

INTERVIEW

Shahmar Movsumov



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CURRICULUM VITAE

BORN 1972

EDUCATION

Economics, Faculty of International Economic Relations, Moscow State Institute of International Relations,

MA in Public Administration, specialization in Public Finance, John Kennedy School of Government, Harvard University

CAREER OVERVIEW

From 1995 to 2005, Shahmar Movsumov worked as a senior specialist, Head of Group, Chief of Division, Deputy Department Director, Department Director, and Chief Adviser to the Chairman of the Management Board at the National Bank of the Azerbaijan Republic before being appointed General Director later in 2005. He took his current position with the State Oil Fund as Executive Director in 2006 and was appointed Chairman of the Government Commission on the Extractive Industries Transparency Initiative (EITI) in the same year.

Funding the Future

TBY talks to *Shahmar Movsumov*, Executive Director of the **State Oil Fund**, on asset management, the fund's current projects, and future asset allocation strategies.

TBY Why was the State Oil Fund (SOFAZ) initially established?
SHAHMAR MOVSUMOV It was established December 29, 1999 by decree of the late President Heydar Aliyev. Its objective is to transform depletable resources like oil and gas into financial assets that will serve the future generations of Azerbaijanis. We have a few objectives that are interrelated, yet are important by themselves. One of the most important points is to accumulate and manage revenues from the oil and gas sector, to stabilize those revenues in order to provide macroeconomic stability, to provide for intergenerational equality, and to use some of those resources for the current generation. Since the fund was established, we have received \$52 billion, and roughly half has been spent, while half of it has been saved. We're now managing about \$27 billion. The majority of the money was transferred to the state budget, and the budget has used that money mainly for infrastructural investments.

How do you expect to see the size of the funds under your management develop?

SOFAZ's assets under management increased 20 times from \$1.3 billion to \$27.5 billion during the period 2005-2011. The forecast assets of SOFAZ for end-2011 are over \$30 billion at an oil price of \$90 per barrel.

What sort of asset management strategies do you employ?

When the fund was small, a conservative investment policy was applied and we mostly invested in fixed income instruments across the world, in three major currencies: the US dollar, euros, and pound sterling. We have a diversified portfolio of fixed income instruments, investing in sovereigns and corporates, but as the fund grows, we are now looking into riskier and more return-generating asset classes. Therefore, we hope to diversify into equities, private equity, and potentially into real estate.

What split in terms of local and overseas assets does SOFAZ have?
 We invest only externally, not domestically. That being said, since we invest only half of the \$52 billion, half of that money gets spent inside Azerbaijan in accordance with our annual expenditures. So the split between that and the stock that is being managed overseas is roughly 50-50.

What are some of the major infrastructure projects you are involved in?

The biggest portion of our annual expenditure budget is transferred to the state budget, and that money is used for roads, infrastructure, electricity supply, water supply, and so on. Apart

State Oil Fund
in numbers

Established in

1999

Estimated assets under
management end-2011

\$30 billion

Current development projects

5

Growth in assets under
management from 2005 to 2011

20x

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of sovereign wealth funds. The inauguration of the forum actually happened here in Baku. It's a closed club of sovereign wealth funds where we discuss our problems and exchange ideas. The current members of the forum manage a total of \$4 trillion. Of course, different funds are at different stages of development. Most start with conservative strategies and invest in low-risk fixed income instruments, but as they grow and as the fund's experience grows, they often branch out into riskier, more lucrative, and more diversified fields. SOFAZ is also going through that evolutionary process as it gets bigger. The thing is we are managing the wealth of our entire nation, and so we don't have the right or the luxury to be too experimental or risky with this money. Instead, we're learning from other sovereign wealth funds how to manage our assets and apply the best strategies.

How closely do you work with the Central Bank of Azerbaijan?

We have a very good relationship not just with the Central Bank, but with all the relevant government agencies. SOFAZ is very important in terms of macroeconomic stability, and that's why we have a supervisory board that includes all the top government officials who ensure that everything goes smoothly in a macroeconomic sense.

There are a number of important new oil and gas schemes that will be developed and implemented over the next five to 10 years. How are you planning to manage these new revenues, and will it require a modification of your strategies?

Yes, by the end of 2011 we hope to be about \$30 billion in size, and over the next 10-15 years we expect inflows of around \$200 billion. At least half of this money will be spent on development, the other half being invested in the fund. Of course, with that amount of money we can't continue to apply the same conservative investment strategies. We will apply new strategies in line with our continuing growth. We cur-

rently employ about 100 people and we're building a new headquarters that uses all the latest technology available. Our employee numbers will grow and we'll continue investing in our people and training them. We already have a very comprehensive training program for our employees and we want to expand that further to become a truly modern investment house. We receive money from the oil and gas sector, yes, but apart from that we are a financial institution.

What challenges do you see in Azerbaijan going forward?

We don't operate domestically, but in general, as a former central banker, the financial sector in Azerbaijan is one of the most developed sectors in this country. There are good banks, and so forth. It's a very young economy, although it's developing very rapidly. That being said, I think the biggest challenge is the diversification of the non-oil sector. The oil and gas sector generates about 60% of GDP, but it only employs 1% of the labor force. It's very capital intensive. The country becomes richer, but distributing it is the problem. The only way to distribute that wealth is to provide jobs. The oil and gas sector can't provide those jobs. So to create jobs, the non-oil sector has to be developed. That's the most important long-term goal for Azerbaijan. The state decided to lay the groundwork in which private businesses and a strong private sector could develop and grow in Azerbaijan. For this purpose, the government's strategy for the last five years has been to create the best infrastructure possible. Five years ago we were importing electricity, now we're exporting it. Five years ago we were importing gas, now we're exporting it. Today there are no blackouts; the road network has been refurbished, not just in Baku, but also in the whole country. Now the aim is to create a business-friendly environment so that a private sector can flourish. I think that's a very good strategy. ●