



**Shahmar MOVSUMOV**  
Executive Director  
**STATE OIL FUND OF  
AZERBAIJAN**

## Take it to the bank

Established in accordance with a presidential decree in 1999, the State Oil Fund of Azerbaijan (SOFAZ) is a special-purpose sovereign wealth fund where revenues under the country's oil and gas agreements are accumulated. It is tasked with stabilising the macroeconomic impact of oil and gas revenue volatility, decreasing dependence on oil revenues and stimulating development of the non-oil sector.

**What are the details of SOFAZ's assets and the guidelines regarding its investment policy revenues from oil and gas production?**

SOFAZ's assets under management equalled \$34.7 billion as of April 2013: The revenues of SOFAZ consist of the proceeds from sales of Azerbaijan's share of hydrocarbons, its share of dividends from oil and gas developments, transit fees, bonus payments, acreage fees, revenues from management of the fund's assets, dividends as well as other related revenues.

Until 2012, SOFAZ was following a conservative investment plan, with close to all of the fund's assets allocated to fixed-income securities

investment activity is to ensure long-term investment in joint-stock companies and other commercial entities in Azerbaijan operating in the non-oil sector of the country's economy.

**What role does SOFAZ play in the development of physical infrastructure in Azerbaijan that supports the oil and gas industry?**

Most of the projects financed by SOFAZ are aimed towards stimulating development of the non-oil sector of the economy. The Baku-Tbilisi-Ceyhan main export pipeline has been a strategically important project in oil and gas industry. The pipeline is a multi-country pipeline designed for transportation of crude oil from the Azeri sector of the Caspian Sea to the international markets. SOFAZ is also planning to finance several large-scale projects across the oil and gas value chain in Azerbaijan and Turkey. The company will provide 90 percent of the share capital to fund the construction of the Oil and Gas Processing and Petrochemical Complex. The facility will be capable of refining 73.3 million barrels of oil per year, 10 bcm (353 bcf) of gas and 1.7 million tonnes of petrochemicals per year. In addition, 250-MW-per-year power generation facilities will be constructed. SOFAZ will also provide funds towards constructing drilling rigs in the Caspian Sea.

In Turkey, SOFAZ has made investments towards the construction of the Star oil refinery, which is set to have a refining capacity of 10 million tonnes per year. The company will provide funds towards construction of the Trans Anatolian pipeline project. The purpose of the project is the transportation and export of 16 bcm (565 bcf) of gas per year from Shah Deniz II to Turkey, and then on to the European markets.

**“Most of the projects financed by SOFAZ are aimed towards stimulating development of the non-oil sector of the economy.”**

denominated in dollars, euros and pounds. From 2012 onwards, the fund started building a more diversified investment portfolio. For that reason, a new investment policy was adopted, extending SOFAZ's investment remit to include gold, equities and real estate. Up to 5-percent allocation was allowed to each of these new asset classes.

**What role does SOFAZ play in the diversification of Azerbaijan's economic base?**

SOFAZ has played a major role in realising the long-term government strategy, which prioritises the development of the non-oil sector of the domestic economy. The company directly finances several infrastructure and development projects on in Azerbaijan aimed at decreasing state economic dependence on oil price fluctuations in the world market. For instance, SOFAZ has directed \$102.7 million towards the formation of statutory capital of the Azerbaijan Investment Company. The ultimate objective of the company's

**What is the medium- to long-term outlook for SOFAZ in terms of assets under management and encouraging economic diversification?**

The revenues of SOFAZ from export of profit oil in 2013-2024 are expected to be \$125 billion, based on projected oil prices being \$80 per barrel, and \$165 billion if it is to cost \$100 per barrel.

During the coming years, in line with one of its principle objectives, SOFAZ will encourage diversification away from oil revenues. The organisation hopes to stimulate the development of non-hydrocarbons sectors of the economy. ■

### IN FIGURES

SOFAZ's value of assets under management as of April 2013

**\$34.7 billion**

Provision of share capital for the OGPC

**90 percent**

Forecasted 2013-2024 oil revenues

**\$125 billion -  
\$165 billion**



# SOFAZ so good

Azerbaijan's state oil fund has amassed billions in revenue since 1999. Despite its impressive asset base, even more has been spent through transfers to the state budget. This trend worries some economists and hampers the fund's core mission: to provide intra-generational economic benefits from hydrocarbons resources and stimulate economic diversification.

A critical driver of Azerbaijan's development since breaking from the Soviet Union has been its ability to learn from and replicate developed economies' institutions. The State Oil Fund of Azerbaijan (SOFAZ), the country's sovereign wealth fund, was created in 1999, soon after independence. Mindful of the need to put oil and gas riches to long-term use and develop other economic activities, the fund receives revenues predominantly from Azerbaijan's share of hydrocarbons produced under production-sharing agreements. In addition, the fund receives revenue from bonus payments, dividends and acreage fees from production-sharing agreements with contracting companies, transit fees for oil and gas passing through Azerbaijan, revenues from asset transfers and from the management of the fund's own assets.

The core mandates of SOFAZ are to accumulate assets to ensure future generations will benefit from current oil production, and to diversify government revenue and economic activity towards the non-oil sector through investment in strategic projects.

As the country's oil production has risen, spurred on by the Azerbaijan International Operating Company's Azeri-Chirag-Guneshli fields, the fund's assets have grown from under \$500 million in 2001 to \$34.1

billion in January 2013. SOFAZ received \$78.8 billion from the Azeri-Chirag-Guneshli fields between 2001 and 2012 and \$1.2 billion from Shah Deniz since 2007. Azerbaijan's Sovereign Wealth Fund is expected to receive some \$125 billion-165 billion by 2024, according to executive director Shahmar Movsumov.

Increases in assets and revenues have been met with a corresponding rise in transfers to Azerbaijan's state budget. By 2013, SOFAZ's historic expenditures totalled \$49.73 billion, while transfers to the state budget reached more than \$35 billion since the fund's inception. Yearly transfers to the state budget to meet government spending have grown exponentially. Budget transfers accounted for \$686 million in 2007. By 2012, this figure had reached \$12.6 billion for the year, multiplying by more than 18 times. This trend does not show signs of slowing, with budget transfers reaching more than \$14 billion for the year by September 2013, according to the executive director of SOFAZ, Shahmar Movsumov.

In a report published in early 2013, the Centre for Economic and Social Development suggested that if transfers to Azerbaijan's central government's budget continue at current levels, the capital reserves of SOFAZ will have been totally exhausted by 2017. ■

## FIGURES

**SOFAZ  
TRANSFERS TO  
STATE BUDGET  
2012  
\$12.6  
billion**

## REVENUE

### ACG provides the bulk of SOFAZ's revenues...

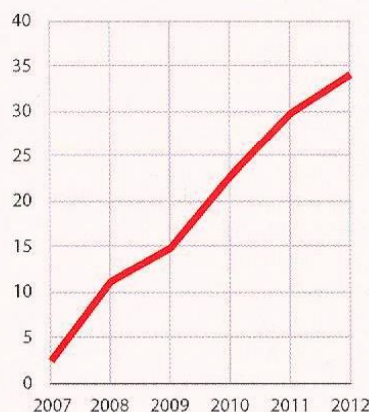
Proceeds from oil and gas sales by field, 2012 (\$ million)

Azeri-Chirag-Guneshli	16,257.3
Shah Deniz	365.5
Balakhani	23.0
Binagadi	12.5
Zigh-Hovsan	9.7
Kursengi-Garabaghly	9.1
Surakhany	9.0
Kurovdag	8.6
Neftchala	0.9
Bahar	0.2

Source: SOFAZ

### ...and SOFAZ assets have increased steeply...

SOFAZ assets, 2007-2012 (\$ billion)



### ...but transfers to the state budget have risen greatly also.

SOFAZ transfers to state 2007-2012 (\$ billion)

