to be used in the further research on the decision-making for the CSR projects of extractive sector companies in developing countries. The application of more specific method of multiple case studies will be justified in the next subsection.

3.1.2. Multiple case studies: advantages, disadvantages, and tradeoffs

If the model suggested in the present research were tested and revised on the material of just one case study, this analysis would probably have an internal validity, but its external validity would be doubtful (see the discussion of external validity in Cook 2014). As we discussed in the previous section, the decision-making over the CSR projects is done within complex politico-economic systems with many variables. One case study would provide rich research material but might not prove to be representative for other cases. Correspondingly, the model developed as an output of this research would have limited value for the other research projects in the CSR research area. In order to increase the external validity of the model, the present research applies multiple case studies method. The cases are taken from different national contexts (of two countries, Kazakhstan and Mongolia) and, within Kazakhstan, from different corporate contexts.

The selection of cases for the analysis in public policy studies in general is difficult because, as Radin and Weimer (2018, p. 66) point out, “policies are often complex bundles of rules and incentives” and therefore “identifying contexts that offer a favorable tradeoff between internal and external validity may be difficult”. This is especially complicated in the studies involving policy contexts of two or more nations. Marmor (2017), as quoted by Radin and Weimer (2018, p. 66) suggests the following criteria for attempting cross-national research: “(1) the purpose of the comparison should be clear [...]; (2) as policy contexts differ across industrial sectors even within the same country, careful consideration has to be given to the nature of the sector in making comparisons; (3) operational definitions [...] are needed to facilitate meaningful comparisons; (4) there is a need to understand the country-specific constellation of dominant values, political institutions, and the role of organized interests in the policy domain when assessing the chances of failure or success of given reform proposals”. In case of the present research, the purpose is to test

applicability of the model on the cases of different political economic context. The sector selected is the mining sector in both countries.

The mining sector has a number of important characteristics, especially in the area of company-community relations. The communities that form themselves around the mining enterprise often depend on that enterprise in all the aspects of their well-being, since the mining company is the major provider of income for the community members. This increases significance of the CSR of the mining company for the community. If the mining site is located at a long distance from country's major economic and social centers, the members of the community may suffer from certain limitations and disadvantages in their economic, social, and cultural life compared to the people living in the national capital or regional centers. This also increases their dependence on the mining company and its CSR projects for the community development. The communities may suffer from negative environmental impact from mining operations that can affect both human health, wellbeing, and economic activities such as agriculture. This may provoke perception of the CSR projects for community and social development as a form of compensation for the negative environmental impact. The eventual closing of mining operations requires, in the frame of good business practices, careful preparation and investment of the company into the long-term development of the community. Thus, the CSR's elements of community development are especially important for the mining sector.

The specific characteristics of company-community relations in the mining sector dictated selection of mining operations as case studies in both Kazakhstan and Mongolia. If, for example, in Kazakhstan an oil company were taken as a case, and in Mongolia it would have been a mining company, the principle of similarity of the context would be violated. Even though the oil sector is also an extractive sector, in Kazakhstan because of the excessive profits of the oil sector the

political economic relations in case of the CSR of oil companies are slightly different from those of the mining companies (this is briefly discussed in Chapter 5 of the present thesis).

The fourth criterion suggested by Marmor highlights the importance of understanding country-specific factors (values, institutions, and interests) in the analyzed policy domain. The two countries selected for the practical part of the present research, i.e., Kazakhstan and Mongolia, loosely correspond to the requirements of Mill's method of difference for comparative analysis. This method is built on the following logic: the selected cases should be similar in all aspects except the variable in which the researcher is interested. Then if the value of the dependent variable (Mill did not use this specific terminology, but it corresponds to his ideas) is different for different cases, the researcher might conclude that the independent variable of interest is producing this difference (the discussion of Mill's method is provided in various sources, for example, in Hantrais (2008)).

Chapter 4 of the current thesis will argue that Kazakhstan and Mongolia as two post-socialist countries from the same geographic region indeed have a lot of substantial similarities in their legal, administrative, and economic structures. The important difference, which can be considered a source of difference in outcomes, is the difference in policies and legislation. As will be discussed in the next chapter and Chapter 6, Mongolian legislation sets the value of the SLO very high (the company's operations are not possible without the community agreement), while in Kazakhstan legislation does not even use the term community and the local governments do not have a formal function in regulating mining operations. This difference in otherwise similar country contexts corresponds to Mill's method of difference model for comparative analysis.

Only a very loose approximation of Mill's method of difference model was possible, however, since when dealing with complex social systems it is impossible to find three cases identical in

every respect except one independent variable. Some compromises and tradeoffs have been necessary. For example, in both Kazakhstani cases the local communities are urban, while in the Mongolian case Oyu Tolgoi mine is neighboring rural agricultural communities. Oyu Tolgoi mine has a history of long-standing and efficiently moderated conflict between the local communities and the company, while in Kazakhstan there are no history of the conflicts of this nature, though there were examples of unrest in the relevant communities. The list of differences can go on.

Still, the use of three cases from two difference countries increases external validity of this research and suggests that the game-theoretic model developed in this research can be used in multiple contexts. The next section of this chapter will discuss the specific aspects of case selection, sampling, data collection, and analysis.

3.2 Data collection and analysis

3.2.1. Case selection process and the self-selection problem

The actual case selection faced a problem that an active cooperation of the company was required for the data collection on the case. This cooperation was associated with significant time of the managers spent during the interview and in helping the researcher to contact the other interested parties (for example, local community members-beneficiaries of the CSR projects). In one case (Zhairem in Kazakhstan), the company managers assisted the researcher with logistical details of visiting the site. Therefore, the case selection was not random and was based on the convenience, though some criteria were followed. It had to be mining company that is doing some projects in the CSR area and already at the initial contact the company managers were informed that the researcher is interested in community development projects.

The fact that not all the companies contacted were interested in cooperating on this research leads to the self-selection issue. It is reasonable to assume that the companies that eventually agreed to

cooperate in the research had some successful experience in implementing substantial CSR projects and working with the communities on the CSR projects. Indeed, as will be discussed in Chapter 5 of the present thesis, both Kazakhstani cases differ from the “typical” Kazakhstani practice as described by the interviewed experts.

The self-selection of the companies with positive experience was inevitable for this research, but it also presented some opportunities. Thus, it was important for the purposes of the research to understand why the companies’ decision-making in each case was different from the “typical” case, and whether the model helps to describe and explain this difference. Therefore, the self-selection of the companies with more successful community relations was both a risk and an opportunity for this research. Since these cases were compared to the “typical” case that was suggested by the experts in expert interviews, this actually highlighted the factors that made them atypical, i.e. relatively successful in their CSR and community relations.

3.2.2. Data collection strategy

The data collection was done using document analysis and semi-structured interviews methods.

The documents that were included in the analysis can be divided into several categories:

- a) legislative and regulatory documents (laws, regulations, official instructions);
- b) policy documents (programs, plans, program speeches of the government officials);
- c) reports of the government agencies;
- d) corporate reports and strategies, including information on the corporate webpages;
- e) other documents, including the documents prepared by NGOs and international organizations.

The document analysis was essential for understanding the policy framework and the way it influences the preferences of the actors. The documents also provided valuable context in terms of understanding economic conditions in which the decisions over CSR are taken.

As for the interviews, snowball method of sampling was used for this research. CSR as a policy area is sensitive because of the clash of economic and political interests over the resources that companies invest in the CSR projects. The distribution of the CSR resources is tightly linked to the issues of political control, prevention of the potential social conflicts, and corporate-government relations. I was warned about this sensitivity from the very beginning (in the first and the second expert interviews). For this reason, as well as for the reason that CSR as a research area is understudied in the developing countries and there not many experts in the field, the snowball method turned out to be the most appropriate. Only three initial points of contacts were found through the search of the policy reports and publications, all the others were recommended by the other interviewees.

For this research I conducted 33 interviews with 32 individuals, out of which:

- 10 with corporate managers of different levels;
- 11 with community members/activists;
- 12 with experts.

Among the experts, only two persons were from purely academic background, all the others were from the NGO sector with practical experience of both working with the companies and local communities and developing applied policy reports in the CSR area. All the experts had sufficient relevant work experience (from 3 to 25 years), most of them (with only one exception) had more than 5 years of experience.

23 interviews were conducted in Kazakhstan and 10 interviews in Mongolia. 20 interviews were conducted online and 13 interviews were performed in person during a field trip. All the interviews were one-to-one and semi-structured. The questions for the semi-structured interviews are presented in Annex 1 of this dissertation. Prior to the interviews, the respondents were informed of the content of the oral consent form and gave the oral consent to the interviews. Some of the interviews were recorded (with the interviewee's consent) in addition to my notes written during the interview, for the others the handwritten notes constitute the only recorded material. The interview questions were developed with a goal of finding out the actual experience of the respondents with the CSR projects in the recent past. The questions on opinions had a complimentary role.

3.2.3. Data analysis and presentation procedures

All the interviews were confidential; and I have tried to avoid any identifiable information in the data analysis and presentation in this thesis. However, it was impossible to keep the name of the enterprises and the places where the CSR projects take place out of the text because most of the context is town/village- and company specific. Therefore, for the corporate managers the workplaces were revealed, but not their names. For some of the community members the workplaces are also potentially identifiable because of the nature of the projects they discussed during the interview (a hospital, a mosque, a cultural center and so on). This was also unavoidable because of the nature and purpose of the research. The respondents were informed that their workplaces can be mentioned in the dissertation.

All the respondents received code names in accordance with their professional category (Expert (EXP), Corporate Manager (COR), Community Member (COM)). This allowed presentation of

their responses with direct quotations from the interviews in the text of the dissertation while keeping the personal information secret.

The analysis of the data was qualitative and interpretative and did not involve quantification in any way. This allowed presentation of the in-depth findings from the interviews though some of the validity of the results was sacrificed. However, at the present research it was more important for my purpose to understand the variety of experiences and perceptions, even if this meant relying on the subjective points of view of the respondents without quantitative or quasi-quantitative cross-checking. It is possible for future research to use quantification of the qualitative data for the increase in objectiveness of the analysis.

The analysis of interviews' data was based on building the thematic framework and indexing the data (Ritchie et al., 2003). The framework is built on the factors suggested by the model (e.g.: factors influencing the costs of cooperation with the communities, factors influencing the value of the SLO for the company). I constructed the hierarchy of topics and indexed the data accordingly. The specific example is the classification of factors determining variability in the CSR practices in Mongolia (Chapter 6, section 6.1), which includes: (1) characteristics of the community; (2) political economic positions of the national, regional and subregional governments; (3) availability of data and communities' capacity for interpreting and using the data; (4) quality of the regulation and the level of compliance; (5) anti-mining sentiment in the Mongolian society; (6) type (size, experience, ownership) of the company; (7) the role of civil society; and (8) the quality of the CDAs and the scope of the projects.

The next chapter will present the findings from the initial analysis of the policy and legislative frameworks in Kazakhstan and Mongolia that would create a basis (define the context) for the research of specific cases.

Chapter 4. Kazakhstan and Mongolia: analytical description of the national contexts for the case studies

The two case studies in this dissertation that were selected to test and improve the explanatory power of the model are Mongolia and Kazakhstan. Dupuy (2014) includes both Mongolia and Kazakhstan in the category of countries that adopted community development provisions into their national or subnational mining laws and policies (Mongolia since 2006 and Kazakhstan since 2010). The reason for including Kazakhstan in this category is that since 2010 its legislation stipulates that “bids are required to have information on the costs for social and economic development of a mining region and the development of its infrastructure; contracts must also contain this information, plus info on training. Contracts must contain a commitment to the size and terms of spending on social and economic development of the region and develop its infrastructure for the local content, size of expenditure allocated to education and training of workers; must have local content in goods and services” (ibid., p. 213). This is true, but in this chapter, I will argue that there are in fact serious differences in the legislative and regulatory documents of Mongolia and Kazakhstan which imply dissimilar interpretation of the role of communities in relation to mining and mining companies.

As the following analysis will demonstrate, both countries are still very centralized with the strong role of the national level government in regulation of all the issues related to the mining sector. In fact, this chapter will argue that in game-theoretic terms the national government is a unique player that can change the rules of game (institutional design) in the interpretation suggested by Tsebelis (1991). Therefore, the national government in the beginning of each game (pre-game) has

to make a decision about changing/not changing the rules and payoffs for itself and the other players.

Historically, the political-economic relations in the mining activities of both countries were quite similar. As Dalaibuyan (2015) points out describing the case of Mongolia, “prior to 1990, mines were developed according to government central planning, and local compliance was taken for granted” (p. 2). Since 1990, Mongolia and Kazakhstan started to differ in their approach to defining the rules of the game for the decisions related to CSR of the extractive industries and especially to involvement of the local communities in the decision-making process. In Mongolia, local level agreements (community development agreements) between the companies and local communities are obligatory since 2006. The state prioritizes company-local community relations in the key normative and strategic documents. There is also an interesting instrument of Local Development Funds, which can potentially reduce the operational costs of CSR implementation for the companies. In Kazakhstan, however, the legislation retains maximum concentration of regulatory powers at the national level with a few exceptions for the regional level, but does not pay attention neither to the local authorities nor local communities. In fact, the word “community” is not used in the legislation in Kazakhstan. These initial similarities and subsequent deviations make comparison between the two cases especially promising for the current research. In this chapter, we will apply the concepts of the game-theoretic model from the previous chapter for the analysis of the two cases.

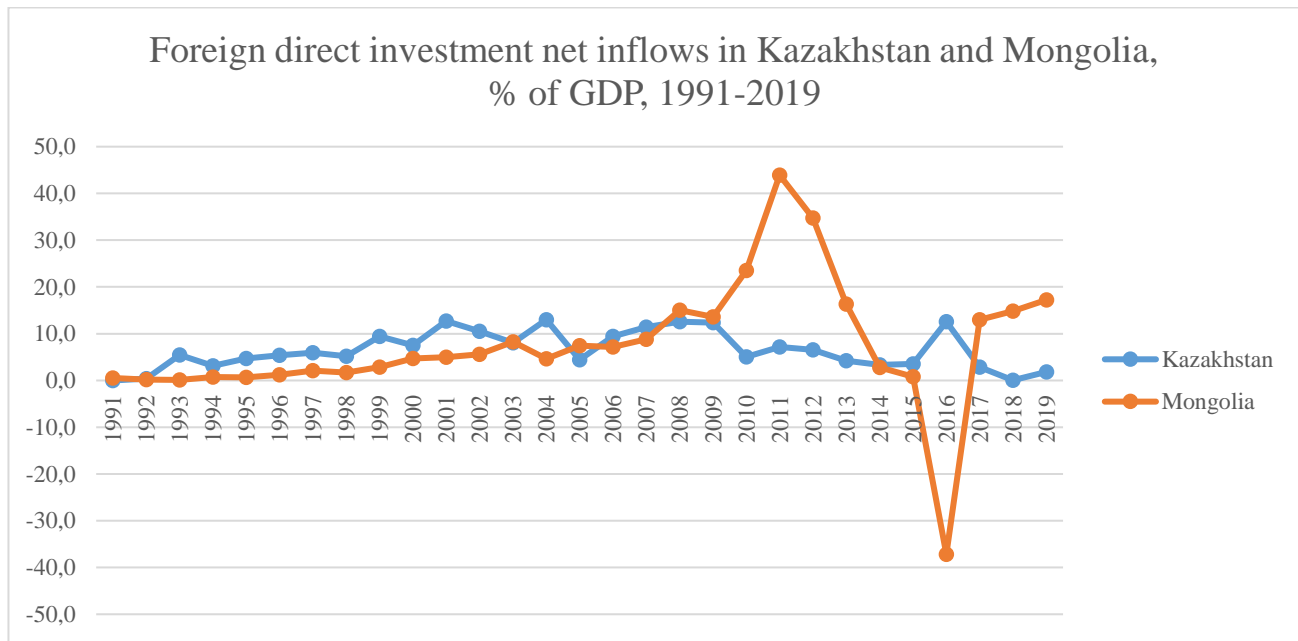
4.1 Context

Both Mongolia and Kazakhstan are countries in transition, building market economies since 1990s. Though Mongolia was never officially a part of the Soviet Union, the USSR had an enormous influence on the Mongolian economic, social, and political systems. This makes pre-

1990s Mongolia comparable to Kazakhstan (which was part of the Soviet Union) in many respects. The Soviet Union was a major export destination for Mongolia, many Mongolians were educated in the USSR, Soviet specialists helped to establish Mongolian education and health systems, the economic system in Mongolia was socialism, the Soviet Union participated in Mongolian industrial development, including both natural resource exploration and mining. This historical influence is important for our analysis because it makes Mongolia and Kazakhstan similar in the following ways:

- both countries experienced economic shocks related to collapse of the Soviet Union and almost desperately needed foreign investment in the extractive sector in 1990s in order to sustain economic development. Consequently, both Mongolia and Kazakhstan started gradual liberalization of their legal frameworks in order to attract investors. The growth of net foreign direct investment from 1991 to 2019 as percentage to GDP is demonstrated on the Figure 5;
- the legal context is similar, since in both countries the people (state) legally own the subsoil resources, and the central governments of both countries provide licenses for the mining companies to extract resources;
- both countries have mining towns or monotowns as a consequence of the Soviet model of exploration and mining. The substantial difference is, however, that in Mongolia there is another widespread type of communities – the herders living a traditional lifestyle. We will discuss the complicated relations between the herders and the extractive companies later in this chapter and in Chapter 6.

Figure 5. Foreign direct investment net inflows in Kazakhstan and Mongolia, % of GDP, 1991-2019



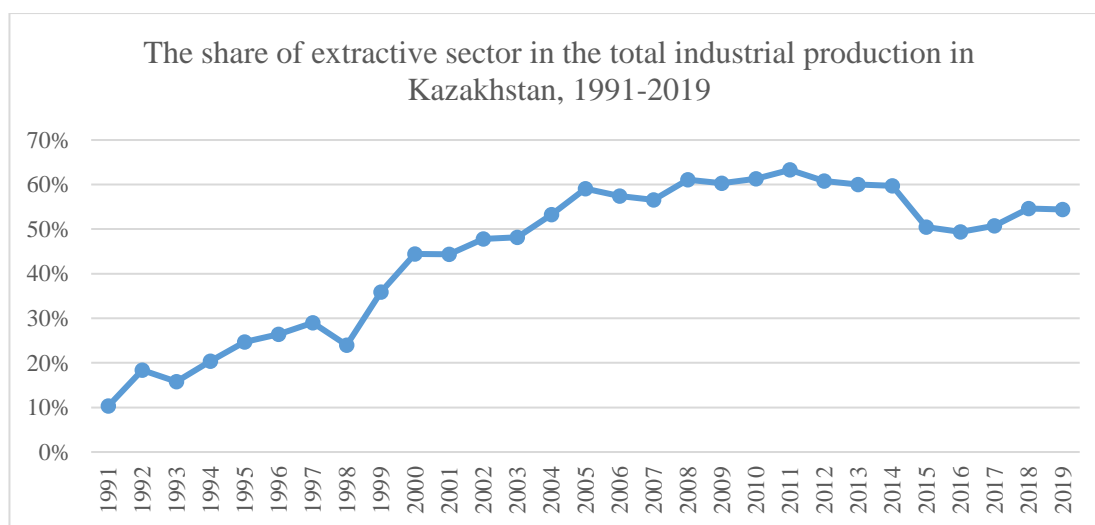
Source: World Development Indicators

The Figure 4 shows net investment in all sectors, but the majority of this investment both in Kazakhstan and in Mongolia was absorbed by the extractive sector. The situation in the extractive sector was also responsible for most of the volatility in the FDI levels. As we can see, the growth of investment in Kazakhstan was more stable than in Mongolia. The drastic changes experienced by Mongolia are partially explained in the literature by complicated political economic relations between the national government and the foreign investors and by the changes in the regulatory regime, including on the issues of the CSR (see for example Lander 2019). We will discuss these changes and their influence on government-company-community relations in Mongolia in the next chapter.

The extractive sector plays a prominent role in both Kazakhstani and Mongolian economies. In Mongolia, according to the EITI report, “in 2019 it represented 23.7% of GDP and earned USD 6.7 billion in exports, some 83.7% of total exports for the year. It is also accounted for 57.5% of total industrial production and 49.9% of total investments for the current year. The government

obtains a significant proportion of its income from extractive companies, and in 2017 received MNT 3.8 trillion from the sector” (Mongolia EITI Report 2019, p. 6). Some of the world’s largest deposits of copper, high-quality gold, iron, coking coal and fluorspar lie within its territory, estimated to be worth approximately USD 1.3 trillion U.S and constituting almost 17% of the world’s mineral reserves (Mongolian National Development Agency 2019, as quoted by Lander 2019) with only about quarter of this resources explored by 2013 (International Business Publications, 2013: as quoted by Lander 2019). In Kazakhstan, the extractive sector also constitutes a large part of the economy. From 1991 to 2019, the share of the extractive sector in the total industrial production grew from 10% to 54%, in some years exceeding 60%.

Figure 6. The share of extractive sector in the total industrial production in Kazakhstan, 1991-2019



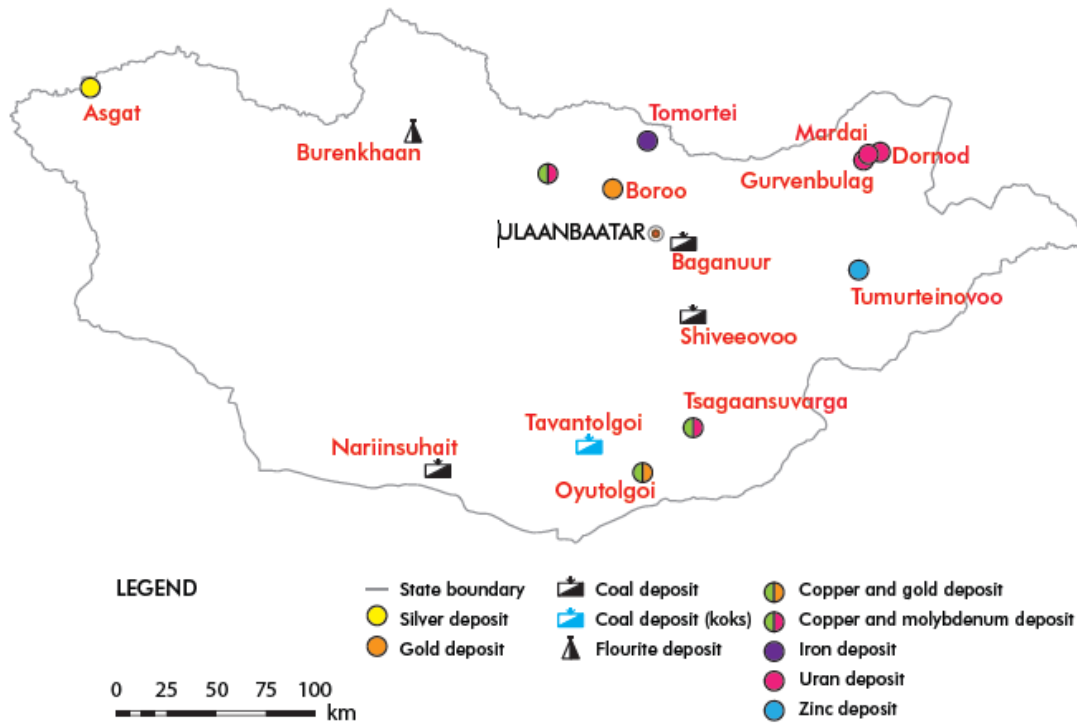
Source: data of the Bureau of National Statistics (*Dynamics of major socio-economic indicators of the Republic of Kazakhstan*), calculation by the author

The state earnings from the extractive sector are divided between the state budget and the National Fund. The revenues to the National Fund in 2017 comprised 23% of the total government revenues (Kazakhstan EITI report 2017, p. 129).

These data suggest that in both countries the governments and the economies in general depend on the revenues from the extractive sector. For Mongolian exports, the most important mineral commodities are coal (USD 3,074 million in 2019), copper concentrate (USD 1,796 million in 2019), iron ore, concentrate (USD 576 million in 2019), and gold (USD 418 million in 2019) (Mongolia fourteenth EITI Report 2019, p. 63). For Kazakhstan in 2019 in value terms, 77% of extractive sector production was the production of crude oil, 9% - mining of nonferrous metal ores, 5% - services in mining, 3% - iron ore mining, 2% - coal production, 2% - natural gas production, and 2% - other mining (data of the Bureau of National Statistics, calculation by the author).

The largest contributors (in monetary terms) to the extractive sector output in Kazakhstan are the oil-producing regions of Western Kazakhstan (Atyrau, Mangystau, West Kazakhstan oblasts) (Kazakhstan EITI report 2017, p. 98). The geographical distribution of the mineral wealth in Mongolia is presented in Figure

Figure 7. Geographic distribution of 15 strategic mineral deposits of Mongolia



Source: Mineral Resource Authority of Mongolia 2016, p. 31

Notes on the context would not be sufficient without mentioning the social context of mining, particularly in Mongolia, where there is conflict between mining and traditional nomadic grazing over pastureland. About 80% of Mongolia's territory is pastureland, but with development of mining, in some regions (aimags) the exploration licenses cover more than 70% of the entire territory of each aimag. This is true for Dornogovi, Omnogovi, Orkhon, and Sukhbaatar Aimag (Suzuki, 2013, p. 277). This leads to conflict between mining companies and local communities. Suzuki (2013) argues that due to the legislation and policies currently implemented, the power in this conflict resigns with one side only – the mining companies. The company-community cooperation in this situation becomes much more difficult. At the same time, the need for company-community relations in the frame of the CSR might be even higher.

4.2. National and subnational governments

Both Kazakhstan and Mongolia are unitary states with several levels of public administration. In Kazakhstan, they are:

- national (republican) level;
- regional (oblast) level – there are 14 oblasts and three cities of republican significance with the status similar to the oblasts;
- district level (rayon or the city of oblast significance) – in Kazakhstan, there are 161 rural districts, 16 urban districts, and 37 cities of oblast significance;
- local level – there are 2391 rural sub-district administrations (they are headed by the akims, the term equivalent to mayors) and 51 urban administrations at this level (47 in the towns of rayon significance and 4 in the rayons within the cities).

In Mongolia, the general administrative structure is very similar:

- national level;
- provinces and the capital city (aimag) – 21 provinces with a mean population of about 84,000 inhabitants (the capital, Ulaanbaatar, is not included in this calculation);
- districts (soum);
- communities (baghs) (the Constitution of Mongolia, article 57, National Statistics Office of Mongolia 2020).

Let us consider political economic relations within these two similar administrative structures in relation to the regulation of extractive sector.

4.2.1. Role in the regulation of the extractive sector and the CSR of the extractive companies

In Mongolia, the Ministry of Mining and Heavy Industries (specifically, the Mineral Resource Authority) oversees implementation of the mining-related government policies and laws on behalf of the national government and can approve regulations on mineral resources exploration and mining. The Minerals Law of 2006 assigns the Ministry with responsibility of organizing geological research, creating good investment climate, organizing tenders to issue a license for an area of mineral concentration and monitor activities related to exploration and mining licenses (Minerals Law, article 11). In Kazakhstan, the similarly responsible agency at the national level is the Ministry of Industry and Infrastructural Development (for the mining sector) and the Ministry of Energy for the oil and gas and uranium sectors.

It is important to note that in both countries the national governments have significant discretion in the regulatory issues, since the policies and regulations are established not only by the laws (approved by the parliaments), but also by the regulatory documents issued by the executive branch (the government, the ministries). Therefore, the national governments in both countries in game-theoretic terms can be considered as a player who is capable of changing the rules and payoffs for all the other players. This means that in the pre-game stage the national government has to decide whether to change the rules or not and how. The bargaining powers of the other players are not comparable with that of the national government.

Two examples can be provided to illustrate this point. In Kazakhstan, in January 2022 after the massive social unrest and violence provoked by the difficult social and economic conditions, in which lives a significant part of the population, especially unemployed or partially employed young people, the national government (the President) decided to accumulate the CSR resources

into the Fund called “Kazakhstan khalkyna” that operates at the national level. It is too early yet to evaluate the consequences of this decision for the CSR in Kazakhstan in general. However, this is a significant change that can lead to the shift of the CSR projects from the local communities to the national-level Fund. The companies already invest significant resources to the Fund. In less than three months since the idea of the Fund was suggested, the extractive sector companies made the following contributions to the Fund:

Eurasian Resources Group (ERG) – KZT 30 billion (approximately USD 63 million³);

KAZ Minerals – KZT 15.5 billion (approximately USD 32.5 million);

Kazzinc – KZT 13 billion (approximately USD 27 million);

Kazakhmys – KZT 9.7 billion (approximately USD 20 million) (Source: the official website of Kazakhstan Khalkyna Fund, information retrieved on April 1, 2022).

So far, the priorities of the Fund do not include the local community development. The Fund collects applications from the citizens of Kazakhstan that can be submitted individually. The Fund concentrates its activity on:

1. Assisting to development of accessibility and quality of medical services for babies and children with heavy and rare diseases;
2. Assisting to development of accessibility of education and sport infrastructure and other services for children;
3. Assisting the families that adopted or obtained guardianship for children with disabilities;
4. Assisting schools in helping children from poor families;

³ Using the official exchange rate for April 3rd, 2022

5. Supporting families of service people who died or were heavily wounded in defending territorial integrity and safety of Kazakhstan or while saving people's lives;
6. Supporting the population suffering from emergency situations;
7. Assisting the provision of social support measures;
8. Consolidation of the population problems for reporting to the relevant government agencies.

The national government provided a strong signal that significant contributions to the Fund are expected from the extractive sector companies of Kazakhstan. If indeed contributions to the Fund would replace in some way the current direct involvement of the companies into the CSR projects at the local and regional level, this would decrease the importance of company-community relations for the CSR. The decisions for allocation of the resources will be taken between individual citizens and the Fund, not as a result of negotiations between the government, companies, and communities.

The second example of the power of the national government to set “rules of the game” for all the other players in the CSR area can be found in Mongolia. In Mongolia, the local governments are expected to “monitor compliance of the license holder with environmental requirements, health and safety regulations for workers and local residents, and obligations towards the local administrative bodies” (Minerals Law, article 12)). The license holder, in its turn, is obliged to cooperate with the local government. The Law also envisages some mechanisms of cooperation with citizens (public forum, public monitoring of the license holder's activities (Minerals Law, article 42)). The local and regional governments are entitled to receive part of the royalties from the mining activities. Soum (district) level receives 10% of the royalties, aimag (regional level) – 30%, and the remaining 70% are allocated to the central budget (Minerals Law, article 58).

The State Mineral Policy of Mongolia for 2014-2025 also prioritizes importance of cooperation between the extractive sector companies and local communities. The Policy aims “to provide conditions to understand each other’s interests between investors and local community before commencing mining operation at given territory and to increase the awareness and responsibilities of municipal management in convincing what social and economical significance will be brought by mining project; and to ensure that the local development agreement, made between investors and local community intent on supporting the social development during the mining operation, is clear and based on participatory principles” (paragraphs 3.5.1 and 3.5.2). Therefore, the value of cooperation with the local governments and local communities and obtaining the SLO for the companies is increased by the national government.

The distribution of power in licensing in Kazakhstan is similar to the one in Mongolia. Most of the decisions on licensing for the extractive sector’s activities (licenses permissions) and are taken by the national level – the Ministries and their territorial divisions. The regional governments only give permissions for a limited number of extractive sector’s activities, namely, for the extraction of the common mineral resources (i.e., sand, gravel, aggregate, and clay) and for the artisan mining. However, there is a significant difference in monitoring responsibilities. The responsibilities of the license holder in Kazakhstan are monitored by the agency that gave the permission/license, i.e. also usually by the national level agency and its territorial divisions (Code of the Republic of Kazakhstan on Mineral Resources and Mineral Resource Management). Therefore, the formal role of the regional authorities in Kazakhstan is very limited, while the local (subregional) level of public administration is not mentioned in the legislation at all. Kazakhstani legislation does not use the concept of “local community”. Therefore, the policy statements similar to the ones concerning local governments’ and local communities’ role in Mongolia are not possible in Kazakhstan.

4.2.2. Evidence for the stage one of the game: national government and the company

The practice shows that in both countries the national government actively participates in the extractive sector forming joint stock companies. In Mongolia this is done through the state-owned company Erdenes Mongol LLC and its subsidiaries. According to the Minerals Law on Mongolia, “the State may own up to 34% of the shares of the investment made by a license holder in a mineral deposit of strategic importance” (article 5.5) and this right is usually used. The 2019 EITI report on Mongolia lists eight state-owned and five partially state-owned companies, as well as two joint ventures (Oyu Tolgoi and Mongolian Soviet Joint Stock Company Ulaanbaatar Railway) (p. 88).

In Kazakhstan, the national government participation in the extractive sector is carried mainly through Samruk-Kazyna National Welfare Fund JSC. Sixty-two percent of Samruk-Kazyna assets are in oil and gas sector, 6% - in the mining sector (Kazakhstan EITI report 2017). In the mining sector, Samruk-Kazyna operates through the national company Tau-Ken Samruk (created in 2009), which, according to its official webpage, currently possesses 100% ownership in ten mining companies and 30% ownership in Kazzinc Holdings.

Therefore, it is evident that in both countries the national governments actively choose to be involved in cooperation with the extractive sector companies and form joint ventures. In Mongolia, however, the share of the national government in such joint ventures is limited to 34% in the strategic ventures, while in Kazakhstan there are no specific limitations on this issue.

4.2.3. Factors affecting the stage two of the game: relationships between the national and subnational governments in Kazakhstan and in Mongolia

At the stage two of the model, the joint venture of the national government and the company plays against the subnational government in order to decide whether it is rational to include the

subnational governments in the coalition. The decision is inevitably affected by the “bargaining powers” of the subnational governments. Let us consider the two cases from this point of view.

In Kazakhstan, the regional governments depend on the national level both politically and financially. This dependence is much more substantial than their dependence on the local communities and population of the regions in general. The financial dependence can be illustrated by the following facts. Atyrau and Mangystau regions (oil producing regions) along with the cities of Almaty and Nur-Sultan are the only donor regions to the republican budget. The remainder of the regions substantially depend on the transfers from the republican budget for their finances (see Table 1). In some regions proportion of the transfers reaches 90% (Turkestan region), 80% (North Kazakhstan, Zhambyl, and Kyzylorda), or approximates 70% (Akmola, East Kazakhstan, and Kostanay regions). These transfers include both general and targeted transfers. While the general transfers are defined by the law for three-year periods, targeted transfers (for specific purposes) may depend on negotiations of priorities between the center and regions. This creates financial dependency between the central and regional levels of the government in Kazakhstan.

Table 1. Share of transfers in the budget revenues of the regions of Kazakhstan

Regions	Budget, billion tenge	Incoming transfers, billion tenge	Percentage
Akmola	263	193	73%
Aktobe	243	125	51%
Almaty	548	112	20%
Almaty region	486	272	56%

Atyrau	344	46	13%
East Kazakhstan	380	260	68%
Karaganda	326	177	54%
Kostanay	261	188	72%
Kyzylorda	271	214	79%
Mangystau	235	71	30%
North Kazakhstan	213	171	80%
Nur-Sultan	435	162	37%
Pavlodar	241	124	51%
Shymkent	197	94	48%
Turkestan	664	603	91%
West Kazakhstan	187	109	58%
Zhambyl	306	246	80%

Source: Openbudget.kz database, calculation by the author

In Mongolia, according to the Citizens' Budget Oversight Network report of 2011, the situation is similar to the one in Kazakhstan. This report states that: "Mongolia is a unitary country with significant fiscal powers vested in the central government. Yet, most of the public services, such as education and health, are provided at the local level. The financing of public services at the local level comes from either the central government budget (often most significant part of the budget since this financing covers education and health services, two of the most important and sizable public services)" (p. 5). Lkhagvadorj (2010) states that in difference to the formal balance of powers envisaged by the constitution and laws of Mongolia, in reality the executive power (governors) dominates over the representative branch. Thus, the regional councils are supposed to

be objective in discussing the regional budget proposals, but in reality, they rarely can object to the proposal prepared by the governor's office. The regional councils lack political influence (ibid). The same author highlights gradual centralization of expenditures in Mongolia, from local and regional to the national level. Lkhagvadorj notices that most of the expenditures at the subnational levels are current (90% of all expenditures for an average aimag and close to 100% for the average soum), while capital investment is done by the national budget or via targeted grants. This must increase the interest of regional authorities in the CSR funds provided by the mining companies as they are additional sources of investment.

This dependence of the regions on central government transfers is the reverse side of the coin, on the obverse of which there is a political-economic goal of inter-region equity. This is an important priority for a resource-dependent country, in which the resources are concentrated in certain geographical areas. This priority needs to be taken into account in the analysis of payoff for the national government as a player. The national government might be less interested in the cooperation with the resource-rich region if it has to deal with the urgent needs of the other, financially dependent regions.

The political dependence of the regional level on the national level in both Kazakhstan and Mongolia is determined by the very principles of organization of their political-administrative system. In both countries, the administrative systems are very centralized, with top-down appointment of the governors and mayors. The self-government principle is supposed to be implemented via the subnational councils elected by the population. However, in Kazakhstan such councils do not exist below the district level. In Kazakhstan, the regional (oblast) and district (rayon) level executives (akims) are appointed by the higher level of hierarchy (in case of the regional akims – by the President of the Republic), albeit with the agreement of the councils

(maslikhats) of the corresponding level of public administration (Law on Local Public Administration and Self-Government, articles 28 and 32). However, if maslikhats repeatedly do not approve the candidature for the position of akim, maslikhats can be dissolved. Therefore, their decision on the approval or disapproval of the candidate can be influenced by self-interest and cannot be considered fully democratic. Only recently the country started the reforms for introducing elections at the lowest level of local administration. In 2021, Kazakhstan introduced full-scale direct elections of akims at the lowest level of public administration (Law on local public administration and self-government, article 36). The direct election of the district (rayon) akims is planned for the future, but not yet implemented. We are yet to see the effect of direct elections at the local level. Would they strengthen the bargaining power of local akims in their relations with the higher levels of public administration and with the corporate sector? It is yet unclear. However, existing lack of direct representation at subnational levels of government weakens the connection between them and the local communities within their jurisdictions.

The governor of a province in Mongolia is appointed by the Prime Minister, then this governor appoints the governor of the subordinate level (district, soum), who, in his or her turn, appoints the governors of local communities and neighborhoods. The difference to Kazakhstan is that in Mongolia the candidates for the governor position are proposed by the local councils. The soum (district level) is the level of government that is supposed to represent local community in its interactions with the mining companies. The soum governor is appointed by the higher level (aimag) governor from the candidates suggested by the local (soum) council, which, in its turn, is directly elected by the people.

The primary responsibility of the governors and mayors in both countries is officially towards the higher administrative level, not towards the citizens. The constitutions of both states define this in

no-uncertain terms: “While working for the implementation of the decisions of a respective Parliament, a governor, as a representative of State power, is responsible to the Government and the governor of higher instance for proper observance of national laws and fulfillment of the decisions of the Government and the respective superior body in his or her territory” (Constitution of Mongolia, article 61); and “Each local executive body is headed by the Akim (Mayor) of the relevant administrative and territorial unit, which is the representative of the President and the Government of the Republic” (Constitution of the Republic of Kazakhstan, article 87). However, the Constitution of Mongolia also states the prevalence of the principle of subsidiarity (article 62). This principle from the legal perspective ensures certain autonomy of the local governments over the decisions of local significance.

We can conclude that in the highly centralized states like Mongolia and Kazakhstan the bargaining power of the subnational governments in the relations with the JV of the national government and the company (subgame 2) is not very high due to the strong political, financial, and administrative dependence of the subnational governments on the national government. This suggests that at the subgame 2 of the model the both the costs and benefits of the JV cooperating with the subnational government are not very high. The loss of control over the CSR resources for the national government (this variable is a key part of the costs for cooperation with the subnational levels of public administration) is low.

4.3. Extractive sector companies

In Mongolia, in 2019 there were 2,983 mining and exploration licenses covering in total 5.4% of territory. 2,332 licenses were held by Mongolian companies, 448 licenses – held by 257 foreign companies, and 203 licenses – held by 101 joint companies. Among the foreign companies, the

largest number of licenses (133) were held by Chinese companies. Chinese companies are also leading as partners for the joint ventures with Mongolian companies (47 joint companies with 67 licenses) (Mineral Resources and Petroleum Authority of Mongolia 2019). In terms of the number of licenses held, the local companies dominate over the foreign companies. However, the foreign companies and joint ventures of the national government and foreign companies usually are involved in larger projects. The actual political economic relations between the Mongolian national government and foreign companies will be discussed in Chapter 6.

In Kazakhstan, the Ministry for Industry and Infrastructure Development publishes lists of newly issued licenses for exploration and mining of mineral resources on its website. However, the list of issues licenses for exploration contains information from 2018 to present only. As for the list of licenses for mining, it is renewed each month or several times per month with newly issued licenses only. Therefore, it is impossible to find the full list of licenses. The summary information (number of companies, structure of ownership, etc.) is absent. The largest companies include Kazakhmys (copper), ERG (chromium, iron ore, alumina and bauxite), ArcelorMittal (iron ore and coal) and Kazzinc (lead, zinc and gold). As Conway (2013) points out, each of these companies dominates in its own area of extraction.

The research done by Conway (2013) shows that the extractive companies in Kazakhstan strongly depend on both the national and regional governments. This dependency not only requires the official (contractual) relations to be effective, it also includes informal relations, sometimes personal connections between the corporate managers and government officials at both national and regional levels.

4.4. Local community

The legislation of Kazakhstan clearly considers local population (the term community is not used) to be sufficiently represented by the local executive and representative bodies, as well as the state agencies (national) that are performing control over extractive industries' operations. A separate and distinguishable role for the local communities is not envisaged by the legislation.

In Mongolia, the approach is very different. Since 2006 the legislation requires mining companies to conclude so called "local development agreements" (CDAs) with the local communities. This was presumably done to increase the bargaining power of the local communities, as well as to reduce the operational costs for the companies to involve the local communities in decision-making by establishing a semi-permanent framework allowing such involvement. Dalaibuyan (2015) attributes this requirement to the effort of the civil society organizations. It is significant that this did not happen by the initiative of the players in our game-theoretic model (national government, subnational government(s), company, or the community itself), but rather due to an "outsider" (civil society). This may mean that for the players the expected payoffs from cooperation with the local communities on a permanent basis were lower than the costs of such cooperation until the legislation changed, providing an additional policy-driven incentive. An important factor in the establishment of the CDAs in Mongolia were small-scale local protests in the mid-2000s. However, the negative experience of unrest apparently was not enough by itself to increase the value of the social license to operate for the companies and the government agencies responsible for the regulation of the sector. It took the political pressure from civil society for the Parliament to initiate the changes (Dalaibuyan 2015). The CDA(s) by themselves do not guarantee the real inclusion of the community in the decision-making. Dalaibuyan (2015) describes the case of the Khushuut mine, where the first agreement concluded in 2012 did not prevent social unrest. The second agreement, however, was more successful because it used such mechanisms as online

submission of comments, representative groups of 15 people, only four of which were company representatives, and active local council hearings (the local council's members visited communities to have public hearings). In Oyu Tolgoi in 2015 the parties had to conclude a new cooperation agreement as the previous arrangement was criticized for being too abstract and allowing non-compliance.

It is very important to note that since 2014 Mongolian legislation obliges the companies to publish the CDAs (Enkhbayar 2019). This increases transparency and strengthens the bargaining power of the local communities that can control the provisions of the CDAs. In contrast, in Kazakhstan the annual memorandums on CSR obligations that are signed between the regional (oblast) governments and extractive companies, are closed for the public. Since 2016, the CDAs as administrative acts are required to undergo public hearings before they are concluded.

Basically, the CDAs aim to make cooperation with the local communities (the last stage of the game) obligatory or near obligatory. It remains for the interviews to provide evidence on whether the CDAs really change the payoffs for the local communities and companies and help to ensure greater benefits for all players.

4.5. Local development funds: potential cost-reduction mechanism?

It is interesting to note that Mongolia has enacted a potential CSR cost-reduction mechanism for the companies – local development fund (LDFs). These funds are normally created at the regional level and accumulate the CSR funds for regional development from several companies of the region. Whether this mechanism can replace the companies' own efforts for designing and implementing the CSR priorities in cooperation with local communities remains to be investigated

and will be discussed further in Chapter 6 of this dissertation. The integrated LDF receives resources from the extractive sector's activities, namely 50% of the revenues from mineral licensing. In 2019, according to the EITI report on Mongolia, 53 billion MNT were allocated to the LDF (about USD 21 million). The purpose of the LDF is to finance the needs-based investment programs of the local governments in Mongolia. There are established mechanisms of citizens' involvement in decision-making in the LDFs via public opinion polls with subsequent discussion and approval at the local councils.

Despite the described good practices, it is necessary to remember that in the past there were cases of abuse of public money from the LDFs for private investment. Blunt (2013) notes this as one of the major problems of the LDFs. He also states that the LDFs historically tended to implement simple and relatively unambitious projects (street lighting, garbage collection and disposal, construction of kindergartens, and public bath houses), which may be normal considering the needs of the communities.

In Kazakhstan, there have been attempts to create LDFs (or rather regional development funds since they are controlled by the regional governments), which are similar to the LDFs in Mongolia. In East Kazakhstan region there is a fund "Paryz" that accumulates CSR funds from various extractive companies. Another fund also called "Paryz" operates in Aktobe region. However, the transparency of these funds' operations rises questions. They do not have websites and do not systematically publish reports on their activities.

The new national-level Fund, "Kazakhstan khalkyna", created in January 2022, is yet to demonstrate its efficiency and the work practices, though the independent Board that includes well-known public figures encourages hopes for a good level of transparency in the new Fund's operations.

Both Kazakhstani and Mongolian experience of LDFs were discussed during the interviews and the results will be presented in the corresponding chapters.

Conclusions

The analysis presented in this chapter suggests several important conclusions and issues to be tested in the subsequent field investigations. In both countries the balance of bargaining power between players is shifted significantly towards the national level of government. This happens due to the centralized political administrative systems, active participation of the national governments in the joint ventures in the extractive sector, financial and political dependence of the subnational governments on the national one, and the codified legal systems relying on the normative documents (laws and regulations) of the central governments. One can argue that the game itself (its rules and payoffs of the players) can be changed by the national government, and in the pre-game period the national government takes the decision of changing versus not changing the rules.

At the same time, Mongolia prioritizes cooperation between the companies and local communities, testing various instruments (CDAs, LDFs) in order to make this cooperation inevitable and to decrease the associated administrative costs. If these practices are successful, they change the payoffs at the final stage of the game and in an ideal world can potentially remove non-cooperation as an option (in this case, the game will be complete at the previous stage of decision-making). Such an extreme scenario is improbable; however, it is worth considering influence of the CDAs and LDFs on the payoffs of the players. This will be one of the major questions for investigation during the field studies on the two cases.

Chapter 5. Case studies 1 and 2: Kazakhstan

As discussed in the previous chapter, extractive sector companies in Kazakhstan invest money into local infrastructure and social development projects to comply either to their obligations by the law (for the uranium, oil, and coal mining subsectors) or to their contractual obligations tied to their mining licenses. The annual portfolio of projects and the amount of money to be spent each year are defined by the memorandum between the companies and the regional authorities (akimats). The amounts spent each year are substantial to both the mining sector and the local communities. In this chapter we will discuss the specific characteristics of cooperation between the companies, the authorities of different levels and local communities on the CSR projects. The analysis will be based on two specific case-studies from the practice of mining sector companies in Kazakhstan.

5.1. The “typical” case

In general, in Kazakhstan in 2019, the public information system United State System for Management of Subsoil Use registered 232 projects for local development performed in the frame of CSR of the extractive sector companies. Out of this number, the following purposes were indicated:

- public utilities and urban space – 31 projects;
- targeted social assistance to vulnerable groups or families – 30 projects;
- education – 21 projects;
- sport – 21 projects;
- celebrations, public holidays – 16 projects;

- roads and transport – 12 projects;
- support to the cultural institutions – 12 projects;
- healthcare – 10 projects;
- religion (mosques, churches) – 6 projects;
- local business development – 2 projects;
- emergency situation relief – 1 project.

The purpose for the remainder of the projects was unclear.

How are decisions taken on the purposes and directions of CSR projects in Kazakhstan? Most of these projects are included in the annual memorandums between the extractive companies and the regional governments (oblast akimats). Therefore, obviously, there is a cooperation between the companies, national government (gives license for mining, often partially own large mining companies, and defines the terms and conditions for the incoming investors in mining sector), and the regional governments that can be described using Stage 2 of the model suggested in Chapter 2. Yet is the number of decision-makers limited to these three actors or does the decision-making process involve local communities and subregional authorities? According to the experts interviewed in the course of this research, the “typical” case for Kazakhstan is when cooperation stops at the regional (oblast) level and does not involve the local community or subregional authorities. The interviewee EXP1 mentioned some cases of the subregional (rayon) level being involved in the decision-making on the CSR projects in some of the regions (the expert provided Kostanay region as an example), but this is an exception rather than the rule. According to interviewee EXP2, the reason the decision-making for the CSR projects is not transferred to the lower levels of public administration is that “this is about money. There always is a deficit of money. Nobody would agree to share the available resources”. Therefore, the costs of losing part

of the political control over the CSR resources is evaluated by the players to be high. In the model, these costs are included at the costs of cooperating in Stage 3, nominated as variable **k**. The probability **p₁** of social unrest is obviously considered to be low. Therefore, while at stage 2 of the game both players choose the strategy of cooperation, at the 3rd stage the coalition of the JV and the regional government chooses not to cooperate at the first move (strategy NC; NC), since it prefers the payoff of non-cooperation strategy **f-p₁g** to the payoff it gets in case of cooperation **f-k+j**.

When asked whether the recently introduced direct elections of the akims at the lowest level of public administration can increase their influence in decision-making over the CSR projects and therefore decentralize this decision-making from the regional to subregional levels of public administration, the experts unanimously answered negatively. In their opinion, despite the direct elections, the negotiating power of the subregional levels of administration is too low. The decision-making will remain being concentrated at the oblast level.

The national level pays more attention to the CSR projects of the companies in the oil sector, because the budgets in the oil sector are larger than in mining sector. According to the EXP1 interview, the spending of the oil companies is better monitored, there are certain criteria for the projects to be selected for implementation. This was partially confirmed by the interview with the oil company representative COR4, who stated that “the company spends about 25 million dollars per year in Atyrau on the regional development program. The spending so big it is closely monitored and mostly directed to large infrastructural projects. Obviously, my colleagues work in close cooperation with the authorities, especially with the oblast akimat. The projects are typically planned well in advance”.

Unlike the oil sector, the mining sector companies have to deal with the problem of inconsistency of the requests for CSR projects initiated by the oblast akimats. The interviewee COR9 provided an example of this: “At first, akimat requested the House of Creativity. Then, when the project was already under implementation, its purpose was changed to be the regional headquarters of the Assembly of People of Kazakhstan. Later, it was changed again into the House of Youth Initiatives. The actual building’s style was too official to work well for young people, it had that Soviet style in its architecture. In addition, it was located far from the residential districts of the city, it was not very convenient for the young people to reach. We spoke with young people, they said that they would commute to use the building. Still, this would not be a place one just visits for an hour or two after school, it would require a special trip. This case made us think about the relevance of our projects”.

How does the oblast level manage the resources provided by the CSR obligations of the companies? According to the interviews with the experts, usually there is some positive impact, however it is not linked directly to the interests of the local community affected by the mining. EXP2 remembered CSR resources in East Kazakhstan region being spent on requalification and training of doctors, purchase of medical equipment, and treatment of rare diseases abroad. The expert highlighted that nobody would be against spending money on these purposes. However, the spending is not tied to the needs of particular communities, it is done on the regional scale. In the best-case scenario, the public is informed after the money is already spent, there is no public discussion about the spending. The interviewee EXP1 was even more skeptical regarding the way the regional governments allocate resources received from the companies: “The oblast akims consider these projects as their additional wallet. A lot depends on the personal preferences of the akims. Typically, we are talking about some projects in culture and sports. If the akim of a

particular region likes ice hockey, everyone is supporting the hockey teams”. It is interesting to note that two of the interviewees used the Russian expression “khotelki” (whims) of the akims to describe the factors of money distribution in the regions.

The existing literature on the CSR in Kazakhstan supports this position of the experts. The UNECE (2019) summarized the role of regional authorities in the decision-making over CSR projects in Kazakhstan in the following way: “Some companies have adhered to the practice of CSR by allocating part of their funds to social projects. However, these funds are being managed by regional authorities (akimats) as part of budgets for regional development, without being earmarked to specific projects. Thus, the principles underlying CSR are lost halfway through execution: it is not ensured that the project supported by the company’s financing is directly related to the risks that the company represents for the community, and the participation of the community in the choice and implementation of the project is not assured” (p.61). Novikova (2015) sees the “asymmetrical dominance” of the regional authorities on the CSR as a problem, along with the absence of clear understanding of the CSR concept among the corporate leaders, since both these factors lead to poorly coordinated, ad hoc requests from the regional governments to companies. As a result, the CSR activities are chaotic and cannot even be reported properly. The OECD (2014) describes the situation similarly: “many enterprises in the extractives sector are contractually bound to dedicate a percentage of their capital expenditures to social projects. Those funds are then managed by regional authorities (akimats) as part of budgets for regional development. Some enterprises have reported that they have limited input in the selection and implementation of these projects [...] Civil society is rarely involved in the selection and implementation of social projects financed by enterprises, raising important questions about the transparency of the process through which the project money is allocated. Concerns expressed by

the local communities often have a limited impact on the determination of priority of areas addressed by social projects, which can lead to poor alignment with the capacities or needs of local communities” (p. 17).

The prominent role of the regional (oblast) level of public administration in the allocation of the CSR resources can be confirmed indirectly through the available statistics on the projects performed by the extractive companies. A significant part of the spending is directed at the projects located in the capital cities of the regions and not in the mining towns where the companies operate. This can be illustrated by spending of Donskoy GOK. The company operates in Khromtau, a mining town located at about 100 km from the regional center, Aktobe. However, as Figure 6 shows, large part of its spending on so called “social projects” was allocated to projects in Aktobe city.

Figure 8. Social expenditures of Donskoy GOK, Khromtau



Source: data retrieved from the portal “United State System for Management of Subsoil Use”, calculations by the author

The interviews show that prioritization of the interests of the region as a whole and not the mining communities directly affected by the extractive operations can be a source of tension between the companies and the regional authorities. Interviewee COR8 stated that the company is interested in its employees' satisfaction with the CSR projects. Since the employees are also members of the local community, they want the CSR projects to benefit them as local residents. Some of the projects matched this interest, but most projects did not. "Akimat was distributing the money at its own discretion. We did two opinion surveys among our workers, in 2017 and in 2018, they were interested in good roads, lightning on the streets, things of local significance. We came to the akimat with our suggestions, and akimat agreed with them, however, they stipulated different time periods for implementation of different requests".

Some of the interviews in the local communities show that the residents of the mining communities often are not aware of the CSR spending that it is allocated to the projects in the regional center. Consequently, they criticize the company for not taking care of the needs of the community. Thus, interviewee COM8 mentioned that the previous owners of Zhairem GOK (prior to 2015) "reconstructed a couple of buildings and that was all". The CSR spending existed but was not visible for the members of the local community.

Besides the possible mismatch between the interests of local communities in the mining towns and broader scale of spending in the regions, several of the experts interviewed highlighted the lack of transparency as a serious concern related to the CSR resources being allocated principally by the regional authorities. The interviewee EXP5 was so skeptical about transparency of the current "typical" model of decision-making that she suggested all the money from the extractive companies to be directed to the budget as part of taxation and to be distributed through the normal budgeting process. "Currently, it is unclear who is doing what and for what reason. If all the

money went through the budget, it would be visible to the public and some accountability can be guaranteed”, stated the expert. The budget classification allows this since 2014, when the necessary code was introduced at the initiative of the EITI network.

In some regions, the practice of out-of-budget funds was introduced in order to accumulate money from the extractive sector companies. Such a fund has been operating in East-Kazakhstan region since 2010. The fund is called Paryz and it is closely associated with the regional authorities.

Currently, the chairperson of the fund is the speaker of oblast Maslikhat. However, the fund does not have a website, it is very rarely in the news and the information about the fund’s activities is not readily available to the public. A similar fund, also called Paryz, operates in Aktobe region.

The head of this fund is the former akim of one of the rayons of Aktobe region. This fund also does not have a website and it is difficult to find information about its activity and projects. Despite their legal status as public funds, the funds in East-Kazakhstan and Aktobe regions do not seem to be open to the public and the communities. In the next chapter, we will discuss the regional funds in Mongolia that are remarkably similar to these funds in Kazakhstan.

In sum, the concentration of decision-making at the region (oblast) level in Kazakhstan is related to two major problems: (1) the project portfolio does not match the interests of the local communities in the mining settlements. This provokes dissatisfaction among the employees of the mining companies (who are also members of the local communities) and creates concern for the mining companies; (2) low transparency, low (or even nonexistent) public participation in selection of the projects.

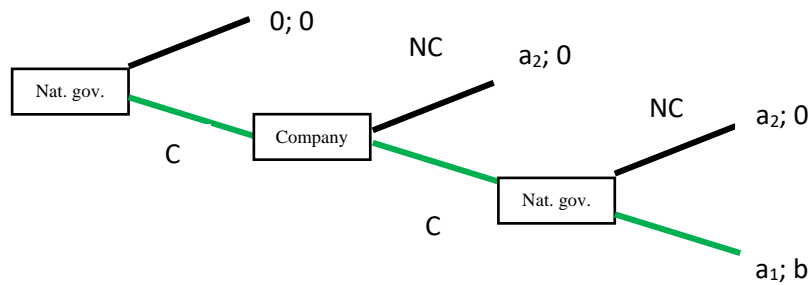
If this is the case, why do mining companies agree to continue the current practice under the model described above? The experts suggest that the reason can be found in the influence of the regional authorities on the different aspects of business operations of the mining sector. In the terms of

game theory, this relationship can be described as “nested games” (Tsebelis 1991), when one of the players (in our case the oblast akimat) has an influence over the payoffs for the other player (mining company) by having an ability to change conditions for the mining company in the arenas outside of the current principal game (decision-making over the purposes of the CSR projects). This influence in theory should not influence the current game, but in reality, it does.

Both expert interviewees EXP1 and EXP2 highlighted the importance for the extractive companies of “keeping good relations with the oblast akims”. They mentioned that oblast akims can influence different facets of the business operations of mining companies in a variety of ways. EXP4 provided a specific example of this influence in the environmental sustainability area. According to this expert, environmental sustainability principles are subject to interpretation by the extractive sector in Kazakhstan, and the national and regional governments can play a significant role in “helping” or “contradicting” the specific company’s interpretation. Thus, one of the popular environmental activities frequently mentioned in the corporate reports is planting of trees. The authorities can accept this interpretation of environmental responsibility or (possibly) push companies towards different activities. The regional authorities are not the main decision-makers in the environmental sustainability area; however, their position can be taken into account by the national authorities. Formal and informal influence of the regional authorities on the different aspects of operations of the extractive sector companies increases the value of “good relations” with the oblast level for the companies.

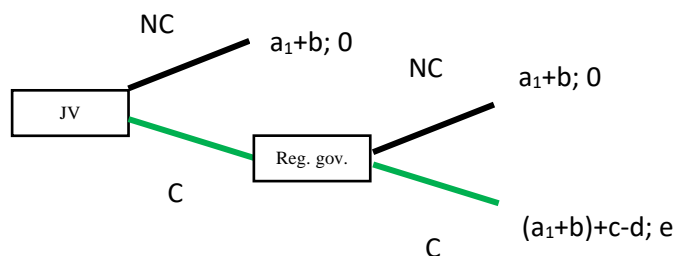
Figures 9-11 demonstrate how “typical” case of the CSR decision-making in Kazakhstan can be reflected using the model suggested in Chapter 2. The selected strategies are colored in green.

Figure 9. Stage one of the "typical" case game



Since we are talking about the existing projects, the national government, first, decided to start mining operations and (2) decided to cooperate with this particular company. So, the strategy of the national government is Cooperate; Cooperate. Its payoff a_1 is both larger than zero and larger than the payoff offered by cooperation with the alternative company (a_2). The company also estimated its benefits from this project b to be larger than zero and decided to cooperate. Therefore, in the “typical” case we describe for Kazakhstan, at the first stage the strategies are Cooperate; Cooperate for the national government and Cooperate for the company.

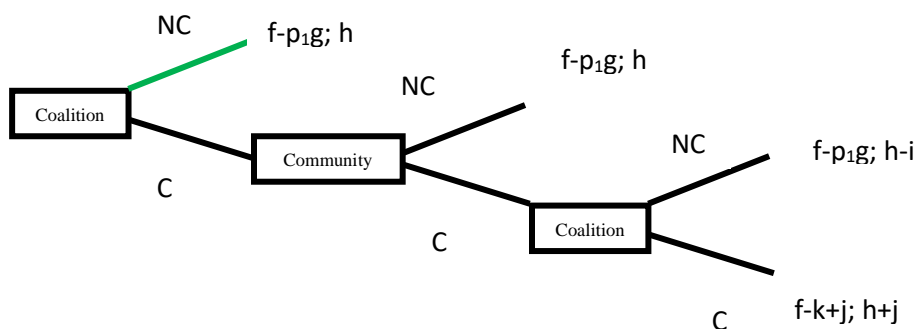
Figure 10. Stage two of the "typical" case game



At the second stage of the game, the JV of the national government and the company decides to **cooperate** with the regional government. For the JV, the costs of cooperation (including the partial loss of control over the CSR resources) is smaller than the benefits from the cooperation. We have

discussed that in case of the oil companies, where the scope of resources is larger than in case of the mining companies, the national government intervenes more actively in allocation of the resources, though the cooperation with the regional government still happens. This means that the costs of cooperation d (including loss of control over the resources) are higher in case of the oil companies, but not high enough to forbid cooperation. For the second partner in the JV, the company, the cooperation with the regional government always brings higher value than non-cooperation, since the regional governments can influence operations of the company in other areas (other games), therefore, the regional governments have an influence over the payoffs from the point of view of the company, following the logic of the nested games concept (Tsebelis 1991). For the regional government the benefit of cooperation e is larger than zero, since in the cooperation it gets to partially manage the CSR resources. If it did not cooperate, it would not get any control over the resources. Thus, it makes sense for the regional government to follow the “Cooperate” strategy. Therefore, the equilibrium for this stage in practice is when both players decide to cooperate.

Figure 11. Stage three of the "typical" case game



At the final stage of the game the coalition of the JV and the regional government decides not to lose more control over the resources and not to cooperate with the community. This happens at the first move of this stage of the game. After that, the game does not continue. The costs of cooperation with the community k , including a partial loss of control over the CSR resources, are considered to be higher than the benefit j of cooperating with the community, while the probability of social unrest p_1 is considered to be low. As a result, the game finishes after the first player's move and the community does not get to choose the strategy. The equilibrium of the whole game is $f - p_1g; h$, where the coalition of JV and the regional government gets the payoff of $f - p_1g$ (its payoff from the previous stages of the game f minus the costs of social unrest g multiplied by the probability of this unrest p_1). The community also get some positive payoff h (the CSR projects are still implemented), but it is less than the payoff the community would have got in case of full cooperation.

There is, however, a number of factors that can, in the experts' opinion, change the position of both the companies and the regional authorities toward decentralization of decision-making for CSR to include the subregional governments and local communities. One of such factors mentioned in several interviews is the ownership of the company. The experts think that the companies with a high share of foreign ownership are more inclined to include the communities and increase the transparency of the CSR resource distribution. This was emphasized both by EXP2 and EXP4. The interviewee EXP4 explained that the companies with foreign ownership have to follow more or less the same standards in all the countries in which their foreign partner company operates. If the standards are stricter in some countries, this applies to the corporate practice in Kazakhstan even if the local legislation leaves a possibility to limit transparency. In this case, the company will assign a higher value to cooperation with the community j and might

persuade the fellow members of the coalition (national and regional governments) to choose the strategy of cooperation with the community (strategy C; C at stage 3 of the game). This explanation seems to be straightforward and logical. A similar explanation is also popular among the experts on Mongolia, as we will discuss in the next chapter. The Mongolian experts even differentiate between different foreign investors, claiming that positions of Chinese-owned companies can be different from the policies and practices of other companies with high share of foreign investors. At the same time, the case studies presented below somewhat disprove this explanation. As we will discuss in the analysis for case study 2, the company Eurasian Resources Group (ERG) changed its policy toward the work with communities around 2017-2019 without changes of ownership. The company is not publicly listed since 2013, when its previous “incarnation”, Eurasian Natural Resources Corporation (ENRC), was purchased by the ERG and delisted. Therefore, the foreign ownership factor does not firmly predict the company’s behavior. Nevertheless, it is worth to be taken into account in the analysis of background factors for the case studies. This factor would provoke a deviation from the “typical case” game described above.

Another factor that can provoke deviation from the “typical” model of decision-making described above is some history of social unrest in the local community or in the nearest geographical area. As the interviewee EXP4 put it, “Everybody (both companies and governments) become touchy in the regions where there were some kind of conflict situations, like in Mangystau, for example”. EXP5 also mentioned Mangystau region as an exceptional case because of Zhanaozen events of 2011. The case studies on Kazakhstan are also ambivalent on this factor, since in Zhairam there was a case of unrest in 2019 (long after the major CSR projects in the local community were launched), but in Khromtau the launch of a new initiative for cooperation with the local

community was not preceded by social unrest or labor conflicts. The last significant case of labor conflict in Khromtau happened in 2011 and was related to the level of salaries.

Let us now consider the details of the two case studies in Kazakhstan. Both cases deviate from the “typical” model as described by the experts. This can be explained by self-selection of the cases, since only successful and transparent practices agree to undergo an in-depth analysis by an independent researcher. Still, the atypical, self-selected cases also present interesting insights as to how and for what reasons the company-government coalition decided to cooperate with local communities.

5.2. Case study 1: Zhairem

5.2.1. Background

Zhairem is a town (officially an urban-type village) in the Karaganda region of Kazakhstan, with around 10 thousand people, located at approximately 400 kilometers from Karaganda city. It does not have its own administration, administratively it is part of Karazhal urban administration.

Karazhal is officially considered by the Ministry of National Economy of the Republic of Kazakhstan as a mono-town with an average potential for development. According to an official definition, monotown is a town with population between 10 and 200 thousand, in which 20% or more of the adult population work at one of a few town-building enterprises usually belonging to the extractive industries and having one or similar specialization (mono-specialization). These enterprises produce most of the economic output in the town and define all the economic and social processes happening in the town (State Program for Development of Regions till 2020). For Karazhal (and Zhairem as its part) such an enterprise since 1970s is Zhairem Mining and Refining Complex (Zhairem GOK). However, the distance between Karazhal and Zhairem is significant, 60 kilometers, and the transport between the two towns is expensive for the residents.

The majority of the local population in Zhairem are current or former workers of Zhairem GOK or their family members. Zharem GOK is the major employer for the local community, and the well-being of the community is directly related to the functioning of the Complex. Zhairem GOK directly employs more than 2,000 workers. Together with their families and former (retired) employees still living in town and supported by the enterprise, about 80% of the local population are directly affiliated with the enterprise.

The mining of metal ores started during Soviet times, around 1972. Many young families arrived to live in Zhairem between the 1970s and the end of 1980s because Zhairem GOK provided well-paid jobs and the possibility to acquire accommodation. Interviewee COM8 remembers that at that time in Zhairem the community enjoyed a very well-developed social infrastructure. She says: “We had kindergartens, shops were well-supplied, airplanes were connecting Zhairem with the major cities”.

After collapse of the Soviet Union, the town experienced a devastating economic depression. It lost about half of its population. The local residents remember that in the 1990s they did not have electricity, central heating, and water supply did not reach higher floors in the buildings. The social and cultural life of the community suffered significantly despite the efforts of the enthusiasts like interviewee COM7 who remembers that the cultural center continued to work even without electricity and heating and with a leaking roof.

The loss of qualified labor force during the 1990s presented a severe challenge for the production at the Complex. Ethnic Russians and Germans emigrated to other countries, while ethnic Kazakhs left Zhairem for other cities whenever they had a slightest opportunity. People could not sell their apartments due to the difficulties with privatization and lack of demand, so they were just massively abandoning their homes. The Government tried to compensate for the shortage of the

labor force by inviting ethnic Kazakh immigrants (oralmans) to live in Zhairem. Nowadays former oralmans and their children compose about 25-30% of the population. At the time, this caused tension between the local and incoming population, however, according to interviewee COM10, nowadays the former oralmans are firmly integrated into the community and only the surnames allow one to tell who came to Zhairem from abroad in 1990s. The majority of the population in Zhairem are Kazakhs (80-85%).

The immigration of oralmans helped to lessen the demographic gap in 1990s, however the level of qualification of the incoming population did not always match that of the workers who left the town. According to the interviewee COR2, the drop in the level of qualification of the labor force was so big that its effects lasted into 2000s and 2010s.

Zhairem still has not recovered from this trauma. The evidence in the form of abandoned houses can be found all around the town (Figure 10 provides an example).

Figure 12. Abandoned houses in Zhairem (photo)



Source: photo taken by the author in Zhairem in November 2021

Until 2014, Zhairem GOK was owned by the ENRC, then it was purchased by Kazzinc. Kazzinc specialists found the town still much depressed, and the social infrastructure in dire need of investment. According to the local residents, ENRC did not respond well to the needs of the citizens. “They renovated a couple of buildings and that was it”, says interviewee COM9.

Kazzinc itself provoked a new, more recent, shock for the community. It was related to the shift in the focus of production from manganese to lead and zinc. One of the major extraction sites for manganese was closed. Kazzinc started construction of a new factory for refinement of complex ores. The investment was significant for the company – USD 500 million (Baigarin 2021). The factory started operation in 2021. This shift of production led to changes in the qualification requirements for workers. Some adaption was required from the workers, about 600 people had to

do requalification and acquire new skills. The company invested significant resources in the requalification, about 1 million tenge per person plus time and administrative expenditures (interview COR7). Despite the new factory being in operation for six months, the workers' adaptation to the shift in production is not yet complete. The interviewee COM9 is sure that if some other company reopens the old manganese mine closed by Kazzinc, the workers will move from the new factory to that mine. Therefore, the adaptation is still ongoing, it is not easy, and the loyalty of the workers is not guaranteed for Kazzinc. This risk to its major investment presumably increases the value of good relations with local community and the social license to operate for Kazzinc. In fact, on December 16th, 2021, it was announced that ERG is buying the manganese extraction in Zhairem, a company called Managanese Zhairem. This means that in the nearest future the two companies will at least partially compete for the workforce in Zhairem. ERG is planning to employ at least 350 qualified workers in Zhairem.

The changes in production and construction of the new factory particularly affected the part of Zhairem which is known as Old Zhairem and is located at the distance of about 15 kilometers from Zhairem itself. At the moment, this small semi-separate town suffers from more significant social problems than the rest of Zhairem. The residents also believe that they can suffer from the negative environmental effects caused by the new factory (these effects have not been proven). As a result, some local residents wrote an open letter to President Tokayev asking for help in relocation from Old Zhairem to another settlement (Veber 2020). As we will discuss later in this chapter, the company pays a particular attention to the healthcare, employment, infrastructure (such as the mobile telephony), and cultural life in Old Zhairem.

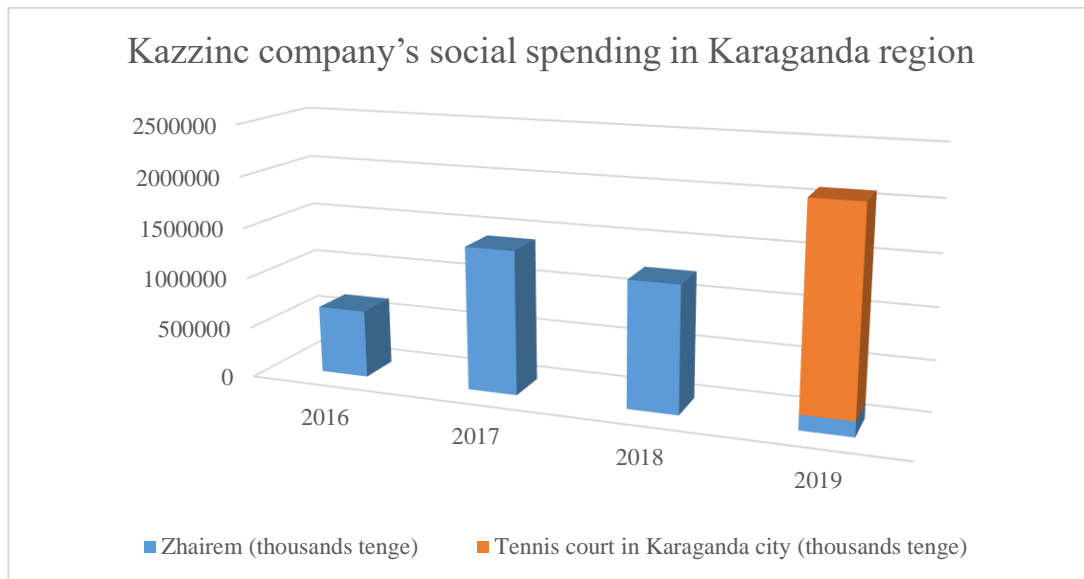
The conflict that occurred in Zhairem in 2019 can be considered as one-off case of misunderstandings and human mistake, but it can also signify potential instabilities in the

community. On August 12, 2019, in Zhairem a number of foreign workers were bitten by local workers, their property was stolen or destroyed. The reason was a photo of a half-naked girl sent by one of the foreigners to his WhatsApp group. Immediately, the akim of the region visited Zhairem and talked to the local community to find out their problems and requests. It is obvious that both the regional administration and the company considered the situation to be very serious and put efforts to prevent it in the future by helping to solve social and economic problems of the local community.

5.2.2. The CSR in Zhairem

The combination of the reasons described above, as well as an extensive (about 20-years) experience of Kazzinc company in the CSR projects in East-Kazakhstan region created the prerequisites for active work of the company at the local level and its scrupulous attention to the needs of the local community. According to interviewee COR5, Kazzinc spends around 1 billion tenge (USD 2.3 million) annually on the social projects according to the memorandum with Karaganda oblast akimat. In 2021, the amount is a bit lower because of the pandemics, only about 600 million tenge (USD 1.4 million). Most of the finance included in the memorandum of the company with Karaganda regional akimat is directed towards the needs of Zhairem town, except for the large project of building a tennis court in Karaganda city. Figure 13 below shows the increase in financing for the projects in Zhairem until 2020 when the tennis court project started to be implemented.

Figure 13. Kazzinc company’s social spending in Karaganda region



Source: data retrieved from the portal “United State System for Management of Subsoil Use”, calculations by the author

5.2.3. Strategic documents relevant to the development of Zhairem

The amount of investment in the frame of CSR is significant for a town the size of Zhairem. What rules and strategic documents provide the basis for distribution of these resources? As per the normal practice for Kazakhstan, the annual project portfolio is determined in the memorandum between the company and the oblast akimat. The memorandum is a closed document. Upon purchasing Zhairem GOK, Kazzinc conducted a thorough investigation of the living conditions of the community and determined the direction of the future corporate social development strategy for Zhairem. This was achieved by involving medium-to-high level specialist from Kazzinc headquarters representing different departments of the company. The team of 10 to 20 corporate executives stayed in Zhairem for the period of two to four weeks, communicated both with the local administration and representatives of the community, such as the Council of Aksakals

(elderly people), Council of Youth, and Council of Veterans. However, the resulting social strategy is not available to the public and, according to interviewee COR2, was not even formulated as an internal document. The interviewee explained this by saying that the company does not want to provoke rivalry among different communities. If the communities knew about social projects in each of the mining towns where the company operates, they would request the same projects for themselves. There are of course general policies formulated by Glencore, the foreign investor of Kazzinc. These corporate policy documents are available, but they are not specific to Zhairem.

On the government side, the general principles of regional development are formulated in the State Program for Development of Regions of the Republic of Kazakhstan till 2020. The State Program for Development of Regions till 2020 lists Karazhal among the monotowns remote from functional urban areas. Its potential for development is defined as “average”. In general, for this category the Program envisages the following goals: (1) provision of basic public and social services in accordance with the legislation; (2) development of infrastructure for the entrepreneurial activity through “one-stop window” systems; (3) development of utilities infrastructure. However, the long-term direction of the government policy towards remote monotowns including Karazhal and Zhairem is formulated by the State Program as follows: “In general, the state policy toward remote monotowns and small towns not linked to the functional urban areas will be directed at assisting relocation of their population to large cities (mass construction of rental and communal housing in large cities of the oblasts, increase of the intellectual potential of the youth of the remote monotowns and small towns and other measures in the frames of the State Education and Science Development Program for 2016-2019, Housing Construction Program “Nurlyzher” and territorial development programs” (State Program for Development of Regions till 2020, paragraph 5.2.1).

Therefore, the state acknowledges its responsibility in supporting the living standards in the towns like Zhairem for the current generation of its residents; but the government does not plan for the long-term sustainable development of the local community. Instead, it is going to support the relocation of people, first of all, of the younger generation, to larger cities.

The Development Program of Karaganda Region for 2016-2020 and the Plan of activities for its implementation are the key documents defining the regional policy for development of Karazhal town and Zhairem as its part. According to the Program, Karazhal has two competitive advantages - its raw material base and the supporting industries for the extractive sector. The perspectives of development of the town are also related entirely to the raw material base development, including 5 million tons of annual polymetals extraction in Zhairem. The Program envisages investment for renovation and development of utilities in monotowns, as well as stimulus measures for entrepreneurial activities. The Plan contains several goals directly related to Zhairem, including development of a refining facility (the one that has been opened in 2021), reconstruction of the road from Karazhal to Atasu, and development of sewage and water supply systems in Karazhal (it is not clear whether this applies to Zhairem as well). There are also some measures that would apply to Zhairem indirectly, such as the promotion of local content in the purchases of the extractive companies.

In sum, the government policy documents do not build a vision for the long-term sustainable development of the local community in Karazhal. The national-level document places it among the towns with “average” potential of development with a possibility of moving into the category of towns with “low” potential in case the mineral base is exhausted, or the extractive company starts losing its profitability. The regional program emphasizes its current role as a raw material extraction base. Both national and regional governments in their policy documents concentrate on

provision of the basic services for the current population of monotowns, including Karazhal and Zhairam as its part, such as education, health, and utilities. However, in the long-term perspective the government seems to rely on migration of the young residents from these monotowns to the larger cities.

One of the corporate executives interviewed for this study speculated that if the regional or local authorities had a comprehensive development plan for Zhairam, it would make it easier for the company to select and develop its community and social development projects. It would also be easier to negotiate the annual memorandums. Currently, formulation of the memorandum takes a significant amount of time each year, and sometimes continues until February-March, which limits the time for implementation of the projects.

Since the company has a long-term business investment in Zhairam, its activities are not only directed to the current, but also to the future development of the community, even despite the absence of the long-term strategic documents. Thus, the company invests in the professional training of the local residents. The training center of Zhairam GOK provides education and practical experience at the enterprise. The trainees are guided by mentors at the production site. They receive stipends from the company and upon completing their training, are offered a job at the company. The company arranged theoretical training to be done by the teachers from the college in Zhezkazgan city. This college provides Zhairam trainees with government-standardized certificates (interview COR6). According to the company representatives, this increased the mobility of the trainees. However, the company was willing to undertake the risk of losing some of the trainees for the purpose of the general increase in quality of the human capital in the town (COR7).

5.2.4. The lack of formal decision-making process

If the community development strategy for Zhairem does not exist as a written document in any form, then how does the coalition of the company and regional government develop the annual project portfolio to be included in the memorandum of understanding? The interviews conducted in Zhairem show that there is no formal process. There is a part of the community who represent the interests of the local community in the negotiations with the company. These people are not elected, they acquired a position in the negotiations naturally, due to their professional capacities. This group includes head of the hospital, imam from the mosque, and head of the cultural center (Dvoretz kultury). For example, according to the corporate manager (interview COR5), the head of the hospital comes to Kazzinc for consultations around three times per month.

The three biggest projects in Zhairem implemented since Kazzinc acquired Zhairem GOK are:

- 1) the new mosque (construction, continuous support) – around KZT 800 million investment,
- 2) the hospital (reconstruction, purchase of equipment, continuous support, headhunting for the doctors, social benefits for the doctors) – around KZT 400 million investment and growing,
- 3) cultural center (reconstruction, continuous support) – around KZT 300 million investment.

The future projects are discussed informally. For example, the largest single-purpose social investment in Zhairem done by Kazzinc is the construction of new mosque. According to the interviews, the decision about this project was taken during the visit of high-level managers from Kazzinc to Zhairem in 2015. They saw the bad condition of the old mosque and suggested to build a new one in the course of a very short conversation. The imam did not make any formal request; indeed, he did not expect that the construction of a new mosque would be possible. He was asking for a dining hall to be build next to the old mosque (this would be a much smaller and cheaper

project). Later, when the project was already under implementation, the management of Kazzinc cooperated with the imam on a regular basis to adjust the future mosque to the needs of the community. One of the vice-presidents of Kazzinc took the imam on a visit to Chachnya (Russian Federation), where they studied mosque construction practices. In his interview, the imam mentioned that at the beginning he did not expect so much attention and such an involvement from the corporate managers, most of whom are not Muslims.

The resulting project is considered a success by the local community. Both employees of Zhairam GOK and members of the community said in interviews that they were very proud of the new Zhairam mosque. It is visited daily by about 100 people, 30-40 of them come after work in the evening. Mostly these people are young (under 50). About 30-40 children study the Quran in the summertime. There are also religious lessons for girls and women. The project is ongoing. Now Kazzinc plans to reconstruct the old mosque so it can be used as a library and religious education center. The company also covers some of the monthly expenditures of the mosque, including expenditures on the rental car, fuel, utilities, and minor repair works. Kazzinc also fully covers the expenditures on the praying house in Old Zhairam (the part of Zhairam that was the closest to the manganese extraction site and is currently the most problematic from economic and social perspective).

Another long-term CSR project significant for the local community is the support for the local hospital provided by Kazzinc. According to the interviewees COR5 and COM10, the previous owner of Zhairam GOK, ERG company, concentrated on providing healthcare for the employees of the company. The initial analysis conducted by Kazzinc in 2015 showed that this was not enough, the company had to pay attention to the healthcare services in the community in general. The workers were concerned about healthcare for their families. In addition, estimated the

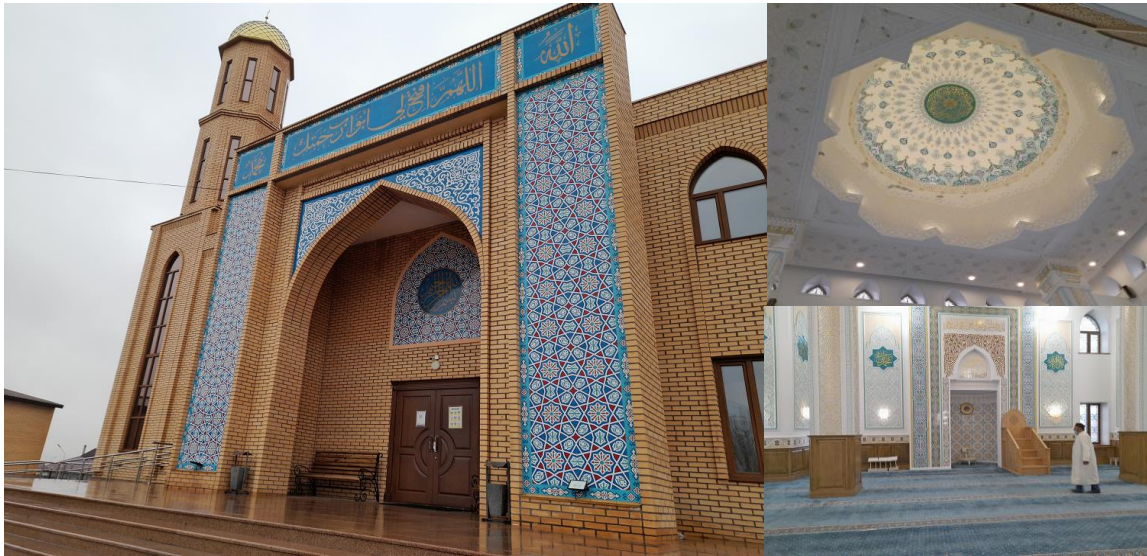
company, solving the problems of healthcare in Zhairem would affect a maximum members of the local community. The company approached this project from the point of view of community needs, including the analysis of morbidity in Zhairem by groups of population (women, children separately). The problems identified during the initial assessment included problems with the building (it was very old), with utilities (there were breakdowns in the electricity and water supply), with the doctors (they were leaving Zhairem to find work elsewhere).

The project was conducted in three stages: (1) general level - partial reconstruction and repair of the hospital building (the building itself, water, electricity supply); (2) mid-level - reequipment specific departments (for example, surgery department, gynecology department, dental care); (3) micro-level – answering the question “What do we need to do to attract a particular specialist to come to Zhairem?”

The project is ongoing. Kazzinc managers take an active part in searching for the doctors all around Kazakhstan and inviting them to work in Zhairem. The company managers analyze CVs of the candidates. The company currently pays 1 million tenge for each arriving doctor, provides housing, covers utility expenditures, arranges places in kindergartens and schools for the doctors' children.

At each stage, the company cooperated closely with the head of the hospital for identification of needs. Each doctor was interviewed in order to identify the needs of each specific department. The company also organized consultations with the doctors in Ust-Kamenogorsk (East-Kazakhstan region) to obtain recommendations on the medical equipment. A Kazzinc construction specialist conducted the assessment of the building and the reconstruction plans. Thus, the initiative and leadership on this project was provided by the company. The company involved the government sector via the annual memorandum and quarterly reports to the regional akimat.

Figure 14. The projects implemented in Zhairam as part of the CSR of Kazzinc (photo)



a) Exterior and interior views of the new mosque



b) the newly renovated hospital and the equipment for treating burn victims

Source: Photo made by the author, November 1st, 2021

For both the projects described above, the needs assessment and decision-making were done in negotiations and consultations between the company and the specialists (professionals) who informally represented the community and its needs, but there were no formal consultations with the larger community. So how does the company provide an opportunity for the local community

members to voice their needs? According to the interviewee COR5, each member of the local community can communicate her needs through social media. She will then be invited for the informal conversation, and, if the request is reasonable, the company managers will make sure that it is included in the next year memorandum. Another important channel is provided by the quarterly meetings at the production site with the workers (since they are members of the local community). According to the corporate manager interviewed as COR7, more than 90% of workers of Zhairem GOK (besides engineers) are local. Among the engineers and managers, around 70% are local. Therefore, the company is essentially inseparable from the community. The workers' requests submitted during these meetings, can be divided into two correlated groups. The first group consists of internal requests related to the working conditions. The major topics there are financial wellbeing, production safety, transport, medical service at work, medical screens, and comfortable conditions at work. This last category might include anything from the problems requiring major investment to the smaller requests like installing a microwave oven at the workplace. The second group of requests are external to the production site. These are related to the local social development.

There are also community organizations, such as the Council of Veterans (retired works of Zhairem GOK), Council of Youth (young workers of Zhairem GOK), and Volunteers Movement. They exist at Zhairem GOK and consist of the employees but provide a constant connection between the company and the local community. In difference to many other extractive industries companies, Zhairem GOK and Kazzinc as a company have specialized departments and executives working on the community and social development issues. Such a department exists in Zhairem and is very active on social media and in the consultations with various representatives of the local community.

From the point of view of the company, the lack of formal mechanisms for consultations with the local community and processing the request does not seem to be a problem. The interviewee COR5 said that if the local residents had some request to make for the corporate social project, she could write a comment to the social media account of the Complex. Then she would be invited to the company and the request will be discussed. The interviewee COR6 (a corporate manager) mentioned that she herself suggested an item to the annual memorandum with the akimat, since she is a local resident herself and knows what is needed.

The informal collection and assessment of the requests on the CSR projects has its advantages and disadvantages. The advantage is its low costs, high flexibility, and short processing time. For example, according to the interviewee COM5, when volunteers from Zhairam decided to deliver 200 liters of kumys (mare's milk) to the patients of oncology hospital in Karaganda city, the company provided transport, and this decision was taken within just a day or two. The same quick reaction happens in case of individual requests from people in a difficult situation. For example, Kazzinc provided housing for a person with cancer from Old Zhairam shortly after the request to the management of the company. Due to the interference from volunteers' movement, assistance was rapidly provided to the family that suffered from a fire. When a need arises to send the local sports team or a dance group for competition to another city, the company timely covers necessary expenditures. During the COVID-19 pandemic, the volunteers with the help from the company distributed food and medical supplies to elderly people in need (interview COM5). All these activities require timely assistance and fast decision-making from the company, and the company apparently is able to process the initiatives and proposals quite quickly.

The major disadvantages are: (1) long-term planning is difficult. For example, recently the company asked the head of the hospital to elaborate three-year strategy for development of

healthcare in Zhairem. Otherwise, it was not clear for the company how to prioritize different requests for equipment and specialists. The head of the hospital is working on this strategy now. It is already clear that the document will include the task of separating the polyclinics from the hospital itself (interview COM2);

(2) some members of the community are still excluded from the decision-making and do not even see themselves as having a role in the discussions. For example, one of the residents of Zhairem during the interview asked me with sincere incomprehension: “Why would they ask me? Kazzinc is doing what it can do when they have money for it, we are happy with that”;

(3) since there is neither a formal procedure for processing the requests nor clearly established criteria for assessing and selecting the project proposals, some of the local residents might complain about their needs or ideas being neglected by the company. The corporate manager (interviewee COR5) commented: “If the requested expenditure would have a really low impact (it matters only to the limited circle of people, it is whimsical and nonsensical), we do not approve it. Then people become upset. Somebody is always unhappy, it is inevitable”.

5.2.5. Implementation and transparency issues

The implementation of the CSR projects in Zhairem GOK is done through the corporate fund “Zhairem damu” (“Development of Zhairem”). The activity of the fund is monitored by the Board consisting of three members (all three from within the company). The fund in Zhairem was established by two entities: the trade union and the similar fund from the head company (Fund for support of the social projects, Ust-Kamenogorsk, East-Kazakhstan region). The role of the Fund is strictly in implementation of the social projects. As interviewee COR6 put it, “the Fund receives projects ready for implementation”. The Fund does not own any assets. As soon as some social infrastructure object is ready, the Fund transfers it to the ownership of local akimat. In the past, the

Fund was registered as “public fund”, meaning that there was at least one person from outside the company on the Board. However, when the representative from outside the company retired, the company considered it easier not to look for a replacement, instead transforming the Fund into a corporate entity. The company prefers to manage the implementation itself. According to the interviewee COR2, all the large projects are done either by the company itself or by hiring trusted contractors. The implementation contracts are concluded using the tender platform of Kazzinc. The technical inspection of the projects is also done by the specialists of Kazzinc (interview COR6). Upon completion of the project, the final certificate of completion is signed by the company, akimat and the organization that would use the object in the future.

It would seem to the outside observer that a structure like the Fund can potentially be transformed into a sustainable mechanism for decision-making with permanent representation from the community, regional and local governments, and non-governmental organizations. The current role of the Fund seems to be artificially limited to the implementation of projects, while its governing structure is limited to a corporate one without representation from outside the company. These limitations probably make the management easier for the company, but there is a potential for a more democratic structure built on cooperation with the community and the general public that is unrequired.

5.2.6. Relationships between the company and the government sector in the decision-making for the CSR projects

Upon its initial acquisition of Zhaiem GOK and at the starting stage of the CSR activities in Zhaiem in 2015, Kazzinc followed the akimat’s initiatives and suggestions in selection of the projects for the memorandum. Gradually, with growing understanding and knowledge of the local needs, the company started to inform the akimat of the local needs and currently the initiative in

the negotiations mostly belongs to the company. According to interviewee COR5 (a company manager), “80% of all projects are done by our initiative”. The company acts as a representative of the needs of local community in the work with the government sector. Usually, there is no opposition from the akimat to the projects suggested by the company. As interviewee COR5 points out, “akimat has no choice since Kazzinc is paying for everything”. The only problem is the timing, since the akimat often takes time to approve the memorandum, and this causes delays in the tenders and construction works. The budgeting process in the government agencies also prevents reallocation of money that was not spent in the current year to the following year, so the financing from akimat is interrupted at the end of every year. The company is much more flexible in this respect and can continue the operations on social projects throughout the year.

The company and the community usually work together in advocating the needs to the government. An interesting example is provided by the current campaign for the construction of the Complex for Physical Culture and Recuperation in Zhairam. This new project is highly anticipated by the community in Zhairam and was mentioned often during the interviews. The senior manager of Kazzinc promised the local community that “if you get the akimat to build you the Complex, we will build you the swimming pool for it” (COM1 interview). Then representatives of the community (most of whom are the company’s employees) started campaigning for the construction of the Complex. There is a high demand for sport in Zhairam. Currently, all the sport facilities are available for the residents free of charge, the salaries for the coaches and instructors (10 people) are paid by Kazzinc. About 100 children and 100 women attend sport sessions daily, the monthly attendance is approximately 1,000 children and 1,000 adults. There is not enough space, however, and therefore the need for the new Complex was voiced by the community with support from the company. According to the interviewed members

of the community, the athletes and the coaches were the first to start writing open letters to the akimat (COM1 interview). Then the four members of the town council (Maslikhat) in Karazhal representing Zhairem formulated the councilmen's requests on this issue. The company also helped to organize the public letters from the Council of Veterans and the Council of Youth. The community members posted comments to the official platforms of the akimats of different levels and asked questions during the annual reports of akims (COM4 interview).

Normally, the requests are considered by the akimats of all subregional levels before they appear in the annual memorandum concluded between the company and the regional akimat. According to interviewee COR5, Kazzinc forms the preliminary project portfolio for the next year. This is then consecutively discussed with the akimat of Zhairem itself, akimat of Karazhal, and finally with the oblast akimat. The subregional akimats (of Zhairem and Karazhal towns) do not have a strong position in the negotiations, but the company makes sure to consult with them in order to negotiate the priorities and present a unified position to the oblast akimat. The akim of Zhairem presents additional requests for the CSR projects. Typically, this happens when the local akim does not have sufficient budget for some activities or cannot finance them because private ownership is involved. For example, the akimat cannot directly finance repairs of the roofs of apartment buildings because legally they belong to the owners of apartments. Therefore, this work is done by Zhairem GOK. Some of the requests of the local akimat to the company are related to the projects that the akimat started but could not finish because of the lack of money or could not start at all. For example, recent requests include: finishing the construction of a number of athletic fields; installment of the cameras at the main streets; reconstruction of the courtyards (this one is planned for the next year).

The requests come from all the different public departments (through the local akim) to Zhairem GOK. For example, recently the police department asked the company to build the summer shed for the transport and furniture for the police department (the request was satisfied). The company provides support and financing in many areas that theoretically belong to public services and should be supported by the akimat. In addition to the large projects described above, the company:

- provides free coal for the heating of the town;
- purchases new equipment for the public utilities services;
- adds money to the salaries of the technical specialists working in public utilities to make their salaries equal to the ones in the company (otherwise they would leave their workplaces);
- helps to eliminate consequences of the emergency situations;
- buys fuel for the municipal vehicles;
- created local museum at the cultural center (to be opened soon);
- participates in the reconstruction of the sewage system, since its deterioration reaches 80-90%;
- helped to build a 4G cellular tower in Old Zhairem and the second one in Zhairem itself;
- plans to provide public transportation for the residents of Zhairem. Currently, there is transportation for the workers that is often used by their families. From next year, there will be public transport completing no less than ten scheduled rounds per day. The company will finance public transport expenses for the first six months;
- organized work of the one-stop shop for documentation in Zhairem. For this, the company has to pay transport expenditures for transporting documents from Zhairem to Karazhal and back. Before that, the residents of Zhairem had to travel to Karazhal (the distance is 60

kilometers) to obtain each public document. Currently, the company conducts reconstruction of part of the akimat's building in Zhairem in order to place the one-stop shop there;

- organized a social pharmacy and social shop with the prices lowered because the company finances transport expenditures for delivery to Zhairem;
- helps to clean snow and repair roads.

In sum, there is at least a partial substitution of the government functions by the CSR of the company. This is understood by the company managers: "The town depends on the company" (COR7), "In a sense, Zhairem GOK is a real akimat of Zhairem" (COR5). The regional government usually agrees with the project portfolio developed by the company in cooperation with subregional governments with minor adjustments (COR6).

This informal substitution of responsibilities is clearly understood by the residents. During the annual reports of the local akim to the population, Kazzinc usually takes the last ten minutes to hear questions and requests from residents to the company. According to interviewee COR2, there are usually more requests to the company than to akim. "They understand who can really solve their problems", says the manager.

One of the possible factors affecting the balance of relations between the local community, the company, and the akimat is that people feel underrepresented by the akimat of Karazhal at the regional scale. Administratively, Zhairem is not an independent town. From the point of view of the regional government, it is part of Karazhal urban administration. Therefore, the regional plans and programs direct resources to Karazhal. It is then up to akimat and Maslikhat of Karazhal to reallocate the public investment to Zhairem. One of the company employees expressed an opinion that "Zhairem is like an unwanted child to Karazhal" (interview COR7). Another local resident

said that “some time ago then akim of Karazhal told us that all the smart people left Zhairem, only the cattle remained” (interview COM8). Probably partially because of these difficult relations in the past, the local community prefers to address their needs to the company rather than to akimat of Karazhal.

5.2.7. The feedback and reaction of the community to the CSR activity of the company

The company tries to ensure that the public is aware of the CSR projects upon their completion if not at the stage of decision-making. Zhairem GOK has a specialized department for social support, and this department publishes information on Instagram, Facebook, and Telegram. The unions such the Council of Veterans (305 members), the Council of Youth (659 members), and volunteers’ movement also present an important channel for information sharing (interview COR2).

Yet mostly the residents seem to acquire information from personal experience. Attendance to the facilities that the company helped to build or renovate is quite high, the local community in Zhairem is enjoying an active social life. The interviewed community members confirm that they and their family members use the opportunities provided by the company in the frame of its CSR. For example, one community member said during interview: “My granddaughter attends the dance club. Today they are in Astana for a competition. Both costumes and the transport were paid for by Zhairem GOK” (interview COM8). The nine clubs working at the cultural center seem to be very popular, with around 160 people participating regularly and more than 300 coming for the performances (interview COM7). The popular clubs include Drama club, “Grandmothers’ band”, Businesswomen club, Decorative art club. The Figure 15 presents a concert that the author was able to attend in Zhairem. The number of people was limited because of the COVID-19 restrictions.

Figure 15. Concert in Zhairem’s cultural center renovated as part of the CSR (photo)



Source: photo made by the author on November 2, 2021

The interviews with community members showed a positive reaction to the activities of Kazzinc in Zhairem. Members of the local community consider the corporate support for the town to be the proper duty of the company. “The companies that use resources have to give the people something”, said one of the interviewees (COM3 interview). However, the CSR is not taken for granted because the residents vividly remember the time when the company paid less attention to the needs of the town. Several interviewees highlighted the positive difference between Kazzinc and the previous owner of Zhairem GOK, ERG (former ENRC): “Kazzinc is better than ENRC” (COM9 interview), “ENRC did not pay attention to the social projects” (COM5 interview).

Somewhat paradoxically, the most spoken about are relatively small projects but apparently with high impact for the community. These include repairs to the roofs and basements of apartment buildings (Kazzinc has repaired seven buildings this year and plans to do continue next year) and installation of the lights and traffic lights along the main street (“It looks like we live in a real city

now”, one of the residents said). Only at the second turn members of the local community mentioned the mosque (“We are very proud of the mosque”) and the sport and cultural activities.

5.2.8. Conclusions from the case and implication for the model

Zhairem presents the case of close and active cooperation between the local community on one hand and the company and the government coalition on the other, in which the company plays a leading role. The government is less active in this cooperation probably because it does not seem to have a strategic vision for long-term development of the local community besides the eventual migration of its young people to larger cities (this future is forecasted by the government official documents). Moreover, the resources that the company can invest in the social development at the local level far exceed the government resources. This is the reason the company in many respects replaced the government in the eyes of the local community and at least from time to time represents the local community in negotiations with the higher-level governments. In Chapter 1 I discussed different types of the CSR strategies for local development, including (1) supplement and substitute strategies; (2) support strategies, and (3) stimulate strategies (Valente and Crane 2010). It is obvious from the case study that in Zhairem currently the dominant type is a supplement and substitute strategy (though not formulated as such). This means that the company is supplementing and substituting the government in provision of many public services. This kind of strategy is traditional for the major company in a monotown from the Soviet times.

The local community appreciates the efforts of the company in the frame of its CSR activity. The company prioritizes interests of the local community for the following reasons:

- almost 70% of the engineers and almost 100% of blue-collar workers of the company in Zhairem are local, while the local community of 11 thousand people consists mostly of

current (2.5 thousand) and former workers of the company and their families. This creates interdependence between the company's workforce and the local community;

- Zhairem is a monotown, where historically the role of the main company was extremely significant, and where the company is considered to be highly responsible for the well-being of the local community;
- when Kazzinc first acquired Zhairem GOK, it informally evaluated the condition of the local community as “depressed”. The community still has not recovered from the heavy crisis, loss of half of the population and a large part of the qualified workforce in the 1990s, and the town infrastructure was deteriorated. This could potentially create social tensions and further outflow of the workforce, which would put at risk the significant investment the company made in production of polymetals in Zhairem;
- the company initiated a substantial shift in production from manganese to polymetals (primarily lead and zinc). This required and still requires not only corporate investment, but also cooperation from the workers who had to undergo a training and adapt to the new working environment (new factory). The process is still incomplete since the new factory experiences some problems. The workers indicated in the interviews that they can move back to the old manganese extraction site if another company reopens it, so the loyalty of the workforce is not yet guaranteed. This situation is likely to happen now, since the ERG acquired manganese production in Zhairem in December 2021.

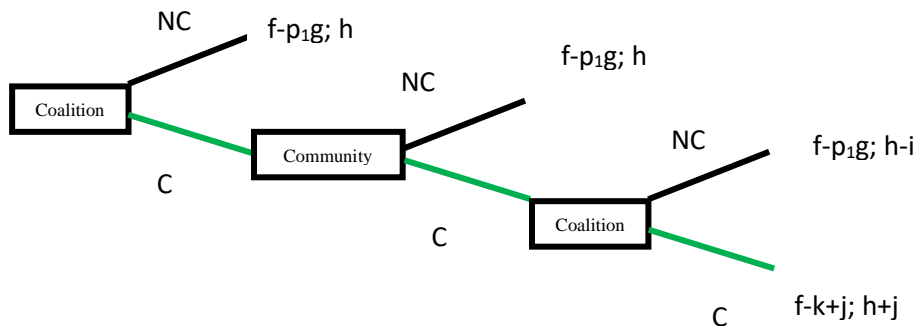
In the framework of the model, these factors determine a high value that is assigned by the company to cooperation with the community, **j**. At the same time, the costs of cooperating with the community **k** are reduced by the informal nature of this cooperation. While within the company there are managers responsible for sustainable development and work with the local community at

different levels, and the company supports a semi-autonomous structure dedicated to implementation of the CSR projects (Corporate Fund “Zhairem damu”), there are no formal mechanisms for identification of needs, procession of requests from the local community, and ensuring participation of community members in decision-making on the CSR projects. The examples of the previously implemented and ongoing projects show that a group of professionals (imam, head of the hospital, head of the cultural center, and others) informally represent the needs of the local community in its relations with the company.

Application of the game-theoretic model for the analysis of Zhairem case

The first two stages of the game remain without changes compared to the “typical” case for Kazakhstan (see Figures 9 and 10, section 5.1. of this Chapter), therefore let us consider how the model of Stage 3 of the game describes the case of Zhairem.

Figure 16. Stage three of the game in the case of Zhairem



As is shown on the Figure 16, in case of Zhairem both players decided to cooperate. For the coalition the strategy is CC, for the community – C. For the reasons demonstrated in the case description, the company (which is a member of the coalition) values the community’s SLO very highly. Consequently, the benefit of cooperating with the community **j** is very high from the point

of view of the company. The costs of cooperation k are low from the point of view of the company, since the process is very informal and does not require a lot of resources. On the other hand, in case of non-cooperation, there is a risk of social unrest (probability p_1), which is considered high in case of Zhairem because of the previous experience of the unrest in 2019. The company managed to convince its partner in the coalition, the regional government, that the payoff for cooperation in this case exceeds the payoff for non-cooperation, despite the fact that for the regional government the cooperate-cooperate strategy means a partial loss of control of the resources as part of the costs. It is possible that the regional government also considers the probability p_1 to be relatively high. Therefore, the equilibrium is $f-k+j; h+j$. This is determined by the estimations of payoffs made by the players.

In the next section, using the example of the second case study we will consider how the companies in Kazakhstan experiment with the new models of cooperation with local communities in order to improve effectiveness of the CSR projects.

5.3. Case 2. Khromtau

5.3.1. Background

Khromtau is another monotown in Kazakhstan, and yet it differs significantly from Zhairem. Firstly, it is larger – the population is around 26 thousand people. Consequently, it has an urban status and is the center of an administrative district (rayon) in the Aktobe region. Secondly, it is just 95 kilometers away from its regional center – Aktobe city. People are commuting to work in Aktobe. Thirdly, Kromtau is located not far from a significant automobile transport route and has access to the railway system. This closeness to the regional center, relatively large population, and access to the transportation systems became defining factors in the evaluation of Khromtau's economic potential as “high” in the State Program for Development of Regions till 2020. In this

Program, the Government proclaimed that economic diversification should be encouraged in the monotowns with high economic potential.

The major company that operates in Khromtau is the chrome mining and refining complex called Donskoy GOK, which is owned by Kazchrome company, in its turn has been owned by ERG since 2006. This facility is one of the largest producers of chrome in the world (second in the world by the confirmed quality of the ore and the first in the world by quality of the metal). It has been operating in Khromtau since 1938. Currently, about 7.5 thousand people are employed in Donskoy GOK. Similar to Zhairem, this means that most of the working population in the town works in this company, and in each family at least one family member is either a current or a former employee of Donskoy GOK. The enterprise includes three mines and two factories, as well as supporting departments.

Currently, Donskoy GOK is in the process of enlarging extraction capacity of one of its mines. The plan is to increase capacity by two times by 2023. This is the next large project after the recently completed sludge processing factory construction project. Though expansion investment does not require transforming the company and changing the focus of production as it happened in Zhairem, by the scale of investment it is comparable to the transformation in Zhairem discussed in the previous section. ERG is obviously concerned about reaction of the local community to its large investment projects. In the company's Sustainable Development Report of 2020, it highlights the fact that 25 public hearings were conducted to discuss several projects in Kazakhstan, including construction of the sludge processing factory, and there were no negative reactions from the communities (ERG 2020, p. 53). This might increase the value of cooperation with the community and obtaining the social license to operate for the company. In the model, this value is denoted as **j**.

ERG currently operates in 15 countries. In Kazakhstan, ERG's operations contribute to about the third of the mining sector. About 40% of the company's shares belong to the Government of the Republic of Kazakhstan (source: corporate website of the ERG, 2021). Sixty percent of the shares belong to three individuals (20% each). There is no foreign investor as such, and the company is no longer listed as it used to be when registered as ENRC. Sustainable development of the regions of operation (contribution to the socio-economic development and well-being of communities in the regions of operation) is declared as one of five strategic priorities of the company (ERG 2020). Since this ERG is a JV, we can state that at the first stage of the game both the national government and the company decided to cooperate (CC strategy for the national government and C strategy for the company).

5.3.2. Position of the company regarding the decision-making for the CSR projects

According to Khromtau residents, Donskoy GOK was always a socially oriented enterprise. Similar to Zhairam GOK, Donskoy GOK historically had a leading role in ensuring the well-being of Khromtau and the local community. As interviewee EXP6 put it, "the enterprise is considered responsible for everything: sustainable regional development, entrepreneurship, local communities, social infrastructure, involvement of the residents". The recurring projects implemented by Donskoy GOK (Kazchrome) in Khromtau in 2015-2020 included assistance to Khromtau Mining Technological College; ongoing support to the Physical Culture and Recuperation Complex, cultural center "Gornyak", the orthodox church and the mosque, the rayon hospital, and Veterans' Union; and renovation of some public utilities infrastructure (heating, water supply, garbage collection). The support of the company to the organizations listed above was mostly directed at covering their operational expenditures, including utility bills (source of the data: United State System for Management of Subsoil Use, retrieved in December 2021). The

interviewed member of the community also remembered that Donskoy GOK is helping with the kindergartens and housing for young workers of the enterprise (COM11 interview).

At the same time, as was already discussed in section 5.1, a significant part of the resources of Kazchrome under the CSR umbrella in 2015-2020 was directed toward projects in Aktobe city, which had larger scale than the projects in Khromtau. ERG as the owner of Donskoy GOK recently started to doubt the efficiency these projects and their relevance to the interests of workers, their families, and the local community in general. According to the interviewee COR8, ERG spends around 6 billion tenge (USD 13.8 million) annually on the social projects in five regions of Kazakhstan. The Sustainable Development Report of 2020 provides even higher figures: USD 17.4 million as part of memorandums of understanding with regional governments in Kazakhstan (overall in the country) and USD 42.3 million of direct social investment outside of the memorandums (ERG 2020, p. 56). The company estimates that in total it already invested around USD 1 billion in the regional and local development projects. It is not surprising that the company wants to get maximum impact from this spending, particularly from its own workers. As a result of two surveys in 2017 and 2018 aimed at identification of needs, the company started to look for new models of decision-making for the CSR projects. Three major instruments have been tried:

1. Opinion surveys remain to be an important source of information about the needs and living conditions of the company's employees and the local communities. The company conducts surveys of nine thousand people summarily in all its regions of operation annually, including five thousand employees and four thousand local residents in the towns where the ERG operates.

2. Forum of innovators of ERG. This serves as a way for collecting initiatives from the employees of the ERG. This internal annual event in the company has been conducted since 2016. The main purpose of the Forum is to collect initiatives and ideas for improving production, however, it also includes a social initiatives competition. In the frame of this competition, the company invited its employees to discuss any social improvement they think would be necessary, from inconvenient public transport schedule to the bad condition of the children's playgrounds in the courtyards.
3. The "Urban Initiative" project. This project invites local residents to develop project proposals for the social investment of the company. Selected proposals are submitted to the voting of the members of local community. The winning projects are then implemented by the company.

5.3.3. Pilot project "Urban Initiative"

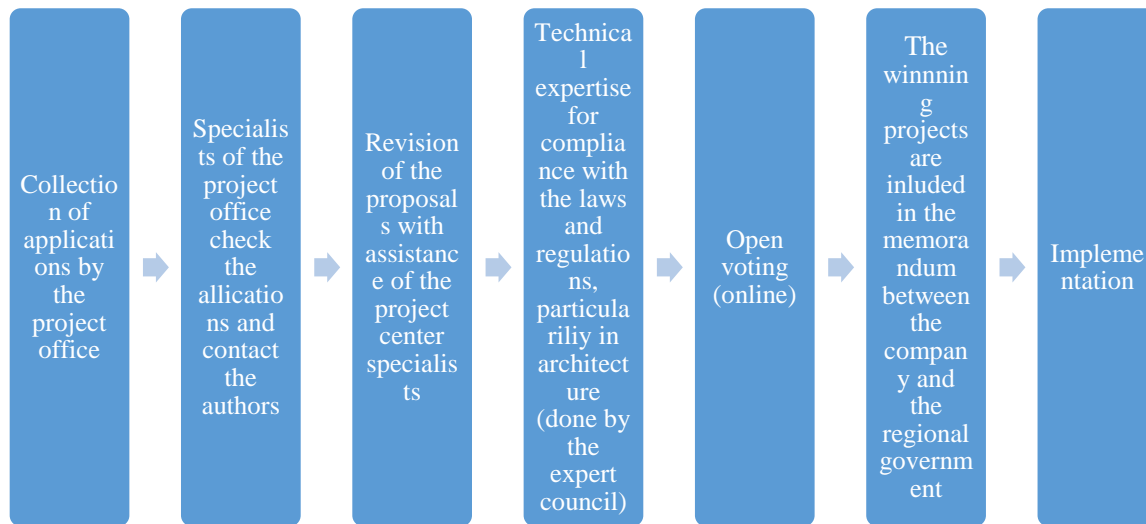
Let us consider the last instrument in greater detail since it suggests an innovative approach new for Kazakhstan. The new instrument was piloted in Khromtau in 2020 and has been considered successful. Therefore, the pilot was not only continued in Khromtau in 2021, but also conducted in two other monotowns, Aksu and Rudny. For implementation of the project, ERG hired an NGO called "Friends of Tel-Aviv University". The company and the NGO are associate through one of the shareholders of the ERG, Alexander Mashkevitch, who is also a member of the Board of the NGO. At the first stage of the project, the "Friends of Tel-Aviv University" worked with another NGO in Aktobe city. In preparation to the first pilot, the "Friends of Tel-Aviv University" organized training for this local NGO. The NGO from Aktobe provided actual support to the residents who were submitting and shaping their project proposals. During the second year (2021), the company and the NGO "Friends of Tel-Aviv University" decided to dismiss the NGO in

Aktobe and instead form a project office in Khromtau itself. One of the winners of last year's competition works in the project office now to provide support to new applicants. The company asked the World Bank to help find experts who could train the project center specialists. Such experts were found in Russia and provided necessary trainings (interview COR8).

According to the interviews, the project was designed with two goals in mind: (1) to make sure that the projects really correspond to the needs of the local community and are popular; and (2) to reduce the dependence of the community on the company by increasing participation and incentivizing the residents to work on the realistic project proposals. In order to make sure that the members of the local community are aware of the opportunity, ERG and its partner NGOs organized a large-scale information campaign involving leaders of public opinion, such as members of the Council of Veterans, head of the college, officials from the Education department. The specialists from education were involved because of their access to young people. The opinion leaders posted texts and videos in the social media and participated in the public meetings to promote the initiative. The awareness was also increased through the local newspapers, including the corporate newspaper, websites, information on banners and roll-ups. At first, there was certain level of skepticism towards the unusual initiative, but the fact that it was an initiative of Donskoy GOK helped to persuade people and gain support, since people are used to the social projects implemented by the GOK (interview COM11).

The project proposals go through the process reflected in Figure 17 before they reach the implementation stage.

Figure 17. Proposals' selection in the frame of "Urban Initiative" project of the ERG in Khromtau, Aksu, and Rudny



Source: data from the interviews and website of the "Urban initiative" project (<https://budget-uchastiya.kz/khromtau>)

In the first year of pilot project implementation (2020), the project center received 45 proposals, out of which 17 reached the stage of the voting and 13 were approved for implementation. Currently, 10 of them are already implemented. Implementation of the remainder of the projects was postponed for various technical reasons. Nevertheless, successful examples of the implemented projects helped to combat the skepticism toward the new initiative. The next year (2021), 72 project proposals were received, 27 reached the stage of voting, and 11 were approved for implementation. Active voting also demonstrates an interest of the local community in the project and a trust that the results will actually be delivered. In 2020, 2,429 people took part in the

voting, which is about 10% of the total population of the town and a significant portion of the grown-up population.

The amount of money distributed under the pilot model is relatively small, 65 million tenge in 2020 and 60 million tenge in 2021. This is less than 1% of the annual spending of ERG on social projects. The limited scale of the new initiative is related to the budget limit, 5 million tenge per project. ERG is now contemplating a possibility to increase the scale of the initiative and apply this model to all the projects included in the annual memorandums between the company and the regional governments. It is unclear, however, how the regional government will react to this drastic increase in scope, since this would reduce political control of the regional governments over the resources the company provides as part of its CSR. The partial loss of political control over the CSR resources is considered as part of the costs of cooperation with the community in this analysis (the costs are denoted as k in the model). The planned increase in the amount of money spent under the pilot model will inevitably increase these costs and may lead to the change of strategy by the coalition at Stage 3 of the game in the future to non-cooperation (from the current strategy of (C; C) to strategies (NC; NC) or (C; NC) for the coalition).

5.3.4. The projects selected by the local community

It is interesting to have a look at the projects-winners of the voting. They represent a compromise between the needs of the residents and the budgetary limit (5 million per project). However, they correspond to the interests of the community. The 13 projects that won the voting in 2020 include: nine children's playgrounds and sport grounds of different kinds; a street lightning project; bus stop and parking construction projects; and an alley in the town park. In 2021, the voters approved six children's playgrounds and sport grounds, a sidewalk and a running track in the town park,

planting of greenery along one of the streets, installing speed bumps in the courtyards, and installing parking for bicycles.

An interesting example is presented by one of the projects. An author of the project wanted an aquapark to be built in Khromtau. Then the project team consulted with her and tried to estimate both costs and benefits from a large project like an aquapark. The author of the project became convinced that a children's playground would be much cheaper and more practical for everyday care for the children than aquapark (an expensive project and a place the family will be able to visit only from time to time). She changed her proposal, organized a campaign for gaining the votes of her neighbors, and as a result her project was among the winners of the competition in 2020. Now she helps to build the capacity for participation among other members of the local community. It is worth noting that building capacity of the community further reduces the costs of cooperation, **k**.

An improved correspondence between the needs of the community and the actual projects implemented as part of CSR improves the benefits from CSR denoted as **j** in the model both for the community and the coalition of the JV and the regional government.

5.3.4. Position of the government sector regarding the initiative

The "Urban Initiative" is similar in its design to the participatory budget initiative that the Government of the Republic of Kazakhstan currently implements. In fact, one of the interviewees explained that the company ensured government support for the initiative by highlighting this similarity and the fact that President Tokayev declared the necessity to involve citizens in budgeting at the local level in January 2020. The President then emphasized the principle of inclusivity and participatory decision-making for the public expenditures: "Interested citizens should have an opportunity to take part in discussing important decisions. Every voice should be

heard. In order to do this, we need to develop relevant political mechanisms. For the purpose of taking into account the opinion of residents of specific regions on the government expenditures, we start implementation of the people participatory budget project [...] The people of Kazakhstan should not consider the officials as some kind of a cast of chosen ones who take clandestine decisions on the questions relevant to the society as a whole” (Tokayev 2020). Even though the President was talking about government budget projects, and the company was implementing the pilot participatory project in the area of CSR, the political position of the national government helped the company to persuade the regional government to support the “Urban Initiative” project. In fact, the regional governments became so interested in the new initiative that the deputy akim of one of the regions asked ERG for a training course in organization of the citizens’ participation in decision-making.

The subregional levels of administration (akims of Khromtau district and the town of Khromtau) apparently see the project as a channel to ensure that some of the local needs will get attention of the company and the regional government and be satisfied. Thus, during a meeting with the members of the community, the akim of the town suggested several initiatives that might become part of the initiative if supported by the residents (planting trees and grass along the local roads, organizing a field for walking dogs, and a field for yoga classes in the park). Thus, the subregional levels of governments are joining the community in negotiating the possible future CSR spending objectives. One of the akims said to the residents: “It is possible that in the akimat we do not always understand the needs of people. People know better what they need” (COM11 interview).

Therefore, here we can notice that the national government in this case used its nested game power to increase the value of direct participation of the citizens in decision-making, therefore increasing

the value of cooperating with the communities (value j in the model) for the regional and subregional governments levels.

5.3.5. Conclusions from the case and implications for the model

The case presents an interesting example of a company trying to find new ways to cooperate with a community because it started to doubt the effectiveness of the “typical” model, where akimats of the regions made all the decisions. The company decided to look for a way to increase the social impact of its CSR. By making sure that the projects are proposed by the local residents themselves and that they are popular among the local community (the voting mechanism testifies the popularity of the proposed projects), the company hopes to increase approval of the projects by local community. Higher levels of approval of CSR by the local community can bring the company higher levels of satisfaction of its workers and the local communities in general, in other words increasing the value of j in the model without significantly increasing the costs of cooperation k .

The case is also interesting from the point of view of analysis of the factors influencing the company’s position. The most popular explanation for the differences in the levels of interests for cooperation with local communities among different companies among the experts both in Kazakhstan and in Mongolia (as we will discuss in the next chapter), is the ownership of the company. The companies with high levels of foreign ownership, the companies that are themselves listed or their foreign investors are listed, are supposed to pay more attention to community relationship. The ERG case contradicts this idea since the company did not attract a foreign direct investor in the last few years, its ownership did not change, and the company became unlisted.

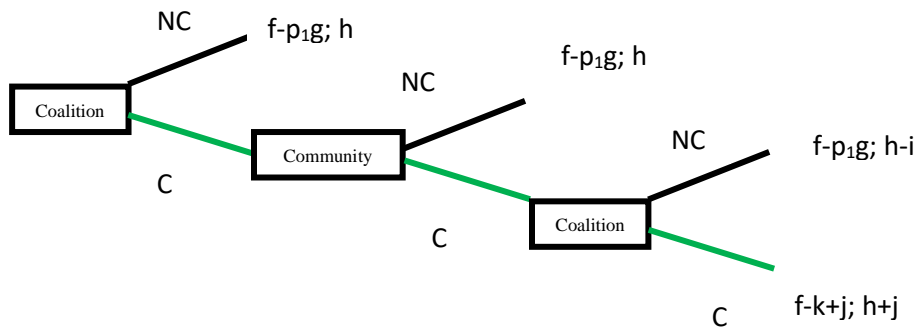
How can we then explain the change in the company's behavior and its proactive search for new instruments to work with the local community? There are external and internal factors that could have played a role. The external factor is the change in the national government policy, i.e. announcement of the "Participatory Budgeting" initiative by President Tokayev. The initiative of ERG is not exactly the same as "Participatory Budgeting", but it is substantially close in spirit to conclude that the national policy influenced the practices of the company. The national government is an important player for any extractive industries enterprise, especially taking into account that it is the largest owner of the ERG (40% of its capital belongs to the national government). The national government is also a kind of player that defines the rules of the game and even preferences for the other players (the company and regional governments). The national government might have increased an interest of both ERG and the regional governments in cooperation with the communities. Therefore, the national government exercised its nested games power here.

The internal factors include: (1) substantial investment that the company is doing in Khromtau and for which it needs social support (public hearings for the investment projects can be considered evidence of the company's interest in getting this support) – dictates increase in the value of j ; (2) the mismatch between the interests of the workers, who are also members of the local community, and the projects that the company implements as part of its CSR. This mismatch was discovered during the opinion survey and focus groups that the company has been conducting since 2017 – therefore, the company discovered that its payoff from implementing the CSR projects was unnecessarily low (the probability of the unrest among workers was increasing) and can be increased through participation with the community members.

Application of the game-theoretic model to the analysis of Khromtau case

Let us consider how the case of Khromtau can be reflected and analyzed using the model proposed in Chapter 2. Similar to the previous case, the first two stages of the game are the same, and at the final stage both players choose to cooperate at each decision node. The schematic picture of Stage 3 of the game for Khromtau is presented in Figure 18.

Figure 18. Stage three of the game in the case of Khromtau



Both players decided to cooperate, for the coalition the strategy is “Cooperate; Cooperate” and for the community the strategy is “Cooperate”. How does the model help to explain this result?

Let us consider what happened to the variables in this game. The “Urban Initiative” program was introduced in 2020. Presumably, this means that something changed in 2020 that affected the value of the payoff for the coalition. First of all, it is worth noting that the scope of the program so far is less than 1% of the CSR of the company. This means that the control over the resources which the coalition (and especially the regional government) loses to the community is quite small. Since the loss of control is an important part of the costs of cooperation in our model (k), this means that the change in terms of the loss of control was negligible, and the costs only increased because of the direct costs of engaging the community (hiring the NGO, organizing the process of the CSR projects’ selection through voting). There was no expressed social discontent in Khromtau since

the beginning of the 2010s, however the workers indicated in the opinion survey that the CSR projects do not match their interests, which could lead to some increase in this probability in the nearest future in case the coalition continued to follow the non-cooperation (NC; NC) strategy. The significant investment that the company is doing in Khromtau in the last few years would explain the growth of the value of j for the company. Another important factor (mentioned in the interview) was the change in the national-level rhetoric (introduction of the “hearing state” concept, citizens’ budget initiative of the government). Both the company and the regional government paid attention to this change and considered the Urban Initiative as part of the efforts of the state aimed at involving the local residents in the decision-making for the local-scale projects. Therefore, the value of cooperation j increased while the change in the costs k was negligible, and as a result the coalition changed its strategy to cooperation in both decision nodes. It is necessary to keep in mind, however, that the case is inconclusive since the new initiative is under implementation since 2020 and only affects less than 1% of the CSR. If the company decides to enlarge the scope of the initiative to the whole volume of the CSR, as it plans to do, the situation might change. For example, the regional governments might become reluctant to lose control over significant portion of the resources they now have access to in the frame of the CSR in the regions.

Chapter 6. Mongolia: the case study

As we discussed in Chapter 4 of this dissertation, Mongolia presents an interesting case for comparison to Kazakhstan. There are many similarities between two countries, such as (1) similar economic structures (dependence on the extractive sector, extractive sector companies being the only sources of economic growth for many communities); (2) similar administrative structures (unitary countries with centralized political systems); (3) historic similarities in the political economic structures – both countries are transitional from socialism to capitalism and became open for the foreign investment around the same time. However, there are also differences that are essential for this research. The policies related to CSR and the corporate-community relations in the two countries create dissimilar structure of incentives for the principal actors. As we have shown in Chapter 4, in the recent years, Mongolia policy makers have been trying to make cooperation with local communities essential for the extractive companies' operations (principally through the instrument of the mandatory CDAs concluded by the companies, the provincial (aimag), and subprovincial (soum) governments), thus assigning the highest value to this cooperation. In this chapter, we will discuss whether Mongolian policy makers have succeeded in this task and what are the real strategies actors apply for decision-making for the CSR projects in Mongolia at present. The CDAs present an interesting contrast to Kazakhstan, where the annual memorandums on the CSR between companies and regional authorities (1) do not provide a negotiating position to subregional levels of governments and the local community itself; (2) are closed to the public; and (3) are renegotiated each year, which makes them less stable and does not allow the CSR to be firmly devoted to some long-term development strategies or goals. At the same time, in Mongolia there are problems and variations in implementation of the CDAs policy. We will discuss this first in the context of the country in general (“typical model”) and then more specifically using the case study of the Oyu Tolgoi mine.

6.1. In search of a “typical case”

As we have discussed in Chapter 4, Mongolian legislation requires extractive companies to conclude community development agreements (CDAs), also sometimes called local level agreements, with regional and local governments. They have to include some provisions for environment protection, support of development infrastructure, and employment of local residents. As testified by interviewee COR3, a senior manager responsible for community relations in an extractive sector company, introduction of obligatory CDAs by legislation (The Minerals Law) signified an important change for all the extractive companies. These agreements are prerequisite for the companies' operations in a certain area. They are also mandatorily open to the public. Despite the fact that this model is common for all the extractive sector companies except the SOEs, the real implementation practice varies greatly. An important finding from the literature and interviews with experts on the CSR issues in Mongolia is that there is no identifiable “typical” case. As interviewee EXP3 pointed out: “It all depends on which company you are talking about”. The practice of local companies is different from the practice of the companies with high participation of foreign investors. The practice of different investors is also considered to be different: the practice of large companies appears to be different from the practice of small companies, and the companies doing exploration are different from the companies doing mining. In this section of the chapter, we will try to systematize the factors that determine these different practices and to extract useful lessons from the Mongolian experience in general. These factors include: (1) specifics of the community (herders' communities, mining towns); (2) political economic positions of the national, regional, and local governments; (3) availability of data and the communities' capacity for processing the data; (4) quality of the regulation and the level of compliance; (5) anti-mining sentiment; (6) type (size, experience, ownership) of the company; (7) civil society; (8) the quality of the CDA and the scope of the projects.

6.1.1. Factor 1. Specifics of the community

In Mongolia, there are mining towns inherited from the socialist period that are similar to the mining towns in Kazakhstan. However, there are also semi-nomadic herders' communities. The differences between these communities affect the CSR decision-making and implementation models in the country. The differences are reflected in the available literature. For example, Dagvadorj et al. (2018) reports based on a survey that the town community was better informed about the activity of the mining company than the neighboring herders' community. The trust in the company's responsible behavior was much higher among town residents than among herders.

The interviewee COR3 highlighted that in the herders' communities there is a lack of basic infrastructure. The need for infrastructure development projects in the frame of the CSR is great. There is no industrial activity, therefore, the extractive company automatically becomes at least partially responsible for the quality of life of the whole local community. At the same time, it is more difficult and expensive to organize and mobilize the herders' community for the company to conduct negotiations and identify the community's needs. That is why for many, especially small companies, it is easier and cheaper to work with the regional and district governments only, and not directly with the community, if possible. As interviewee COR3 pointed out, there are two major ways of finding out the real needs of the community: (1) to establish a constant contact and build a relationship with the stakeholders; or (2) to just contact the local authority. The first way is more difficult and requires more time, especially in the conditions of nomad herders' communities. The company has to go household-to-household and negotiate. In some communities there are 6 to 12 households in a 10-kilometer radius. The company also has to have a drop-in reception center, probably several of them, one at the mine site, another one or two in the nearest town(s).

In sum, in some communities in Mongolia the direct costs of cooperation with the communities for the coalition of the JV and the regional government (variable **k** in the model) are higher than in the others.

6.1.2. Factor 2. The political economic positions of the national, regional and subregional governments

Since mining is important for the economy of Mongolia, the national government is trying to issue as many licenses as possible attempting to increase investment into the extractive sector. The licensing boom of 1990s provoked conflicts over the access to water and land resources between the mining and agricultural sectors, as well as between mining companies and agricultural communities in Mongolia. Discussing the example of Oyu Tolgoi, Bhatt (2017) argues that Mongolian laws were too weak to protect the indigenous population in their conflict with a mining giant. The author believes that this weakness appeared because of the neoliberal thinking and dependence of the government on the foreign investors. On the other hand, positions of the Mongolian political parties differ, and the Parliament is prone to change the legislation quite often compared to the other countries, which makes it more difficult for the mining companies to plan for long-term operations. Lander (2019) describes the back-and-forth in the extractive sector regulation in Mongolia in the following way: “Between 1997 and 2014, a multi-dimensional social conflict unfolded in back-and-forth processes of legal reform as well as political bargaining within the state and beyond it, with pressure from both global and national pro-extractive and environmental lobbies. Investor associations, civic environmental movements, international development and financial institutions, Western embassies, global credit rating agencies, government ministries and political parties all entered the fray. In response to shifting public sentiment as well as the discovery of extensive high-grade mineral deposits in the South Gobi (i.e.

Oyu Tolgoi and Tavan Tolgoi), national legislators and policy-makers sought to adjust the mining regime to better suit national interests in 2006” (page number is not available). Therefore, the position of the national government was unstable and fluctuated from supporting the mining companies to the nationalism over resources and the argument for protecting Mongolian interests. These complicated relations affect the companies’ CSR as well as the other aspects of their operations.

As we discussed in Chapters 3 and 4, in Kazakhstan the subregional levels of administration do not have strong negotiating positions in the decision-making for the CSR projects, since they (1) are not formally part of the memorandums of understanding for the CSR activities signed annually by the companies and the regional level (oblast akim); (2) strongly depend on the regional governments both politically and in terms of the budgeting. In contrast, in Mongolia not only the subregional (district, soum) level is part of the local cooperation agreement defining the term of the CSR of mining companies, this level is also sometimes very independent politically. This complicates the negotiations for the companies, especially in case the governments of different levels belong to different political parties or movements. On the other hand, this makes discussions and decision-making in the councils of regional and district levels more open and vivid. (COR3 interview). The interviewee EXP7 confirmed that there are conflicts between the regional (aimag) and district (soum) levels for the control over CSR resources. Confusion is added by the fact that the practice of signing the CDAs (which level signs them) differs in different regions (EXP11 interview). The aimag level usually insists that the companies involved in large-scale mining projects sign the CDAs with the regional level, which leaves smaller project CDAs (for example, coal, construction material extraction) to soum level. Consequently, this also means less money for the soum. Later in this chapter, I will discuss how this issue was resolved in case of Oyu Tolgoi,

where the company insisted on the soum's participation in the decision-making. The best practice is considered to be multi-level contracts, for which Oyu Tolgoi is an example.

Purevsuren et al. (2021) describes the problem of the limited negotiating power at the district level in the following way: "When we visited Airag and Dalanjargalan soums of Dornogobi province and interviewed herders and local communities, we learned that many mining companies make an agreement with the province governor and all funding from those agreements goes to the province budget, not to the soum. Moreover, even local government officials have indicated that they are not aware of what sort of clauses are included in those agreements, and do not think any funding comes to the local county budget which hosts the mine" (the page number is not available).

In these complicated relations, the companies often prefer to take the side of the district level (soum) since the soum is more likely to argue on behalf of the communities closest to the mining, and the companies are interested in keeping these communities satisfied. However, this is not always easy, despite the fact that the extractive sector companies are influential players in their negotiations with the local authorities in Mongolia. Similar to Kazakhstan, in Mongolia the companies often know more than the governments (especially of the regional level) about the current needs of local communities because the communities address their requests to the companies. The companies also have more resources than local governments. The local authorities often compete for the investment; therefore, they tend to agree with the companies on their positions. At the same time, the companies are interested in maintaining good relations with the local authorities because a conflict with the local governments can make operations of the companies difficult. According to interviewee COR3 (corporate executive), the companies are trying to maintain a fine balance between the conflicting requests and interests around the CSR. Sometimes, this means that the company has to deny some of the requests from the local

authorities. For example, when the local government asks the company to organize a celebration of some sort, the company executives can inquire if there are longer-term effects that can be achieved through some other project. If the local government insists, however, it is safer for the company to agree. The regional authorities have stronger capacity to put pressure on the companies. This is the reason why, while the companies often prefer to side with the soums, they sometimes have to agree with the regional authorities.

Another problem of local governments in Mongolia is that they do not have strong leverage over the mining companies since the licenses are given by the national government. Therefore, in case of some disagreements between the local communities and the mining companies, local governments have to negotiate requirements and interests of the central government, the community, and the company (Mijiddorj and Purevsuren 2021).

It is interesting to note that the district (souv) and community (bag) mayors often took the side of the herders' communities in their conflicts with mining companies in the early 2000s. Lander (2019) states that "many local governments were sympathetic to the groundswell of anti-mining sentiment amongst rural citizens, because they were also largely excluded from central processes of decision-making and accumulation, with mining revenues being redistributed through the central budget" (page number is not available). To a certain extent, this created a mistrust between the companies and local governments. The companies were considering the local governments corrupt and endlessly demanding more and more resources. Lander (2019) quotes a corporate executive who said: "If they see a big mine with hundreds of trucks, obviously generating big revenue, they will say 'where's my piece, where's my cut?' They're not going to be satisfied with government royalty and tax [...] local government or local people want many different things. [...]"

They want to travel to London... [They say] I'm governor of this village, right, so my wife needs the mink coat, so you bring me the mink coat" (page number is not available).

The national government sometimes supported the local governments and sometimes it joined the critical narrative of the mining companies, depending on the political situation and the position of the political party in power. Lander (2019) notes that "In 2014, local governments and citizens' khurals [i.e., sub-national local assemblies] were accused by senior policy-makers of short-term thinking, rent-seeking and misuse of Local Development Funds (LDFs), over-charging mining companies for land, lack of legal knowledge and corruption, and very poor capacity for decision-making, thus requiring the oversight of the central government" (page number is not available).

Both regional and local governments provoked criticism related to the lack of transparency in distributing CSR resources and possible corruption. According to interviewee EXP10, some regional governments (for example, in Dornogovi province) organize a fund (LDF), in which they accumulate resources received in the frame of the CSR from 15 or more companies. The problem with the funds like this is that the purposes of spending are not clear for the companies, while many companies would have preferred to spend directly in their own soums, i.e. the districts closest to the mining sites. The NGOs and the public in general also criticize the LDFs for the lack of transparency. Similar to the regional funds in Kazakhstan, the LDFs, despite their status as civil society organizations, are not open to the public.

Local administrations have different levels of capacity to organize and coordinate the CSR efforts of the companies (EXP10 interview). This affects the effectiveness of the CSR and the communities' trust in it. Interviewee EXP12 provided an example of bad practices in distribution of the resources received by a company. In one of the districts (soums) of Gobi desert, a company provided 100 yurts for poor families to live in. The mayor of the soum distributed them among his

relatives. Since the community was relatively small (the total population was about 3,500 people), this fact became known to local residents. This affected negatively not only the reputation of soum's mayor, but also of the company that organized the project.

However, the obvious cases of corruption and over-demand on the mining companies' resources do not cover the whole role of the local governments in the communities' development and building relations between the communities and the extractive sector. As Lander (2019) rightfully notes, "The corruption narrative ignores the ways that local governments were actively responding to the concerns of local citizens about foreign access to mineral resources, displacement from customary land and environmental degradation caused by mining. The alleged cases of caricatured corruption (i.e. demanding flights and mink coats) ignore the more substantive and systematic responses that local governments made to limit extraction in their regions in response to pastoral land-use requirements and environmental concerns, or by requiring companies to invest in local infrastructure (i.e. hospitals, roads and schools)" (page is not available).

In sum, both the national and the regional governments use their nested games power to change the payoff of cooperation with the communities and/or the subregional governments for the companies. These changes largely depend on the political situation and political positions of the governments. This leads to changes in payoffs for different companies in different regions in different points in time, not allowing us to identify a "typical" nation-wide model.

6.1.3. Factor 3. Availability of data and communities' capacity for interpreting and using the data

A major implementation problem is related to awareness of the communities about the provisions, available funds, and procedures for allocation of the CSR resources. This problem, in its turn, can be divided into two parts: (1) low accessibility of data, especially the data for which regional and

subregional levels of government are responsible; and (2) low capacity of the communities to interpret and use the data, since the communities have not been educated to work with the data and documents. This problem is especially acute for the herders' communities since their capacity is weaker than that of the mining town communities (EXP8 interview). The NGOs can help the communities with working on these issues, but many communities are not covered by the NGO activity. As one of the interviewees pointed out: "The people in rural communities in Mongolia are very shy. You need to identify the opinion leaders and somehow engage them into the trainings organized by civil society" (EXP7 interview). This problem is linked to the lack of accountability for the CSR projects. According to interviewee EXP11, Oyu Tolgoi is widely recognized in Mongolia as a positive case of accountable CSR, but on the part of the scale there are a lot of cases with low transparency and suspected corruption.

The Mongolian legislators are trying to develop new legal provisions aimed at increasing transparency and reducing corruption. Thus, the local authorities used to rely a lot on donations from the companies with unspecified purpose, which they were reluctant to register. The Budget Law of 2012 limited the purposes of spending of these funds to health, education, and culture. The Administrative Law now defines any decision of the local authority as an act of administration and this implies that it has to undergo public hearing procedure, consultations (EXP9 interview).

Despite these measures, according to the experts, corruption and misuse of power at the local level involving the local authorities and the companies, is still widespread. This negatively affects the trust of the local communities in the CSRs of the extractive companies.

The factor of transparency of the decision-making for the CSR largely affects the trust of the communities in the justice of this decision-making. If the community distrusts the coalition of the

JV and the regional government, it is more likely to choose not to cooperate at the final stage of the game.

6.1.4. Factor 4. Quality of the regulation and the level of compliance

The experts see problems in the regulations. The existing template for the CDAs is a bit “one size fits all” case. According to the interviewee EXP7, the government is now considering amendments to the legislation, which would probably include different templates for different companies, depending on the company’s size. Another problem that can be solved through the regulation is the lack of comprehensive social impact assessments conducted by the companies. Interviewee EXP8 who has been helping the local communities in their relations with the mining companies since early 2000s, points out many companies do not do social impact assessments for their projects. These assessments, if done at the beginning of the project along with environmental impact assessment (the latter are mandatory by Mongolian legislation), could provide a background for the better quality CDAs.

The literature characterizes the legislation as “murky”. Ahearn and Namsrai (2021) write: “Out of the thousands of mining companies operating in Mongolia today, only a small fraction, such as Oyu Tolgoi, are required to comply with internationally recognized such as the IFC performance standards. Outside of investor compliance requirements, companies must find ways to interpret the murky nature of national laws and regulations” (page number is not available).

There is also a lack of compliance with the existing regulation. The CDAs are supposed to be discussed at public hearings, but there is some evidence that the local authorities skip the hearings or try to do them just formally with a limited number of people. The hearings are difficult to organize. According to Bolbaatar (2021), some local communities report that the public hearings

to decide about mining activities in the soum were not called, though they are mandated by the law.

Communities are supposed to take part in monitoring of both the mining activities and the CDAs implementation, but this does not happen everywhere, and sometimes the monitoring is also done at a limited scale. Purevsuren et al. (2021) state: “In our discussions with herders and local government officials, some common themes emerged: local communities do not get meaningfully consulted, mining project implementers do not conduct SIA, environmental and social mitigation measures are generally absent, and conflicts between companies and local herders are regular” (page number is not available). The guidelines for the CDAs are not specific enough, which leaves a room for misinterpretation and replacement of real community engagement with a limited superficial version of it.

This factor can also lead to the mistrust of the communities in the reliability of the coalition of the JV and the regional government. This, in its turn, will lead the community to believe that the coalition will choose not to cooperate at its final move (C; NC) strategy for the coalition for the final stage of the game. If the community believes that, it is reasonable for the community also to choose non-cooperation strategy. The cooperation will not happen.

6.1.5. Factor 5: anti-mining sentiment

According to the interviewee EXP9, there is an anti-mining sentiment in Mongolia. Interviewee EXP10 thinks that this sentiment is currently growing. It is partially acknowledged by the Parliament, which also discusses the role of the extractive sector and necessity (as perceived by many in the Mongolian society) to protect the interests of Mongolia and in particular of the agricultural communities. According to Lander (2019), mining is at the center of the national debate, fueled by active civil society and debates in the social media.

The problem of combatting the anti-mining sentiment was openly referenced by the government as a reason behind the introduction of CDAs and other reforms. Lander (2019) quotes an interview of the former Deputy Minister of Mining, E. Oyun given to Worldfolio (2014): “There is a problem of miscommunication with local people, from the side of the government and from the side of the private industries... We want more involvement of local governments and we want them to use the mining revenues to benefit their local communities... This is a new approach that will help local people to see and feel the benefits of the mining industry... It is also good for miners, because [there] will be no anti-mining activities” (electronic publication, page number is not available).

Mijiddorj and Purevsuren (2021) describe several case studies of companies of different sizes, including the Oyu Tolgoi. They point out that in Oyu Tolgoi the situation has improved significantly after signing of the tripartite agreement between the company, the district (soum), and the herders’ association, and the people are much happier with the company now. However, in the other cases studied by these authors, they demonstrate numerous conflicts between the mining companies and the local communities. The conflicts usually arise because of the disputes over land degradation, water use, environmental pollution, and damage to the herders’ traditional lifestyle. In one case described in the research, the local community participated in 30 court cases against the company and lost all of them.

The factor of strong anti-mining sentiment increases the perceived probability of social unrest p_1 in the model. This increases the probability of the coalition of the JV and the regional government choosing to cooperate with the community (C; C strategy) at the final stage of the game.

6.1.6. Factor 6: type (size, experience, ownership) of the company

As was indicated in Chapter 4, in Mongolia there are close to three thousand mining and exploration licenses (2019 data), however, about 20% of the largest companies produce 80% of

revenues from the extractive sector. According to interviewee EXP9, the smaller companies with less profits cannot satisfy the needs of the local communities and in many cases in the eyes of the communities do not even compensate for the harm that they cause to the environment and agricultural resources. Interviewee EXP10 says: “Small gold-mining companies are not transparent; all the decisions are taken between the company and the regional administration”. Not all of the contracts are published and accessible to the public. The situation is especially difficult for exploration companies that receive their license for 12 years, and the communities cannot believe that in all this time they do not generate enough profit to finance the community development projects. This complicates the relationships between smaller companies, the local communities, and, consequently, the local governments. A lot depends on the culture and experience of the companies. That is why there are differences between the public and unlisted companies, as well as the foreign investors from different countries.

A separate case is presented by the state-owned enterprises (SOEs). Interviewee EXP10 states that they spend a lot on the national and provincial level, but not locally. They also do not conclude the CDAs with local communities. Interviewee EXP12 highlights that SOEs are guided by political decisions in all their activities, including the CSR. Smaller local companies, even privately owned, are subject to the pressure from local politicians.

The companies with foreign investors are expected to have better practices in the CSR, since for them “the CSR is not only an essential component of their business model, but also a part of risks mitigation” (EXP12). The expectations are especially high regarding listed companies. However, there is more skepticism toward Chinese companies compared to the Western ones. China plays an important role in the operations of the Mongolian extractive sector, both as an investor and as a market. By 2012, China commandeered more than 90% of Mongolian total mineral export, which

provoked a discussion around Chinese hegemony (Lander 2019). As we discussed in Chapter 4, the largest number of licenses held by foreign companies in Mongolia is held by Chinese companies (about 30%). Some researchers tend to state the differences between the CSR and company-community relations between the companies with Western and Chinese investors. For example, Ahearn et al. (2020) quotes Sternberg (2020) and Xihing (2019) to explain that clear differences in Chinese company-local community relations in Mongolia have been observed. The researchers discuss the Chinese companies' lack of the SLO from the local communities due to the lack of communities' engagement. "Chinese companies have been used to relying on local governments to deal with communities, and many have not realized the need to acquire a social contract from local people" (Ahearn et al. (2020, p. 6) quoting Xihing (2019)). However, the present research did not obtain evidence of this presumed difference in the CSR practices of Chinese versus Western companies in Mongolia. This should remain an open question for the future research.

In sum, the differences between companies are expected to determine variation in the values they assign to cooperation with the community (variable **j** in the model), therefore, increasing variability of the CSR decision-making strategies in Mongolia.

6.1.7. Factor 7: civil society

The NGO sector is active in Mongolia and it is trying to help the communities to represent themselves in their relations with the extractive companies. As interviewee EXP11 mentioned, "the communities often do not know that they have to be consulted. The NGOs help them to build their capacity. If everything else fails, the NGOs can help the community to go to court". The NGOs developed guidelines for the communities on how better to self-organize in order to defend the community's interests. They help to organize public hearing for the CDAs consideration and

approval. They also work on publication of the mining contracts. One of the NGOs organized a database, which currently contains around 200 contracts and serves as an important source of public information.

Interviewee EXP12 provided an interesting practical example of the work the NGOs are doing for the local communities in the CSR decision-making process. In this case, which happened five or six years ago, the local community requested the company and the local government to organize a high school. An NGO was involved in facilitation of the CDA development and implementation. Most of the population in this community was not permanent (the people were coming for temporary work in mining). At the same time, there were a lot of families with young children. The NGO argued that kindergarten would be a better investment for the community in these conditions, since it could accept children for a few-months period, while a high school required permanent residence. The community agreed, and the company helped to build and equip a kindergarten.

In sum, an active NGOs can decrease the costs of cooperation with the communities for the coalition (value k in the model) by helping the communities to prioritize their needs and requests.

6.1.8. Factor 8: the quality of the CDAs and the scope of the projects

Typically, the requests from local communities and local authorities to the companies are related to four categories: education, health/sport, environment, livelihood (employment, support to the local businesses, infrastructure, etc). The corporate executive interviewed as COR3 provided the following examples of the projects that are implemented by his company: scholarships for undergraduate students to study and then return to work in the company or the local community; a park; a culture center; support for local artisans; and water supply infrastructure.

Local communities can differ from the companies in their opinions on the priorities of the CSR. When companies just collect the requests without clear criteria and procedures for their selection, the local community members can come up with a long wish-list and then accuse the company of unfair treatment and favoritism if only part of the requests is fulfilled. At the same time, not all of the requests are justified, and sometimes the beneficiaries cannot use the thing they requested in the future because of problems with some prerequisite infrastructure or other conditions, for which they did not plan before making the request. The problems with trust between the companies and local communities can arise because of this dissatisfaction, disinformation in the social media (which are very well-developed in Mongolia), or the cognitive dissonance between the expectation born in the socialist times (that the company will fully provide for the community and cover every need of the local residents) and the present reality of mining. (interview COR3).

According to the experts, the problem with the current model CDA (developed around 2015-2016) is that it does not require high-quality projects linked to long-term development goals of the community (EXP11 interview). As a result, the quality of projects is poor, and this decreases trust of the community in the CDAs and the CSR in general. Interviewee EXP3 states that though most of the extractive sector companies in Mongolia conduct some kind of CSR projects for the local communities, the quality of these projects is different. In the rare cases, the companies conduct transformative work aimed at long-term sustainability of the communities and based on community engagement. However, in most cases the dominant approach both from the point of view of the companies and the community is the transactional approach. This approach implies that the company has to somehow compensate the community for the losses, damages, and inconveniences caused by the mining project. Usually, these compensations take a form of the projects directed at the current needs of the community, not the long-term ones. The companies

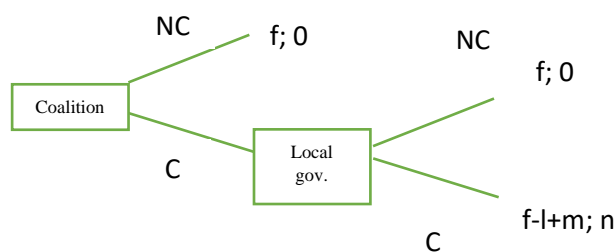
consider community development projects as philanthropic investment. This investment might include construction or reequipment of schools, medical or sport facilities. One of the problems with transactional approach to community development is that when the company finishes its operations in the area, the community can no longer sustain itself.

In general, poor quality of the CDAs and the projects selected for implementation as part of CSR leads to the projects being unimplementable or the benefits from them being low. In this case, the situation undermines the trust of the communities in cooperation with the coalition of the JV and the regional governments. The communities are more likely to prefer not to cooperate in the future iterations of the game.

In sum, the combination of the factors described above determine great variation in the scope and quality of the CSR projects done by the extractive sector, as well as the degree of communities' engagement. The relations between the companies and the communities also vary.

One of the general conclusions that can be made from the Mongolian experience is that there is a need for an additional player to the model, the soum (district level). It plays its own role in the relations between the company, the community, and the other levels of government, and cannot be ignored. The model is open enough to incorporate this additional player by adding Stage 2a of the game (Stage 1 and Stage 2 remain the same):

Figure 19. Stage 2a of the game



The coalition of the JV (the company and the national government) and the regional government formed as a result of Stage 2 of the game. The coalition enters the new Stage 2a of the game with the expected payoff in case of non-cooperation equal to the sum of payoffs from the previous stage, $f=a_1+b+c-d+e$. Now in case of Mongolia we need to add the additional benefit of including the local government level into the coalition as **m** and the costs of this cooperation as **l**. If the local government gets access to decision making over the CSR resources it receives benefit equal to **n**, but in case of non-cooperation it receives 0. Since **n** is always positive (it is an opportunity to participate in allocation of the resources), then the local government would prefer to cooperate. The Coalition of the JV and regional government will compare the costs of cooperation with the local government level **l** and an additional benefit from using its expertise in the coalition **m**. Whichever is higher would determine the outcome of this stage of the game.

Let us now consider a specific example of the CSR implementation in Mongolia, Oyu Tolgoi case.

6.2. Oyu Tolgoi case study

One of the cases widely recognized as successful, is the largest mining project in Mongolia, Oyu Tolgoi. Let us consider this case in greater details.

6.2.1. Background: the company

The specific case study in Mongolia is the Oyu Tolgoi (copper-molybdenum deposit located in the South Gobi). This is the largest site in Mongolia, it is expected to account for more than 30% of Mongolian GDP (Blunt 2014) and for 24% to the total mine production from Asia (Mongolia EITI report 2019 p. 92). The investment agreement for its exploitation was concluded in 2009 between the Government of Mongolia, Rio Tinto International Holdings Limited and Ivanhoe

Mines Ltd. The government of Mongolia owns 34% of the enterprise via the state-own company Erdenes Oyu Tolgoi LLC. (Mongolia EITI report 2019 p. 92). It included provisions for the CSR and regional and local development. The investor became responsible for guaranteeing “local and regional opportunities, particularly in Umnogovi aimag, consistent with the goals of NDS [National Development Strategy]]to reduce rural-urban inequalities and create thriving townships around Oyu Tolgoi” (Lander 2013, p. 8).

Rio Tinto is a large international company. However, its reputation in the area of community development is not perfect. Responsible Mining Index gives Rio Tinto 1.49 out of 6 for community development in 2020 (Responsible Mining Index 2020).

6.2.2. Background: the local community and the company-community relations

Oyu Tolgoi mine is located in territory of Javkhlant bag of Khanbogd soum, Umnugobi aimag, 20 kilometers from bag center, and 34 kilometers from Khanbogd soum center, and approximately 600 kilometers from the capital Ulaanbaatar. In Umnugobi aimag in 2020 there were 69,187 people with low density of population (0.4 person per square kilometer). Thirty-eight percent of the population were urban, 62% rural. The population census of 2020 shows that urbanization in this aimag increased due to the mining boom, there is also an inflow of population. The soum experienced a particularly drastic growth of population. In 2005, the population of Khanbogd was 2,870, but it expanded to 6,978 by 2017 and to 8,100 people at present (Enkhbayar 2019, interview COR9). Therefore, understandably, the large mining project of Oyu Tolgoi changes the life of the whole aimag. In 2012, there were about 300 households in Javkhlant bag, approximately 10% of which settled along Undai River by operating animal husbandry. Thirty percent of total households owned livestock below 200 heads, 7% – over 500 heads (Nature Friendly 2012). In 2017, Oyu

Tolgoi employed 1,914 local residents both directly and indirectly (via subcontractors), out of which 1,054 were from Khanbogd soum.

There was a major conflict between the local community and Oyu Tolgoi, which is now considered resolved after mitigation. The history of this conflict was quite remarkable. Lezak et al. (2019) describe it in the following way: “In October 2012, a Mongolian NGO filed a formal complaint with the Office of the Compliance Advisor/Ombudsman (CAO) of the International Finance Corporation (IFC). The CAO mediates disputes that originate from IFC-funded development projects. In this case, the project in question was the Oyu Tolgoi gold and copper mine, one of the largest discovered deposits of its kind [...]. The complaint, submitted on behalf of local nomadic pastoralists, asserted that Oyu Tolgoi negatively affected the community’s socio-economic prospects and was responsible for water and pasture impacts that threatened livelihoods. This initiated a CAO-led arbitration and dispute resolution process between three parties: Rio Tinto (the mine’s parent company), the local government, and the local community. What followed was a carefully choreographed process of joint fact-finding, training and capacity building, developing and articulating negotiation positions, and mediation. Seven years later, an agreement has been reached and the strained relationship between Oyu Tolgoi and the local community has improved. Across the industry, the Oyu Tolgoi conflict is widely regarded as exceptional, both for its success in assembling various stakeholders and the bilateral acceptability of the brokered outcomes [...]” (page number is not available). In 2011, 89 households of herders were relocated. The tensions around relocation, use of scarce underground water for mining purposes, and livestock diseases, which the herders believed to be related to pollution, resulted in the court case and a four-year mitigation process between the herders’ association and Oyu Tolgoi. In 2017, the tripartite agreement was signed between the herders, Oyu Tolgoi, and Khanbogd

district to resolve the conflict. The Guardian characterized this event as “An example to all: the Mongolian herders who took on a corporate behemoth – and won” (Austin 2019).

Despite this success story, local community members still express some distrust of the company. Enkhbayar (2019) reports that during the interviews, the local residents said: “OT LLC distributes the “community newsletters” which they claim to be a report of their activities. I think they’re partially true, but they just highlight little things they have done right. We want to know both good and bad. I see those newspapers as a cover of negatives. [...] They [OT LLC] just wouldn’t ask us what we need. [...] So far, I haven’t had a reason to contact OT LLC. If I had one, I don’t even think OT LLC would accept my individual concern. They cooperate only with people of a higher position” (p. 56-57).

6.2.3. The practice of the CSR

At first, the principles of Oyu Tolgoi interaction with the local community and of the CSR were defined in the initial investment agreement. However, this agreement was severely criticized for not being specific enough on the issues of the company’s contribution to local development. Blunt (2014) mentions that in this agreement “There is no clearly specified obligation on the part of the investor to engage in concrete community development activities – instead it refers to investor involvement in “planning”, membership of a “development council”, “coordination of in-migration influx”, “support (of) socio-economic development policies”, “preparation... (of) baseline studies”, and “the establishment of local cooperation agreements with local administrative organizations” (p. 394).

In 2008-2009 the company conducted a comprehensive study of the community, its lifestyle and culture. The environmental impact assessment included some issues of the social impact

(demographics, culture, economy). As a result, there was a management plan developed to protect the cultural heritage and promote education. About USD 1 million was spent in the frame of this plan via participatory process. However, from the point of view of the company, the problem was a growing dependence of the community on the company. The community was passively receiving the aid from the company without being actually involved in the process, but blaming the company for the lack of resources, asking more and more (interview with the corporate executive COR9).

Since 2015, the company decided to shift its approach to the relations with the community to make the community and other shareholders part of the process of project development and implementation. The goal was to develop a sense of ownership and responsibility among the community members. “We are not developing them, we are not problem solvers, we are not project managers”, said the corporate manager in an interview.

The current cooperation agreement was concluded in 2015 between the company, the regional (aimag) government and four of the nearby district (soum) governments. Khanbogd Soum is defined as the main beneficiary because it is the closest community to Oyu Tolgoi mine. This agreement is specific in terms of the financial obligations of the company towards local development (USD 5 million annually adjusted for inflation) and the mechanism of its allocation (specially established Development Support Fund) (Oyu Tolgoi Cooperation Agreement, 2015, clause 8). The agreement requires the parties to establish the Relationship Committee for coordination of their activities. The Relationship committee consists of thirteen people, nine of whom represent the local authorities and four – the company. It meets at least quarterly (Oyu Tolgoi Cooperation Agreement, 2015, Schedule 2).

The areas of action are defined as following:

(a) Water management;

- (b) Environmental management;
- (c) Traditional animal husbandry and pasture land management;
- (d) National history, culture and tourism;
- (e) Basic social services (health, education, vocational training and employment);
- (f) Local business development and procurement of goods and services; and
- (g) Infrastructure and capital projects (Oyu Tolgoi Cooperation Agreement, 2015, clause 5).

The decisions to finance specific projects/programs from the Development Support Fund are taken by the Board of this fund. The Board consists of seven members, three of whom represent the local authorities (speaker of the regional (aimag) council, governor of the aimag, mayor of the soum), and four – the company. Members of the local community do not directly participate in the work of the Board.

The company is trying to move from separate requests to large-scale comprehensive projects with long-term outcomes. The previous experience of working with direct requests from the local communities was negative for the company. In 2016, Oyu Tolgoi tried to collect the requests directly from the community members. In the first quarter, they received 160 requests which did not correspond to the company's criteria for the CSR projects. Still, the company selected 20 projects for implementation. The authors of the rejected projects started to complain. In the second quarter, the situation repeated itself, with 200 requests received and a growing number of complaints. The company evaluated this process as a wrong one and changed its approach to larger projects on community development done with various partners, including international organizations.

An example of the new approach is the Integrated Health Program. Oyu Tolgoi is implementing this project in cooperation with the UNFPA, Mongolian Ministry of Health, Australian Embassy and other partners. The implemented started in 2018 and is still ongoing. The project consists of: (1) assistance to the healthcare organizations (reequipment, etc.); (2) trainings for doctors and paramedics; (3) working with youth to increase their awareness of the diseases' prevention and birth planning. As a result of the project, there is a drop in STDs, unplanned pregnancies, and reduction of maternal mortality rate to zero. The idea of this project was suggested by the regional authorities. According to the corporate manager interviewed as COR9, there were several requests, but the company decided to incorporate them into a larger-scale and longer project.

The CSR development projects of Rio Tinto in Mongolia are not limited to the communities closes to Oyu Tolgoi mine. In general, in the country Rio Tinto cooperates with Mongolian Ministries to support several programs, for example, safe driving promotion program, support to health centers in Ulaanbaatar, recovery of small businesses after the COVID-19 pandemics. In order to identify the needs, the company uses such channels as cooperation with international organizations (for example, currently it works a lot with the UNFPA), civil society organizations, and community groups. For the same purpose, the company conducts an annual survey, various focus-groups, and online questionnaires (interview COR1).

6.2.4. Relationship with the government at the national, regional, and subregional levels

The company's relations with the national government have never been easy and dependent a lot on the political situation. For example, the Parliament of Mongolia refused to approve the agreement of 2015. Then, in 2019 the Parliament passed a resolution ordering the government to renegotiate its agreement with Rio Tinto. Recently, in December 2021, Rio Tinto suggested to write off the loan of USD 2.3 billion owed to Rio Tinto by Mongolian government for the 34% of

shares in Oyu Tolgoi. Therefore, the Mongolian government receives its shares in the company for free (Hume 2021). It is necessary to keep in mind that the conflicts (especially public) between the company and the local community can damage the position of the company in its negotiations with the national government. Therefore, the current tensions increase the value of good relations with the local community for the company.

At the regional and local levels, Oyu Tolgoi has to negotiate the interests of the aimag and soum levels of government. The problem is aggravated by the political differences between two levels. The local and regional councils are dominated by two different political parties. The company tries to protect interests of the soum since this level of government is the closest to the local community. The company insisted on soums' mayor membership in the Board of the Fund. In addition, the company marked one infrastructural project benefiting soum as a minimal requirement for the CSR project portfolio for each year.

6.2.5. Conclusions from the case

The case of Oyu Tolgoi cooperation with the local authorities and local communities following a difficult conflict and a multi-year mitigation process is widely praised both in the literature and by the experts in their interviews during this research as a success and the best practice (EXP12 interview). Shankleman (2021) argues that this case is a model of cooperation and conflict resolution. Sternberg et al., (2020) writes: "the Oyu Tolgoi (OT) Mine case in Mongolia is a prime example of how, with cooperation, training and trust, a community, mining company and local government can resolve intractable problems and promote a cooperative development environment" (page number is not available). It is interesting to note, however, that the company found it difficult and counter-productive to work directly with the local community members, concentrating instead on the soum and aimag governments' representation. The costs of direct

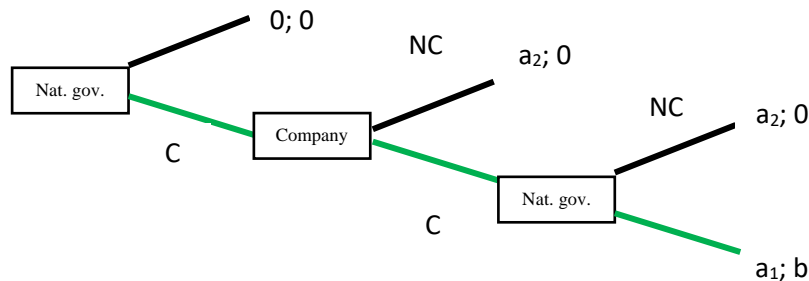
cooperation have been considered too high by the company, as shown in the interview with corporate manager COR9. The interviewee pointed out, most of the requests received directly from the community members did not correspond the company's criteria for CSR projects and had to be rejected. This indicates costs could have been reduced by educating the community and trying new formats of cooperation (for example, some preliminary selection of the project proposals by the community members themselves).

Enkhbayar (2019) provides evidence that at least some of the community members feel separated from the decision-making process stating that Oyu Tolgoi would not talk to them, only to "people with higher-level positions". It is clear that the company pays a lot of attention to community's satisfaction and implements effective large-scale projects with long-term outcomes as part of its CSR. However, apparently it keeps some reservation about direct engagement of the community into decision-making on the CSR issues.

It is obvious that the large and well-known conflict between the company and the local community, though mitigated, has warned the company of the dangers of the community's dissatisfaction. This, as well as complicated relations with Mongolian central government, which recently resulted in writing off of USD 2.3 debt of the government by Rio Tinto, create risky environment and promotes the decision of the company to cooperate with all levels of the government and (mostly indirectly via soum level) with the local community.

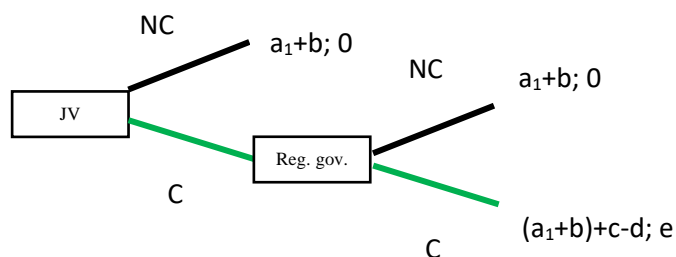
Application of the model to the case of Oyu Tolgoi

Figure 20. Stage 1 of the Oyu Tolgoi case



At Stage 1 the strategies are Cooperate; Cooperate for the national government and Cooperate for the company, otherwise the company would not have been allowed to work in Mongolia. In 2021, there was a crisis in this cooperation, but the national government, having received writing off the USD 2.3 loan from the company decided that its payoff a from the cooperation is still higher than its payoff b from non-cooperation. At the same time, this example shows that this game is a repeating rather than a one-off game, at least in the case of Mongolia. The game is supposed to be played once, i.e., before the investment agreement is signed. Yet in Mongolia the benefits of cooperation have been reconsidered several times by the national government. Each time, the game is played again. In 2021, the payoff of the game for the national government changed.

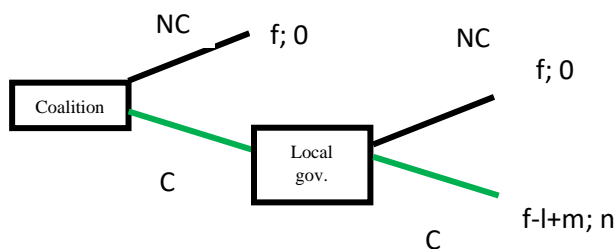
Figure 21. Stage 2 of the Oyu Tolgoi case



Stage 2 of the game-theoretic model does not bring any surprises while being applied to the case of Oyu Tolgoi. Cooperation with the regional (aimag) level is considered essential for the successful implementation of the CSR from the points of view of both the company and the national government. Therefore, the benefit of this cooperation, c , is high enough to justify the preference of the “cooperation” option. For the regional government the cooperation is obviously preferable because otherwise it would not get an access to the CSR resources. These resources are particularly significant in case of Oyu Tolgoi, the largest mining projects in Mongolia with USD 5 million (adjusted to inflation) annual funds for the CSR projects. therefore, both players decide on the Cooperate strategy.

Then follows the additional stage of the game (Stage 2a) that I have added in order to describe the case of Mongolia, where the district (soum) level is both influential and independent enough to merit its own position as a player.

Figure 22. Stage 2a of the Oyu Tolgoi case

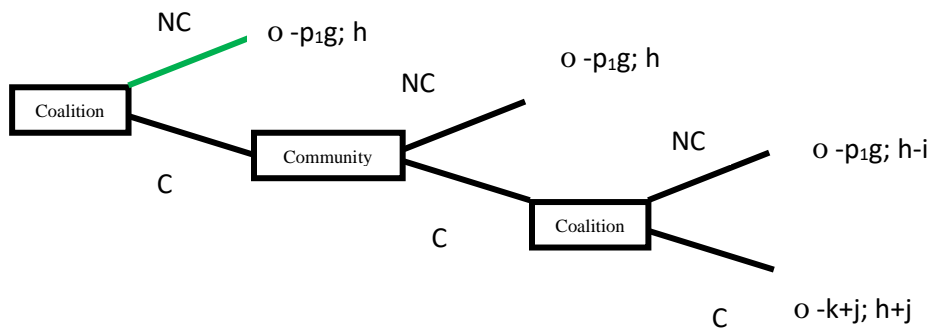


The variable f in this game represents the sum of payoffs for members of the coalition from the previous stage of the game, $f=(a_1+b)+c-d$. At this stage as well as at the previous one both players decide to cooperate. For the soum government, the choice is obvious, a partial control over the CSR resources n against zero. For the coalition the decision was not obvious, and as follows from the interviews, Oyu Tolgoi had to insist on cooperating with the soum level, including this level in

the decision-making, and protecting interests of the soum level in the allocation of projects (at least one large infrastructural project per year has to directly benefit the soum). This means that at for one member of the coalition (the company) the benefit of cooperating with the soum level was so high that it overcame the costs of this cooperation for the other members of the coalition. It is important to keep in mind that the costs include not only the direct costs, but also the cost of partial loss of control over the CSR resources.

For the final stage of the game, for simplification purposes, I will replace the payoff of the coalition from the previous stage by letter $o = f-l+m+n$.

Figure 23 Stage 3 of the Oyu Tolgoi case



Even though the Oyu Tolgoi case is considered to be an exemplary case of CSR for community development in Mongolia, the cooperation mostly stops at the district level and the company does not include the community directly in the decision-making. There is the Relationship Committee, which include members of the community, but the decision-making over the allocation of the CSR funds is done by the Board of the Development fund, where the members are representatives of the company, the regional government and the soum-level government. The community is considered to be represented by soum. This happens despite the fact that the danger of conflict between the

Oyu Tolgoi project and the local community is quite high (the mitigation of the previous conflict lasted for several years and was successfully completed in 2017). According to the interview with the corporate manager COR9, the company tried to work with the community directly (collect requests for the CSR from community members), but this was difficult from the organizational points of view and costly in terms of subsequent criticisms (only 20 out of 160-200 requests were satisfied each quarter). Therefore, the costs of cooperation with the community **k** were perceived to be higher than the benefits **j**. During those two periods when the company tried to collect requests and then did not implement most of them the coalition played strategy Cooperate; Not cooperate and the community played Cooperate. As a result, the community suffered from the loss of trust **i**. The overall result (taking into account both players) was worse than now, when the coalition plays Not cooperate at the first decision node. The community now receives **h**, which is better than **h-i**.

In sum, it is impossible to identify the “typical” case generally in Mongolia, because the factors related to companies, communities, governments, and political and economic relations work differently in each case. However, each of the specific cases can be expressed and analyzed using the model proposed in this research. The specific case considered in this research, the Oyu Tolgoi mine, shows that the risks related to community unrest and conflict (since there was an experience of both) increases the value of cooperation with the community for the company. Yet the costs of this cooperation limit direct engagement of the community in the decision-making on the CSR issues. Therefore, the direct cooperation with the community was tried but then replaced by including the soum level as a representative of the community interests in the decision-making process.

Conclusions, policy recommendations, and further research questions

Has the model suggested in Chapter 2 of this thesis proved to be a useful instrument for the analysis of the decision-making over the CSR projects in Kazakhstan and Mongolia? Mesquita (2016) suggests three questions to evaluate the model for political economic analysis:

1. Is it related to the part of the real world I am interested in?
2. Did the analysis of the model teach me something about that aspect of the world that I did not know before?
3. Is there something in the world that is missing from my model that I believe would materially change the conclusions of the model were it included? (electronic edition, page number is not available).

The analysis of the three case studies in two countries has shown that they can be described using the game-theoretic model suggested in Chapter 2 of this dissertation. Application of the model helps to identify key actors, their interests and factors influencing their preference in decision-making for the CSR projects. Therefore, for both the first and the second suggested criteria the answer is positive. The model is relevant for the field of study and helps to uncover and systematize the key aspects of the real-life process. As for the third question, the model proved to be open and flexible enough to be adjusted as needed. For example, in case of Mongolia there was a need to include the subregional (district) level of government as an independent player, while in Kazakhstan it was not necessary (the subregional governments do not have independent strategies in decision-making for the allocation of the CSR projects). For the case of Mongolia, the model was adjusted accordingly to include Stage 2a.

This thesis suggested the following hypotheses based on the model developed in Chapter 2:

1. If the costs for conducting negotiations with the community are high and the estimated probability of the social unrest is low, the coalition of JV (corporation and national government) and the regional government will prefer not to cooperate with the community.
2. If the coalition of JV and the regional government values the social license to operate and, therefore, the value of including the community in decision-making is high, the coalition will prefer to cooperate with the community.
3. If the probability of social unrest in case of non-cooperation (p_1) is considered to be high, the coalition of JV and the regional government will prefer to cooperate.

The evidence from the case studies does not contradict to any of these hypotheses, so none of them was rejected as a result of the present research.

The experts interviewed in the course of this research suggested several conflicting policy recommendations for the area of decision-making for the CSR projects. The literature also contains some policy recommendations. In this concluding section of the dissertation, I will analyze them and make additional suggestions from the point of view of the game-theoretic analysis performed in this dissertation.

Probably, the most radical suggestion was made by the interviewee EXP5, who suggested that for the sake of transparency, it is necessary to abandon the out-of-budget spending from the companies on community development and replace it with the tax to the regional budget.

According to this expert with more than 20 years of experience, the current system is “incurable” from the point of view of transparency and spending through tax on regional development would help to make the corporate contribution accountable. However, in this case the companies would not get the SLO that they are presumably trying to achieve with the community

development projects and activity. The value of the SLO is growing in the modern world of accessible information, where society members know more about the best practices and understand the costs of mining for the communities. The analysis of the two case studies in Kazakhstan show a growing attention to community relations at least from some of the companies. Therefore, it is doubtful that this recommendation would be acceptable for the stakeholders.

The interviewee EXP3 made the following suggestions:

1. Political will and policy guidance from the national level are necessary both for the companies and the communities in order to direct them toward better CSR aimed at sustainability goals, not covering just the current expenditures for the communities.

This recommendation can be confirmed by the experience of Mongolia, where the national government changed the rules of the game for the companies and subnational governments by introducing, first, the mandatory CDAs for the extractive sector companies; second, by making it necessary to conduct public hearings in the communities in order to conclude the CDAs; and third, by making the CDAs open to the public. As we have discussed in Chapter 6, implementation of these reforms is still a problem in many cases in Mongolia, however, they signify important steps in the designing of the policy framework for better-quality CSR projects for community development. This recommendation also corresponds to the recommendation made for Kazakhstan by UNECE (2019): “The concept of corporate social responsibility (CSR) has undoubtedly gained prominence in Kazakhstan in the last 10 years. However, current efforts are not sufficient if Kazakhstan wishes to have the business community more profoundly engaged in adopting behaviors that lead to sustainable development and support the attainment of the Sustainable Development Goals. Kazakhstan does not have a comprehensive policy to promote CSR” (p. xxxiii). The national government should adopt a strategy for improving the quality of the CSR and

implement this strategy both via legislation and regulations and via consultations with stakeholders and capacity-building.

2. It is important for the company to have a dedicated community liaison and support community development at the senior management level.

This recommendation also can be confirmed using the information from three case studies, since in all three cases the companies have dedicated managers or offices for community relations. All three cases are considered to be relatively successful in CSR and representing best practices in their regions and countries. Unfortunately, this is not the case for all the companies in Kazakhstan since there still are large companies which have dedicated managers for government relations, but not community relations.

3. The permanent structures like local committees both help to reduce the cost of mobilizing the community and prevent chaos of too many applications for the assistance in the frame of CSR.

This thesis can be confirmed by the case of Oyu Tolgoi, where the Development Fund managed by the Board helps to improve transparency and efficiency of decision-making for the community development projects in the frame of the CSR.

4. It is necessary for the companies to do social impact assessment along with environmental impact assessment.

None of the three companies considered as part of case studies conducted a comprehensive social impact assessment, though all of them collect information about the local communities and the Oyu Tolgoi did a limited social impact assessment as part of the environmental impact assessment (Nature Friendly 2012). Therefore, the case studies done in the frame of this research do not allow

to confirm the value of this recommendation. However, it is plausible that the data collected as part of the social impact assessment would be useful in building a long-term strategy for community development. The OECD (2014) makes an essentially similar recommendation for Kazakhstan: “It is particularly important for enterprises to exercise proper risk-based due diligence processes and to undertake stakeholder mapping in order to best understand the needs of communities in which they operate. It is also important for enterprises to engage in dialogue with regional authorities to increase transparency on how the project money is allocated. These steps can positively contribute to the development of oil-producing regions, which, despite sustained social investments, still appear to be suffering from high-levels of unemployment, pollution, and poor infrastructure (p. 17).

An additional recommendation can be made on the basis of the present research. The companies (even the ones successful in community relations and with good practice of CSR) complain about unreasonable and unrealistic demands from the local communities. Some experience considered in this research show that it is possible to build the capacity of communities for better self-assessment of needs and identification of most beneficial requests to be presented in negotiations with the company. In case of Khromtau project, this work is done by the Project Center through trainings and voting for the most popular projects among the local residents. In one of the examples from Mongolia experience, this work was done by a local NGO. Better self-organization of the community reduces the costs of negotiations with the community for the company and the government thus increasing the probability of them deciding to fully engage the community in decision-making for the CSR projects.

The comparative analysis of Kazakhstan and Mongolia in this dissertation shows that the reforms in Mongolia (introduction of the CDAs and strengthening the role of local communities in

decision-making for the mining projects) increased the value of cooperation with the communities for the extractive companies. This is the lesson that can be learned from the Mongolian experience. The recommendation that can be made for Kazakhstan is that it is of value to study the experience of other developing countries in developing the CSR policies.

Among directions for further research, the following can be suggested:

- analysis of specific variables and causal relations suggested by the model, possibly using quantitative methods or the mix of qualitative and quantitative research approach. As was discussed in Chapter 3, at this initial exploratory research, it was appropriate and necessary to concentrate on the qualitative analysis to study context-rich cases and produce a model to describe the situation in a comprehensive way. At the next stage of the research, it would be possible to concentrate on individual independent variables and use quantitative approach.
- in case of Kazakhstan, the effect of a new initiative, establishment in 2022 of the national-level Fund for the CSR resources, Kazakhstan Khalkyna, needs to be studied. The first consequences of this reform will be visible starting from 2023 and further into the future.
- in case of Mongolia, there are some new regulations that are currently considered, for example, changes to the template for the CDAs in order to differentiate between large, medium, and small companies. The effect of these reforms needs to be evaluated in the future studies.
- the analysis of any additional cases, including the cases in other countries besides Kazakhstan and Mongolia, would increase the external validity of the findings and applicability of the model.

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Annex 1. Questionnaires for the interviews

Interview questions for experts

Q1. In your opinion, what are the national policy priorities regarding corporate social responsibilities of the extractive companies? How important is this issue for the national government? Do proactive position in corporate social responsibility and good community relations constitute important criteria for the companies to receive the national government support for the mining activities in Mongolia?

Q2. How did the general vector of national policy towards corporate social responsibility change over the last 20 years? In your opinion, what were the main factors that provoked those changes?

Q3. Does the current national policy strive to enhance the role of the regional government in the decision-making over the corporate social responsibility projects?

Q4. Does the current national policy strive to enhance the role of the local government in the decision-making over the corporate social responsibility projects?

Q5. Does the current national policy strive to enhance the role of the local community in the decision-making over the corporate social responsibility projects?

Q6. How important is it for the companies and the governments of various levels to involve local communities in the decision-making process of corporate social responsibility projects? When is the local community usually made aware of the projects' selection process? How are the typical consultations with the community organized?

Q7. Have you noticed any resentment of the local community members towards the typical practice of decision-making over the corporate social responsibility projects (planning or implementation)? Has the frequency of this resentment increase recently?

Q8. How easy it is to organize the in-depth consultations with the local communities for the projects' selection? How would you characterize the costs of such a process (in terms of the time and other resources)?

Q9. Could you provide examples of good and bad practices in selection and implementation of the corporate social responsibility projects of extractive industry companies in Mongolia or other countries? What were the factors that determined their respective success or failure?

Q10. What was the role of the NGOs in the company-community relations in general and in selection and implementation of corporate social responsibility projects in particular?

Q11. Concluding question: Is there anything you would like to share with me regarding community development projects implemented as a result of corporate social responsibilities of mining companies I did not ask you about but what you think is important to understand?

Interview questions for company representatives

Q1. Please describe one specific local infrastructure (community development) project performed by your company locally (near the site of mining operations) as part of the corporate social responsibility obligations in the recent past (1-3 years).

Subquestions:

- budget of the project;
- duration;

- main beneficiaries;
- outputs;
- outcomes (expected and achieved).

Q2. Was this project selected among several alternatives? If yes, could you please indicate the reasons why this particular project was selected? What were the alternatives? Why were they rejected?

Q3. What national government policies or regulations were taken into account in the process of selection of the project (for example, the company's legal obligations to invest money in local community and infrastructure development)? Were there any policy priorities established for the company by the national government level (for example, as part of the licensing process)? If yes, what were they?

Q4. Was the regional government involved in the selection of the project for implementation? If yes, what was the specific role of the regional government? Did the regional government provide any specific information/requests related to the development needs of the region or local community? How did the consultations with the regional government proceed? At what stage of decision-making did the regional government become involved? Was the local council (maslikhat in Kazakhstan) involved? Was the regional governor (akim in Kazakhstan) involved? If yes, how intensively?

Q5. Was the local government (in Kazakhstan – rayon level and below) involved in the selection of the project for implementation? If yes, what was the specific role of the local government? Did the local government provide any specific information/requests related to the development needs of the region or local community? How did the consultations with the local government/local akim

proceed? Was the local council (in Kazakhstan – rayon maslikhat) or the citizens' assembly involved? If yes, how intensively?

Q6. Were there any disagreements between the company, regional government, national government, and local government in the process of project selection and/or implementation? If yes, could you please describe the grounds of these disagreements, positions of the parties, and how were they resolved?

Q7. If the legislation and the regulations allowed (hypothetical situation), would you rather select the project without coordination with:

- the national government?
- regional government?
- local government?

Q8. What are the approximate costs (time, efficiency, money) associated with the process of coordination with:

- the national government?
- regional government?
- local government?

Q9. In your opinion, what are the benefits of involving regional and local governments in decision-making on corporate social responsibility projects?

Q10. How would you describe involvement of the local community (local residents) in the selection and monitoring of the project?

Subquestions:

- When were the local residents informed about the project selection?
- Were they made aware of the alternatives? Were they involved in the selection process between the alternatives?
- Was the local community involved in the monitoring of the project implementation?
- Was there an opposition to the project among the local residents?

Q11. How would you describe the costs of discussions/negotiations with the local community in terms of the time and efforts of the company's officials?

Q12. In your opinion, has involvement of the local community benefited the project (quality, relevance, etc.)?

Q13. Would you describe the relations between the local community and your company as open and based on trust?

Q14. What was the role of the NGOs in the company-community relations in general and in selection and implementation of this specific project in particular?

Q15. Could you name the people you worked with on this project (from the local, regional, and national governments, the community, NGOs)?

Q16. Concluding question: Is there anything you would like to share with me regarding community development projects implemented as a result of corporate social responsibilities of mining companies I did not ask you about but what you think is important to understand?

Interview questions for local community members

Q1. Do you work for the company [...]?

Q2. Do any of your family members work for this company?

Q3. Do you or your family members use the facilities provided by the company to the workers/members of the community (for example, kindergartens, health centers, schools, sport centers, art/recreation centers)? Please provide the details.

Q4. The company representatives provided details of the decision-making process for [...] project implemented for the benefit of your community in [year]. Are you aware of this project? If not, please name some other local infrastructure (community development) project(s) performed by [...] company for the benefit of your community as part of its corporate social responsibility program in the recent past (1-3 years).

Q5. Were the community/social development project you mentioned beneficial for:

- you personally?
- your family?
- the community in general (in your opinion)?

In what way?

Q6. Do you remember when you first learned about the company's decision to implement the project mentioned in Q4 and Q5?

- a) before the projects was selected (decision was not yet made);
- b) when the project was already approved and the decision announced;

c) when the implementation (for example, construction) has already started;

d) when the project was completed.

Q7. Did you participate in any discussions related to selection of this project (for example, were present at the specialized meeting(s), voted, provided comments, raised objections or asked questions at the meeting(s)?

a) Yes (proceed to questions #8 and #9).

b) No (skip questions #8 and #9, proceed to question #10).

Q8. Who organized the discussion(s), in which you participated (you can choose several answers):

a) national government (Ministries or their territorial units);

b) the company;

c) local administration (akim);

d) regional (oblast) administration;

e) NGOs;

f) community members themselves.

Q9. Please describe the discussion(s), in which you participated (place, time, how many people were present, how active was a discussion, etc.)

Q10. As far as you know, was this project selected among several alternatives? If yes, could you please indicate the reasons why this particular project was selected? What were the rejected alternatives? Why were these alternatives rejected? Whose decision was it to select the successful alternative?

Q11. Were there any disagreements between the community and the company and/or stakeholders (such as the government) in the process of project selection and/or implementation? If yes, could you please describe the grounds of these disagreements, positions of the parties, and how were they resolved?

Q12. Was the local community involved in the monitoring of the project implementation?

Q13. In your opinion, was the opinion of the local community seriously taken into account in the process of project selection and implementation?

Q14. In your opinion, in the future, when the company will be implementing similar projects, do you believe the company will take into account the opinion of the local residents?

Q15. Would you describe the relations between the company and your community as:

- a) hostile;
- b) neither hostile, nor cooperative;
- c) cooperative, but with reservations;
- d) very open, cooperative and full of trust.

Why have you selected the response you did?

Q16. Could you advise me as to whom else in your community should I speak with on the same subject?

Q17. Concluding question: Is there anything you would like to share with me regarding community development projects implemented as a result of corporate social responsibilities of mining companies that I did not ask you about but what you think is important to understand?