

Huge returns on transformation

INTERVIEW WITH SIR RICHARD EVANS CBE

DIRECTOR, SAMRUK KAZYNA – THE KAZAKH SOVEREIGN WEALTH FUND



RICHARD EVANS joined the Ministry of Transport and Civil Aviation in 1960. In 1969, he joined the Military Aircraft Division of British Aircraft Corporation (BAC) and continued his career within BAE Systems in various roles, becoming Chief Executive in 1990 and Chairman in 1998. In 1997 he joined the Board of United Utilities plc as a Non-Executive Director, and was subsequently Chairman from 2001 until July 2008. In 2006 he was appointed Chairman of Samruk Holdings, a Joint Stock Company, owned by the Government of Kazakhstan and having relinquished that appointment he is currently an Independent Director of SWF Samruk-Kazyna JSC.

Kazakhstan is making the transition to a modern capitalist economy

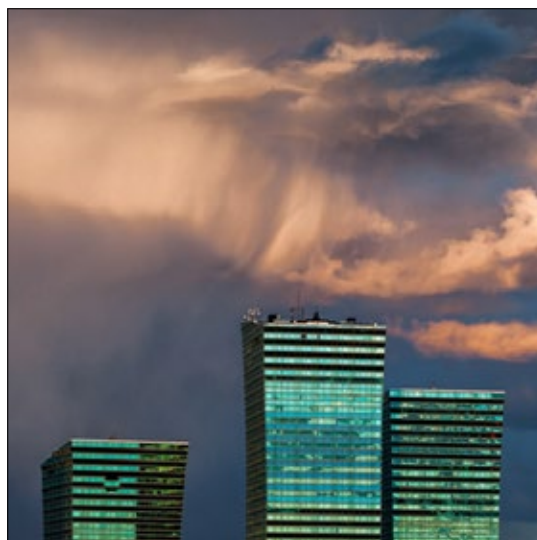
What is your assessment of Kazakhstan's economic and political development over the last decade?

Aside from a brief period after 2008 and the subsequent banking crisis, the last decade has been characterized by very solid and sound growth. For us at Samruk Kazyna, the main issues have been related to the construction sector and to the results of over-borrowing, which has produced some pressure from the Kazakh banks, which in turn have been under pressure from the international lenders.

But 2008 was still a big blip for us. That said, the economy recovered, and was doing well until the combination of sanctions on Russia and the fall in oil prices kicked in. These hit the ruble, which in turn affected Kazakhstan's currency, the tenge, although the two currencies are not technically linked.

The Kazakh Prime Minister, Karim Massimov, made an interesting point at Davos about the current global situation and how it relates to the Kazakh economy. He said you can't change the fundamentals of what is going on in the wider world, but you can make a decision to see the glass as half full, rather than half empty. And that's what we're doing at Samruk Kazyna: We're trying to find the opportunities with the current situation offers, and we're using it to tackle issues we might have dealt with earlier.

From the government's perspective, despite the pressures on the budget, it will continue to invest in the major transformation program that will affect



all the asset companies in Samruk Kazyna. If this is successful it will have a big impact in the medium to long term, which is where we need to be aiming. We need to meet the 2020 objectives, and beyond that, the goals of the 2050 program. There is a realization that we have a lot of work to do to get back on track in terms of generating value and creating long lasting solutions.

How do you assess the impact of lower oil and mineral commodity prices on Kazakhstan, and will this highlight the need to diversify away from commodities yet further?

Everybody in Kazakhstan recognizes the need for diversification and for the economy to move away from over-dependence on commodities, namely oil and minerals. At the same time, we should remember that the big advantage Kazakhstan has over other oil producers is that there already is some diversity in the economy.

What's more, there's also a lot of investment and government support to help the development of SMEs: now the question is how to find ways to create partnerships in the hydrocarbons and minerals sectors with the country's SMEs. Look at mining hydrocarbons, for example: they both have huge and growing requirements for service and support that is still largely brought into the country from outside, and much of that could be provided locally.

Then there is the agricultural sector. We haven't done as much with this as we should have. If you were looking to set up a business here in an area with demand and where you have natural resources, growing and processing food is the logical choice. We are sitting next to the biggest growth market in the world: China, and it is very easy to transport goods there from Kazakhstan. Agriculture has the potential to be the third pillar of the economy, but it needs to catch up with mining and hydrocarbons.

One of the main challenges we face in developing businesses that can contribute to diversification is the skills base: we're still largely dealing with people who have come up through the soviet system. They are hugely able and competent people, but they need help in making the transition to a modern capitalist economy. That is why President Nazarbayev has decided to bring in more expats to work not only with businesses, but with the ministries as well. The idea is for outside talent with technical expertise to come

in and take a hands-on role to help in the short term, while looking to future by mentoring local people.

How would you assess the United Kingdom's influence and cooperation on the development of Kazakhstan's economy over recent years?

It has to be said that until recently, the UK has been slow to recognize the potential in Kazakhstan. Tony Blair was the first to understand the importance of Central Asia and the key position of Kazakhstan within the region. But it was David Cameron's visit here that was the real milestone: President Nazarbayev made the point that Cameron was the first serving British prime minister to visit Kazakhstan to see the country's significant potential first hand.

At the same time, there has always been a lot of British activity in both the mining and oil sectors. Look at the service side of the newer fields in the Caspian Sea: there are companies needed to service the big operating companies, and many of them are British and have used the experience they gained working in the North Sea over the last few decades. In mining, British industrial know-how has also been deployed. We're very confident now that after Prime Minister Cameron's visit in 2013 and the ongoing Foreign Office focus, combined with the ceaseless work of the UK ambassador and others associated with promoting the bilateral relationship, that British interests in Kazakhstan will blossom and bear fruit.

Which other areas of the Kazakh economy offer opportunities for British companies?


Financial services, obviously: that's something London has huge experience in and where British companies can offer a great deal. Then there is engineering, science, and technology: a whole raft of areas where the British have a lot to offer.

The UK also has a big advantage in Kazakhstan because of the educational ties between our two countries. A lot of people here send their children to UK schools and universities. These ties will reap benefits, because Kazakhs will form relationships and absorb new values, and when they are back home they will have a big influence in later years. We also have this wonderful gift that is the English language. So many people here, not just

the young, but members of the government and civil service, all speak English.

How would you rate the impact of Samruk Kazyna's good governance programme?

It's easy for us in the West to talk about the need for good governance in emerging economies, but we should also ask ourselves how long it has taken us to progressively lift the bar in terms of the standards of governance. In relation to Kazakhstan, sometimes I think there is more expected than can be given in the time scales we're operating under.

That said, the fund signed an agreement with the OECD in December 2014 that will have a big effect in moving empowerment from us down onto the boards of all our companies. There is a huge job to be done to make sure the boards have the skills to actually take on the fiduciary responsibilities in compliance with international governance codes. Finding people to join those boards as independent directors is also a problem. We empower these subsidiaries, but if their boards don't have the abilities it would be a mistake to impose this on them. It's a big challenge for us. If you go down to management levels, the boards should be involved in oversight and developing strategy, but the board cannot run the business; that is down to the management, which often finds itself in the middle of a steep learning curve as well. But in the final analysis, this is about opportunities: can we address these deficiencies? To do so, we have to stimulate capability at senior levels of management. If we can, there is a huge amount to be gained, and it doesn't require huge amounts of capital. We need to invest, but a lot of the things that need to be done that have huge payback in the short and medium term are about people operating and behaving differently: transformation is not high in costs, but the returns are huge. 

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Astana's cityscape is a reflection of Kazakhstan's major investment and transformation programme over the past ten years

