

# CENTRAL ASIAN LEGAL SERVICES INDUSTRY SNAPSHOT

**BIRD'S EYE REPORT 2016**

**by GIDRA**

Global Intelligence  
for Development  
Research & Analysis

Recent evidence shows that the demand for legal services is growing rapidly every year. Within 2013-14 alone the global legal services industry witnessed 4 percent growth, with the top 10 legal services providers expanding at a rate of 6.7 percent combined compared to the overall market.

According to Grand View Research, between 2015 and 2022 the legal services market is expected to experience even higher growth rates due to increased globalisation, a more competitive environment, changing trends in foreign direct investment, economic growth and more modern business structures and transactions.

However, the global economic slowdown means more competition within the markets and less active law firms risk being overtaken by more active and aggressive ones.

Still, the legal services industry seems to be less sensitive and responsive to changes in business cycles. The size of the global legal services industry shows that the international economic and financial crisis has so far had a negligible impact on the overall demand for legal services.

Considering that transition economies, especially post-Soviet countries, are characterised by more volatile and therefore more uncertain business environments, the interesting questions to address are: what are the current state and future prospects for the legal services industry in Central Asian countries, and how will various economic, individual and social characteristics impact the legal services industry in the coming years?

In this article we shall provide an overview of the legal services industries of five Central Asian (CA) countries, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, using a primary dataset collected during 2015.

This dataset consists of the results of anonymous surveys and field studies undertaken by Colibri Law Firm in 2015, and includes information on variables relating to the individual characteristics of legal practitioners and the results and makeup of law firms.

The estimated value of the legal services consultancy market in CA is based on survey data of a representative sample of randomly interviewed legal consultancy practitioners. Our final estimations are based on a sample of over 50 legal practitioners who operate in areas such as banking and finance, corporate law, mergers and acquisitions, dispute resolution, projects and energy.

To ensure the comparability of the analysis we randomly chose the respondents based on the overall market size, measured by GDP per capita of the country under analysis. The respondents' distribution by country is reflected in Figure 1. The observations in our sample range from 4 law firms in Turkmenistan to 26 in Kazakhstan.

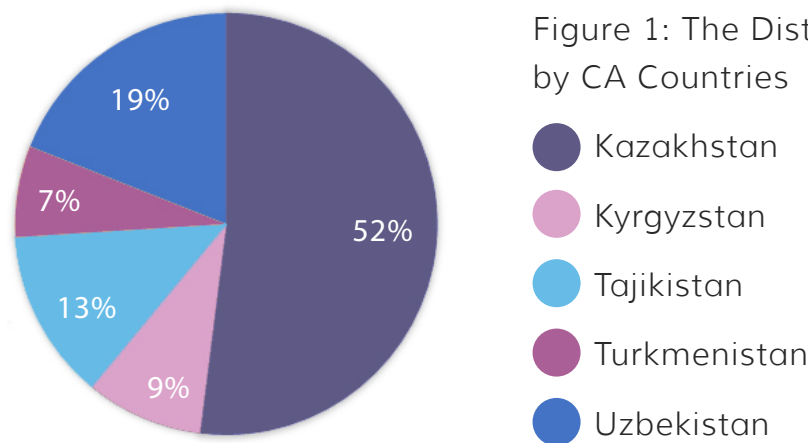


Figure 1: The Distribution of Respondents by CA Countries

Source: Global Intelligence for Development Research and Analysis, Colibri Law, 2016

Figure 2 shows the average distribution of the respondents based on their position level. As you can see, over 80 percent of our sample was composed of junior associates, senior associates and associates.

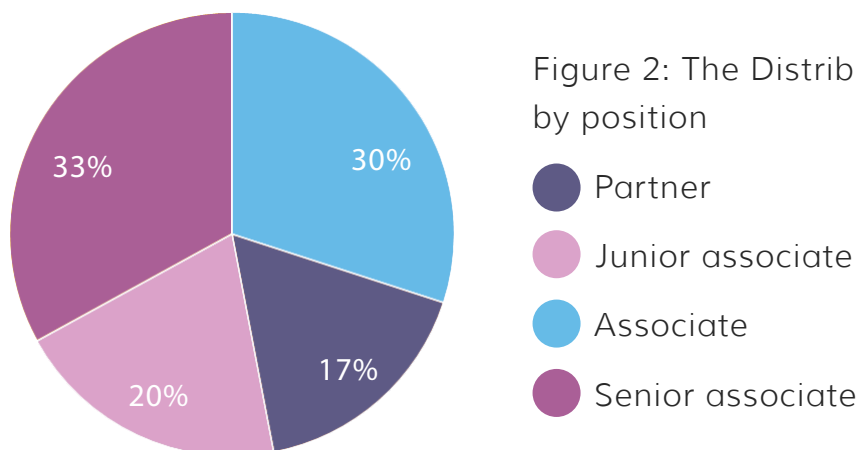


Figure 2: The Distribution of Respondents by position

Source: Global Intelligence for Development Research and Analysis, Colibri Law, 2016



For each of the firms surveyed we calculated their average hourly rates and collected employment characteristics data on a number of employees, such as years of experience, level of education and position.

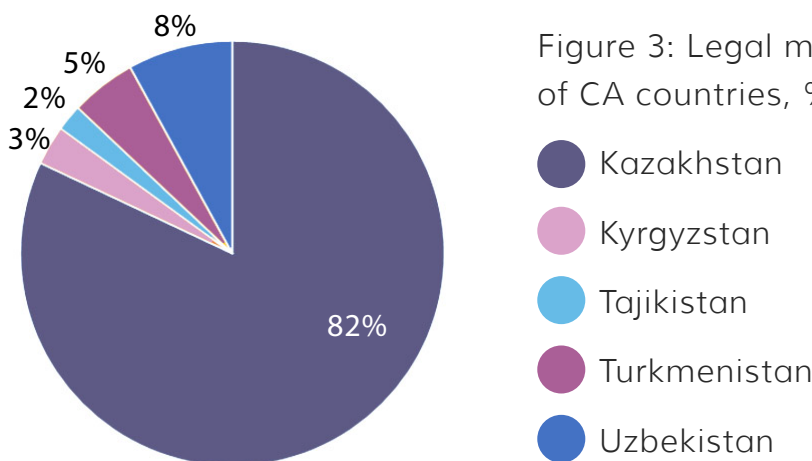
To estimate the level of productivity of each practitioner we multiplied their average hourly rates by their forecasted monthly average hours of legal work.

These monthly averages were then extrapolated from the data reported by the practitioners and adjusted according to level of education, years of experience in the legal services industry and the firm's overall ranking in the leading legal directory Chambers and Partners Global.

## CENTRAL ASIA REGION

According to the results of our study, the overall estimated size of the legal services market in CA is approximately \$50 million, and ranges from \$45 million to \$55 million (see figure 3, below).

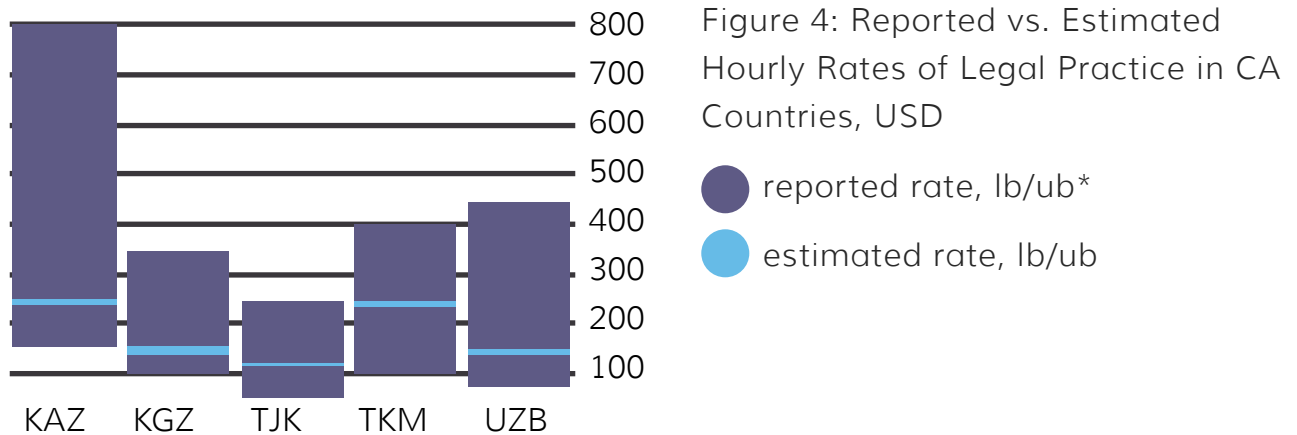
The results of our study also suggest that approximately 83 percent of the total CA legal services industry is determined by the revenues of law firms operating in Kazakhstan, with the average annual revenue per legal practitioner in Kazakhstan estimated at around \$130,000.



Source: Global Intelligence for Development Research and Analysis, Colibri Law, 2016

The results for Kyrgyzstan, Turkmenistan, Uzbekistan and Tajikistan reveal that the legal services markets in these countries are much smaller and account for approximately \$1.6 million, \$2.2 million, \$4 million, and \$1.05 million, respectively. At the same time, annual revenues per legal practitioner are far lower and lag behind those of the Kazakh market, with approximately \$35-40,000 for Kyrgyzstan, \$85-90,000 for Turkmenistan, \$80-85,000 for Uzbekistan, and \$50-53,000 for Tajikistan.

Turning our attention to the average hourly rates and billable hours of work per month, our findings again indicate significant disparity between the CA countries (see figure 4).



\*lb = lower bound, ub = upper bound

Source: Global Intelligence for Development Research and Analysis, Colibri Law, 2016

Reported hourly rates of legal practice, depending on the level of case complexity, are found to range between \$150–800 in Kazakhstan, \$100-350 in Kyrgyzstan, \$100-400 in Turkmenistan, \$75-450 in Uzbekistan, and \$50-250 in Tajikistan.

However, our estimates show that the actual average hourly rates for legal practice are much lower, at \$245-250 in Kazakhstan, \$140-150 in Kyrgyzstan, \$230-240 in Turkmenistan, \$140-145 in Uzbekistan, and \$115-120 in Tajikistan.

Similarly, monthly billable hours of work per legal practitioner follow a similar pattern, with around 60-70 hours per month forecasted in Kazakhstan and 25-30 hours per month forecasted in Kyrgyzstan.

These discrepancies are in line with the commonly held opinion regarding the complexities of the corresponding markets. For example, it appears that the Kazakh market has a more sophisticated business environment and marketable supply of legal services. This is especially clear based on the volume of foreign direct investments directed towards the CA region, over 70 percent of which is absorbed by Kazakhstan (OECD, 2013).

Considering that the collected data is much more detailed and complete for Kazakhstan compared with the other four CA countries discussed above, we shall now undertake a more detailed assessment of Kazakhstan’s legal services industry.

## KAZAKHSTAN

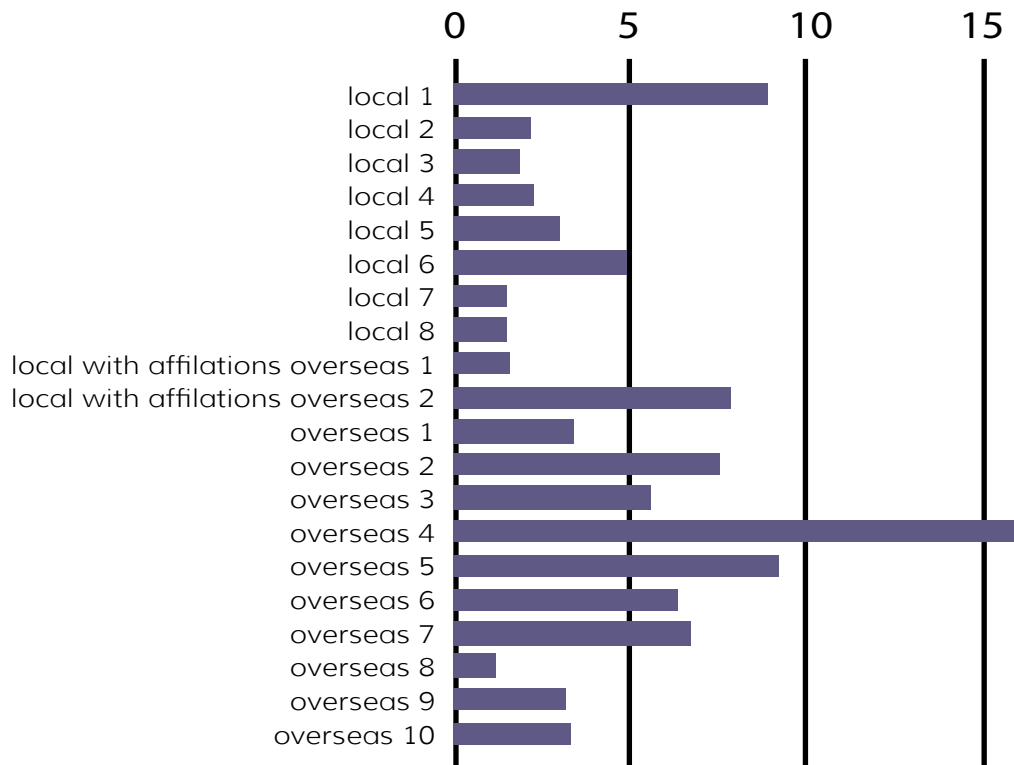
### Market shares of law firms

The overall market distribution of Kazakhstan’s legal market is presented in Figure 5. According to our results, the distribution of the market shares of the top 20 firms in Kazakhstan is very varied.

In figure 5, we have subdivided the law firms by origin (whether the firm was founded locally in Kazakhstan or overseas) and area of operation (whether the firm operates solely in Kazakhstan or also outside with affiliations).

The breakdown shows that 95 percent of Kazakhstan’s legal market is composed of the revenues of the 20 largest firms. Our estimates show that 3 of the largest firms (2 overseas and 1 local without affiliation outside of Kazakhstan) account for nearly 35 percent of the overall market. Moreover, the average revenue per lawyer in these firms is approximately \$240,000.

Figure 4: Market Shares of Leading Law Firms in Kazakhstan, %

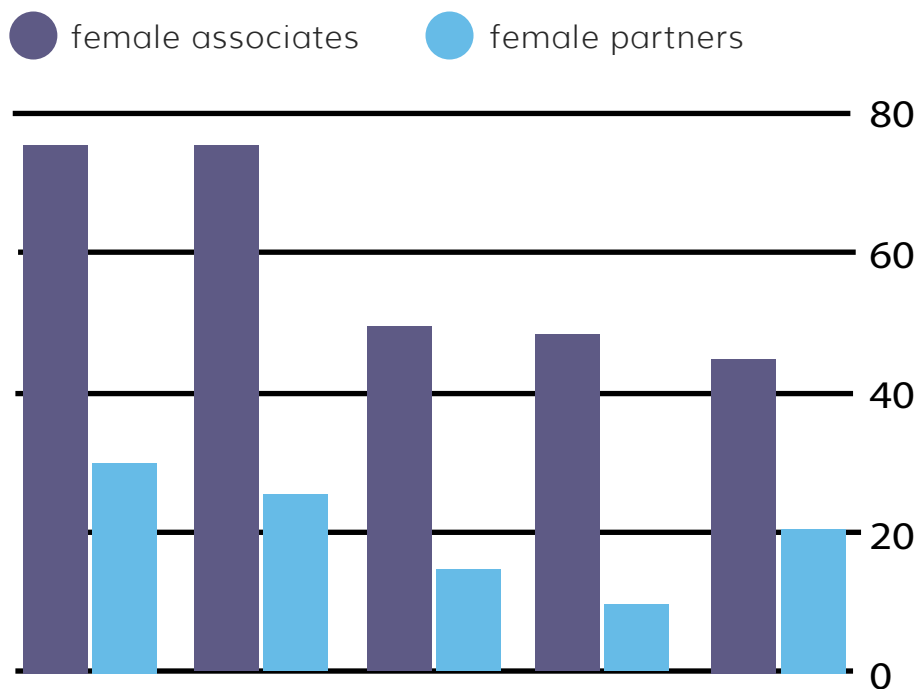


## Gender

Figure 6 presents a gender-based breakdown of employment within the Kazakh legal industry. The results show that female practitioners constitute 48 percent of lawyers within the market.

At the same time, the majority of women occupy associate and senior associate positions, with female lawyers rather underrepresented at the partner level. This disparity is common across all the CA countries under analysis (Figure 6).

Figure 6: Female Associates and Partners in CA Countries, %



Source: Global Intelligence for Development Research and Analysis, Colibri Law, 2016

The survey results for Kazakhstan also reveal that the estimated average monthly workload of female practitioners exceeds the estimated monthly workload of male practitioners by 2 hours.

In contrast, we find that the average hourly rate of female practitioners is \$245, compared to \$295 per hour for male lawyers.

In addition, female practitioners in Kazakhstan possess on average less experience (6 years) compared to male practitioners, who have an average of 7.5 years of experience in the legal services industry.



## Experience

According to our projections, 38 percent of the legal market value in Kazakhstan is accounted for by practitioners with more than 5 years' experience within the legal market.

The average annual revenue by practitioner with this level of experience is approximately \$233,000, with an average workload of over 65 hours per month.

There is also significant variation in average hourly rates within the legal market. For example, an average rate of \$300 is documented for a lawyer with more than 5 years' experience, compared to \$245 for a lawyer with fewer than 5 years' legal experience.

To check the hourly rates' sensitivity to additional years of experience for both genders, we applied a multivariate regression analysis. The results of this statistical analysis show that 1 additional year of experience in the legal market increases average hourly rates for both genders by just \$5.

This low sensitivity to increased levels of experience is rather surprising and is much lower than has been documented in developed economies.

## Employment

According to our estimates, the top 20 firms in the Kazakh legal market are very diverse in terms of size.

Our findings suggest that the revenues of firms with less than 10 legal practitioners range from \$300,000 to approximately \$850,000. Firms with 10-20 legal practitioners are estimated to have average revenues of \$2-2.5 million. Finally, our projections indicate that firms with more than 20 practitioners may bring in up to \$8-10 million per year.

Hourly rates also differ across Kazakhstan depending on employment levels. For example, on average, small firms with 1-10 lawyers report hourly rates of \$250-300

per hour, firms with 10-20 lawyers charge \$200-300 per hour, while firms with more than 20 lawyers charge \$200-250 per hour.

To check the robustness of our observations, we also estimated the effect of employment (expressed as hours of work) on hourly rates in the market. Our statistical estimations suggest that employment and hourly rates are inversely related in the market: firms with 20 lawyers tend to charge \$40-45 less per hour compared to firms with 10 lawyers. Furthermore, the link between employment and hourly rates follows a weak U-shape pattern, with the turning point being 11-12 specialists (see figure 7).

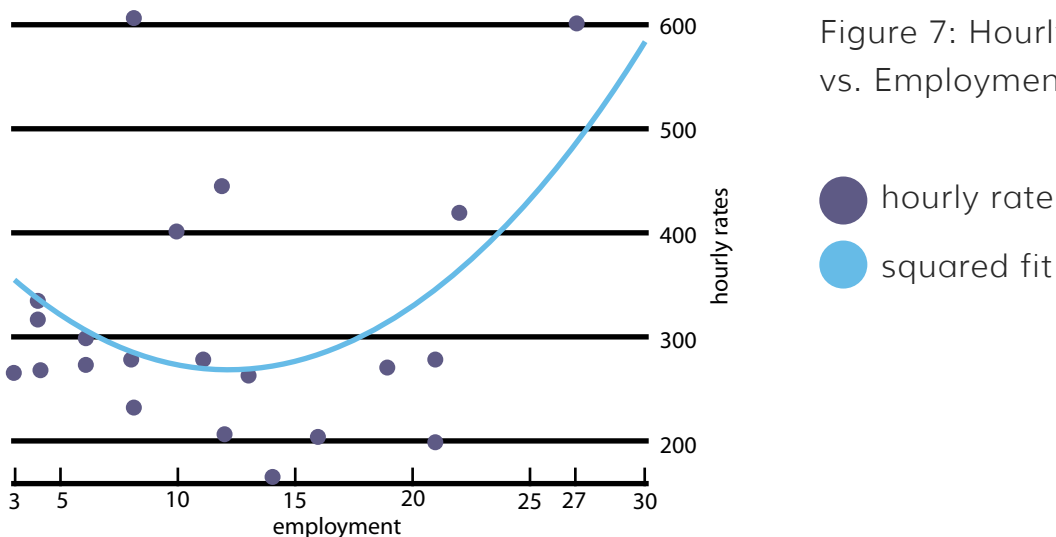


Figure 7: Hourly Rates vs. Employment

● hourly rate  
● squared fit

Source: Global Intelligence for Development Research and Analysis, Colibri Law, 2016

The explanation for this finding is as follows: When a firm has relatively few employees the rates are relatively high as it is composed mainly of partners with extensive experience in the legal market. As the firm starts to expand, the partner-to-associate ratio drops, leading to a reduction in average hourly rates. Once the firm has 11-12 legal practitioners, economies of scale set in (along with the diversification of the legal services provided), enabling the firm to increase its average reported hourly rates.

Finally, we conducted a "demand analysis" by estimating the sensitivity of workload to the hourly rate in Kazakhstan. Our findings suggest that hourly rates have a negative and statistically significant association with monthly workload. However, the estimated sensitivity of the number of working hours to changes in hourly rates

is very small, with an elasticity of 0.1, suggesting that despite the variation of firms within Kazakhstan's legal market in terms of size, education and gender, the competition within the legal market is still weak, with demand relatively insensitive to the pricing of legal services.

Following the above discussion, we make the following conclusions and forecasts for 2016:

- The sensitivity analysis of demand in the legal services industry in CA indicates that the industry remains relatively uncompetitive, unexplored and promising;
- Most local firms seem to follow the strategies of leading international firms, particularly with regard to pricing strategies and hourly rates;
- The key area for local firms is mostly limited to local-currency contracts;
- International firms successfully dominate the legal industry and their share of the legal market shows no signs of reducing, regardless of the prices of hourly rates;
- It appears that the key advantages of international firms, compared with local firms, are a more diversified legal services portfolio, richer experience, more aggressive brand promotion and, consequently, better access to foreign-currency contracts.
- The industry seems to be insensitive to changes in the business cycle, since any loss in one area of legal practice can be compensated by another one.

Considering global economic trends and the results reported here, we expect that the legal services industry in the CA region may see the emergence and creation of new players. This may involve the entrance of new international firms, the establishment of completely new local firms or the creation of new local firms by the partners of previous international firms.

In the case of Kazakhstan, we believe that firms concluding the majority of their legal operations in Tenge-denominated contracts will experience a reduction in profitability. This implies that the key area of competition between law firms will be foreign currency-denominated contracts.

A higher degree of competition in the industry, especially for foreign currency denominated contracts, may dictate new rules for existing and newly emerging firms. Especially as we begin to see the development of more long-term growth strategies, the diversification of legal services portfolios, a probable change in attitudes towards business operations and the better integration of technology in the provision of services.



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Colibri Law's Global Intelligence for Development Research and Analysis (GIDRA) provides consultancy and analytical support on a broad range of topics, including industrial and sector-specific analyses, corporate governance and public administration, sustainability and risk assessment, and management consulting and strategic planning.



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