INTRODUCTION

For many oil and gas producing countries Local Content Development has become critical in the development of their resources. Local content is often ranked as strategic objective presenting both challenges and opportunities.

Kazakhstan with its enormous hydrocarbon resources has the perspective to become forth in the world in terms of oil output growth in volume by 2035 after Saudi Arabia, Iraq and Brazil. Understandably, RoK government aims to extract maximum benefits from the developments of its natural resources and has defined the specific ‘local content’ requirements in the regulatory frameworks.

As pointed out by the RoK government Local Content development and diversification of economy are national priorities and are both anchored in the Strategy for Industrial and Innovation Development for 2003-2015. The State Programme of Forced Industrial Innovative Development (SPFID) foresees further increase of the local content percentage particularly in the oil and gas sector.

With more than 35 billion barrels of oil in place, the Kashagan project is expected to contribute billions of dollars in taxes and royalties to the Republic of Kazakhstan, which will help the country to meet its objective to evolve to one of the largest oil exporters in future.
The Venture’s approach to local content development comprises three main areas:

- Growing local industry capability
- Developing people skills and capabilities and knowledge transfer
- Enhancing local infrastructure

The Venture focuses on these 3 fields of activity as these are considered the key drivers for local content development. Amongst these the development of local vendors is priority. The objective is to help local companies to improve their technical and managerial capabilities, so that they in the first place qualify as potential suppliers to the project and longer-term could bid on opportunities in national and international markets.

Another focus area is aimed at supporting the RoK nationalisation policy by replacing foreign specialists with skilled local workforce and training of local workforce. The operator uses various approaches and procedures to raise people’s qualifications, integrating Kazakh staff into the project organisation, with the overarching aim to increase the proportion of local content in the project.

An appropriate infrastructure is a precondition for a project of the size of Kashagan. At the same time a lack of infrastructure can be a barrier for the development of local industries and the provision of local services. Thus the Venture invested considerable amounts into infrastructure enhancement, sometimes directly in the benefit of the project like roads, electrification and gasification, sometimes supporting local communities or in the benefit of local industry development.
LOCAL CONTENT IN NCPSA

LOCAL SUPPLIERS PRE-QUALIFICATION

Currently, more than 2,800 Kazakhstan companies are registered in the Venture’s vendor qualification database.

NCOC operates a venture-wide pre-qualification process which allows suppliers to gain access to an approved vendor list. In order to become a pre-qualified supplier, each vendor must complete the process relevant to the product/work/service that they offer.

Any supplier wishing to do business with the venture is invited to visit our website: http://www.ncoc.kz/.

Phases of Local Content Development Activities

1. Planning & Analysis
   - Development of long-term and short-term LC development plans

2. Development & Realisation
   - Develop local market capabilities and involve local companies into the Project

3. Monitoring & Reporting
   - Monitor contract award

4. Monitoring & Reporting
   - LC reporting, monitor contract implementation & lessons learnt

KAZAKHSTAN INDUSTRY SUCCESS STORIES

«ZHIGERMUNAI SERVICE» LLP

“By organising and sponsoring the courses on ISO 9000 standards NCOC has provided a great support. ISO certification helped to increase the partners and clients’ confidence and let «Zhigermunaiservice» company reach a totally new level”.

Askhat Duisaliyev
General Director

«Zhigermunaiservice» LLP is a 100% local company, aimed at the provision of services to oil & gas and drilling companies. It competes with large international service companies in areas including rental, repair and manufacturing of drilling, oilfield and special equipment. It is indeed special equipment: currently a drilling rig with a capacity of 650 tons, meeting API standards and being able to drill down to 6,000-7,000 meter depth, is being assembled jointly with a British company for the first time in Kazakhstan.

However, it took time for the company to establish itself on the oil service market and a number of difficulties had to be overcome. It had to gain confidence of clients and suppliers in a still very small local company, it was lacking qualified engineering and technical specialists, and it was difficult to meet international quality standards with the manufactured products.

Through the Venture’s Local Content Development Program «Zhigermunaiservice» LLP obtained ISO 9001-2001, ISO 14001-2004 and OHSAS 18001-1999 certificates. Also, according to the General Director, the quality of the products manufactured is in compliance with API (American Petroleum Institute) standards.

The company’s success story is intrinsically connected with the personal success story of the General Director, Askhat Duisaliyev. He started his career at the age of 19 as welder’s assistant. He climbed the career ladder from labourer, fitter, welder, quality inspector to finally, taking the office of the General Director, always giving preference to practical field experience.

With more than 13 years of working experience in this industry, he is now very knowledgeable in all equipment specifications and treats product quality as a priority. He proudly recalls the time when he joined Zhigermunaiservice LLP, which, despite its large capacity, was down and needed a radically new approach.

As of today the company has more than 70 clients and established trustful relationships with many suppliers. It grew significantly and today provides jobs to more than 250 permanent employees. Each year significant amounts of money are invested in training of the employees; for example in 2013 some 28 million KZT was spent for training and education.

Nonetheless, the management believes that this is only a small portion of what is needed to develop the company and achieve the main goal: building a large Kazakhstan service company, being not only successful in the local market but also competing with the established service providers in the international markets.

Currently, more than 2,800 Kazakhstan companies are re-...
Temirzhol Kurylys-Atyrau is a 100% local company operating in the area of construction of motor and railroads, civil works, installation of process equipment, commissioning operations, geodesic and geological surveys, etc. The company was set up in 2002 and today employs 560 people, all being Kazakhstan citizens.

For more than 10 years Temirzhol Kurylys Atyrau has been cooperating with the Consortium and is engaged in a number of large projects including the construction of roads at Bolashak Production Plant, concrete and reinforcing work, Eskene West Rail Project, construction of air quality monitoring stations, as well as other civil and repair works.

According to the Deputy General Director Anatoliy Leschenko, one of the strengths of the company is to provide products and services tailored to the current and future requirements of the clients. Thus, in order to meet the increased demand for the crushed stone for the Kashagan construction activities, the company purchased a plant in Aktobe. This plant continues to supply crushed stone not only to the Kashagan project, but also to companies operating in the West-Kazakhstan, Atyrau and Mangistau Oblasts. An asphalt plant in Atyrau complements the company’s product portfolio.

In order to meet the high standards of the North Caspian Sea Consortium in industrial safety, engineering and logistics, the management pays particular attention to professional development of its employees through regular trainings, encouraging experience and knowledge sharing within the team.

Having been involved in the Kashagan project for many years, Temirzhol Kurylys Atyrau team has been witnessing the construction of Bolashak Processing Plant and is well aware of its complexity and importance.

Atyrau-based «Tesla-Tan» LLP is a 100% local construction company focused on electricity infrastructure of the oil and gas industry. «Tesla-Tan» LLP was founded in 2007 as a team of 5 people. As long ago as 2008, the company began actively working on the installation of electrical equipment and instrumentation (propulsion and auxiliary services plant) at Bolashak Production Plant. Thanks to good performance, Tesla-Tan was selected to perform electrical work offshore on Kashagan’s D Island in 2012. In that year, the company employed some 400 people, and at the peak of construction more than 1,000 people including contractors and service companies relied on «Tesla-Tan».

The evolution of the company coincides with the professional and personal growth of Nikolay Verichev, an employee of «Tesla-Tan». Having started his career in 2007 as an electrician at the Kashagan Onshore Production Plant, he became a Quality Manager only 5 years later. While doing the biggest number of high voltage connections at a height of 40 meters at Bolashak, he, like no one else, felt the scale and significance of the North Caspian project.

Apart from work experience the North Caspian project required to constantly improve the knowledge of innovative technologies. NCPOC provided the greatest support enhancing employees’ qualification by organising seminars on international standards. As a result, the company has successfully passed the certification audit and received the ISO 9001:2009 certificate on Quality Management System and is currently introducing a new Occupational Health and Safety Management System standard.

Tesla-Tan also played an important role in Nikolay’s personal life. It was the Kashagan project, where he met his love. Meanwhile, Nikolay and his wife have a 4 year old son and a new-born daughter. A joke goes around that they are children of Kashagan!
PSN KazStroy JSC was established in 2008 as a joint venture between British PSN and Kazakh NGSK KazStroyService. The merger provided local personnel access to 30 years experience in oil and gas projects and an extensive network of branches around the world.

The company started with only 30 people but quickly grew to up to 1,200 local staff at peak time. One of its first projects was about the preservation of equipment for Kashagan. Later contracts with the Venture included engineering services, feasibility studies, concept design, equipment purchasing; overall 20 different projects.

PSN KazStroy pays particular attention to the development of its employees and the nationalisation of personnel. One of the benefactors is Nurzhan Kozhakhmetov. He started in 2001 in Agip KCO as Trainee Engineer and participated in the construction of first artificial island, Kashagan East F. He got promoted to the position of Junior Engineer of onshore projects, and in 2007 under the Venture's local personnel development program, he was sent to ENI Corporate University, where he graduated as Master in Technical Assets Management.

The studies allowed Nurzhan to enhance his knowledge in engineering and provided him a solid foundation in economics and finance. It was this wider knowledge that qualified him for the job as Senior Project Engineer in PSN KazStroy. Because of his strong experience in the Kashagan project, he finally got promoted to his current position in the Kashagan Project Department. In the next step in his career he aspires to become an Engineering Manager in line with the nationalisation programme.

«PSN KAZSTROY»

“For Kazakhstani specialists the Kashagan project offers the opportunity to build knowledge and develop skills by collaborating with foreign colleagues”.

Nurzhan Kozhakhmetov
Projects Senior Engineer

Caspian Offshore Construction LLP is the first privately owned 100 % Kazakh Company to enter and successfully operate in the field of operation and maintenance of the marine vessels in the Kazakh sector of the Caspian Sea.

Since 2005, when the company commenced operations and delivered its first accommodation barge in the Kashagan Project, the total fleet under Company’s management as of beginning of 2014 has expanded to 45 vessels. Annual revenues of the Company have been steadily increasing, and for 2013 it reached USD 130 million.

Today, the company manages a wide range of vessels including ice-breaking tugboats, accommodation barges, and multi-functional tugboats, tankers for removal of sewage waters, crew boats, cargo flat-top barges, evacuation vessel and survey vessels. All the vessels are shallow-draft and most of them ice-class for all-season operations.

In early 2014 the company had 673 employees, whereof 530 are crew members. The percentage of Kazakh citizens amongst the crew members reached 60%. This is the highest indicator in the market of marine services for oil and gas projects in the North Caspian Sea.

Company’s offices and vessels have a Safety Management System in place in compliance with the International Safety Management Code, confirmed by the Russian Registry of Shipping. The Company received many awards from Agip KCO for achievements in the HSE sphere.

The Company will continue its development ensuring high quality and compliance with the best marine fleet operation and maintenance practices, and full commitment to high safety, health and environment standards.

JSC «CASPIAN OFFSHORE CONSTRUCTION»

“The Kashagan Project gave a huge impetus for enhancement of national marine industry discipline, having became one of the strong drivers for training Kazakh maritime personnel”.

Oleg Mun
General Director

© PSN KazStroy 2014
Ships Catering Supply LLP provides a range of services, including catering, supply of food products, cleaning, laundry and other. Today this is a leading national company which provides services in the Kazakhstan sector of the Caspian Sea.

The company was set up in 2006 and it started its activities in the North Caspian Project, providing services for rotational workers living on the accommodation barges “Shkotov” and “Caspian Princess” on D Island. By 2011 the number of personnel reached 230, which is ten-times higher than initially; almost all of them are Kazakh nationals.

In March 2011 Ships Catering Supply received an international quality certificate of Moody International ISO 22000 for safety of food products. Currently, the company services six facilities as part of the North Caspian Project and strives to further expand its business.

ERSAI is an important contractor to the oil and gas industry in the Caspian region, offering its clients high-quality services in offshore and onshore construction, engineering, the fabrication of steel structures and logistics services. ERSAI Caspian Contractor is a Kazakh company, formed on a 50/50 basis by ERC Holdings (Kazakhstan) and Saipem S.p.A (Italy).

ERSAI provides offshore and onshore services to the Kashagan project, ranging from fabrication through to hook-up and commissioning. In particular, ERSAI fabricated pipe-racks with a total weight of more than 18,000 tonnes of steel. In addition, 9 technological modules were assembled at the ERSAI yard. ERSAI owns four special construction vessels and one floatel, “ERSAI 400”, all of which are operating in the northern part of the Caspian Sea.

The Kuryk Yard has a capacity to fabricate between 15,000 and 20,000 tonnes of structure per year. This capacity could be increased to up to 40,000 tonnes with new production facilities that can be erected in the vast area owned by the company. ERSAI has almost 2,000 employees involved in both onshore and offshore projects. Most of them were trained at the ERSAI Training Center, especially welders, scaffolders, steel-carpenters and pipe-fitters. The ERSAI managerial and engineering team has passed special training courses at various overseas and in-house institutions.
The dynamically developing oil and gas sector offers a lot of opportunities to the young Kazakhs. By virtue of its innovation and technical complexity, it requires the utmost professionalism from those working on it.

In line with the provisions of the agreement on the North Caspian, the requirements the law and the plans and objectives set by the head of state, NCOC and the agent companies are seeking to increase local content to a maximum. The Venture has drawn up a long-term programme for raising the professionalism of Kazakh specialists with the aim of gradually replacing foreign staff with local personnel.

The operator uses a variety of approaches and procedures in its efforts to, over time, substitute foreign specialists with skilled local workers, who are appropriately trained and experienced. A nationalisation programme guides this process.

**NATIONALISATION OF THE WORKFORCE**

The Production Sharing Agreement specifies (art. XXVII) the overall targets in terms of manning levels of Kazakhstan citizens employed in carrying out Petroleum Operations. The Kashagan Venture significantly exceeds these targets as it is shown in the figure on the right.

At peak time in 2010 the Project employed more than 42,000 people (including contractors), hence it was one of the biggest employers in Kazakhstan.

As of Q4 2013 the Consortium employed some 13,800 people in Kazakhstan including contractors. More than 82% of them are RoK citizens which is an outstanding ratio for this type of project.

In addition, construction began on the Eskene West Rail Project in Q4 2012. This project is anticipated to provide over 3,000 temporary jobs for Kazakhstani nationals.

**TRAINING AND DEVELOPMENT OF THE LOCAL WORKFORCE**

A ‘special projects training programme’ was launched in 2002 to ensure that Kazakhstan workers are provided with high quality training. This programme supports the venture’s medium and long-term manning requirements, taking into consideration NCPSA obligations, nationalisation plans, the production timeframe and local labour market availability.

The special project training policy has been developed to meet the following objectives:
- Select, recruit and train Kazakhstan candidates to staff the future operations and business support activities;
- Support the nationalisation plan commitments and ultimately reduce the operating costs of the project;
- Enhance and promote a safety culture among all staff.

The Kashagan project requires many hundreds of professionals with expertise and competency in all sectors of the oil and gas industry. Many of the future generation of leaders on the Kashagan project will have undergone their training at the Atyrau Training Centre, a purpose built facility which is home to the special projects training programme.

**ATYRAU TRAINING CENTER**

The modern facilities of the Atyrau Training Centre include 11 classrooms, electrical, instrumental and mechanical workshops, a library, an auditorium and a chemical laboratory.

As part of the training programme, on-the-job training is provided, with some trainees being sent on assignments to Italy, the Congo, Egypt, Singapore, and to the Karachaganak field in Kazakhstan.

This comprehensive training programme will ensure that, when production commences, trained, experienced Kazakhstan personnel will be ready to take up key positions in all areas of operations.

Also, NCOC and its Agent Companies send selected personnel on international assignments to projects or facilities owned or operated by consortium members.
local companies certified under such international standards as ISO 9001, ISO 14001, ISO 22000 and OHSAS 18001

450 local companies have undergone qualification audits and 4 Kazakhstan manufacturers certified under the recognised international standard of American Society for Mechanical Engineers and American Petroleum Institute

339 general awareness seminars conducted for more than 1,400 Kazakhstan companies

24 specialised forums and workshops for potential local vendors

500 employees from 34 local companies trained to the most demanded craft skills like pipe layers, instrumentations electricians, operators of plant installations, divers and others.

70 JVs provided works/services for the Venture

81 More than US $10 bln has been spent on local goods, works and services in the period from 2006 to Q1 2014.

YERZHAN TASKYNGALI
Training Center Coordinator

Yerzhan Taskyngali is the Special Project 3 graduate and Coordinator of Atyrau Training Center. Following the successful graduation of Special Project 3 in 2007, he joined the management team of Atyrau Training Center. The Special Project 3 included the introductory course comprising subjects such as English language, Basics of Petroleum Engineering, Introduction to Procedures and Policy of the Consortium. Upon completion of the introductory course Yerzhan was selected to join the Contract Administration and Cost Control group, where he learned to administer contracts and develop annual and multi-year budgets.

All the courses are taught in English and instructors are mainly foreign, with many years of experience working in large projects of the U.S., Europe and Africa. During the course the instructors pay attention not only to the main curriculum, but also share their personal experiences, explain how to act in certain situations and think a way out of a difficulty.

The complex training program includes the practical work with the most advanced equipment manufactured in Italy and Germany similar to the operating environment of Bolashak Production Plant and other production facilities.

In 2009 Yerzhan was recruited as a Junior Contract Administrator of Atyrau Training Center. From the very beginning he showed great interest to the work of the Center. He really liked the team, which at that moment consisted of 50 very experienced instructors from all over the world.

More than US $10 bln has been spent on local goods, works and services in the period from 2006 to Q1 2014.

YERZHAN TASKYNGALI
Training Center Coordinator

He has been promoted several times during last 5 years working at the Atyrau Training Center and currently holds the position of the Training Center Coordinator. He replaced his expatriate colleague based on the nationalisation program.

According to Yerzhan, such a rapid career growth has become possible thanks to the mentoring and knowledge sharing process, to which the Consortium pays great attention. As part of the experience exchange program Yerzhan was enrolled to the on-the-job training at the ENI Corporate University in Milan (Italy). During this training he observed the work of his Italian colleagues, the process of organising courses, selection and assignment of trainees, and adopted western methods of organising the work of the training center.

Yerzhan notes the importance of the training center, because it enables the trained and experienced local personnel to perform operations and support production activities. Many graduates of the center are taking up key positions in various areas of operations of the Consortium.
Kentay Zharmanov joined the North Caspian project in 2002 when the Special Project 1 was launched with the objective to provide high quality training for local specialists to staff the future operations and business support services. Having successfully passed all required tests, Kentay together with other 330 trainees enrolled to the Special Project 1.

The Special Project 1 is aimed at providing technical knowledge and skills required for the operations at the Bolashak Production Plant and offshore facilities. As part of the training program, local trainees are sent for the on-the-job training to Europe, Africa and the United States of America to study international standards of oil and gas fields operations and innovative technologies.

During the training at Total facilities in Lyon and Marseille (France), Kentay noted that there are differences in project management practices in Kazakhstan and abroad. These differences relate not only to the corporate culture but also to safety requirements, applied tools and equipment, technologies, etc. Successful exchange of experience gave huge impetus for personal and professional growth of local workforce.

Pondering over his professional career, Kentay compares it with the Kashagan project, which during 12 years from a spot on earth has turned to one the biggest and most complex industrial projects contributed a lot to the progress of the oil and gas industry in Kazakhstan. Kentay climbed the career ladder from trainee to the head of Agip KCO risk management department having recently replaced his Norwegian colleague.

The 12 years’ development of one of the biggest and most complex industrial projects contributed a lot to the further development of the oil and gas industry in general. Starting her carrier as an oil and gas pumper she is now working as the Technical Regulatory Manager for NCOC. An author of more than 40 scientific and project papers related to evaluation and development of oil and gas fields, a professional with 35 years of working experience, Zeinep has a lot to say to the younger generation of oilmen.

Zeinep has profound knowledge of reservoir development, geology, reservoir engineering, geoscience and readily helps young specialists of the Consortium through explaining the existing requirements for field development, technical regulations, specific laws, and preparation of the necessary documentation required for successful development of the North Caspian Sea Project.

She considers mentoring and transfer of knowledge as one of the priorities for professional development of local oilmen. According to Zeinep in developing young oil specialists not only the quality of their education and work experience is very important but also by their determination, eagerness to learn and curiosity. Zeinep herself never stops studying. In 2009 Zeinep started learning English, and at present she develops documents with ease and participates in discussions.

Talking about perspectives of the North Caspian project development she reckons that the future of the project lies with intelligent, creative and driven young people. In her opinion, the North Caspian project put together unique specialists and scientists from all over the world, and the younger generation needs to adopt the experience and knowledge of these people.
KNOWLEDGE TRANSFER

One of the objectives of the Local Content Development is to accelerate the transfer of skills and technology. For this reason, the Consortium is collaborating with leading universities of Kazakhstan and supporting various initiatives including: the donation of software, hardware and technical publications to the educational entities, the publication of a technology magazine, giving guest lectures at universities and supporting the Kazakh branch of the Society of Petroleum Engineers (SPE).

The Venture is a member of Kazakhstan Welding Association “KazWeld” which is successfully implementing the system of education, training, qualification and certification in Kazakhstan. This is done according to International Welding Institute Programmes in collaboration with experts of the institute.

With the support of MOG, TOTAL, NCOC, TCO and KPO and Karaganda State Technical University, training of the first group of 22 Kazakhstan welding engineers has been organised. In 2013, 72 welders successfully passed training and exams. Each year the number of certified welders as per international standards is increasing.

Social and Infrastructure Projects (SIP) are an important element of the Consortium’s corporate and social responsibility commitment. Under the NCPSA, one percent of the capital expenditure is allocated to SIP projects. This covers the construction of schools, kindergartens, hospitals, sport facilities and other infrastructure designed to benefit the community. Also the construction of roads, electrification, gas and water supply is part of the programme.

The funds of the scheme are bound to the Atyrau and Mangistau Oblasts, which are the centers of operations of the Kashagan project. The proposals are then analysed by NCOC and the Authority to ensure they comply with NCPSA requirements, and the sustainable development strategy. Finally the projects are selected in close collaboration with the respective Akimat. The statistics of the Social and Infrastructure Programme underpin its success.

INVESTMENT IN THE SOCIETY AND INFRASTRUCTURE

Between 1998 and 2014, 155 SIP Projects were completed in close collaboration with local authorities in the Atyrau and Mangistau oblasts.

Between 1998 and 2014, US $420 million was spent in the Atyrau and Mangistau Oblasts.
INVESTMENT IN THE SOCIETY AND INFRASTRUCTURE

The Kashagan project marked the start of the offshore oil development in Kazakhstan. When the decision was made to implement this highly challenging project, support bases, infrastructure, construction equipment, marine vessels and drilling rigs needed for the development of the project did not exist in the Caspian region.

Substantial investments into the development of local suppliers, workforce and infrastructure have resulted in the establishment and growth of various industries in Kazakhstan.

The achievements in driving local content development are reflected by some impressive numbers:
- 10 billion US dollars paid for local goods, works and services.
- 250 million US dollars spent on training.
- 420 million US dollars invested in Social and Infrastructure Projects.

The scale of the Kashagan project has resulted in huge capital investments and the development of Kazakhstan’s infrastructure in particular in the Atyrau and Mangystau regions including the Bautino marine base, fabrication bases and an extensive fleet of over 200 marine vessels.

During the construction phase the Local Content strategy was focused on directly benefiting the project. Meanwhile as the construction activities of the first phase of the project are close to be finalised, the focus changed to enhance competitiveness of local suppliers on the local and international markets. These activities aim to benefit the oil and gas industry as well as the wider industry in Kazakhstan.

The North Caspian Sea Consortium is committed to continue maximising value for the project shareholders, Kazakhstan’s economy, the local communities and the Republic of Kazakhstan.

CONCLUSION

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