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 ENGLISH VERSION

CENTRAL ASIA



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"UZBEKISTAN IS LIKE A PROMISING PROJECT"

How did things develop in Kazakhstan during the corona pandemic?

The past year has been a turbulent one for Kazakhstan. Currently, we are being plagued by the delta variant of the virus. The good news is that based on the official information and our observations as well, the medical infrastructure is not in danger of being overloaded.

A number of factors have contributed to the low risk levels. These include the ongoing vaccination campaign and the relatively high number of people who have recovered from the illness, leading to a certain level of immunity. In general, the handling of the pandemic last year can be described as mostly good. The vaccine is available in abundance. This is Sputnik V, which was initially supplied from Russia and is now mainly produced locally.

However, given the high percentage of vaccination skeptics among the Kazakh population, the vaccination campaign is now progressing a little more slowly.

How is the German economy represented in Central Asia today?

We assume that around 300 German companies are active in Kazakhstan and 200 in Uzbekistan. Many operate sales offices and representative offices, which are often looked after from the subsidiaries in Russia.

In Kazakhstan, we have 25 investment projects with a total volume of 1 billion euros; Knauf, Heidelberg Cement and Linde Gas are among the companies that are active locally. In addition, there are medium-sized companies such as Wilo and Isoplus, which also got through the pandemic well.

The German investment projects in Uzbekistan add up to around 700 million euros, with an upward trend. MAN operates a joint venture in Uzbekistan. Other noteworthy investments from Germany include Knauf and Claas. Due to the increasing interest of the German economy, we opened a branch in Tashkent in 2020, which now has five employees.

In recent years, there has been a lot of talk about Uzbekistan's potential. To what extent can successes be recognized in the form of concrete projects?

We can see that a lot is happening in Uzbekistan - the speed at which the government is implementing its reform program is commendable. The nucleus is certainly the release of the Som exchange rate and the now guaranteed convertibility of the national currency, but also the reforms to reduce bureaucracy and to strengthen entrepreneurship are making their contribution.



Hovsep Voskanyan

is the Head of the Delegation of German Economy in Central Asia. From his Almaty location, he represents the interests of German companies in Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan. Before that, he worked for Commerzbank in Frankfurt and Belarus for almost twelve years.

The reform journey began in 2016, and Uzbekistan has come a long way since then. In the meantime, however, the government has processed the parts of the reform package that were to be implemented quickly. Now more difficult stages are imminent, which can also provide domestic political headwinds - this includes, for example, the abolition of communal subsidies.

There is still a long way to go, and how successful it will be will depend on the government's drive for reform.

On the plus side for Uzbekistan are the industrial tradition, the imminent expansion of the economy across almost all branches, the largest domestic market with 33 million inhabitants in Central Asia and the young population, whose incomes will continue to rise.

So far, the number of larger German investment projects is still modest, even if many offices have been opened - we expect an increase of around 25% this year. It is still too early to say how successful the location will be for German companies.

At the moment, Uzbekistan is a great promise and offers the same prospects, but only in a few years will we actually be able to draw the balance of the extent to which this promise has been fulfilled.

What are the advantages of Central Asia as a production location?

We have already talked about Uzbekistan. Kazakhstan also has a reform-minded government. The local economy will be expanded and modernized across many industries in the coming years, so that the demand for German technology and German products will increase and remain high.

The geographical location as a hub on the Belt & Road axis is another favorable factor. In addition, there is a breathtaking wealth of resources - this applies to classic energy sources and the raw materials of the 21st century, such as rare earths, but also potential for solar and wind energy alike. Another argument is the low wage costs compared to Russia, while the educational level of the population is increasing.

What challenges do companies in Central Asia face?

Our annual survey on the business climate, which we carry out together with the Eastern Committee of German Business, has identified some disruptive factors. These include the high volatility of local currencies, financing difficulties and a shortage of skilled workers.

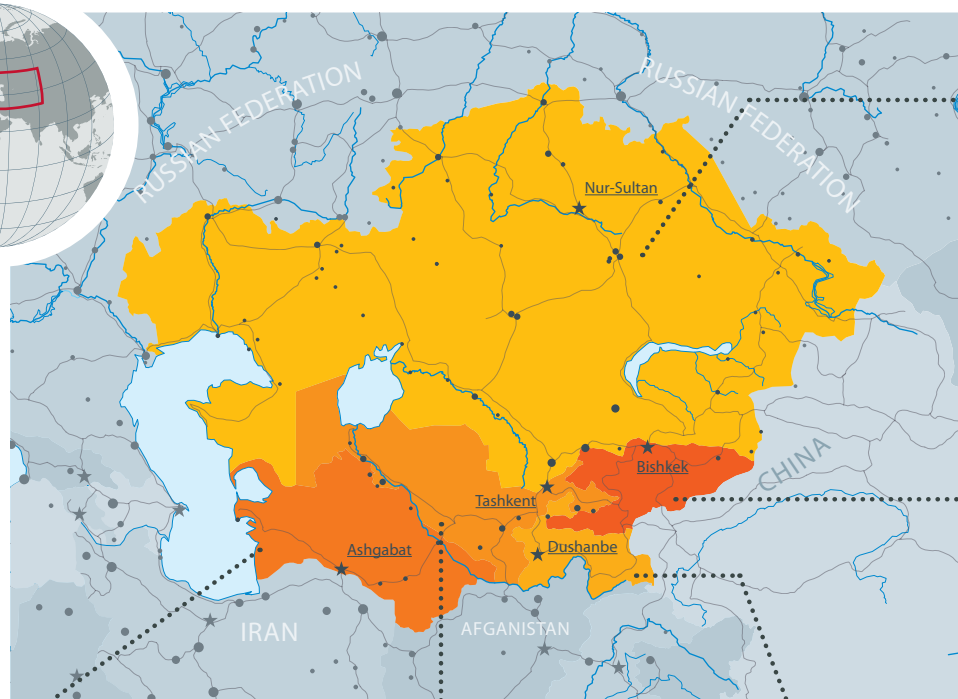
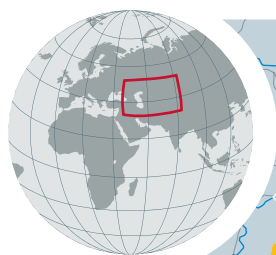
Another issue is legal security. In any case, we recommend looking for an experienced local partner. This often shortens the time to get used to it and accelerates the start of your own company on site considerably.

What expectations do you have of the region's politics in order to further improve the framework conditions?

German companies would like the reforms to continue, in particular, a strengthening of legal certainty. What is also decisive is the implementation of what the governments have already decided. Occasionally it takes time for the innovations to actually be implemented at the operational level. Some laws can be interpreted differently, here the companies want the ambiguities to be eliminated.

But it must also be said that Kazakhstan and Uzbekistan have already done a lot in recent years to improve the investment and business climate. This can also be seen in the implementation of new projects such as Claas in both countries or Linde Gas in Kazakhstan last year. We need to continue on this path together.

STATES OF CENTRAL ASIA



KAZAKHSTAN

Area
2.724.900 km²
Population
18.877.128 (1. Jan. 2021)



KYRGYZSTAN

Area
199.951 km²
Population
6.523.529 (2020)



TURKMENISTAN

Area
488.100 km²
Population
5.942.000 (2019)



UZBEKISTAN

Area
448.978 km²
Population
33,6 Millionen (2019)



TAJIKISTAN

Area
143.100 km²
Population
9,3 Millionen (2019)

AUGUST 2021
ANNOUNCEMENT

GEORG GRAF JOINS THE CT EXECUTIVE SEARCH ADVISORY BOARD

The management of CT Executive Search is pleased to announce that Mr. Georg Graf, Regional Representative of Freudenberg Group in India, MD and CEO of the Freudenberg Regional Corporate Center India Pvt. Ltd., has joined the company's Advisory Board.

Freudenberg is a global technology group with around 48,000 employees in some 60 countries and annual sales of more than 8.8 billion euros in 2020.

Mr. Georg Graf is a well-known and respected figure both in government and business circles. With a career in finance and executive level management spanning over 35 years, and a wide network of top professionals from all over the world, including Germany and India, he will provide invaluable insight into doing business in these two countries.

Mr. Graf is also the immediate past President of the Indo-German Chamber of Commerce in India, and has already spoken at several of the events organised by CT Executive Search with regards to doing business in India.

"India remains one of the fastest growing economies in the world, and we continue to offer executive search services to many of the companies based there, as well as to those looking to enter the market. We are honoured to have Mr. Graf as our esteemed Advisory Board member. His expertise both in corporate management and intercultural relations is invaluable, and will definitely help take our executive search services to the next level." – says Christian Tegethoff, Founder and Managing Director, CT Executive Search



INTERVIEW

"COSTS FOR SALES DEVELOPMENT ARE LOW"

How do your clients operate on the Central Asian markets?

Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan are currently of primary interest to European companies as export destinations. Kazakhstan, which is rich in raw materials, has a particular demand for technical goods that are used in mining and in the oil and gas sector. Uzbekistan is also a major customer for agricultural technology and also offers potential for a number of other products.

Our customers with business connections to Central Asia mainly pursue sales and services activities. The establishment of production plants in the region is still the exception. It remains to be seen whether Uzbekistan, with its relatively large population and favorable geographical location, will one day become a significant production location for European companies.



Christian Tegethoff
Managing Director
CT Executive Search

At the moment, many international companies are content with managing sales to Central Asia from Moscow and are foregoing offices in Almaty or Tashkent. The support of the local dealers and end customers is then left to a Russian Regional Sales Manager who travels to the region from Moscow.

It stands to reason that the sales potential of the region could be realized far more effectively with a dedicated sales structure tailored to the respective local conditions.

Companies that decide to work more closely on the Central Asian markets usually set up their offices in Almaty. The decision-makers of the Kazakh economy are still concentrated here and the capitals of the neighboring republics of Kyrgyzstan and Uzbekistan can be reached quickly.

In addition, Tashkent has gained more attention in recent years and we are increasingly seeing European companies opening offices there.

What are the prospects for finding qualified and motivated employees?

The prerequisites for recruiting suitable employees are favorable in Central Asia. In Kazakhstan there are now a large number of managers with professional experience in international companies who have the linguistic and intercultural skills to work in European companies.

Compared to many other countries, , including Russia and China, the costs of setting up and maintaining a local sales organization are low. If specialists cannot be found locally, recruiting Russian experts can also be considered.

Cities like Almaty, Nur-Sultan or Tashkent are attractive locations for them compared to many Russian regions. Within the Eurasian Economic Union, the free movement of labour is now largely a given.

To what extent is Central Asia suitable as a production location from an HR perspective?

Companies that want to set up production facilities in Central Asia will usually not be able to avoid recruiting foreign specialists. The labour supply in the technical area is so thin at most locations that external experts have to be called in at least for a transitional period.

In addition to Russian specialists - Russian is still widely used as a second language in the Central Asian republics - Chinese experts can be an option. In many cases, they can be sent as expats from the company's own plants in China, for a certain period of time.

Uzbekistan in particular has a large, motivated and increasingly better qualified workforce that can be used in production. Companies should plan a certain qualification phase, but the prerequisites for setting up production are basically a given here.

"TRUST COUNTS MORE THAN WRITTEN CONTRACTS"

The Aga Khan Agency for Microfinance is little known in Europe. What is the business model of the institution?

The microfinance agency is part of the Aga Kahn Development Network, which employs 95,000 people worldwide and is one of the largest non-governmental development aid organizations.

The microfinance agency has existed in Kyrgyzstan for 15 years, where it was initially located in Osh, the country's second largest city. Their task was to grant microcredits, especially in the south of the country, according to the guideline to improve quality of life.

The organization has now been renamed the First MicroFinance Company (FMFC). It has acquired a new license and relocated its head office to the capital - Bishkek, where it operates analogously to a bank. It mainly deals with microfinance loans in the range of USD 100 to 3,000 for retail clients. This clientele comes mainly from the trade, manufacturing and agriculture sectors.

No loans are granted for private consumption, as microcredits are intended to contribute to the development of small businesses, including medium-term job creation. It grants loans up to the equivalent of USD 40,000 for SMEs.

With these mini-loans, we bring customers into the financial sector who would otherwise have to borrow money from friends and family members - or from seedy loan sharks. The organization has 21,000 customers with a branch network of 15 branches.

In particular, the past year with the well-known adverse effects of Corona, including a lockdown, allowed us to develop new products and sales channels so that now loans can also be paid out and repaid digitally.

What made you go to Central Asia?

I had been abroad a lot before, including as a representative for Deutsche Bank in Moscow and for the World Bank in Nigeria. A headhunter contacted me during my time in Nigeria.

For me, the prospect of taking on responsibility as CEO for an institution with 200 employees at the time and developing something on site was appealing. The tasks included the introduction of international company standards, as well as the training of employees in order to be able to rely on local managers in the medium term.



Stefan Martiniak

lives in the Kyrgyz capital Bishkek, where he was the CEO of the local First MicroFinance Company from 2014 to June this year. The institution is part of the Aga Khan Agency for Microfinance. He is currently a member of the supervisory board of the First MicroFinance Institution.

We have achieved this goal. Apart from me, there was only one expat on site recently, the head of the IT department. Of course, we also successfully attained the goal of further financial development and expansion of the FMFC.

How do you live in Bishkek, what is everyday life like?

Relatively simple and humble. During our time in Osh, we had a house with a garden. In Bishkek, my wife and I live in an apartment in the city center. Many foreigners prefer houses on the outskirts, especially, those with small children. However, we wanted to live more centrally so that we could do something without a car. The center of Bishkek is relatively small, more distant destinations can be easily reached with the very cheap taxis. In Kyrgyzstan, by the way, a blood alcohol limit of 0.0 still applies - just as it was in Soviet times.

There are now plenty of supermarkets with almost all known products. In the summer, it is always a pleasure to go to one of the numerous markets, and with some negotiating skills (knowledge of Russian is also an advantage here), to get fresh fruit, vegetables and other food directly from the producers. In terms of taste, these products are simply unsurpassed, as they are almost completely natural and without artificial additives.

The foreigners living permanently in Bishkek gather in various groups, such as the predominantly German-speaking regulars' table or the International Women's Club, which organize joint activities.

Otherwise, there are attractive excursion destinations such as the famous Lake Issyk Kul. It is the classic weekend destination and was even more popular than usual during Corona times. 90 percent of Kyrgyzstan is mountainous, there are two seven-thousand-meter peaks, which has earned the country the name "Switzerland of Central Asia".

For backpackers, Kyrgyzstan is an inexpensive alternative travel destination. There is pure nature and opportunities to spend the night in yurts, from simple to luxurious. The government is interested in bringing tourists into the country and visa-free entry is now possible from around 90 countries.

What makes doing business in Kyrgyzstan special?

The concept of microfinance is not widespread in highly developed countries, but it is in Kyrgyzstan. There are now more than 20 commercial banks and 160 microfinance institutions. Many people need money to invest, others have got into trouble due to corona and needed new funds quickly.

87% of our customers are loyal and keep coming back. One of the key factors is the fast processing of applications - our institution needs a maximum of 48 hours, while banks sometimes need weeks, only to come to a negative decision even after such a long period. In other words, in terms of bureaucracy, working with banks is definitely

more tedious, with a lesser assurance of a positive outcome.

For customers, however, it is primarily about getting money for their business activities quickly and unbureaucratically. A trader who buys goods in China, for example, and then sells them in Kyrgyzstan or increasingly also in Uzbekistan, wants to be able to react quickly to his market. To do this, he needs adequate liquidity within a very short period of time.

It should be pointed out here that typical microfinance customers do not have the time or opportunity to stay longer in banks than in their business. Microfinance comes to the customer, while the majority of commercial banks wait in their counter halls.

Given the fluctuations in exchange rates, hedging is important because we have refinanced from Europe. This is also one of the reasons for the relatively high interest rates that are customary in Kyrgyzstan.

My Russian skills helped me a lot in everyday life and at work. English is also a bit widespread, but surprisingly many young people in particular only speak Kyrgyz, especially outside of the two big cities of Bishkek and Osh!

What prospects do you see for European companies in Central Asia?

To a large extent, that depends on the company and the respective industry. In general, Kazakhstan is the most important country because of its oil and gas reserves. In fact, the Kazakhs in Kyrgyzstan are often seen as the big and somewhat arrogant brothers.

Uzbekistan is opening up and hopes are high; a lot of money is flowing there from organizations such as the German Corporation for International Cooperation (GIZ) and the European Bank for Reconstruction and Development (EBRD). One can only hope that the president will maintain the reform course and not follow the path of Turkmenistan.

Tajikistan is arguably the weakest country in the region. This is in part due to border conflicts, drug trafficking and an ineffective administration.

With its 6.5 million inhabitants, Kyrgyzstan is a small country, albeit with a very young population, which is both a danger and an opportunity. Many Kyrgyz have lived or worked abroad; some speak German fluently. The Kyrgyz government would have to find a niche and implement a sustainable strategy for the country's economic development.

That would perhaps also slow down the move abroad - many Kyrgyz people are currently working in Russia, and remittances from there help families live and survive. Unfortunately, after a favorable development in the past, there are tendencies towards increasing corruption.

Kyrgyzstan has no oil or gas, which is why it is of little interest to some companies and countries. Russia still has two military bases in the country and the connections to Moscow are very close. For some years now, Kyrgyzstan has also been a member of the Eurasian Economic Union, which currently includes Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan.

What would you recommend to a company interested in the region?

In the case of Kyrgyzstan, I do not see any major European companies operating there at the moment. The court decision in the case of the Kumtor gold mine to the detriment of the Canadian company Canterra also had a negative effect. The case has raised clear question marks regarding the issues of investor protection and legal security.

Anyone who is interested in Central Asia, and this is where I see the typical German medium-sized company in particular, should conduct thorough market research. Every potential investor should be able to keep his financial commitment in Kyrgyzstan for several years. Employees deployed on site should know the region or at least speak Russian, that makes things easier. Choosing a reliable local partner is important, personal contact is crucial. Trust counts more than written contracts.

To avoid sloppiness, competencies should not be transferred to local employees too early. A close connection to the company headquarters is important, as is relatively close management. It can make perfect sense to send expats when setting up a branch to fill key positions, subsequently introducing local employees to their tasks.

The largest foreign investors nowadays are from Turkey and Russia. However, for European, and German companies in particular, there are certainly promising opportunities in Kyrgyzstan and Central Asia.



EXECUTIVE SEARCH



EXECUTIVE SEARCH EXPERTS IN EASTERN EUROPE AND THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

MOSCOW

CT Executive Search LLC
Central Office
Shlyuzovaya nab. 8,1
115114 Moscow, Russia
Telephone: +7 499 678 2111
E-Mail: office@ct-executive.com

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