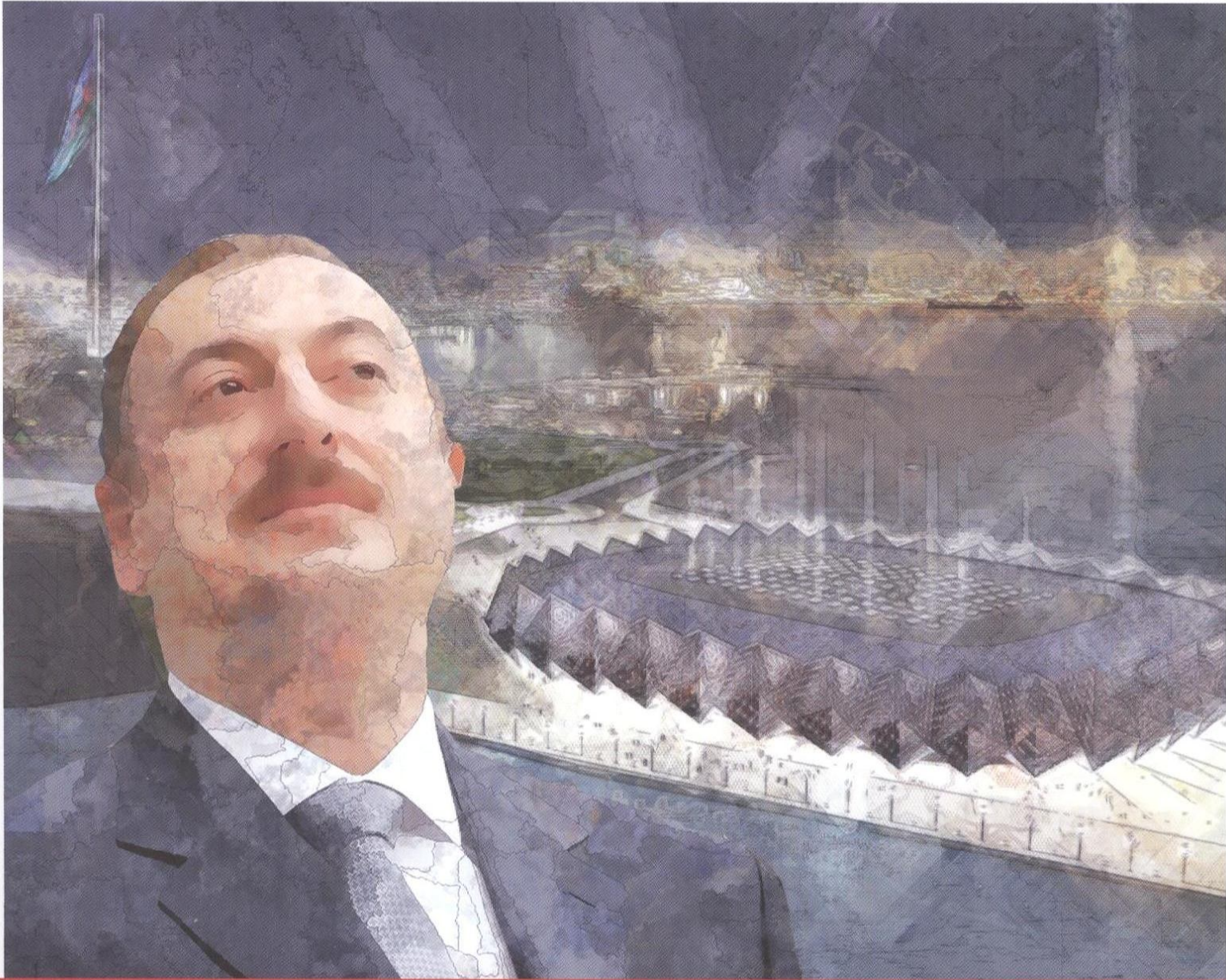


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INTERVIEW

Shahmar Movsumov



Strength Through Diversity

TBY talks to *Shahmar Movsumov*, Executive Director of the **State Oil Fund of Azerbaijan (SOFAZ)**, on the investment program, the size of funds under management, and new asset flows.

TBY How would you evaluate the activities of the State Oil Fund of Azerbaijan (SOFAZ) over the years, and what are the landmark achievements of the fund since it was established?

SHAHMAR MOVSUMOV Since its establishment more than a decade ago, SOFAZ has grown considerably, both in terms of its assets under management and institutional capacity. Over the past few years, SOFAZ has been the major source of funding for large-scale strategic projects of national importance, namely the construction of the Baku-Tbilisi-Ceyhan oil pipeline, the Oğuz-Gabala-Baku water pipeline, the Baku-Tbilisi-Kars railway, new settlements for internally displaced people, and in financing the education of Azerbaijani students abroad. The three pillars that define SOFAZ's role are: the preservation of macroeconomic stability through fiscal tax

discipline, the reduction of dependence on oil revenues, and the development of the non-oil sector. Moreover, SOFAZ aims to achieve intergenerational equity regarding the country's oil wealth. SOFAZ also finances major infrastructural and social projects. Since our first day of operations, transparency has been at the forefront of our priorities. We pride ourselves on being awarded the UN Public Service Award for improving transparency, accountability, and responsiveness in public service in 2007.

What are the key strategic priorities of SOFAZ's investment program in 2012?

Recently, several amendments have been made concerning the rules of foreign currency asset management. Consequently, SOFAZ's investment spectrum has broadened considerably. According to our investment policies, SOFAZ is now able to invest in new asset classes, such as real estate and gold, and extend its allocation to public and private equities. Additionally, SOFAZ may now invest in assets denominated in the Turkish lira and Russian ruble. Furthermore, up to 5% of the SOFAZ's investment portfolio may be allocated to non-investment-grade debt obligations with a credit rating no less than BB-. These changes are aimed at maximizing returns as well as enhancing the diversification of our investment portfolio, which has grown dramatically over the past few years and now exceeds \$30 billion.

What is the present approximate size of the funds under management? What proportion of SOFAZ's funds is being transferred annually to the state budget?

SOFAZ's assets under management reached \$29.8 billion by the end of 2011, up from \$491.5 million in 2001. The assets are expected to reach around \$34 billion by the end of 2012, assuming an average oil price of \$100 per barrel. In 2012, \$12.5 billion will be transferred to the state budget.

Several important oil and gas streams will come online in the next five years. What role will SOFAZ play in the management of these new asset flows?

The revenues of the sale of these new oil and gas sources will flow into SOFAZ, and we will invest these new resources according to investment guidelines. The assets under management are expected to reach \$200 billion within the next 10 to 15 years.

How would you assess SOFAZ's contribution to the education of young Azerbaijanis locally and abroad? What is your evaluation of Azerbaijan's human capital?

The development of the country's human resource capacity is always the focus of the government's attention. Within the framework of the Ministry of Education, SOFAZ has invested \$44 million in the state's program for the education of Azerbaijani youth abroad from the year 2007 to 2015. The implementation of this program will significantly improve the education and professional skills of the younger generation and create many new opportunities for the development of our human capital. Our financing is a strategic step toward the future realization of President Ilham Aliyev's vision to "transform black gold into human capital." To date, the program has financed the education of 1,028 students.

What is your outlook for the Azerbaijani economy in 2012 and beyond?

According to the Ministry of Economic Development's macroeconomic forecast, the real GDP of the country will be AZN43.5 billion in 2012, increasing by 5.7% compared to 2011. The non-oil sector is also expected to increase to AZN24.9 billion in 2012. The growth of non-oil sector from 2012 to 2015 is expected to be 8.6%, 7.7%, 8.1% and 8.3% respectively. Inflation is forecasted to hover around 6%. Total household income has been showing dynamic growth recently, and is forecasted to reach AZN36.4 billion in 2012, increasing 6.8% compared to 2011. ●



BIOGRAPHY

Shahmar Movsumov is a graduate of the International Economic Relations Faculty of Moscow State Institute of International Relations, and has a Masters in Public Administration from the John Kennedy School of Government at Harvard University. After graduation, he worked for an extensive period from 1995 to 2005 at the National Bank of Azerbaijan Republic, becoming its General Director in 2005, before moving to the State Oil Fund of Azerbaijan Republic (SOFAZ) as Executive Director in 2006. Since 2006 he has also served as Chairman of the Government Commission on the Extractive Industries Transparency Initiative.

1 Shahmar Movsumov, Executive Director of the State Oil Fund of Azerbaijan (SOFAZ)